Q2 2019 Results Conference Call

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made by BCE's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer and Executive Vice-President and Chief Financial Officer during BCE's Q2 2019 Results Conference Call, as reflected in this transcript, are forward-looking statements. These forward-looking 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 common share dividend payout policy and expected dividend growth in 2020, anticipated ARPU levels, our network deployment and capital investment plans, the expected completion of the proposed acquisition of conventional TV network V and related digital assets, 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 August 1, 2019 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 August 1, 2019. The financial impact of these transactions and special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements were made during BCE's Q2 2019 Results Conference Call for the purpose of assisting investors and others in understanding certain key elements of our expected financial results, as well as our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes. The forward-looking statements made during BCE's Q2 2019 Results Conference Call for periods beyond 2019 assume that the economic, market, operational and financial assumptions as well as the material risk factors described in this transcript will remain substantially unchanged during such periods.

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

Canadian Economic and Market Assumptions

- *A gradual improvement in economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 1.3% in 2019, representing a slight increase from the earlier estimate of 1.2%*
- *Employment gains expected to continue in 2019, as the overall level of business investment is expected to grow but remain variable*
- *Interest rates expected to remain at or near current levels*
- *Canadian dollar expected to remain at 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*
- *A consistently high level of wireline and wireless competition in consumer, business and wholesale markets*
- *Higher, but slowing, wireless industry penetration and smartphone adoption*
- *A shrinking data and voice connectivity market as business customers migrate to lower-priced traditional telecommunications solutions or alternative over-the-top (OTT) competitors*
- *Advertising market expected to be impacted by audience declines and variable demand*
- *Continued escalation of media content costs to secure TV programming*
- *Ongoing linear TV subscriber erosion, due to growing cord-cutter and cord-never customer segments*

Assumptions Concerning our Bell Wireless Segment

- *Maintain our market share of incumbent wireless postpaid net additions*
- *Higher prepaid customer net additions*

- *Continued adoption of smartphone devices, tablets and data applications, as well as the introduction of more 4G LTE and LTE-A devices and new data services*
- *Higher subscriber acquisition and retention spending, driven by higher handset costs*
- *Improving blended ABPU, driven by a higher postpaid smartphone mix, increased data consumption on 4G LTE and LTE-A networks, and higher access rates partly offset by the impact of a higher prepaid mix in our overall subscriber base and the impact from Bell Mobility's SSC contract*
- *Expansion of the LTE-A network coverage to approximately 94% of the Canadian population, and continued 5G preparations with network technology trials, as well as the deployment of small cells and equipping all new sites with fibre*
- *Ability to monetize increasing data usage with industry shift to unlimited plans*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireless business*

Assumptions Concerning our Bell Wireline Segment

- *Positive full-year adjusted EBITDA growth*
- *Continued growth in retail residential IPTV and Internet subscribers*
- *Increasing wireless and Internet-based technological substitution*
- *Residential services household average revenue per user growth from increased penetration of multi-product households and price increases*
- *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 an acceleration in our fixed wireless-to-the-home (WTTH) rural buildout*
- *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 considerable 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, as well as the realization of additional synergies from the next phases of integration of Manitoba Telecom Services Inc.*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireline business*

Assumptions Concerning our Bell Media Segment

- *Revenue performance expected to reflect further Crave subscriber growth, flow-through of broadcasting distribution undertaking rate increases, and strategic pricing on advertising sales*
- *Operating cost growth driven by higher programming costs, excluding IFRS 16, mainly due to continued investment in Crave content*
- *Continued scaling of Crave and sports direct-to-consumer products*
- *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*
- *Monetization of content rights and Bell Media properties across all platforms*
- *TV unbundling and growth in OTT viewing expected to result in lower subscriber levels for many Bell Media video properties*
- *No material financial, operational or competitive consequences of changes in regulations affecting our media business*

Financial Assumptions Concerning BCE
The following constitute BCE's principal financial assumptions for 2019:

- *Total post-employment benefit plans cost to be approximately $310 million to $330 million, based on an estimated accounting discount rate of 3.8%, comprised of an estimated above adjusted EBITDA post-employment benefit plans service cost of approximately $250 million to $260 million and an estimated below adjusted EBITDA net post-employment benefit plans financing cost of approximately $60 million to $70 million*

- *Depreciation and amortization expense of approximately $4,375 million to $4,475 million*
- *Interest expense of approximately $1,125 million to $1,150 million*
- *An effective tax rate of approximately 25%*
- *NCI of approximately $50 million*
- *Total cash pension plan funding of approximately $375 million*
- *Cash taxes of approximately $650 million to $700 million*
- *Net interest payments of approximately $1,125 million to $1,150 million*
- *Average BCE common shares outstanding of approximately 900 million*
- *An annual common share dividend of $3.17 per share*

