2009 Annual general shareholder meeting

George A. Cope presentation transcript
President and CEO

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George A. Cope

Good morning, everyone. And great that everybody took the time this morning to come out and hear about your company, Bell Canada. I want to start by acknowledging what an honour it is to lead your company, Bell Canada, into a really exciting future. And hopefully when I'm through the presentation today, you'll share that confidence that the Bell employees do in the company going forward.

I want to share with you a little bit about the new goal, strategy and structure that we put in place in July of 2008 when, if you will, we began a change and a transition in the company. I'm also going to share with you a clear capital market strategy that we laid out in December and that we're now executing in the marketplace on your behalf. I'll make a few comments about our first quarter results, which we just released this morning, and hopefully that will give you a good insight into where we're taking Bell Canada going forward. So let's begin.

First of all, in… in early July, as Tom had mentioned, we laid out a new goal for the company, and that was to be recognized by customers as Canada's leading communications company. And you'll notice we don't say our customers; we actually say customers. We want our competitors' customers to view us as the leading communications company so that they obviously make a decision to utilize Bell Canada's services going into the future. And then we laid out five strategic imperatives that I'm going to talk about this morning that we believe, when we execute on successfully, will ensure for you that we achieve our goal. And if we achieve our goal, we're convinced we will be in the position to grow the dividend of the company over time and provide for you the type of return you expect from ownership of Bell Canada.

So the first imperative is achieving a competitive cost structure. Second is accelerating our wireless business. Third is leveraging the leadership position we have today in the wire line business. Fourth is investing our capital in broadband networks and services. And fifth, but not last, is a real passionate focus on improving customer service. And we're going to talk about each of these strategic imperatives in this morning's presentation.

The first thing we did when we laid in place a new strategy was put in place a new structure for the leadership of your company. And we made a dramatic change: we reduced the number of executive from 17 to 12. There are four new executives that joined the company in their positions in July, and eight that are new over the last three years. We actually expanded the number of executives at the service level from two to three; kept the same number of presidents leading our demand businesses, such as our residential, enterprise and wireless business; and then we dramatically downsized, if you will, the corporate overhead part of the organization, where we went from seven executive to three. So we restructured the company to be more customer-focused, less overhead/corporate structure-focused, and obviously took out dramatic costs in doing that, going from 17 to 12 executive.

So let me now talk about our first strategic imperative, which is important for any company, clearly for ours, given our history of being a monopoly provider in some businesses and now deregulated in every single market segment that we compete in. So in the summer we did streamline the organization very quickly. And obviously for those that aren't with the company at this point, not an easy thing for the company to go through, or clearly for those individuals go through, but absolutely necessary to achieve our imperative around cost structure. And the focus in the reduction was at the management levels, not at the front line levels where, quite frankly, we've added back resources, added back people on the street in our vehicles, visiting customers in the home, where, quite frankly, our business really happens. So we reduced the executive level, not just the senior executive from 17 to 12, but the entire vice-president structure by 30 percent.

We looked at other companies around the world. We had 11 layers from the office of the President to the customer. And we didn't benchmark well. So we took three layers of management out of the company so that we would benchmark, reduce our costs, and focus at the customer end. And it affected 2,700 management people who are no longer with Bell. And those three structures of management were reduced, and such now we have eight levels from the office of the President -- so then there would be… and I would be number eight, and then there'd be a President of Bell Wireless, and then from there right to our people who are serving the customer every day no more than six levels in the company. So we reduced our workforce 3,500 people since June, the majority of those reductions being at the management level.

We also put in place a pay for performance culture for the company at the management level. We have not actually changed base compensation for your management since 2006. In fact, their compensation increases over the last three years, and as much as possible going forward, will be based on variable pay for performance, so that we're paying our management team for performing on your behalf and keeping our base pay low so that we have the financial flexibility we need yet maintain a competitive compensation structure through paying our management teams at all levels for performance.

We also put in place a retirement incentive. Those employees who had been with our company and reached retirement age, in a way to deal with costs, we offered them a program where they could elect, because they were at retirement age, to leave the company. We offered them 12 months of compensation to take that retirement offer, and over 1,200 people accepted that offer, so that by the end of the year approximately another thousand people will have left Bell Canada, yet our focus on the customer side where… where we are adding resources back continues.

And the company that we have ownership in, Bell Aliant, also completed a similar management restructuring.

We've also done a number… a lot of work in a number of other areas. We purchased 2,000 vehicles in the fourth quarter of this year. And I think buying 2,000 vehicles was obviously an important part for the economy as well. We equipped them with better technology so we can be more effective. We consolidated 40 different office locations we have to three campuses so that we're more efficient in operation and obviously for you are cutting our cost of real estate. So we're investing our money in technology and not in so many real estate locations.

