BCE

BCE Q2 2020 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 during BCE's Q2 2020 Results Conference Call, as reflected in this transcript, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to the potential impacts on our business, financial condition, liquidity and financial results of the COVID-19 pandemic, our expected improved performance in the third quarter of 2020 as economic activity resumes, our ability in the second half of 2020 to generate momentum as the economy reopens, BCE's financial flexibility to navigate through the COVID-19 crisis and more than meet all of its 2020 cash requirements while sustaining its common share dividend for the foreseeable future, our network deployment and capital investment plans, the expected timing and completion of the proposed sale of 25 data centres at 13 sites to Equinix, 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 6, 2020 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 6, 2020. 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 2020 Results Conference Call for the purpose of assisting investors and others in understanding our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Material Assumptions
The forward-looking statements set out in this transcript are based on certain assumptions including, without limitation, the following assumptions. Due to uncertainties relating to the severity and duration of the COVID-19 pandemic, including possible resurgences in the number of COVID-19 cases, and various potential outcomes, we are not able at this time to estimate the impacts of the COVID-19 pandemic on our business or future financial results and related assumptions. Accordingly, the assumptions outlined below and in other sections of this transcript and, consequently, the forward-looking statements based on such assumptions, may turn out to be inaccurate.

- *Our liquidity from our cash and cash equivalents balance, the remaining capacity under our committed credit facilities, our cash flows from operations, continued access to the public capital, bank credit and commercial paper markets based on investment-grade credit ratings, and continued access to our securitized trade receivables programs, will be sufficient to meet our cash requirements for the remainder of 2020*
- *No material financial, operational or competitive consequences of changes in regulations affecting any of our business segments*

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 include, without limitation: pandemics, epidemics and other public health risks including, in particular, the COVID-19 pandemic, and the uncertainty of its severity and duration, including possible resurgences in the number of cases and the potential re-introduction of emergency measures, and the adverse effects thereof; our inability to access adequate sources of capital and generate sufficient cash flows from operating activities to meet our cash requirements; our failure to maintain operational networks in the context of significant increases in capacity demands; the risk that we may need to make significant capital expenditures in order to provide additional capacity and reduce network congestion, and implement additional sanitation and safety procedures as a result of the COVID-19 pandemic; our inability to drive a positive customer experience; labour disruptions and shortages; our dependence on third-party suppliers, outsourcers and consultants to operate our business; uncertainty as to whether dividends will be declared by BCE's board of directors or whether the dividend on common shares will be increased; pension obligation volatility and increased contributions to post-employment benefit plans; regulatory initiatives, proceedings and

decisions, and government consultations, positions, actions and measures that affect us and influence our business; the intensity of competitive activity, including from new and emerging competitors, coupled with the launch of new products and services; the level of technological substitution and the presence of alternative service providers contributing to the acceleration of disruptions and disintermediation in each of our business segments; the adverse effect of changing viewer habits and the expansion of OTT TV on subscriber and viewer growth and on the advertising market; rising content costs, as an increasing number of domestic and global competitors seek to acquire the same content, and challenges in our ability to acquire or develop key content; the proliferation of content piracy impacting our ability to monetize products and services, as well as creating bandwidth pressure; higher Canadian smartphone penetration and increased device costs could challenge subscriber growth and cost of acquisition and retention; the inability to protect our physical and non-physical assets from events such as information security attacks, fire and natural disasters; the failure to transform our operations, enabling a truly customer-centric service experience, while lowering our cost structure; the failure to continue investment in next-generation capabilities; 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 implement or maintain highly effective IT systems; the failure to generate anticipated benefits from our corporate restructurings, system replacements and upgrades, staff reductions, process redesigns and the integration of business acquisitions; our failure to test, maintain, replace or upgrade our networks, IT systems, equipment and other facilities; in-orbit and other operational risks to which the satellites used to provide our satellite TV services are subject; the failure to attract and retain employees with the appropriate skill sets and to drive their performance in a safe environment; changes to our base of suppliers or outsourcers that we may decide on or be required to implement; the failure of our vendor selection, governance and oversight processes; security and data leakage exposure if security control protocols affecting our suppliers are bypassed; the quality of our products and services and the extent to which they may be subject to manufacturing defects or fail to comply with applicable government regulations and standards; the inability to manage various credit, liquidity and market risks; 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; the unfavourable resolution of legal proceedings and, in particular, class actions; new or unfavourable changes in applicable laws and the failure to proactively address our legal and regulatory obligations; the failure to recognize and adequately respond to climate change concerns or public and governmental expectations on environmental matters; health concerns about radiofrequency emissions from wireless communication devices and equipment; and the expected timing and completion of the proposed sale by BCE of 25 data centres at 13 sites to Equinix are subject to closing conditions and other risks and uncertainties.