The foregoing assumptions, although considered reasonable by BCE on August 1, 2019, 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 2019 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2019 financial guidance, 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 intensity of competitive activity, including from new and emerging competitors, coupled with new product launches, and the resulting impact on the cost of retaining existing customers and attracting new ones, as well as on our market shares, service volumes and pricing strategies*
- *the level of technological substitution and the presence of alternative service providers contributing to reduced utilization of our traditional wireline services*
- *the adverse effect of the fundamental separation of content and connectivity, which is changing our TV and media ecosystems and may accelerate the disconnection of TV services and the reduction of TV spending, as well as the fragmentation of, and changes in, the advertising market*
- *competition with global competitors, in addition to traditional Canadian TV competitors, for programming content, which could drive significant increases in content acquisition costs and challenge our ability to secure key content*
- *the proliferation of content piracy impacting subscriber growth and our ability to monetize products and services, as well as creating bandwidth pressure*
- *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 and the level of bad debts*
- *regulatory initiatives, proceedings and decisions, government consultations and government positions that affect us and influence our business, including, in particular, those relating to mandatory access to networks, spectrum auctions, consumer-related codes of conduct, approval of acquisitions, broadcast licensing and foreign ownership requirements*
- *the inability to protect our physical and non-physical assets, including networks, IT systems, offices, corporate stores and sensitive information, from events such as information security attacks, unauthorized access or entry, fire and natural disasters*
- *the failure to optimize network and IT deployment and upgrade timelines, accurately assess the potential of new technologies, or invest and evolve in the appropriate direction*
- *the failure to continue investment in next-generation capabilities in a disciplined and strategic manner*
- *the inability to drive a positive customer experience in all aspects of our engagement with customers*
- *the complexity in our operations resulting from multiple technology platforms, billing systems, sales channels, marketing databases and a myriad of rate plans, promotions and product offerings*
- *the failure to maintain optimal network operating performance in the context of significant increases in capacity demands on our Internet and wireless networks*
- *the failure to implement or maintain highly effective IT systems supported by an effective governance and operating framework*
- *the risk that we may need to incur significant capital expenditures beyond our capital intensity target in order to provide additional capacity and reduce network congestion*
- *the failure to generate anticipated benefits from our corporate restructurings, system replacements and upgrades, staff reductions, process redesigns and the integration of business acquisitions*

- *events affecting the functionality of, and our ability to protect, test, maintain and replace, 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*
- *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, deploy new network and other technologies and offer new products and services, as well as to comply with various obligations*
- *changes to our base of suppliers or outsourcers that we may decide or be required to implement*
- *the failure of our vendor selection, governance and oversight processes established to seek to ensure full risk transparency associated with existing and new suppliers*
- *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 failure to attract and retain employees with the appropriate skill sets and to drive their performance in a safe environment*
- *labour disruptions*
- *the inability to access adequate sources of capital and generate sufficient cash flows from operations 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, whether the dividend on common shares will be increased, or whether BCE's dividend payout policy will be maintained*
- *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*
- *health concerns about radiofrequency emissions from wireless communications devices and equipment*
- *the inability to maintain customer service and our networks operational in the event of epidemics, pandemics or other health risks*
- *the failure to recognize and adequately respond to climate change concerns or public and governmental expectations on environmental matters*
- *the expected completion of the proposed acquisition of conventional TV network V and related digital assets is subject to closing conditions, termination rights and other risks and uncertainties, including regulatory approvals*

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 2018 Annual MD&A dated March 7, 2019 (included in BCE's 2018 Annual Report), BCE's 2019 First Quarter MD&A dated May 1, 2019, BCE's 2019 Second Quarter MD&A dated July 31, 2019 and BCE's news release dated August 1, 2019 announcing its financial results for the second quarter of 2019 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). These documents are also available at BCE.ca.

The terms "adjusted EBITDA", "adjusted EBITDA margin", "adjusted EPS", "free cash flow" and "dividend payout ratio" used in this transcript 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 "Notes" in BCE's news release dated August 1, 2019 announcing its financial results for the second quarter of 2019 for more details.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Q2 2019 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, Donna. Good morning to everyone. With me here this morning, as usual, are George Cope, BCE's President and CEO, and Glen LeBlanc, our CFO. Also joining us this quarter, and going forward on all quarterly conference calls, is Bell's COO, Mirko Bibic.

As a reminder, our Q2 results package and other disclosure documents, including today's slide presentation, are available on BCE's Investor Relations webpage.

However, before we get started, I want to draw your attention to our Safe Harbour statement on Slide 2. Information in this presentation and remarks made by the speakers today will contain statements about expected future events and financial results that are forward-looking and, therefore, subject to risks and uncertainties.

These forward-looking statements represent our expectations as of today and, therefore, are subject to change. We disclaim any obligation to update forward-looking statements, except as required by law.

So, with that, over to George.

George Cope – President and CEO

Great. Thanks, Thane. Good morning, everyone. I hope everyone is enjoying the summer.

I am going to flip to Page 4.

Just before I begin, I want to welcome Mirko to our call today. As I think everyone knows, Mirko is currently our Chief Operating Officer and will become CEO at BCE on January 6, upon my retirement from BCE on the 5th of January next year. Mirko and I have worked side by side for the past years, both strategically and operationally. Our company, and your company, will be in great hands going forward, as we continue this evolution to being Canada's broadband leader. We also are going to get a chance this morning to hear from Mirko on our results in a few minutes.

Just turning to a few highlights, broadband net additions for the company were very strong, up 25% year-over-year. We had record wireless net additions, up 30% year-over-year. Our fibre footprint acceleration and strategy continues to pay off, where we saw growth in fibre net additions up 10% year-over-year. Our footprint has now surpassed 50% of our overall fibre rollout at 4.9 million locations. Media had a very strong quarter, up close to 24% from an EBITDA perspective. Overall, truly strong profitability growth. Adding to that, the declining capital intensity ratio we talked about a year ago driving free cash flow up 10% in the quarter and year to date 13.