We reduced dramatically outside consulting. It was running a little over $80 million three years ago; it'll be under $20 million this year. We have a very simple view. If our management team can't figure out what it needs to do, you need a new management team. We don't need outside consultants telling us how to run the company; otherwise we need them to run the company.

We reduced the number of ad agencies from 47 to 11, and we'll share a little bit on our new branding but hopefully you can see it around the room. Hopefully you enjoy it, as we do. It's certainly being effective in the marketplace, and… and obviously, hope that you agree cheerful.

We took away credit cards for people that didn't require them, 7,000 credit cards. We've done a lot of in-sourcing and outsourcing. We've consolidated call centres. We do some outsourcing. We had some issues with some of our outsourcers. We're returning a million calls from India this year where we had done outsourcing, and over time a significant amount of calls that have gone… been outsourced in some markets where it has not worked will be brought back to North America, and some of jobs in Bell Canada as well.

(Applause)

And we exited non-core businesses, businesses that quite frankly aren't our core competencies. We had a small start-up group. We don't start small businesses; we run big businesses. That's not our core competency. So we exited a number of businesses, none of which were making money, all of which therefore allow us to address our money into growing our company going forward and our imperatives.

The next thing we did was very, very carefully study how we spend your capital. We spend a lot of capital every year at Bell and BCE, over two and a half billion dollars this year. So it was important that we… we aligned our capital program to those imperatives, the strategic imperatives. And by doing that, by very rigorously going through the list of where we were spending our money, we found we could spend a lot less capital than we had in the past, yet we believe still execute our strategy.

So there was a number of the markets, the capital markets used, called capital intensity, which is the percent of… if you take the amount of capital we spend and you divide it by our revenue. And so this year we will spend about 15, 16 percent capital intensity. And as you can see, it really starts to put us in best in class in terms of our ratio. Verizon's spending more. We're spending roughly where AT&T is spending, and much less than our competitor, Telus. But I want to make sure you're comfortable with this. We are investing where we need to. We are not cutting back investments where we need to make them to ensure that your company is competitive. We just believe a more disciplined capital approach allows us to execute the business more effectively and return capital to shareholders over time more effectively than we have in the past.

Our second imperative is accelerate our wireless business -- very critical business for Bell, and in telecom today still the fastest growing area of telecom in the world, and changing our lives, obviously, every day. We just reported our first quarter this morning. I'm happy to report that our gross sales were up year over year, despite the tough economy. The valuable client base in the wireless industry is known as post-paid clients. Those are clients that get a monthly bill, versus pre-paid, people who pay through a card. The more valuable client for you, as shareholders, is post-paid. That was up year over year.

We did see a decline in the monthly bill of our customers, really driven by the economy. Clearly, people are focused on what they're spending. And we saw people… the amount of extra money people spend outside their… what we call their bucket, their monthly bill allowance, came down. So we saw a decline in our revenue. But overall, our financial performance of EBITDA margin increased, so our profitability increased. And I think you'll see that our results financially relative to our competitors this quarter in wireless will… will pass the test quite well.

We still have work to do in this segment in growing our market share, and we're doing a number of things to do that going forward. One thing we've done recently is announce the first of its type in the… in… frankly, in North America, with the NHL, where we have exclusive content on our wireless devices for video highlights. So if you want to see the replay of the Pittsburgh-Washington playoff game, they're exclusively available in Canada on Bell Mobility handsets.

And we're seeing an explosion in text messaging. In fact last month, for the first time, we carried more text messages than phone calls on our wireless phones. So the numbers are staggering. And as a result, we saw our data revenue -- we count all this as data revenue -- grow 36 percent year over year. And in Canada this year we believe the data market will actually for wireless exceed $3 billion in Canada. And just five, six years ago there wasn't a wireless data market. So growth in wireless is important, and our investment in that segment is important.

And growing our market share in wireless is important, so in early 2000… this year,… in January of this year we announced that we will be acquiring The Source. It's a retailer hopefully you all know, with 760 stores across Canada. The Source will continue to operate at The Source. But why is it important for you as a shareholder? Because up until now, The Source has exclusively carried Rogers product -- all of Rogers' wireless products, their cable products, their phone products. As of January 1st, they will not carry Rogers products anymore; they will carry Bell products exclusively across those 760 stores. On top of that, we will also take them… take to them other brands that we have, which I'll talk about in a moment. And you can see what's happened now with the points of distribution Bell has in Canada with this acquisition. We were behind our competitors; we now leapfrog our competitors in terms of distribution. And that's why we've made this investment. The stores will continue to operate as The Source. Though just when you go in, when we get into February, March you should see a lot of Bell products there and you should see no Rogers products. And if you see some, send me an e-mail because we're supposed to be converting them to Bell.

