Q1 2013 Results Conference Call

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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to BCE's First Quarter 2013 Results conference call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, Mr. Fotopoulos.

Thane Fotopoulos – BCE Inc. – Vice-President, IR

Thank you, Jason. Good morning to everyone on the call and webcast. Joining me here today as usual are George Cope, Bell's President and CEO; and Siim Vanaselja, our CFO. We released our first quarter results earlier today. All the usual information, including the news release and the slide presentation for this call are all available on BCE's corporate website. Following a review of the slide presentation by George and Siim, we'll move to Q&A; however, because of our annual general meeting that's taking place this morning, we'll be ending the call slightly before 9:00 am today, so we'll take as many calls as time permits.

However as usual before we begin, I want to remind you that today's presentation and remarks by both George and Siim will contain forward-looking statements that represent our expectations as of today and accordingly are subject to change. We do not undertake any obligation to update any forward-looking statement except as may be required by Canadian securities laws. A number of assumptions were made by us in preparing these forward-looking statements, which are subject to risks and results may differ materially. Details on these risks and assumptions are in our filings with the Canadian Securities Commission and with the SEC, which are all available on our corporate website.

So with that done, I'll turn it over to George.

George Cope – BCE Inc. – President and CEO

Great, thank you Thane. Good morning everyone. Thank you for joining us. I'm on Slide 4 for those that are going through the deck. So, let me just begin by saying it clearly was a very solid first quarter for us. Our focus on the six strategic imperatives continues to drive steady EBITDA and EPS growth for our shareholders. I think importantly in the quarter is the strong wireless and media EBITDA growth and the moderating wireline declines resulted in a margin improvement in the quarter to 37.7% this first quarter, an improvement over last year.

If we turn to the next slide, our wireless momentum continues in the marketplace. We had a very strong first quarter in terms of net adds at 59,497 in the seasonally weakest quarter of the year. Our retention spend at 10.3% we believe puts us best-in-class in the industry, and importantly even holding that expense at 10.3%, we were able to reduce our postpaid churn from 1.35% to 1.25%. We also saw a relatively stable COA, which reflects the benefits of beginning to sell the new Blackberry devices, which has a lower subsidy than some of the other smartphones and will improve our sales mix, we believe, over time.

From a technology perspective, we continue to lead the market. We now have a broad LTE footprint of 70% versus our largest wire competitor today, who stands at 60%. Sometime over the next week or so, we will surpass 800,000 mobile TV subscribers, and this morning we have just announced with Royal Bank of Canada, RBC coming—a launch of mobile payment services in Canada for all the RBC cardholders. We think the next evolution of the mobile industry driving the capability for consumers across Canada to seamlessly use their wireless device in the end as their wallet as well, and we think teaming up to start with Royal Bank, the leader in the Canadian marketplace, combined with Bell's scale will drive an enhanced technology evolution here for all Canadians.

Turning to Slide 6, we had a very strong quarter on service revenue on wireline data, up 3.2% year-over-year on the service revenue side. So, underpinning our wireline business, starting to see some of the revenue growth we'd expect on the data side as we continue the rollout of IPTV. IPTV's 47,000 net adds were up over last year. Importantly, Fibe TV ARPU is now at $65, up 8% year-over-year. We've had an 11% increase year-over-year in three-product households, and for the first time our consolidated TV revenues surpassed $500 million in a quarter.

From the Internet side, we clearly still have work to do. Net adds were positive in the IPTV footprint, at 13,000; but outside the IPTV footprint, we lost 11,000 subs for a net of 2,000, and so clearly, the strategy of growing the fibre footprint is critical to the growth of our Internet pull-through, and as I think all of the shareholders know, our footprint this year will grow from 3.3 million homes passed at the end of 2012 to end at 4.3 million homes passed at the end of '13, and we will not stop there. We will again continue to expand the footprint in '14, which we'll talk about obviously much later this year.