In my opinion, we had an exceptional quarter. I, frankly, was trying to remember, I cannot recall when the company has actually beat the street on estimates of revenue, EBITDA, EPS, free cash flow and net additions all in one quarter, and just to round it out, that it has not happened before, it also includes an NBA Championship, to top it all off.

So, with that, let me turn it over to Mirko to take you through the highlights of the quarter.

Mirko Bibic – COO

Thanks, George, and good morning, everyone. Very pleased to be on this, my first quarterly analyst call, since the announcement that I will be assuming the position of CEO next January. It goes without saying, but it is—I need to say that it is a profound honour to lead this great company and I am grateful for the confidence that our Board, George and the Bell Executive Team have shown in me, and for the opportunity to partner with a CEO as esteemed as George all these years. I am certainly excited for the opportunity to work with the Bell Team across the country to keep propelling our company forward. I also look forward to meeting and collaborating with both the analysts and buy-side communities in the quarters and years to come.

Before Glen goes over the financial results for the quarter, I will provide a quick overview of our Q2 operating metrics by segment, and I am going to start on Slide 6, with wireless.

Really excellent wireless operating results overall. We delivered our best Q2 subscriber performance in 18 years, with 149,000 new net customers added. Postpaid net additions totaled 103,000. The year-over-year reduction was a direct result of fewer customer additions from our long-term federal government contract, but excluding the federal government contract, postpaid net additions were higher compared to last year, reflecting Bell Mobility's network leadership, strong sales channel execution and lower postpaid churn. In fact, Bell branded churn was under 1% for a second consecutive quarter. It is clear that our investments in customer retention and the quality of our mobile services are resonating with Canadians.

On the prepaid side, we continue to see great results. Both Lucky Mobile and our new exclusive retail distribution deal with Dollarama are doing what we expected them to do strategically in the market, helping to drive 46,000 net additions this quarter. This compares to a loss of 8,000 last year. Clearly, we are taking market share in this segment and over time we hope to convert many of these customers over to postpaid service.

Blended ABPU increased a healthy 1.6%, and this reflects growth from customers selecting higher value rate plans and having more premium smartphones in the sales mix.

Let us turn a little bit to a couple of comments on the network side. We continue to roll out LTE-A service, now available to 94% of Canadians, and, notably, 60% of the population will have access to speeds up to 750 Mbps, but enjoying more typical speeds in the range of 25 Mbps to 220 Mbps, which is really incredible by any global standard. It is now well recognized and acknowledged that we have globally leading networks, and this is a key reason why.

I am also pleased to report that Virgin Mobile topped every wireless carrier in Canada, from a J.D. Power ranking perspective, for the third consecutive year, as number one in overall customer service in the eyes of consumers, a very strong result, and congrats to our Virgin Mobile team.

On the 5G side, testing is well underway with network trials. We are very well positioned, given our wireline fibre investment, with 85% of all our urban and rural cell sites having high-speed fibre backhaul capability by the end of this year. But, as everyone knows, we also need 3500 MHz spectrum to bring Canada into the true 5G world, and, as you all know, that auction is scheduled for 2020.

I am going to turn now to Slide 7, and wireline.

We are pleased with total retail Internet net additions of just over 19,000, in what is a seasonally low quarter for the consumer wireline business. That is up 52% over last year, and in terms of new FTTH customers, we saw 10% growth with 52,000 new additions. So, we are really seeing the strategic benefit of our direct fibre investments. We are offering the fastest Internet speeds of 1.5 Gbps, we are growing our broadband market share, and we have better customer retention. In fact, our speed advantage has been confirmed in independent testing by PCMag, who recently ranked the Bell companies as Canada's fastest ISPs for a second year in a row.

On network, as well, wireline network, our deployment is tracking to plan. Year to date, we have added 400,000 new FTTP and wireless-to-the-home customer locations, and we are targeting 700,000 locations this year, hoping to do better than that, while keeping within the same capital envelope. That is what our current plan is calling for.

We also had a good quarter from a TV perspective. We added 17,000 net new IPTV subscribers in Q2, as we continue to see that market mature and minimal new footprint growth. Alt TV continued to contribute positively to IPTV, as customers increasingly embrace the consumption of content on alternative platforms. In satellite TV, we continue to see a slowing in the rate of subscriber decline. Net losses improved by more than 5% over last year to 14,000, and that of course helps from an overall revenue and cash flow perspective.

Lastly, as it relates to Slide 7, while there is no specific reference to it, I think that it is worthwhile calling out for investors that our Business Markets unit continued to perform exceptionally well, with the fourth consecutive quarter of revenue growth. It is reflective of a growing economy, effective reprice management and increasing customer demand for fibre and for bandwidth. Although business wireline is not quite EBITDA positive, we continue to see steady improvement in the rate of year-over-year decline.

Turning to Slide 8, Bell Media, as George said, a very strong quarter. Glen is going to go through the very strong financial performance with you in a few moments, but we have seen a continuation of positive trends on the TV advertising front, with a fourth consecutive quarter of year-over-year growth. Our top 10 advertisers spent 20% more than last year, and spending from our five largest online marketplace advertisers was up almost threefold.

CTV, once again the number one network in the country for an 18th year in a row, and we secured a strong lineup going into the fall season, with 13 new shows and more than 70 original English language programs in production. Notably, we were the only Canadian media company with year-over-year audience growth in all key demos, which speaks to the quality and breadth of our programming and on-demand content.