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 2020 Second Quarter MD&A dated August 5, 2020 for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian provincial securities regulatory authorities (available at Sedar.com) and with the U.S. Securities and Exchange Commission (available at SEC.gov). This document is also available at BCE.ca.

The terms "adjusted EBITDA", "adjusted EBITDA margin", "adjusted EPS", "free cash flow", "net debt" and "net debt leverage 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 section 8.2, Non-GAAP financial measures and key performance indicators (KPIs), in BCE's 2020 Second Quarter MD&A dated August 5, 2020 for more details.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Q2 2020 Results Conference Call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Thank you Louise and good morning everyone. Thank you for joining us this morning. Participating on the call today are Mirko Bibic, BCE's President and CEO, and Glen LeBlanc, our CFO.

Our second-quarter results package and other disclosure documents, including today's news release and slide presentation, that were issued earlier this morning are available on BCE's Investor Relations web page.

However, before we get started, I would like 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, accordingly, are subject to change. We disclaim any obligation to update forward-looking statements except as required by law. Factors that may affect future results are contained in BCE's filings with both the Canadian securities commissions and the SEC, and are also available on our corporate website.

With that, over to you Mirko.

Mirko Bibic – President and CEO

Thanks Thane and good morning everyone.

We are still in the midst of what continues to be a long journey for all of us, and the Bell team stepped up in Q2 by focusing on the operating principles that have guided our crisis response from the very start: Keeping Canadians connected and informed; Prioritizing the health and safety of the public, our customers and, of course, our team; and Supporting our customers and communities. I am proud of the thousands of team members who have been serving our customers at Bell workplaces and in the field since the crisis began.

Against this backdrop, we delivered operating results for Q2 that underscore Bell's broadband network leadership, reinforce the critical nature of our services, and demonstrate our ability to execute effectively under very difficult circumstances. Despite ongoing heavy demand for all our services, we have maintained Internet speeds and reliability, while continuing to operate our networks at a near perfect 99.99% overall availability.

We enabled work from home for about 90% of our employees, which included some 12,000 call centre agents. By mid-April, service levels were back to what they were pre-COVID, and our call centres resumed full hours of operation at the beginning of June. In short, in a matter of a few weeks, we pivoted from full crisis mode to the stabilization phase. And now, with Q2 behind us, we are focused on building momentum back into the business. As Canada gradually reopens, our focus has been on ensuring customer access to our retail locations wherever possible, and as of now 99% of our Bell, The Source and authorized dealer stores and kiosks are back in full operation.

In Q2 we continued to grow broadband market share with more than 50,000 total net new wireless, retail Internet and IPTV customer additions. We also achieved a noteworthy milestone during the quarter, surpassing 10 million wireless subscribers. More impressively, despite significant COVID impacts absorbed in the quarter, we maintained our consolidated EBITDA margin essentially stable at 43.5%.

In addition, we generated 50% higher year-over-year free cash flow. This contributed to our very strong liquidity position of $5.4 billion at the end of Q2, which provides ample financial flexibility to execute on our capital investment priorities and comfortably sustain BCE's common share dividend for the foreseeable future. In fact, just this morning, we declared as scheduled our common share dividend for Q3 that will be paid on October 15th.

Turning to Slide 4. In the midst of COVID, we've made meaningful progress in advancing our strategic priorities so as to generate continued operating momentum in the near-term, and ultimately emerge from the crisis in an even stronger competitive position. 55% of our broadband footprint is now fiberized with 5.4M homes and businesses able to access the fastest Internet speeds in the market today of 1.5 Gbps.

We also fast-tracked our Wireless Home Internet service footprint with 137,000 additional homes passed in April alone, bringing the total number of rural locations equipped with fixed wireless technology to about 400,000. We're taking this unique technology even further by doubling Internet download speeds from 25 Mbps to 50 Mbps to the first 300,000 households starting this fall, while also expanding to rural communities throughout Atlantic Canada. And on June 11th, we launched Canada's largest, first-generation 5G network with service available in the country's 5 largest cities, which will be rolled out to more urban centres later this year.

Championing the Customer Experience is a core strategic imperative for Bell. To this end, given that our retail stores were closed for an extended period, we accelerated investments on digital platforms and self-serve tools. More and more, these are the channels many customers prefer to use to interact with us.