From a Bell business markets perspective, some positive trends. Again on the data side, IP connectivity revenue up 4%, and managed services revenue up 3.4%, so a little stronger B2B side in the marketplace for us in the quarter. We did see a decline in revenue, but frankly there's literally no margin in it. It's on the hardware side, so not at all material to our business on the wireline side.

On Page 7, obviously the continuing decline in wireline voice continues in the operations. You can see here even on the residential side, a tick-up over last year. We believe most of that driven by the continuing wireless substitution, but also in fairness, some pretty aggressive pricing from the cable operators in terms of focusing on strictly that as the third part of their bundle. Overall, the share of our voice revenue is now under 20% for the first time, and as everyone knows, that is the one part of our revenue mix that's the challenge to offset some of the growth we're seeing on data.

Turning to Slide 8, Bell Media flat revenues year-over-year as subscriber fee growth was able to offset the soft advertising market, which I believe investors have seen across the Canadian marketplace from other results. We continue to lead with strong audience levels in Q1. Super Bowl, Academy Awards, Golden Globes and Junos all tremendous shows for us – of course the Junos in Q2 – recently run by CTV. On the specialty side, we continue to see increased growth both on the Bravo, V and CP24 side, and in the area now that we're back at it in hockey, TSN and RDS saw increases year-over-year of 11% and 24% in viewership. We also entered into a long-term multi-platform broadcast agreement renewal with the CFL which takes us through to 2013. So overall, quite strong execution from Bell Media in Q1 – in fairness, a tough advertising market in the first quarter.

Turning to the Astral divestiture, as I hope most would know, we're in the midst of the hearings this week with the CRTC. Just to remind everyone, we are divesting a number of assets as a result of the process. We will get the final outcome from the CRTC over the coming months. We've already, as everyone knows, received Competition Bureau approval. Strategically, the two key benefits for us going forward will be—subject to CRTC approval, will be the 22.6% share in Quebec that we will have, which puts us not as strong as the dominant player, Videotron, but certainly puts us as a real competitor in that marketplace. And secondly, because of the mix at Astral, our revenue mix advertising versus subscriber changes, as you can see on the slide, from 74% of our media revenue coming from advertising to 69% versus 31% from the more stable subscriber side of the business. We expect closing to happen hopefully as we get into the end of this quarter or early in the third quarter.

Finally, I think our growth services had a very strong quarter, seeing revenue growth of 4%. You can also see on the slide wireless TV and media now accounts for over 56% of Bell's total revenue, and importantly consumer wireline voice now represents less than 10% of our consolidated Bell revenue, and clearly the growth portfolios are moving in the right direction. I think overall a good quarter, steady quarter for the Company, pleased with IPTV, and really pleased with our continued wireless momentum.

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

Siim Vanaselja – BCE Inc. – Chief Financial Officer

Thank you George, and good morning everyone. I'll begin with some brief highlights of our first quarter financials on Slide 12. We had a good start to the year with continued strong wireless performance. We had an improving wireline profile, as George said, and a strong contribution from media to consolidated EBITDA and cash flow. I think all of that is very consistent with the guidance that we provided at our February investor conference. We grew service revenues at Bell 1.3% this quarter with higher year-over-year revenues across all of our growth businesses.

Bell's EBITDA grew 2.1% this quarter. That was led by Bell Wireless, which delivered another excellent financial quarter, and Bell Media which benefited from higher specialty TV rates and programming cost savings. We also saw improvement in Bell wireline's EBITDA trending this quarter as we continue to evolve the mix of wireline services away from voice. Bell's EBITDA margin increased to 37.7% this quarter on the flow-through of higher wireless ARPU, stable rates of spending on wireless subscriber acquisition and retention, and operating cost savings realized in both wireline and media.

Adjusted EPS grew $0.08 over last year to $0.77, and finally EBITDA less capex provided a strong contribution to free cash flow, growing almost 13% in the quarter. I'll say that our capital spending was lower year-over-year, but we expect the pace of our capital programs to step up through subsequent quarters.