TSN remained Canada's leading sports network and top specialty channel overall for the 2018/2019 broadcast year to date. In fact, TSN grew viewership in the second quarter by 21% over last year, supported by our broadcast of the NBA playoffs, including the championship run, as well as FIFA Women's World Cup Soccer. The championship game for the Toronto Raptors was the most watched NBA game ever in Canada, and the biggest broadcast of the year on any channel, with an average audience of 7.9 million viewers.

Strong quarter, as well, for specialty entertainment TV, where viewership increased 16% over last year, and the final season of HBO's *Game of Thrones* was the most watched season in specialty and pay TV history in Canada, which helped to drive Crave linear and direct-to-consumer subscriptions to more than 2.7 million this quarter. So, really strong growth for Crave this year, with, quite frankly, unparalleled content available to consumers.

Lastly, we are also really excited about our proposed acquisition of the French language conventional TV network V and related digital assets. Although it is a very small transaction financially by Bell standards, the acquisition reinforces choice for French language viewers, it will strengthen the Quebec television system, and it highlights our commitment at Bell Media to provide engaging French language content on traditional and innovative platforms.

With that, I will turn it over to Glen.

Glen LeBlanc – Executive Vice President and CFO

Thanks, Mirko, and good morning, everyone. I will begin on Slide 10, with a review of our Q2 consolidated results.

Our financial performance in the quarter demonstrated a disciplined focus on profitable subscriber acquisition, as evidenced by our continued healthy revenue and adjusted EBITDA growth across all Bell operating segments, margin expansion, as well as higher earnings and free cash flow, all of which are consistent with our 2019 guidance targets we provided in February.

Total BCE revenue was up 2.5% year-over-year, which, together with the favourable impacts of IFRS 16 accounting, led to a strong 6.8% increase in adjusted EBITDA. Consistent with this growth in EBITDA, net earnings were up 8.2%, which drove a 9.3% year-over-year increase in adjusted EPS to $0.94. We had a very strong quarter of cash generation, with positive and higher year-over-year contributions from all three Bell operating segments. This, combined with the declining capital intensity ratio, drove a 10% year-over-year increase in free cash flow in the quarter.

Turning to the detailed financial results of our segments, starting with Bell wireless on Slide 11, total revenue was up 3.2% on continued strong postpaid subscriber growth, a third consecutive quarter of positive year-over-year financial contribution from prepaid, and a higher sales mix of premium handsets that drove a 5.2% increase in product revenue. Wireless EBITDA grew 9.9%, yielding a 2.7 point margin increase to 44.8%. This was driven by strong revenue flow-through to EBITDA and a 1.6% decline in operating costs, which included the favourable impact of IFRS 16. Although we continued to maintain a low capital intensity ratio of 7.7% in the quarter, we did not slow down our investment on the deployment of small cells and increasing data backhaul capacity as we prepare for 5G.

Moving on to our wireline segment on Slide 12, total operating revenue increased 0.9% on combined Internet and TV growth of 4% and a fourth consecutive quarter of higher year-over-year revenue at Bell Business Markets, as Mirko mentioned earlier. However, our overall growth in the quarter was moderated by the non-recurrence of revenues generated in Q2 of last year from the G7 Summit and the Ontario general election, which totalled approximately $15 million. Normalizing for these items, wireline revenue grew 1.4%.

In terms of operating profitability, an increasing broadband scale, improved Business Markets results and stable year-over-year operating costs that reflected the benefit of IFRS 16, as well as the savings realized from workforce reductions undertaken last year, and other fibre-related operating efficiencies, adjusted EBITDA was up 2.1%. This drove a 60-basis-point increase in our industry-leading margin to 44.1%, which provides more than sufficient operating leverage to fully cover our planned $2 billion broadband fibre capital investments in 2019.

Let us turn to Slide 13 on Media financials. As Mirko said, Bell Media had its best set of quarterly financials in a number of years, delivering outstanding revenue, adjusted EBITDA and cash flow growth in Q2. Total revenues up 6.4%, reflecting both higher year-over-year advertising and subscriber revenue. Advertising revenue increased 5.7% year-over-year on a fourth consecutive quarter of TV growth and continued out-of-home strength. Conventional TV saw improved performance, growing advertising revenue by more than 4%, reflecting stronger overall customer demand, and specialty TV was up 12% over last year on strong entertainment, sports and news performance, reflecting better audience growth, better pricing flexibility and incremental advertising from the Toronto Raptors' championship run.

Subscriber revenue increased 7%, reflecting growth in customer subscriptions due to the broadcast of the final season of *Game of Thrones* on HBO this quarter and the launch of our enhanced Crave streaming service last November.

Adjusted EBITDA growth was exceptional, increasing 23.9% year-over-year. This was driven by the flow-through of the strong revenue growth, combined with operating costs that remain largely flat year-over-year, and as the positive benefits of IFRS 16 was effectively offset by higher programming costs due to the ongoing Crave content expansion.

Adjusted EPS, Slide 14 summarizes the main components of adjusted EPS, which was $0.94 per share in the quarter, up $0.08 over last year. Higher adjusted EBITDA drove $0.13 of that growth. In addition, tax adjustments contributed positively to earnings, totaling $0.04 per share this quarter. This is consistent with our guidance assumptions for 2019, as calling for $0.07 of tax recovery, down from approximately $0.09 in 2018. Adjusted EPS also reflected lower year-over-year losses from our minority interest equity investments, due in part from an improved performance at MLSE because of the Raptors. These favourable factors were partially offset by an expected year-over-year step-up in depreciation and interest expense due to the adoption of IFRS 16 accounting at the beginning of the year. In aggregate, IFRS 16 had an approximate $0.02 unfavourable impact on EPS in the quarter.