We are encouraging customers to take advantage of online and mobile self-serve options. The MyBell and Virgin Mobile My Account self-serve apps are the clear leaders in their space in terms of app ratings, and provide customers best-in-class integrated access to their Bell and Virgin products and services. Since the start of COVID, approximately half of all customer transactions have been executed online.

I am also pleased to report that Virgin Mobile topped every wireless carrier in Canada from a J.D. Power ranking perspective for a fourth consecutive year as number one in overall customer service in the eyes of consumers. A very strong result for our Virgin Mobile brand. Bell's strategic focus on customer experience was also reflected in the latest report from the CCTS for Q2, which showed a 26% drop in the number of CCTS complaints by Bell customers. Again the best performance among national carriers.

And, as part of our ongoing efforts to safeguard the health and safety of the public, we introduced appointment-based selling in retail stores and ramped up our Assisted Self-Installation and Repair program. In fact, one-third of all new installs and repairs in Q2 were completed without entering the customer's home.

In short, strong progress has been made on our imperative to Champion Customer Experience and all these measures position us well in the short and long term.

Underscoring our ongoing leadership in service innovation, we launched Virgin TV a few weeks ago in Ontario and Quebec. Virgin TV is an app-based TV service that doesn't require a traditional set-top box or installation, and works on virtually all streaming devices. This new TV platform enhances our multi-brand TV strategy by offering TV services to Virgin customers, who we know are clearly consuming vast amounts of content, but who are not subscribed to one of Bell's TV services currently.

Our latest television innovation just announced on Tuesday is the Bell Streamer. This is a compact 4K HDR streaming device powered by Android TV that offers customers all-in-one access to live TV and on-demand content from Bell Alt TV, support for the top streaming services, and access to apps on Google Play.

As you know, we also announced on June 1st the sale of most of our data centres to global data centre operator Equinix in an all-cash transaction valued at just over $1 billion. We will maintain a strategic partnership with the acquirer to provide our enterprise clients with full access to Equinix's advanced hosting and cloud solutions. The transaction is expected to close before the end of this year.

As I've said before, and I think it's important to reiterate here today, this is not the time to pull back on investment in critical network infrastructure and customer service improvements. They are necessary to keep us competitive in the short term, and will definitely benefit our company, our customers and our economy in so many ways over the medium and long term.

The COVID crisis has underscored in a very real way the benefits of Canada's global network leadership, whether that's wireless or wireline, which has been made possible because of our significant capital spending, supported by long-standing facilities-based regulatory policies. It has never been more important for governments and regulators to support policies that encourage continued deployment of high-speed fibre networks, Wireless Home Internet in Canada's underserved rural communities, and next generation mobile 5G technology. As I have said numerous times in the past, but which merits emphasizing again with key regulatory decisions on the horizon, we cannot risk losing our global network leadership. Canada cannot afford to fall behind in the construction of digital infrastructure which, we all know, will power so many segments of our economy as we recover from the impacts of COVID-19.

Over to Slide 5 for a quick overview of some key operating metrics, starting with Bell Wireless.

COVID had a significant impact on subscriber and promotional activity due to temporary store closures and stay-at-home requirements that were in place for much of the quarter. This led to a 35% year-over-year decline in postpaid gross activations in Q2. Consistent with this reduction in wireless sales activity, we also saw a corresponding decline in customer churn this quarter. In fact, postpaid churn was 0.82%, our lowest rate ever, which helped drive positive postpaid net additions of 22,000 for Q2.

Notably, this result is net of a provision we took estimating the number of customer deactivations that would have otherwise occurred in the quarter for delayed or non-payment if not for the financial support actions we put in place because of COVID. So if you normalize for this non-payment churn provision totaling 39,000 subscribers, our postpaid churn rate would have been 0.68% or 14 basis points lower than our reported result.

And with the introduction of device financing plans on Virgin Mobile in mid-May, Bell Wireless is now 100% EIP-based across all our brands. In prepaid, 13,000 new customers were added this quarter. A good result given the COVID-driven market slowdown and lapping of our Dollarama distribution agreement in May. With 99% of our wireless retail points of sale now re-open for business, we are beginning to see some pick-up in demand, although it is still too early to predict when consumers' typical shopping activity will resume. However, when it does, and it will, we'll be ready to leverage our industry-leading distribution strength, our wireless network leadership, our fastest speeds, and the improvements we are making right now to our digital platforms.