With that overview, let me provide some commentary on the results for each of our operating segments. On Slide 13 in our wireless segment, service revenues were up 7.2% on postpaid revenue growth of 8.9%. In the quarter, we expanded our smartphone customer base and increased our penetration of customers in higher ARPU markets. Data revenue growth of 24% in the quarter drove the 3.9% increase in ARPU.

Product revenues in wireless were slightly down, reflecting intense promotional pricing on devices in the marketplace. Our wireless EBITDA posted another double-digit quarter of growth at 11.6%, and that yielded a revenue flow through to EBITDA of 70% and a 1.8 percentage point improvement in our wireless margin to 44.9%. That's our best margin performance since the third quarter of 2009. EBITDA less capex or our simple free cash flow in our wireless business added 19.3% growth year-over-year. Overall, I'd characterize it as another excellent quarter of performance for Bell Wireless with great financial results and solid metrics.

Turning to the wireline segment on Slide 14, we're beginning to see an improvement; and as I said at our investor conference, we expect the wireline business to continue to trend more positively throughout the course of the year. The revenue decline in wireline of 2.8% for the quarter improved over all previous quarters last year on steady growth in Fibe TV and Fibe Internet. In fact, in the quarter, we saw positive overall residential services revenues growth of 0.6%. That's the first residential revenue growth that we've recorded in two years.

TV and internet growth combined delivered 7.5% higher revenues year-over-year. Voice revenue declines slowed and we saw stronger business IP connectivity and solutions growth, as George mentioned. Wireline EBITDA in the first quarter declined 4.5% year-over-year, but 1.4% of that decline, or $14 million, resulted from the CRTC's recent decision to lower wholesale Internet access rates, and $11 million of that $14 million impact all relates to prior periods. So, before the impact of that decision, wireline EBITDA declined 3.1% in the quarter, which would be our best result in over five years. Wireline margins were largely stable at just over 38%, again supported by good work on cost reductions.

Now, turning to our media segment, revenues were stable year-over-year. Media posted 12% growth in subscriber revenues, driven again by contractual TV rate increases for our specialty channels, primarily our sports channels. Advertising revenues, however, were down in conventional and sports specialty TV, and I'll say that while the NHL resumed play in mid-January, there were fewer hockey games broadcast in the first quarter of 2013 compared to the first quarter of 2012.

With programming cost savings from the delayed start of the hockey season, Bell Media's EBITDA before the non-cash purchase price adjustment increased to 11.5%, and that generated over $100 million of cash flow this quarter. I would remind everyone that in 2012 last year, Bell Media's EBITDA growth benefited from the one-time retroactive component of specialty TV rate increases, and it also benefited from cost savings relating to the NHL hockey lockout. So, going forward, Bell Media's year-over-year EBITDA performance will return to a normalized profile consistent with the business plan that we have and that we laid out at our investor conference. So, beginning in the second quarter, we would expect that Bell Media's cash flow contribution to remain relatively stable through the balance of the year on a year-over-year basis, given those one-time benefits last year.

Slide 16 summarizes our adjusted EPS this quarter, which was $0.77 or 11.6% higher year-over-year. EBITDA growth and equity income from MLSE contributed to the year-over-year improvement. The quarter's earnings were ahead of our plan with approximately $0.03 of EPS coming from a pension surplus entitlement relating to the wind-up of an inactive Bell subsidiary, and we received approval in the quarter from the pension regulator to access that surplus. We also recognized a mark-to-market gain on equity derivatives related to our share-based compensation plans, and that resulted from the appreciation of BCE's share price this quarter.

On the other side, depreciation expense for the quarter increased $0.02 over the prior year, which is consistent with our higher capital asset base. And finally, I'll highlight that there were no tax adjustments recorded this quarter compared to $0.03 of favourable tax adjustments in the first quarter of 2012.