Turning to Slide 15, we generated $1.1 billion of free cash flow in Q2, up 10% over last year. This was driven by strong EBITDA growth and lower capital spending. This quarter's results also reflected higher interest paid, due primarily to the imputed interest on the lease liabilities under IFRS 16 accounting and the reduction in cash from working capital resulting from the timing of supplier payments, and higher accounts receivable driven by strong advertising sales at Bell Media.

We also took advantage of the favourable market conditions to complete two public debt offers in Q2, the first a six-year $600 million Canadian issuance and the second a $600 million and 30-year U.S. dollar debentures. These two new issuances effectively satisfy the refinancing needs of the near-term maturities through to April of 2021, and maintain our weighted average after-tax cost of debt at a historic low 3.1%, while increasing the average term to maturity to almost 12 years, from around 10 years previously.

So, with year to date free cash flow of more than $1.7 billion, we remain on track to achieve our 2019 growth target of 7% to 12%. This, together with a positive financial outlook as we look out to the end of the year, positions us well to maintain our dividend growth model into 2020.

Let us wrap up on Slide 16. We continued to leverage our advanced broadband networks and services to deliver higher wireless postpaid and residential wireline net customer additions in a financially disciplined manner during a seasonally slower quarter, providing the foundation for sustained financial performance going forward. Our consistently strong operational execution and favourable financial profile across all of our operating segments, as we move into the second half of the year, provides us with considerable flexibility to execute our strategy and achieve our 2019 guidance targets, all of which I am reconfirming here today.

On that, I would like to turn the call back over to Thane and the Operator to begin Q&A.

Thane Fotopoulos – Vice President – IR

Thanks, Glen. Before we start the Q&A period, just to keep the call as efficient as possible, I would ask that you limit yourself to one question and a brief follow-up, if you must, so we can get through as many in the queue as possible in the time we have left.

So, on that, Donna, we are ready to take our first question.

QUESTION AND ANSWER SESSION

Operator

Thank you. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star 1 on your telephone keypad. To cancel the question, please press the pound sign. Please press star 1 at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from David Barden from Bank of America Merrill Lynch. Please go ahead.

David Barden – Bank of America Merrill Lynch – Analyst

Hey, guys, thanks so much for taking the questions. Mirko, welcome to the call.

It is tough to argue with the performance in the quarter, with strength across all the different units. I guess two questions, if I could.

One would be how you guys would describe for us the impact of the unlimited plan launch in Q2, and kind of the shape of the ABPU, or ARPU, that we are going to see in the second half of the year and into 2020.

Then, I guess my follow-up would be just, on the strength of prepaid, if you could kind of do some performance attribution and where you think the market strength is coming from. Is it on the Lucky Mobile brand, the distribution platform, the pricing, the positioning? It would be helpful to get some colour on that. Thank you.

George Cope – President and CEO

Let me take the first one and Mirko will take the second one.

Yes, we had a tremendous quarter, literally, across the board. On the unlimited data plans, there is been a lot talked about, obviously. Clearly, this was not a move initiated by Bell in the marketplace, but one that we obviously followed, as we will always be competitive in the market.

The impact on ARPU will all take time for us to all see. I think it is fair to say that, structurally, the change does ultimately moderate ARPU growth in the industry. From our position this year, we believe we will—and our outlook still continues to expect positive ARPU growth this year.

I would say this. With the harmonization and simplification of the rate plans across all carriers, the key point of differentiation, which Mirko talked about, truly now becomes network performance, because it actually, in one sense, makes that focus. It brings that focus much more into the eyes of the consumer, and on that front, as everyone knows, we come out way ahead of the competitor who led this change, and think we are in an excellent position, then, to continue to move market share, and naturally my view on that.

Then, Mirko, do you want to pick up the second one?

Mirko Bibic – COO

Sure. Hi, David. On the second one, clearly, the results show you how competitive we are becoming in the prepaid segment. I think Lucky Mobile, certainly, the brand is a big driver of that performance. We certainly have a distribution advantage there in the Dollarama relationship, which, as you know, is an exclusive relationship, was working really well, and fundamentally that brand, Lucky Mobile, is resonating with consumers in that segment of the marketplace.

David Barden – Bank of America Merrill Lynch – Analyst

Great, thank you, guys.

Operator

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

Jeffrey Fan – Scotiabank - Analyst

Good morning, and thanks for taking the question. George, congrats on a stellar career, it is been a pleasure working with, and, Mirko, congrats on your new role.

My question, to start off with, is also on wireless. You have made some recent moves, I guess, in reaction to what your competitor had done to unlimited. First, you came out and matched the $75, but then it went up to $85. Then, on the equipment financing, it looks like you are keeping that option for customers available. So, I am wondering if you can just talk a little bit about the rationale behind those moves?

Then, maybe a quick follow-up for Mirko, if I may. This is the first time you are on the call, so wondering if you can just give those on the call, and investors, some early high level thoughts on maybe areas that you may think about focusing on. Thanks.

George Cope – President and CEO

Let me pick up, first of all, the questions on pricing in the marketplace. Competitive market, we will always be competitive, and our rate plans will reflect that, and have, in terms of our move to the unlimited data plan. So, that is really what I will say around that, and addressed earlier.