To finish up on wireless, blended ABPU was down 8.8% over last year.

Not an unexpected result given the material impact of COVID on roaming revenue, the ongoing decline in data overage, an increasing prepaid customer mix, as well as the customer accommodations during COVID that we put in place to help those facing financial challenges.

Moving to Bell Wireline. Our subscriber results continue to reflect the importance and quality of our connectivity services. Although fewer residential and business customers are installing new services, fewer are also switching service providers. This drove 19,000 retail Internet net additions in Q2, unchanged versus last year, in what traditionally tends to be a slow quarter for broadband.

We also added another 46,000 FTTH subscribers this quarter, bringing the total number of direct fibre customers to more than 1.5 million, up 18% over last year.

The broadband footprint advantage that we are building, with the fastest fibre network and Wireless Home Internet speeds in the market today, position us extremely well in both our consumer and business segments over the long term to grow Internet revenue, which increased a strong 7.5% in Q2.

On the TV side of things, we lost 4,000 net IPTV subscribers in Q2. This was the direct result of reduced sales activity and promotional offers, as well as overall TV market maturity. And we also experienced good results in

satellite TV and home phone with customer losses improving 17% and 34%, respectively, as consumers continued to shelter and work from home. While we have not yet experienced any significant changes in customer behaviors or trends to date, some customers have delayed payment as they deal with the economic impacts of COVID.

As a result, consistent with the incremental bad debt provision we took in the quarter, we recorded an involuntary customer churn provision for non-payment, as we did for Bell Wireless, so as not to overstate our net subscriber additions and overall churn in Q2 for Wireline. The provision for Bell Wireline amounted to roughly 45,000 customers: 19,000 in Internet, 14,000 in TV, and 12,000 in home phone.

Moving to Bell Media. Although total advertising revenue was down, we have started to see signs of improvement. Some industries like automotive, retail and food are beginning to spend again.

Also, the return of some key sporting events, including PGA Tour Golf, UFC, NASCAR, Formula One and MLS Soccer, have shown promising results. Most of these events have seen higher than usual audiences. This improvement is expected to continue into Q3, and will be further positively influenced by the return of more live sports, including, of course, the NBA, golf's major championships and the US Open Tennis. Impressively, even with the absence of live sports broadcasts, TSN and RDS subscriber deactivations remained minimal in Q2.

Crave also continued to deliver with strong direct-to-consumer growth as total subscribers increased to 2.8 million at the end of June, up from 2.7 million in Q1. And earlier this summer, in keeping with our imperative to deliver compelling content, we expanded Crave to include HBO Max programming.

So, while it is still too early to predict what the recovery holds, we believe that BCE's Q2 consolidated results represent a low-water mark, and although we don't expect to return to pre-COVID operating performance in the near term, Q3 is anticipated to show a marked improvement.

We remain very confident in the underlying, long-term fundamentals and performance of BCE. We're competitively well positioned to succeed with a healthy balance sheet and substantial, ongoing free cash flow generation that provides us with considerable financial flexibility to navigate through the COVID-19 crisis, and to more than meet all our cash requirements for the balance of 2020.

And with that, I will now turn it over to Glen.

Glen LeBlanc – Executive Vice President and CFO

Thank you Mirko and good morning everyone. I hope everyone is keeping well and staying safe this summer.

Turning to Slide 7. The financial impact of COVID-19 obviously accelerated in Q2, reflecting a full-quarter impact of widespread retail store closures and reduced consumer activity as Canadians sheltered at home. This drove a 9.1% year over year decline in consolidated revenue. Due to the flow-through impact of lower revenue, adjusted EBITDA was down 9.4%. This result reflects approximately $85M of costs incurred directly because of COVID, including the relocation of call centre agents; employee redeployment expenses; the purchase of personal protective equipment; increased sanitization and cleaning; an incremental provision for bad debt exposure totalling $36M; as well as the donation of masks to healthcare and other frontline workers throughout Canada.

Net earnings were down 64% over last year as a result of lower year over year EBITDA, lower equity income from MLSE due to COVID, and a $452M non-cash impairment charge to Bell Media TV to reflect the current market value of its TV and radio assets. Despite the steep earnings decline this quarter, free cash flow grew 50% to $1.6B. One of the reasons for the increase was a slowdown in capital spending during the initial stages of COVID as our primary focus was on stabilizing the organization and ensuring continuity of critical services. Construction activity has now ramped up considerably.