On Slide 17, you will see that we generated free cash flow of $247 million this quarter. EBITDA less capex grew 13% year-over-year, contributing to that free cash flow. The first quarter for free cash flow and working capital in particular, as you will know, are seasonally low. This quarter, Bell's working capital reflected some year-over-year differences in the timing of accounts receivable cash collections and the impact of fewer business days compared to last year. Cash taxes also increased year-over-year due to a higher final tax installment payment that we made this quarter for the 2012 tax year. All of that, though, is consistent with our plan's cash flow generation, and we're very much on track with our guidance on cash flow for the year.

We ended the quarter with a strong liquidity position and over $1.1 billion of cash on the balance sheet, and I think as you will have seen, we issued a billion dollars of 10-year debentures in the quarter, achieving a coupon of about 2.5% on an after-tax basis that matches the lowest financing rate we've had in over 60 years. We also continued two main committed lines of credit, giving us access to an additional $3 billion of liquidity, so very substantial ongoing levels of liquidity.

To wrap it up, as we look ahead, we see no significant changes in our outlook. With the first quarter's results, we're off to a good start in wireless and media and we're seeing a more encouraging performance trend in wireline, giving us confidence as we look out toward the balance of the year. All of our full-year 2013 financial guidance targets remain on track to be achieved.

With that, that concludes George and my formal remarks, and to begin the Q&A session, I'll turn the call back to Thane and to the Operator.

Thane Fotopoulos – BCE Inc. – Vice-President, IR

Thanks Siim. So, before we start the Q&A period, I do want to remind everybody on the call that because of our time constraints this morning, to keep your questions short and to the point and limited to one, so we can get to as many of your questions as possible. To the extent we have time, we'll circle back; but I doubt we will.

On that, Jason, we're ready to start the Q&A session.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from financial analysts. If you have a question and are using a speakerphone, please lift your handset before making your selection. Please press star, one at this time if you have a question. You may cancel your question at any time by pressing the pound sign. There will be a brief pause while participants register, and we thank you for your patience.

The first question is from Greg MacDonald of Macquarie Research. Please go ahead.

Greg MacDonald – Macquarie Research – Analyst

Thanks, good morning guys.

George Cope – BCE Inc. – President and CEO

Hi Greg.

Greg MacDonald – Macquarie Research – Analyst

So, I'm going to say really good IPTV numbers, that 47,500. But, we're seeing a trend here, right? The IPTV numbers are getting better, the satellite numbers seen to be getting worse. I want to try and ask the question, to put the context of the Internet subscribers in context here. 2000 was lower than I would have expected, given that strong IPTV number. I know you said 13,000 in the footprint, so maybe you can just give us some colour on how much of that satellite loss is going to Fibe customers versus the competition to try and help us understand what's happening on the internet side.

And, in particular on that Internet side, is there a mix issue here? Is it more business loss versus consumer, or in-market on the Fibe side versus out-market? What's happening there to hold that number back? Thanks.

George Cope – BCE Inc. – President and CEO

Good question, thank you. First of all, we are absolutely thrilled at the momentum that we've got on Fibe TV. In terms of satellite conversions, interesting enough, consistent with what we've said over last year, about 15% of our net adds on Fibe TV came from our satellite base, so the remaining 85%, obviously, came from either market growth or our competitors in terms of Fibe TV.

In terms of Internet, I absolutely—we're pleased actually with the 13,000 in IPTV footprint. We are RGU positive in our IPTV footprint now, NAS versus Fibe and Internet. We're positive there, so it's about expanding the footprint. I would say though, it is a good question. One area we definitely have seen an impact, on the wholesale side, we believe the significant market share had moved to the cable operators over the last 12 months because of some regulatory pricing that put cable regulatory wholesale rates well below Bell's wholesale rates, and so the wholesale market moved to that side. The recent regulatory decision, we'll have to see how it migrates. It lowers our price and puts it more in a competitive position, I guess is what I would say, so that may have some impact. But, there is no doubt that we have had negative net adds on the wholesale side over the last 15 months, and my only assumption would be that those wholesale probably went to the cable side. They're much lower ARPU, obviously, but they account in nets, and that's probably why our revenue growth was so strong in Internet and Fibe TV versus our sub growth. It's because of the wholesale deterioration we're seeing.