Another key part in driving our wireless business is we announced this morning -- so just this morning at seven o'clock -- that we acquired the remaining 50 percent of Virgin Mobile. So Virgin Mobile is a second brand that we operate in the wireless industry with, on top of our Bell brand and what's known as our Solo brand.

And in the wireless industry what's happened is each of the carriers now have two major brands. Rogers has Rogers and Fido. Telus has a brand called Telus and Koodo. We've had relationships with Virgin that have been excellent. We thought it important to take complete control of that asset, so we've entered into a long-term branding relationship with Virgin, and we will take Virgin Wireless to the market, a hundred percent now owned by you, the shareholders. And we will take Virgin to the Source stores as well in January. So we expect The Source sales in wireless to grow not just from Bell now moving in and taking Rogers out, but also by bringing Virgin. And we think it helps us in the youth market as well. This brand is recognized around the world as an excellent youth brand.

We paid a little over a hundred million dollars for the asset, and you can rest assured that we could not have got as many clients… achieved as many clients as we purchased through this acquisition in the market for a price better than what we paid for this. So that again accelerates our wireless business.

The next part of the wireless journey is in 2010 we will actually be launching a brand new wireless network as well. It's known as HSPA. What you need to know is it takes us to the next generation of high speed wireless data services as well as wireless voice. And we're actually doing this in conjunction with our… with a competitor, Telus. What we decided to do to save capital for our shareholders was split the country in half in terms of the build. The customers won't know… if they're on Bell, they'll know they're on Bell nationally; they won't know when they go to Telus. Likewise, a Telus client won't know when they go to Bell. But for you, we save $500 million doing it this way. We build it out quicker, and 4,000 cell sites will turn on just before the Olympics with a new… brand new wireless network as well in the marketplace early next year. So that's our wireless story and where we're trying to go.

The next imperative is accelerating and taking advantage of the historical leadership position we've had in the wireline business. One area we continue to see improvement on is the rate of telephone line loss. Now, you may say, as a shareholder, why would they congratulate them for losing less versus don't lose any. And the reason is you have to go back a few years, where you may recall just three, four years ago we still had a regulated monopoly where a hundred percent of local phone service was Bell. The market became deregulated. Our cable competitors compete with us every day now in the phone business. And at the beginning, they were taking a lot of clients. They're still taking too many, because we don't want to lose anyone. But the number of clients they're taking is coming down quarter by quarter, and this is the sixth quarter in a row we've seen the number come down. And I'll let you know that we are one of the few carriers in North America who are actually seeing this number come down year over year. And really it's because customers leaving us are starting to come back and realize that the service we provide on your home phone service is second to none. So you want to follow that number continue to come down as we execute going forward.

One of the areas of growth for us is our TV product. What used to be known as Bell ExpressVu is Bell TV. And accelerating that growth is important. We had a great first quarter. Revenue was up. We have now over 1.8 million subscribers on our TV service in Canada. And hopefully you use Bell TV, and if you do, you'll know that our HD product is second to none in the Canadian marketplace. And as a result, we have one of the lowest churn rates or disconnect rates in the TV business in Canada. And so that is moving that particular product in our group moving in the right direction and had a very strong first quarter.

And to the end of continuing to grow our distribution channels and grow our subscribers, we actually entered into a unique relationship that we just announced this morning, and Telus will be announcing this morning, I believe, at their annual meeting in a few hours, where we have appointed Telus in western Canada. They will actually distribute Bell TV in the west. They will rebrand it Telus TV, and we will, if you will, make them a wholesaler of our product. So Telus, if you're a Telus home phone subscriber in the west -- and, as you know, we're not in that business out west; Telus is. They will now have Telus TV to offer. And of course from our end, they'll pay… Telus will pay us a monthly bill for every client's monthly bill that they collect.

We will continue, though, to also operate in western Canada. You need to know we have over a million clients in western Canada, counting our wireless and TV business today. But this adds to our distribution. And also in western Canada, Bell TV will be taken to the Source stores in January. So we're expanding our distribution, expanding it in creative ways. Here we are with our competitor who we compete with every day in wireless, and appointing them to distribute for us in western Canada. And we think that will drive value over time for our shareholders.