Lastly, I wanted to bring to your attention a reporting change we made this quarter. As Mirko mentioned, as a result of our agreement to sell substantially all of Bell's data centres, those operating results are now being classified as discontinued operations beginning this quarter with prior periods restated for consistency.

Moving to our Wireless results on Slide 8. COVID-19 had a material impact on Bell Wireless financial results in Q2, due to a significant decrease in retail sales activity; reduced travel; an accelerated decline in data overage revenue driven by the optimization of data packages with increased working from home and greater Wi-Fi offloading; and customer accommodations introduced to help those facing financial difficulties because of COVID. As a result, service and product revenue decreased 6.2% and 24.5%, respectively, in the quarter.

Although the revenue pressures stemming from COVID-19 should begin to moderate as commercial activity picks up, roaming and data overage, in particular, are expected to remain headwinds for the balance of the year. Consistent with the year over year decline in revenue, EBITDA decreased 9.2%. However, our wireless margin improved nearly 100 basis points to 45.7%. This was the result of a 12.5% reduction in operating costs attributable to a slow-down in sales activity and decreased acquisition-related expenses, including device subsidies and other marketing and distribution costs.

Turning to Bell Wireline on Slide 9. Although we experienced lower demand for new residential service installations, waived Internet overage fees, provided pricing concessions to customers, and saw further weakness in the SME space due to the economic fallout of the crisis, the 1% revenue decline this quarter was similar to Q1 even with a full quarter of COVID impacts. This speaks to the resiliency of our high-quality connectivity services. Combined Internet and TV revenue was up approximately 2% year over year, while the rate of voice revenue decline improved to 3.8%, driven by increased use of conferencing, higher LD usage and fewer home phone customer deactivations.

However, business customer spending slowed down in Q2 because of COVID, which drove an 8% year over year decline in product revenue and a 4% reduction in business service solutions sales. Despite more near-term financial risk from the after-effects of COVID in the business sector compared to residential, the impact-to-date on Bell Business Markets has continued to be relatively moderate.

Wireline EBITDA, which was down 5.3%, included $41M in higher year over year opex driven by the COVID-related cost impacts I detailed earlier, and an incremental provision for bad debt expense to reflect the current economic environment marked by higher levels of unemployment and continued uncertainty in the SME sector. This contributed to an approximate 200 bps decrease in margin this quarter. Excluding these COVID-specific costs, wireline margin was relatively stable year over year at around 44%.

Over to Slide 10. Q2 was a very tough quarter for Bell Media. On a relative basis, it was our most significantly impacted operating segment, but it also represents the smallest part of BCE's revenue and EBITDA mix. As witnessed by other broadcasters worldwide, we experienced a steep decline in advertising demand this quarter due to the impact of COVID on ad spending across all platforms as commercial activity was significantly curtailed, major sports leagues suspended and other live events and TV productions cancelled because of this crisis.

We also faced a tough comparable from last year's strong growth that included incremental advertising revenue from the Toronto Raptors NBA Championship run, The Big Bang Theory series finale and a surge in Crave customer subscriptions driven by the final season of Game of Thrones on HBO. As a result of these factors, total Bell Media revenue was down 31.2% in Q2, yielding a 31.9% decline in EBITDA. However, we maintained Bell Media's margin stable year over year at approximately 30%, due to expense reductions driven by programming and production cost savings, the elimination of discretionary costs, and amounts received under the federal government's employment wage subsidy program as we met the eligibility requirements for parts of our media operations during the initial April-May measurement period.

Slide 11 summarizes, at a high-level, the main components of adjusted EPS for Q2, which was 63¢ per share, down 30¢ versus last year. Lower EBITDA drove two-thirds of this decline, while the other third was attributable to lower year over year tax adjustments and higher Other Expense. The increase in Other Expense reflected a

reduction in equity income received from MLSE due to the effects of COVID, and a loss recorded on the write-down of certain TV platform assets in the quarter.

Moving to Slide 12. Despite the COVID-driven decline in consolidated EBITDA this quarter, we grew free cash flow by 50% versus last year to just over $1.6B. The year over year increase was due to the substantial improvement in working capital that can be attributed to:

- the decrease in sales activity because of COVID and higher bad debt provision that drove a reduction in accounts receivable;
- a decrease in contract assets reflecting a higher mix of customers on installment plans, fewer new subscriber activations, and the amortization of deferred acquisition costs from prior quarters;
- and a lower wireless device inventory.