So, that is actually a contributing factor, so I'm glad you asked the question.

Greg MacDonald – Macquarie Research – Analyst

Thanks, George.

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Yes, thank you for taking my question. George, I wanted to ask you about the EBITDA improvement in terms of year-on-year trends. You talked about it in the guidance when you gave the guidance earlier this year. We did see a turnaround in terms of year-on-year decline. Do you still continue to expect that improvement to be sustainable throughout the year? And, in terms of the business markets on the wireline, a nice positive surprise there. Do you believe this improvement will continue? Or, this was due to one-time events in the quarter that helped it be strong like that?

George Cope – BCE Inc. – President and CEO

So just for the second part of the question, can you repeat that?

Maher Yaghi – Desjardins Securities – Analyst

The business markets, IP--

George Cope – BCE Inc. – President and CEO

Oh yeah – sure, sure. Be happy to, sorry. So, first of all on the wireline side, yeah, what we said at the investor day is still our view. We expect that over the year that our wireline decline will be less than the year before, as we have said, and the margins you saw—I mean, frankly without the one-time CRTC catch-up of last year, we were really, really pleased with the EBITDA margin on wireline. So, that strategy continues to be mapping where we'd want to see it.

And, on the business side, you're right. It was—we're not out of the woods there in terms of growth because we still need to see employment growth, and everyone on the line, of course, knows that's big challenge nationally and we're obviously impacted by that, given if companies are growing employment, we're growing revenue. But, the underlying trends in BBM were certainly better in the first quarter than we had seen recently. It's early in the year, but certainly probably if there's one little surprise even internally, it's probably on that side of the shop.

Maher Yaghi – Desjardins Securities – Analyst

Thank you.

Operator

Thank you. The next question is from Jeffrey Fan of Scotiabank. Please go ahead.

Jeffrey Fan – Scotiabank – Analyst

Thanks and good morning. My question is on the wireless substitution trend. Just wondering if you're starting to get a little bit more concerned about the acceleration in wireless substitution? And, wondering if whether any price increases in the residential voice is causing that acceleration. What are your thoughts there? And, what kind of profile—what are the profiles of the customers that are actually cutting the cord?

George Cope – BCE Inc. – President and CEO

Yeah well, as I said, first of all consumer voice is now 9% of our total revenue, so that is not important, but obviously declining in overall importance. Without a doubt, wireless substitution is increased in the country over the last 15 months. I'll leave it to the analyst community to do the net adds of the cable operators against our declines, and you can pretty much assume the gap is wireless substitution. We know from ports that we're getting our disproportionate share of those on our wireless business because we track those ports pretty carefully, but all that aside, we don't think pricing in the home phone market really is impacting at all the wireless substitution. We think it's a technology and convenience choice that customers are either making or not making.

I would say, though, in fairness on the Fibe TV side, where we have been pulling market share, we certainly, particularly in Ontario, saw extremely aggressive triple for the third product pricing from one of our competitors at a price well below ours. We think that moved a little bit of the share, for sure, in the quarter. We're not going to play in that space because we think this is a technology evolution to wireless that's just going to happen, and that's all accounted for in our numbers in the year. We had those obviously in our outlook for this year's guidance, and so it hasn't changed.

Jeffrey Fan – Scotiabank – Analyst

Okay, thanks.

Operator

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

Dvai Ghose – Canaccord Genuity – Analyst

Thanks, good morning. George, another great wireless quarter. If I look at the two obvious risks to your wireless business, one is regulatory and one is pricing, and not necessarily from the new entrants as we've seen in the past, but one of your incumbent competitors seems to be particularly aggressive this year. I'm wondering how serious these risks are in your mind.