Probably the most significant area of investment for us over the next five years in the wireline business is investment in what we call broadband, or as you might think of the Internet. We are in the midst of bringing fibre to every neighbourhood. Because the… the… the demand for the Internet is just growing at an incredible level. In fact, I was sharing last night with our board members that at eight o'clock now in the evening there are more people on the Internet than watching TV. And so the usage of the Internet is exploding, and by taking fibre to the neighbourhoods -- we're investing about a billion dollars over the next five years. It's called fibre to the node. It's a technical term. But assuming the fibre's getting close to your home, it improves the speed and performance of the Internet, and ultimately allows us to offer things like full video service over the Internet as we go forward. So a lot of our… your money is going into the investment in the Internet, where again we compete every day against the cable operators.

And on the business side, I just want to remind you that Canada does… does run on Bell. We're fortunate to have undoubted customers lists. Obviously the leading companies in Canada choose Bell as their provider. And important for us in a tough economy, in the first quarter we held stable our profitability in our Enterprise group in the first quarter. We're not seeing a lot of growth in Enterprise, but most importantly, we're maintaining very, very important relationships for you in the marketplace with key entities in Canada.

Our fourth strategic imperative: invest in broadband networks and services. And hopefully by now you've seen a bit of a theme, a focus on investing in the Internet, on wireless, or the Internet in the home. And you know, why is that? Because, as I mentioned, the explosion of the Internet is really something to see, and we are a part of that. We are the number one broadband provider in Canada. If you add up our Internet access at Bell, Bell Aliant, some of our wireless relationships, we have over three million customers today in Canada. We expect by 2012 that 90 percent of Internet traffic will actually be video.

And in the business side, the video conferencing products are quite frankly unbelievable right now. You feel like you're at the meeting. So travel will cut back. It makes companies more efficient, and we'll obviously sell additional services called video conferencing.

And finally on the wireless, the explosion of smart phones, where we have a great company in Canada today, BlackBerry, and we're selling obviously a lot of those and a lot of other products as well in the marketplace.

So investing in three platforms. As much of our capital as possible goes in these three areas: a new wireless network, fibre to the neighbourhood for the Internet, and leveraging our leadership in the Enterprise, making sure that companies are equipped with the right technology, with data and Internet access into the future. Excuse me.

Our fifth strategic imperative -- and by no means, as I said, last -- is a focus on improving customer service. It's a competitive marketplace, and we have to change our game in the service side, and we've begun to do that very rapidly over the last year. We spent a lot of time in late 2007 and early 2008 developing a new service model in the area of improving our in-home service, our call centre service, our in-store service and self-serve. We have a long way to go. We've only begun the journey. But I want to share with you some of the momentum that we've begun to see.

First of all, late last year we launched a same day/next day service repair promise in the marketplace, where, up until that time, if you had a product, be it your Internet, TV or phone, we could be anywhere from three to eight days to do that repair. We'll now be at your home either same day or the next day for no charge to repair the services. And I'm happy to report, five months into the program, 95 percent of our customers are seeing a same day or next day with the repair. And of course that improves the service reputation of the company and keeps that customer with Bell.

We also launched express install, where, if you buy that product from Bell today -- and we understand why you can't wait -- you want that product installed in your home, we'll offer express install, where we'll be there the next day for $59 to install it. If you want us to install it for free, we'll install it two days later and not charge you. And so just having the ability to offer customers the choice changes that conversation with the customer.

And then on the Internet side, quite frankly, it's got too complicated for most of us to install these services in our home. So up until late last year, if you bought Internet from us, we actually mailed you something called the modem. And unless you had the right person in the home, your chances of maybe hooking it up, at least these days, might have been slim. So we've gone to something called full install, where we'll actually come to the home and install the Internet service versus mail you the modem, and make sure that starts off on the right footing with Bell.

And on the Enterprise side, in the first quarter we saw 18 percent fewer data outages year over year, and that is significant for the type of customers we talked about earlier on.

So as shareholders you want to see results, and we are starting to see some results. With same day/next day now at 95 percent, interesting, we look at the repair call drop: 14 percent drop in the number of calls for repairs. So it's actually paying for itself. And our install repair call satisfaction's up to 80… 87 percent, and is the best overall customer satisfaction we've had in our four years at Bell in the first quarter of the year. So a long way to go, but on the right track and making real progress -- and more to come.

We're going to be putting what we call SPAs in our stores. And no, we're not going to go into a new business. We really called it Service and Product Assistance in our stores. And in each of the stores we'll have service there for wireless products. We're rolling them out in our stores now. I think by the end of the year we'll have about 30 stores with the SPAs. And on the consumer land line side you're going to hear about our Move Concierge service, where, if you have three products from Bell, we're going to personally handle that move for you so that you go through as little complication in your life as possible. Because, as we all know, moving is never fun, and we want to try to make sure our part of that bargain works as best as possible.