Now, it's important to note that a large portion of this favourable change in working capital is temporary in nature, and will reverse as accounts receivable and inventory levels grow with a pick-up in sales activity. This quarter's strong free cash flow result also reflected an upside from a number of timing-related factors that will reverse in the second half of the year, notably capex which I referenced earlier, and cash taxes, which benefitted from government relief measures allowing for the deferral of tax installment payments until later this year.

To wrap up on Slide 13. As Mirko said but it's worth repeating, we ended the quarter with $5.4B of liquidity, which positions us well given the financial challenges being faced by so many other companies and industries. And this doesn't even take into account the close to $1B in cash proceeds that we will receive from the sale of our data centres by the end of the year. We also successfully accessed the debt capital markets once again in May with a $1.5B MTN offering at a very attractive rate to shore up our already-strong liquidity position. Our net debt leverage ratio remains very manageable at 2.86 times adjusted EBITDA. More importantly, we have no near-term refinancing requirements as our next public debt maturity does not occur until the end of Q3 2021.

And Bell Canada's defined benefit pension plan continues to remain fully-funded despite a modest decline in the estimated funded position this quarter due to the impact of lower interest rates in Q2. With that, I will turn the call back over to Thane and the operator to begin the Q&A.

Thane Fotopoulos – Vice President – IR

Thanks, Glen. So before we start the Q&A period, to keep the call as efficient as possible, I'd ask you to just limit yourself to one question and a brief follow-up, so we can get to everybody in the queue with the time we have left. So with that, Louise, we're ready to take our first question.

QUESTION AND ANSWER SESSION

Operator

We will now take questions from the telephone lines. If you have a question and you're using a speakerphone, please lift your handset before making your selection. If you have a question, please press Star 1 on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star, one at this time if you have a question. There will be a brief pause while participants register. We thank you for your patience.

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

Jeffrey Fan – Scotiabank – Analyst

Thanks and good morning to everyone. First question is just on the wireless. Glen, wondering if you can help quantify for us some of the roaming and overage and waive fees impact so that we can start to make some assumptions about the ARPU service revenue or ABPU recovery as we go through the second half and into 2021 as the economy starts to open up. And then a quick follow-up perhaps for Mirko. On the customer experience, I recall that was clearly one of your strategic imperatives coming into your new role. It sounds like there was quite a bit of accelerated efforts related to that, maybe things that would have been done later in the year or later on in your tenure, perhaps pulled in all into Q2. Wondering if you can just identify some of those and maybe even, if you can, quantify for us how much was pulled into this year or this quarter versus what could have been done later, in later years. Thanks.

Mirko Bibic – President and CEO

Okay. Thanks Jeff. Glen, I'll start first, and then I'll hand it over to you to unpack the ABPU a bit for Jeff. Thanks for the question, Jeff. So I'll start first on wireless, your question on that. I'll just give you some high-level comments on the ABPU or the service revenue impacts from COVID. So, I'd break it down into three, four categories.

So there was a roaming decline, clearly, with a halt in travel, and you can kind of quantify that in the range of $60 million, and then there were COVID related overage decline impacts as customers were staying at home and were offloading data usage to Wi-Fi, and of course there was data overage decline due to the migration to unlimited plans. But on that one, I have to say to the team, I've said this every single quarter that I've been on these calls, the team has continued to manage that migration really, really well and we've been doing that since the launch of unlimited plans last summer. And there has been the impact of customer accommodations that we offered to help our customers during the COVID crisis.

So you put all those together, Jeff, and they are more than the overall service revenue decline. I'll answer the customer experience question now and then Glen you can unpack ABPU a little bit more if you think necessary.

So on customer experience, you're right, I mean, it has been a focus since I've come on board as CEO on January 6. And it's a journey on the improvements to our online platforms. It's clear that customers—our mission's going to be to serve customers the way they want to be served and the vast majority of transactions, especially in wireless, continue to be in traditional retail stores, and as I mentioned in my opening remarks, as the economy reopens and we're 99% open on the stores, that advantage swings back our way.

So we'll continue to be best-in-class on that. But other customers want to be served in the call centres and we need to be best-in-class there and online as well. And we're upping our game each and every day. It's a journey. Things like allowing customers to change their TV programming online, make online payments, change their rate plans online, upgrading their smartphones online, it's those kinds of things, Jeff, that we continually work on

the buy flows. And I'm not going to quantify how much we pulled into Q2, but it will be a core category of capex space this year and that's going to continue.

Over to you, Glen.

Glen LeBlanc – Executive Vice President and CFO

Thanks, Mirko, and good morning, Jeff.