George Cope – BCE Inc. – President and CEO

Yeah, I think—first of all, thanks for the comment on wireless. I do think we continue to monitor closely the pricing environment in the marketplace. I agree with your comments that it's one particular incumbent specifically in some markets. We're going to compete in the marketplace to make sure our customers have the competitive pricing they need in the market. We have a healthy growth industry, so I would expect that to continue to be reflected in the industry as we go forward, but clearly we are seeing some pockets where it's more aggressive than certainly we would prefer, but that's the marketplace we're in. Clearly we're able to compete with that head-to-head, and what I'm most pleased about in the quarter, with all that going on, our churn was reduced and we kept our costs of retention at the level that we saw all moving in the right direction.

For us, it's geographic as well – the geography strategy is really starting to work. We saw some of that benefit, as we talked about, in Manitoba. That's a new market for us, it's not huge, but we'll add about 40% more distribution this year in Manitoba to continue to strengthen that opportunity. And as everyone knows, we opened 100 stores in the Alberta/BC markets last year with The Source at Bell. All that helps us a little bit with mix because clearly the toughest ARPU market always in the country has been Quebec, and that's not pricing, that's just the usage of the customer base there. So, the more we get in other geographies, the better our blended ARPU.

Dvai Ghose – Canaccord Genuity – Analyst

Thanks.

Operator

Thank you. The next question is from Adam Shine of National Bank Financial. Please go ahead.

Adam Shine – National Bank Financial – Analyst

Thanks a lot. Good morning. George, one of the investor day slides back in February pointed to improving traction in net RGU trends, and obviously what looked like something approaching close to break-even. The marketplace or consensus is probably close to the negative 150K still, so acknowledging that the sub counts were a little bit light in wireline, at least per street numbers, what can you say in terms of where some of the upside surprise might be as we track through the rest of the year?

George Cope – BCE Inc. – President and CEO

Well, I think what I would probably say is the guidance we've provided, we're comfortable with. There is always puts and takes. I mean, I think we would have to say that wireless internally probably exceeded our expectations a little bit in the quarter, and on the wireline side, we want to do better on Internet than we did, and Fibe TV is where we needed it to be. So, in terms of upside, to me it's about footprint expansion on IPTV to continue to pull through the Internet – that's the strategy, and then it's a function of the pricing or not we see in the marketplace.

So, I think overall, steady quarter. We're on track and on track for our guidance.

Adam Shine – National Bank Financial – Analyst

Maybe as a quick follow-up, you've talked in prior quarters about upping the game in Ontario. Can you speak to the Quebec versus Ontario dynamic?

George Cope – BCE Inc. – President and CEO

Yeah, we were stronger in Ontario. Last year, we talked a lot about in Quebec being disproportionately strong. I would say some of that trend reversed in Q1.

Adam Shine, National Bank Financial

Great, thanks a lot.

Operator

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

Drew McReynolds – RBC Capital Markets – Analyst

Yeah, thanks very much. Good morning. George, can you kind of drill into the business market a little bit more for us, just kind of talking about enterprise versus SMB? And then, can you just also talk to where you are on leveraging the relationship with Q9?

George Cope – BCE Inc. – President and CEO

Sure. Well, I don't want to overplay the quarter from the B2B side, but anything that's a reversal in the trend is positive from our perspective. We have undergone, as people know over the last—maybe they don't, but 12 to 18 months a pretty dramatic change in management leadership there under Tom Little, and we're starting to see some of those results. At the end of the day, business as any part of the Company, execution is through leadership and we're seeing the type of leadership there we want to see in the marketplace. Our product portfolio, we're investing more in than we have in the past. Some of that is helping the underlying trends.

In terms of Q9, no doubt the hosting side is contributing to our—it's not in our numbers but it's contributing to our business growth because of our ability to do managed service offerings, etc. That is an area of growth for us, and Q9 is meeting our expectations at this point. Combining that with our Bell data centres, we're now at 20 data centres that we can market to our enterprise clients, which we think will be important going forward.

Drew McReynolds – RBC Capital Markets – Analyst

And just on the SMB market, are you seeing a little bit more continued competition from the cable cos?