Then, in terms of moving into the equipment financing programs in the market, where folks are getting the handset and then paying for it over time, again, that was another development in the industry which we will clearly participate in. We are in that space now. We think one of the programs to have that financing over three years is an intelligent move for the consumer market. One that you will probably ultimately see us roll out with, as well, as we are currently at the 24-month, and part of this from our end, of course, is just reacting to the pace of the competitive change there.

Then, in terms of having both choices, that is just something we will reflect on as the market stays competitive. Some competitors have gone one way, one of the competitors has gone another way, and we are, frankly, at this point making sure consumers have maximum choice, and we will see how that unfolds.

Then, over to Mirko—oh, by the way, thank you for the comments. You do have to put up with me on one more call, everybody, but I really appreciate the kind comments, Jeff. But, over to Mirko on what he is thinking next year. My instinct is telling me he is going to tell about that next year, not today, but over to Mirko.

Mirko Bibic – COO

You are right, George. Jeff, thank you for the comments, as well. There will be lots of time next year, when I take over as CEO, to discuss my vision, and I will say one high level thing right now, which is we will continue on our quest to be the broadband leader in Canada, so that is clear. I will leave it at that.

Jeffrey Fan – Scotiabank - Analyst

Thank you.

Operator

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

Simon Flannery – Morgan Stanley – Analyst

Great, good morning, and thanks very much. Congrats, Mirko, and best of luck, George, it is been great working with you.

Maybe following up on the last point, Mirko, on broadband. You continue to make great progress in pushing out fibre-to-the-prem. Can you just talk about what sort of speeds you are seeing people taking and what sort of penetration levels you are getting on first pass, as that is been in the market for a couple of years. So, what is the potential as we see that program come to completion? Thanks.

Mirko Bibic – COO

As you heard from George, we have strong coverage now at over 50% of our broadband footprint, and that is going to continue to grow, and we are seeing strong demand where we do have fibre. Again, both George and I mentioned the growth in our fibre footprint. In that footprint, we have more subscribers, so more subscribers in fibre to the home, and in that geography where we do have fibre, we are seeing an increasing mix of subscriber take-up on the higher speeds here, so that is all very good. As well, we also considered our wireless-to-the-home program, it is part of our broadband, next generation broadband deployment, and there, too, while early days on wireless, we are seeing strong customer demand, quite pleased with the response, and clearly the service meets the need in those areas, which we are more than delighted to fill. So, strategy is working, strong execution and we are quite pleased with the progress.

Simon Flannery – Morgan Stanley – Analyst

Thank you.

Operator

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

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning, and thanks for taking my questions, and also I want to offer my congratulations to George and Mirko.

My question is on wireless. It seems, both in Q1 and Q2, pretty good wireless EBITDA growth. I mean, even if I kind of move out IFRS 16, in Q2, I get a number that is closer to 7% on 2.5% service revenue growth. I was wondering if you can offer a little bit more colour on that. I was wondering if there is any movement on the equipment margins or perhaps any additional cost reductions that would have facilitated that. Thanks.

George Cope – President and CEO

Just a couple quick things on it. I talked about it last quarter. It is so hard to see now because of all the accounting changes the last few years, so I know we are going to invest in those. Just follow the sources and uses and you can figure it all out. But, underlying service revenue growth for us has been very positive the first six months of the year. As Mirko just talked about, the change of trajectory on prepaid, small in one sense, but, as we have said on a couple of calls, much more positive in another sense. It takes something that is negative and makes it into a positive, and we have seen, again, a blended improvement in our ARPU as clients have migrated to more and more smartphones, as Mirko just mentioned. We did do a cost restructuring last year, at the end of the fourth quarter, and that was across the entire organization, and we are really trying to be as careful as we can with the cost of upgrades, etc., through the cost structure. So, a lot of things that we were not exactly—we were okay with last year, we are not totally thrilled with, we think we have got some of that wind at our back again on some of those key metrics.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Great, thank you very much.

Operator

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

Vince Valentini – TD Securities – Analyst

Yes, thanks very much. Coming back to the strength in broadband, which is clearly impressive, can I ask about the video component of that? Do you still think we should look at video subscribers as a key performance metric going forward, or is it really just a bundling tool to help you get broadband in. I note, in particular, your recent back-to-school offer, you want to get Internet customers, but you throw in Alt TV for $10. I can’t imagine that is profitable video subscriber growth, and I do not really care, it is driving better broadband, so it is all good by me, but do you really think video subscribers is a volume indicator, is a key thing you should be pushing on going forward?

George Cope – President and CEO

Yes, that is a great question, and I would say we would still, absolutely for sure. Promos—we will call them promos. I think everybody ought to understand we do not do anything that does not make money, that is for sure, and some of those Alt programs would have just conventional and no operating costs to us. So, you are absolutely on the right track. Underneath all that—everything we do, of course, is to drive broadband subscriptions. We have talked about this for a long time, that the value proposition on the broadband from fibre is where there is going to be more revenue growth, that we are going to see across our overall video platform, but our strategy of Alt and IPTV is to continue to take share, and then use the Internet, using the video of that pull-through. But, I still think it is an important metric for us and one that we are paying a lot of attention to, and there is no doubt TV without set-top box, which always is a different cost structure, is doing what we want it to do, and we are learning as we go. I mean, we have just to keep trying to drive that. Of course, do not forget, with the ownership of Bell Media, we bring eyeballs to the TV business, that helps Bell Media on the advertising side. So, it is still important to us.