So that's our five strategic imperatives. That's where we're trying to take your company going forward.

On top of that, we launched a new brand in July. You know, part of it is about the positioning; also part of it is about being cost effective. So there's no longer a Sympatico, ExpressVu, Residential. It's Bell -- Bell Internet, Bell TV, Bell Home Phone, one company, Bell. Focused our resources around Bell and everything that we do. And I mentioned that allowed us to eliminate the number of agencies from 47 to 11 by focusing all around what is clearly the best name in telecom in Canada, Bell.

So what I thought, for a little bit of fun, we'd show you a couple… three of our ads that we're… that we have run or are currently running, and… and then I'll make a few other comments around the capital markets. So if we could run the ads. Thank you.

[ADS Run]

(Applause)

So there's some of the… the ads we've run with the… the new branding. We've had, quite frankly, great feedback. You can get… we could just do so much with the tag line, and I'll talk about that at the very end. And most importantly, we wanted to end on the Olympics to remind you that we are the sponsor of the Olympics. All of telecom, all the Internet, all the broadcast that goes around the world will run on Bell Canada. We have over 400 employees there today just focused already on delivering the Olympics to the world, not just to Canada. And 281 days to go on your calendar, by the way, in case… and hopefully you are planning to be there.

Let me now change gears a little bit -- it is a shareholders' meeting -- and talk about our capital structure model in the marketplace going forward. We laid out three priorities for the marketplace for you as shareholders. Number one, maintain a strong credit profile. Make sure we maintain our investment grade metrics as a public company. And we had those ratings confirmed by the rating… rating agencies early in the year.

Ensure we have ample liquidity, particularly in this capital markets. And although it appears to be getting a little better, it's very hard to predict what is going to happen going forward. So your board of directors is being very prudent in how we manage our capital. So you need to know your company has today a little over $2.2 billion of cash on the balance sheet, and we'll be using some of that cash to pay down debt over this year. And then excess cash that we have available we will clearly be using for things such as dividend increases and share buy-backs for you.

So we've begun to execute on that model. As was mentioned earlier, we increased the dividend in February by five percent. And not many companies in Canada were increasing their dividend in the first quarter of this year. So that hopefully gives you a sense of the confidence that your board of directors has in your company going forward.

We also just completed the share buy-back. We announced that today. Rather than take a year to buy back the shares, we executed that buy-back very quickly so that you, as shareholders, would benefit through a reduction in dilution, if you will, of our earnings and use that cash effectively. The return on that, at buying that stock, for you we bought it at $24.60 over that period.

We also today announced a new credit facility. Typically at Bell we may not, because we're so large, but in this capital market it's quite an achievement. We've announced the renewal of a $1.4 billion credit… three-year credit facility. And as I mentioned, we will use a billion and a half dollars of the cash we have on hand to repay debt that comes due this year. Our goal is really quite clear. It is to return cash to you over time through increasing dividends and share buy-backs as capital allows us to do it. And through a dividend growth model, we look over time, through the execution of our strategic imperatives, to bring to you the appropriate value as shareholders.

Just quickly, we did just release our first quarter results. I want to let you know that we were on plan. We met the guidance of the investment community. I think that's what you should see reported in the news tomorrow. Our net income was up 50 percent year over year to $377 million. But really what the investment community's looking very carefully at is are we maintaining our margins, which is at 39.4%, and are we holding what's called EBITDA, which is really our cash from operations. Are we growing it or holding it steady in this tough an environment? And we are, and we think our results will stand as well against other competitors in Canada and North America this quarter. So on track is what I would say to you as shareholders.

So in summary, what has… what has changed since July 2008? Well, a lot. A real focus on cost; new organizational structure; reduction of three layers of management; adding back resources on the service side; consolidated a number of campuses; consolidated call centres; exited non-core businesses. And then a number of strategic imperatives with a number of investments in each of them. Most importantly, rolling out new service initiatives such as same day/next day express install and full install. And then over the last 90 days, three announcements: the announcement of the acquisition of The Source; the announcement of a new distribution agreement with Telus in western Canada for our TV product; and this morning the announcement of Virgin Mobile, a hundred percent ownership of that, so that we can execute the acceleration of our wireless business with a multi-brand approach.

And finally, you know, what's important to you is how are we performing. And in this year of tough capital markets, you can see that BCE has outperformed the telecom index in Canada. And I have to mention we're in that telecom index at down. So if you take us out, obviously we're doing better on a relative basis. So moving… moving in the right direction. And as our brand says, at Bell, we believe today just got better. Thank you very much.