George Cope – BCE Inc. – President and CEO

We always do, but our NAS improved slightly year-over-year, so there really wouldn't be much that we would say had changed there. We've certainly seen, though, an improvement—we call it enterprise mid and small. In the mid market, we're probably most pleased with the quarter.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, thanks. And just maybe a quick follow-up for Siim – just in terms of your cost savings target for the year and maybe in your results, how much have you realized of that, I think it was $170 million, for the year?

Siim Vanaselja, Chief Financial Officer, BCE

I think we realized about $25 million for the year, and that would be higher if we take into consideration that $14 million impact from the wholesale decision. You know, that's kind of consistent with our business plan. We're quite on track to achieve our full-year target. A lot of that is coming from efficiencies and productivity improvements in our call centres and our field operations, and we'll see that ramp up through the course of the year.

George Cope – BCE Inc. – President and CEO

In wireline alone, as Siim said earlier, excluding the CRTC regulatory impact, just in wireline alone it was $37 million in the quarter, so we're on track for what we said in the year.

Drew McReynolds – RBC Capital Markets – Analyst

That's great. Thank you very much.

Operator

Thank you. The next question is from Glen Campbell of Bank of America. Please go ahead.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Yes, thanks very much. A question on wireline and on, I guess, the Internet and satellite in particular. George, could you comment a little bit on where you're seeing more churn on satellite, whether it's out of footprint, in footprint, and the extent to which there is a single place – subs or bundled with Internet? Where I'm going with this is whether some of the softness in Internet is due to bundled losses around satellite. Thanks.

George Cope – BCE Inc. – President and CEO

Yeah, so as I said, on the satellite side, 15% of our net adds on Fibe are coming from our own satellite base, so that's—and that trend has been pretty stable, folks, over the last 12 months so we're feeling that's where it probably is. Secondly, no doubt cable guys are fighting for market share in TV, so there have been pretty aggressive campaigns against the satellite product, so that's part of the competitive dynamic. And, we have a pretty significant footprint of telco IPTV now in Canada, right from the east coast to the west coast, and some of that obviously is part of the migration that we see. So, I think if 15% of our customers migrate to IPTV, I'll let the analysts try to do some assumption of what percent that other telcos are getting their IPTV subs from. You've got to assume roughly a certain percent is coming from us, and that would be a safe thing to assume. That's how we model it.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Okay, thanks very much.

Operator

Thank you. The next question is from Tim Casey of Bank of Montreal. Please go ahead.

Tim Casey – BMO Capital Markets – Analyst

Thanks. George, could you talk a little bit about how you seen the handset subsidy metric evolving? It seems that the next generation of handsets, the improvements there will be incremental rather than revolutionary. Are you expecting a step-down in the subsidy dynamic? And, could you also comment on maybe relative share here, how you see that evolving among the various handsets?

George Cope – BCE Inc. – President and CEO

Yeah, what I would say is we are handset-agnostic, obviously as a carrier, letting the customer decide what handset they'd prefer; but you're right, I don't think it's going to be a sudden step-down but I think it will evolve to a steady improvement, and that's driven by mix. Now, we have three really strong competitors backing the smartphone space, not two, and that's obviously as a buyer advantageous and to the consumer from a choice perspective. So, there is no doubt in the first quarter mix of having the Blackberry in our portfolio helped us in our overall cost of acquisition, and we're excited about their new handset line-up, as we are with Samsung's new handset line-up and other suppliers. The more consumer choice, we think that puts the right COA pressure we want to have on the supply side, and over time, I think that helps us a little bit going forward.

In terms of market share, I won't comment. That would be, one, not fair; and two, frankly I think outside any of our agreements with our suppliers.

Tim Casey – BMO Capital Markets – Analyst

Have you factored in any material change in the subsidy into our 2013 numbers, or are we talking years out?