Yes, I'll give you a little more colour here on the ABPU decline. As Mirko said and explained, the biggest bucket is roaming and data overage. That accounts for 60% of the ABPU decline that you see. Customer accommodations that we put in place temporarily helped those facing financial challenge. That accounted for about 10% of that ABPU decline. The remaining 30% year-over-year decline was mainly due to the higher prepaid customer mix that is in our subscriber base.

I hope that's helpful, Jeff.

Jeffrey Fan – Scotiabank – Analyst

Thank you both.

Operator

Thank you. Our next question is from Richard Choe from J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Just wanted to ask about—broadband is doing well but video, the IPTV was lower and just wanted to get a little more colour on those trends there, what are you seeing in broadband and why TV is lower.

Mirko Bibic – President and CEO

Thanks Richard. So on TV, I'll start there. And sales were clearly disrupted because of COVID and there was an impact on the commercial side obviously. So think small businesses, bars, hotels, that kind of thing. And we are seeing the effects of high penetration of TV in our current Fibe markets. We're lapping strong Alt TV growth and certainly in Q2 anyway, because of initially the impacts of COVID, we did have slower new service footprint growth, which I think will pick up in the back half of the year in terms of service footprint growth.

Now on Internet, you're right, I mean, the performance was quite resilient during what we all know is a pretty difficult period of time and that speaks to the importance and the quality of our Internet. We have the fastest download and the fastest upload. Upload is pretty important right now and we have the best Wi-Fi in the marketplace. And that too is very important.

So, on that, I mean, I think those would be the primary reasons why Internet is so resilient. We've had the acceleration of footprint on Wireless Home Internet. Of course, as we enter a community, particularly rural communities, that hasn't had high-speed broadband with Wireless Home Internet, and we accelerated that footprint that just is a boon for the community and of course leads to subscriber growth. We expect the resilience in Internet to continue over the rest of the year.

Richard Choe – J.P. Morgan – Analyst

Great. Thank you.

Operator

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

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. Thanks for taking my question. My question's on B2B. I believe Glen mentioned that Bell business markets have held up fairly well thus far considering the conditions. I wanted to get your sense, Mirko and Glen, in terms of what you're seeing in terms of feedback from the large enterprise customers. Conceivably, the pressure on that end would come later in the year as sort of some of those contracts come up for renewal and reprice. Wanted to get some colour around that, do you expect incremental pressure as that plays out?

And then secondly, as my follow-up, would you expect the free cash flow—I hear your point about a lot of the factors that helped free cash flow in Q2, sort of reversing potentially later in the year. I was wondering if you can size up the potential saving, cash savings from the handset cost this year that should obviously help the full year free cash flow number. I'll leave it there. Thank you.

Mirko Bibic – President and CEO

Okay. Thanks Aravinda. I'll take the enterprise question. Glen, why don't you take the free cash flow question?

So on the business side, puts and takes are the following. Customer spending did slow down and things like product revenues and service solutions. On the other hand, there was traction in connectivity, remote collaboration, conferencing services, those types of things that kind of intuitively make sense given what we were going through in Q2.

So those are the broad categories of puts and takes. But I have to say, I mean, as I look forward to the rest of the year, I think it's still too early to predict how all that's going to shake out for the rest of the year on the enterprise side. And a little bit the same answer on SMB, small business. Again, really too early predict what's going to happen. But on this and BU, as you know, it's a very small part of our overall business market exposure. Glen?

Glen LeBlanc – Executive Vice President and CFO

Thanks, Mirko. Yes, free cash flow strength, I think you kind of unpacked it a little bit and touched on the caution that I was giving going forward. As I said in my opening remarks, capex was lower certainly in the early months of March and April and May as we focused on organization and stability and ensuring that we propped up our—secured our critical services and now we're moving back to more construction and footprint expansion. So we'll see capital increase in the second half of the year. The working capital I mentioned earlier will reverse. Now, on the handsets, it's hard to say how this will shake out. I certainly—I'm not going to try to predict second waves and third waves, do we have potential store disruption again with the slowdown in sales activity. Obviously it's going to be down because as Mirko mentioned in his opening remarks that we had—we're 100% EIP now.

When I look at the quarter alone, EIP plus the reduced sales activity, the handset costs were down 25%, $140 million. I certainly hope sales activity is stronger in the second half of the year. So I wouldn't think you can just extrapolate that. But hard to say how it's going to shake out. Let's just keep our fingers crossed that we see sales activity remain strong in the second half.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Thank you.