Vince Valentini – TD Securities – Analyst

Seeing as you mentioned advertising, I will try to avoid Thane’s wrath with a follow-up that is somewhat linked.

Thane Fotopoulos – Vice President – IR

No, Vince, go ahead.

Vince Valentini – TD Securities – Analyst

On the Bell Media side, you are lapping, you have said, four quarters in a row of positive TV advertising revenue growth, so when you get into Q3, you will be lapping a quarter where you were already positive last year. Can you give us any sense of does that make year-over-year comps tough and you may not be able to keep growing TV ad revenue, or do you have some sense that the market is still strong and bookings at this point would indicate you can maintain that positive trajectory? Thanks.

George Cope – President and CEO

Well, let us bring Glen into this call, so he gets to work this morning.

Glen LeBlanc – Executive Vice President and CFO

I figured you would put me to work at some point. Vince, good morning. Look, we are delighted with our performance in the Media business and our funnel looking forward, very, very strong, advertising continues to be strong. Mirko mentioned our lineup in the fall, very, very strong.

Now, the quarter we just experienced 6.4% revenue growth, truly outstanding. A portion of that, about a third of that propped up by just the incredible run from the Raptors. Do I think the future is going to look as rosy as the past? Probably not. But, do we continue to be bullish and extremely excited about our Media operations and its performance? The answer to that is a resounding yes.

Vince Valentini – TD Securities – Analyst

Thank you.

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Thanks for taking my question. Again, congrats, Mirko and George.

I wanted to just go back on your discussion about wireless ARPU growth. When you talked about ARPU eventually turning positive, were you referring to this, about the ARPU, including the GOC government contract or excluding that contract?

George Cope – President and CEO

Well, our ARPU includes everything. We have had—Maher, again, the question is quite right. We have got ARPU positive year to date. We expect to see ARPU growth in the second half of the year to continue to be positive, and we will see what that amount is. I am not sure, did we get the question right, or maybe …

Maher Yaghi – Desjardins Securities – Analyst

Yes, no, I just wanted to just understand exactly, I mean, what your reference point is.

George Cope – President and CEO

We include all of our numbers and all of our subscribers in our metrics, which is a little different, I know, than other people and how they treat a government account.

Maher Yaghi – Desjardins Securities – Analyst

Okay, I just wanted to clear that up. So, when you look at the wireless market, with all the changes that we are seeing, a lot of the companies are still trying to find the place where they are going to sit eventually. How long do you expect the impact on ARPU, the negative impact on ARPU to take place over the next couple of quarters, until we see the full implementation of the plan in your ARPU numbers related to overage?

In terms of profitability, how should we track your performance in terms of the—if you do not have a full removal of the subsidy model from your base, do you think you can offset the overage impact on your top line profitability-wise?

George Cope – President and CEO

Okay, I guess what I am going to say is what I said almost at the beginning, which is we—I think people ought to focus attention on our cash flow generation of the entire enterprise off of the wireless business. We will be competitive with what the peers are doing in the marketplace. I talked about there will be some moderation of ARPU as a result of this change in the industry, but we are not going to go beyond what I said, obviously, this year on ARPU, and we have got to see how the market's competitive and you see us responding in the market.

Then, on the other, on the installment programs, that could turn out to be a positive for investors and consumers, it could turn out to be neutral, we are just going to have to see it unfolds. There is a lot of experience in the U.S. to take a look at, now that we are in that space, and we will adjust accordingly, again, to make sure we are always generating what we have historically, leading free cash flow in the wireless space. That will be our focus.

Maher Yaghi – Desjardins Securities – Analyst

Okay. The reason I am asking is, is just trying to get your sense about the end game in terms of moving the market to an unlimited plan. There is always going to be some arbitrage for consumers to take the unlimited plan and try to get subsidy from the companies that are offering these unlimited plans. So, I am trying to understand if both can be at the same time implemented and still not impact the bottom line. I am just trying to understand it from your perspective.

George Cope – President and CEO

Well, that is what I said earlier. First of all, the movements on unlimited plans puts an enormous focus on your network and its performance, our superior network now should turn out to be even that much more of a competitive advantage going forward, and then I think, as Mirko has reminded me, there is a general view that certainly within the call centres, call length should drop. We should see some of that, just because, again, for a customer buying, it is a clearer rate plan, less rate plans in the market.

We have not changed our guidance today as a result of any of this, we are very positive on the outlook, but I think some of these questions around this, I think you probably ought to direct to the companies that are leading this stuff. We are always going to be competitive and following it.

Mirko Bibic – COO

Right, and I would say that in one swim lane you have the installment plans, in the other swim lane you have the subsidy plans, and the price points are different between those two swim lanes.

Maher Yaghi – Desjardins Securities – Analyst

Okay, thank you.

Operator

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

Tim Casey – BMO Capital Markets – Analyst

Mirko, could you just walk through your comments again on what you were talking about with respect to Business revenues? I think you were saying EBITDA growth is not yet positive, but the declines are slow. Could you just sort of walk through what you are seeing on the Business side and what your expectations are into next year?

Could you frame for investors your perspective of the regulatory environment now, in the context of general election coming, where sometimes it can get a bit noisy, and then into the wireless review next year? Thanks.