George Cope – BCE Inc. – President and CEO

No, there's no material change, but you know, we've been going on trajectory for the last two years and this was the first time we saw it go a little bit the other way, is what I would say. And so I think I know nothing material there, and one of the issues, of course, we have, we still have—which is a great opportunity, we still have 30% roughly of customers who don't have smartphones, and I am of the belief that 100% of Canadians will migrate to smartphones, but of course that drives subsidies as the entire base migrates to that.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Operator

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

Vince Valentini – TD Newcrest – Analyst

Yeah, thanks. Just a quick question probably for Siim – I guess the EPS was boosted by the pension and derivative in the first quarter, but you didn't change you guidance for the year. Is this just simply that you're waiting for the Astral deal first before you revise? Or, should we assume that there will be some offset to that $0.06, $0.07 impact for your full-year EPS?

Siim Vanaselja – BCE Inc. – Chief Financial Officer

No, where we stand right now, we are comfortable with our full-year EPS guidance. As we said with respect to Astral, we will update all of our guidance targets on the closing of that transaction. You're quite correct that the pension surplus gain and the gain on the equity derivatives hedges that we realized this quarter are one-time items, but when we put our guidance together, we were well advanced with the pension regulator in obtaining that surplus entitlement, so the $0.03 was built into our guidance. And then, with respect to the equity derivative hedges, there's always an element of that that we build into our EPS guidance as well. You never know how the share price is going to perform over the course of the year. We saw strong performance in the first half and we'll hope that keeps up for the second half; and if it does, well, we'll adjust guidance accordingly.

Vince Valentini – TD Newcrest – Analyst

Okay.

George Cope – BCE Inc. – President and CEO

Yes, so just to help you out too, as Siim had said earlier, the pension, we had expected it in the year. We had not expected it in this quarter – to help everyone out.

Operator

Thank you. Once again, do not hesitate to press star, one at this time if you have a question. The next question is from David McFadgen of Cormark Securities. Please go ahead.

David McFadgen – Cormark Securities – Analyst

Yes, I was wondering if you could talk about the wireless voice ARPU, what the decline was and how it compares with Q4 and Q3 2012? And then, just one other data point – if you could give us the smartphone penetration postpaid gross additions. Thanks.

George Cope – BCE Inc. – President and CEO

Okay, well wireless ARPU was actually up year-over-year 3.9%, so is there something different you're asking?

David McFadgen – Cormark Securities – Analyst

Yeah, the voice component.

George Cope – BCE Inc. – President and CEO

Oh, the voice component of ARPU. Then sorry, unpack the question for me a little bit. What are you--?

David McFadgen – Cormark Securities – Analyst

I was just wondering what the voice component of ARPU was. What the decline was in the quarter and how it would compare with Q4 and Q3 of 2012.

George Cope – BCE Inc. – President and CEO

Voice decline was – I just had it handed to me – was 4.3% in the quarter, David. Data was up 20%.

David McFadgen – Cormark Securities – Analyst

Okay.

George Cope – BCE Inc. – President and CEO

And, we continue to see that migration. I also would say with the unlimited voice plans that were launched on the voice side in the marketplace in the fourth quarter, you know, the voice side obviously pulled in as a result of that and we just continue to see a real positive on the ARPU side as customers migrate, particularly to LTE products. We see an expansion in usage of the product, and obviously that drives ARPU growth to help off set the voice declines.

David McFadgen – Cormark Securities – Analyst

Okay, and could I get that one other data point, smartphone penetration of postpaid gross additions in the quarter?

Thane Fotopoulos – BCE Inc. – Vice-President, IR

I'll have to follow up with you later, David. I don't have it handy with me.

David McFadgen – Cormark Securities – Analyst

Okay, all right. Thank you.

George Cope – BCE Inc. – President and CEO

Thank you.

Operator

Thank you. This concludes today's conference call. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.

George Cope – BCE Inc. – President and CEO

Thanks everyone.

Siim Vanaselja – BCE Inc. – Chief Financial Officer

Thank you.

Thane Fotopoulos – BCE Inc. – Vice-President, IR

Thank you.