Mirko Bibic – COO

On Business Markets, as I mentioned, and as you mentioned as well, revenues are up year-over-year, and that is the fourth consecutive quarter positive revenue growth. What we are seeing is basically strong performance, strong execution and the fibre strategy working, and strong demand in that customer base for bandwidth, and expect that to continue. Essentially, as I mentioned in my opening remarks, we are seeing a slowing rate of decline on the EBITDA side. So, a positive trajectory.

On regulatory, the big issue coming up, as you mentioned, is the MVNO proceeding with a hearing in January, and here is what I will say. We have the best speeds globally in Canada, we have amazing coverage, we have intense price competition, clearly—we have been talking about some of that on the call here—and we are on the cusp of 5G and investments that that will require, and we have the regional carriers doing what the regional carriers are doing. We have also talked about the prepaid segment, which has gotten a whole lot more competitive and certainly meets the need of that lower cost segment in the marketplace. If you put all those things together, the government and regulators ought to factor all that in quite seriously, and not interfere with a market that is functioning really, really well. I will leave it at that on the regulatory front, as being the biggest item coming up.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Operator

Thank you. Once again, please press star 1 if you have a question.

Your next question is from Drew McReynolds from RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, thanks very much, and I would just reiterate congrats to you, George, and to you, Mirko.

Two follow-ups for me. First, maybe, George, get your view. You have talked a lot on the potential impact of unlimited and EIPs. I know you are not kind of steering things here out there in the market, but there is been a lot of discussion on whether what everyone has observed and witnessed in the U.S. is a relevant kind of benchmark or blueprint for what will unfold here in Canada. I would love to get your high level thoughts on that one.

Then, second, maybe to bring Glen back into the conversation. Glen, I know your pension funding is fully funded. I am just wondering if and when you are kind of crossing that threshold to lower annual pension funding. I think you have quantified that as potentially a $200 million free cash flow tailwind. Thank you.

George Cope – President and CEO

First of all, thank you for the comments about Mirko and I.

I think, on the unlimited and on the EIPs, we have made our comments and we will see how the market unfolds, but there is no doubt. I mean, other markets that have moved to both these types of structured programs are lessons to be learned, and you can rest assured that we are obviously looking at those to make sure—if there were positive things done, we make sure we try to duplicate them, and if there is things that people wish they had not done, we will obviously try to steer away from those. I know they are common sense answers. But, at the same time, that is really what we are going to have to do and want to do within that space. So, we will stay competitive. We have had a great strategy on prepaid that got growth; we have a leading postpaid network and the lowest capital intensity in wireless, so we think we are in a tremendous position for whatever the market brings us.

Glen LeBlanc – Executive Vice President and CFO

Good morning, Drew. It is Glen. I will take a little bit about pension funding. As you know, for years, we have predicted that a rising interest rate environment would put us in that enviable position of having to take a contribution holidays. Although we continuously see ourselves migrating towards that path, the solvency discount rates, as fast as they start rising, slip away and go the other direction on us, which I think has been my entire career I have been saying that. Great news, though, on our pension funding is, despite the fact that solvency discount rates have actually come down in the last six months, our pension plans still find themselves in a fully funded position, and that is really a product of the asset mix, great returns that we are experiencing in that fund. So, I could not be happier to find ourselves north of 100. Ultimately, getting to that date of having the contribution holiday of up to a couple hundred million dollars is really a product of discount rates. Unfortunately, they slipped on us this year, so let us hope for a rebound.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, thank you.

Operator

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

Thane Fotopoulos – Vice President – IR

Oh, there is a question, I just see one.

Operator

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

Adam Shine – National Bank Financial – Analyst

Thanks a lot, thanks for squeezing me in. Congratulations to both of you, as well.

Maybe, George, one issue around a topic that we see a lot of headlines about, as you can imagine, is the Huawei issue, and you have yet to put out your RFP, I presume, for the next phase of 5G, but at some point, as we watch the rhetoric from this government, that could be the same government coming out of the election, it does not seem to be great quick movement on this issue. Can you speak to your views on when you need to get going with this, when a certain amount urgency sort of sets in, you know, beyond the fall, in regards to moving forward on that RFP?

George Cope – President and CEO

Yes, we look at the timing—well, first of all, we will of course always follow whatever the guidelines are in the country, and we have talked about that in the past. We will have to see how that unfolds. We have clearly listened to some of the public announcements from Ottawa, and obviously we have dialogue, very positive dialogue, I would say, of sharing proper information between ourselves, Canadians, and also the government. We have an expectation that post the election we will get clarity, and we think that works within the timing of some of our plans around appointment of who the vendors would be going forward. So, some resolution of this shortly after the election, which fits within our strategic timeframes, and we will work on that at the end of it. As we said before, however this unfolds, we see it not having a material impact on us, although we love the fact of having multiple vendor choices, but we will follow whatever the rules are in the country.

Adam Shine – National Bank Financial – Analyst

Super. Thanks a lot.

Operator

Thank you. There are no further questions. Back to you, Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Thank you, Donna. Yes, I think that the tightness of the Q&A is definitely a reflection of the strength of our results this quarter, and the clarity and transparency of our disclosure, I like to think so.

So, on that, thanks again to all for your participation on the call. I will be available throughout the day, as usual, for follow-up questions and clarifications. Thanks to all. Have a great day. Thank you.

George Cope – President and CEO

Thanks, everyone.

Glen LeBlanc – Executive Vice President and CFO

Thank you.

Operator

Thank you. The conference has now ended; please disconnect your lines at this time, and thank you for your participation.