Operator

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

Vince Valentini – TD Securities – Analyst

Yes, thanks very much. First a clarification, if I can. The 39,000 and 45,000 subscriber provisions, can you just clarify if that would have been zero in the second quarter last year or is this something you always do but it just got elevated this quarter?

The second one, a bigger picture question. I see a huge arbitrage opportunity and strategic opportunity for BCE emerging here. I mean, your cost of debt has never been lower. You're flushed with cash. You've got another billion coming from the data centre sale soon and we're looking at a media industry that's just imploding and Stingray's revenues are around 60% in radio, and of course radio was down 52%. I mean, there's a big need here for the government to step in and allow some consolidation or regulatory relief and it seems to me that BCE should be the leading candidate here to arbitrage your incredibly strong scale in media and cost of capital to try to sort of save the industry and help yourself and your shareholders at the same time. So I'm just wondering if you have any comments or thoughts about strategic growth opportunities in Media, Mirko. Thanks.

Mirko Bibic – President and CEO

Thanks Vince. Why don't you go first, Glen, on the first question on the provisions.

Glen LeBlanc – Executive Vice President and CFO

Of course. Good morning Vince. Look, the customer provisions—and this is what transpired. In any normal quarter what would happen is when customers reach certain points of non-payment then we activate what we refer to as an involuntary churn or involuntary disconnect. What we had agreed to do during this difficult time is we would not deactivate customers and we would ensure that they had their Internet and their wireless connectivity that became so critical at this difficult time.

That said, we know that we have to one day return to normal and we are going to see an escalation or a requirement for involuntary disconnects. So what I did is ensure that the provision that we took from the customers, 39,000 you alluded to in wireless, 45,000, 46,000 in wireline, mirrors exactly what the historical experience would have been on disconnects. So as you see an aging into 30, 60, 90, 120 days, we ensure that the provision mirrors historical performance.

So, the important thing to remember, Vince, is now if you take revenue credits, if you take bad debt increase and bad debt provisions, you have to ensure that your nets and your churn are all aligned and that's what a customer provision does. It doesn't overstate one metric.

Mirko Bibic – President and CEO

Okay, thanks. And Vince, on the second question. So, I'm always open to good ideas. Let me tell you that. I think we've shown a strong track record over the years of being opportunistic and very strategic on the M&A side. So we'll always keep looking. I'm not going to comment specifically on the precise example you put

forward, but always looking to be opportunistic. Whether or not it's in media or in telecom, I mean, you do raise a point about scale. It's pretty obvious that we ought to be encouraging scale in the country. Look who—if you just take media, which is the example you brought forward. Just look who we're competing against. It's a rather silly notion to still think of the media industry as a domestic media industry with three players competing with each other. I mean, we're competing with global Internet giants, really, at this stage in the game. I'm happy with our asset mix right now. I think it positions us well strategically and always looking to be opportunistic. And it's hard for me to comment on this call on the specific idea, but it was a good question.

Vince Valentini – TD Securities – Analyst

Fair enough. Thank you.

Operator

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

Drew McReynolds – RBC Capital Markets – Analyst

Yes, thanks very much. A couple of housekeeping questions for Glen, and then I have one bigger one for you, Mirko. Glen, on the pension exposure, doing a great job keeping the solvency fully funded essentially. Are there kind of any scenarios here where that changes kind of going forward, maybe just remind us on sensitivities? And on the bad debt expense, can you break that down between wireless, wireline and media? And then over to you, Mirko. Just bigger picture, satellite broadband services around the world are getting a lot of attention. I wanted to hear your thoughts on, at least in Canada, sizing up either that opportunity or threat for your broadband strategy over the longer term. Thank you.

Mirko Bibic – President and CEO

Okay, I'll go first, Glen, on the second question. So, Drew, on the satellite broadband services and the competitive implications, I'll put up our fibre Internet network up against anything. I mean, the fastest speeds in North America, you've got what customers want. What do they want? They want download speeds. We can't be beat. And certainly satellite can't beat that. With upload speeds, that's what they want and that's more and more important as I said in my opening remarks. Can't beat fibre and certainly satellite broadband cannot. And the in-home Wi-Fi services that we have, the time to market advantage whether on fibre generally as compared to satellite. But if you think about our Wireless Home Internet expansion, 25 Mbps download, 1 Mbps upload and that's going to 50 Mbps, 10 Mbps soon. That's going to be hard for satellite to beat. We've already got 400,000 homes that have the ability to purchase that product.

So I think we're in a very good position. I think we're in a great position if you even compare us to your traditional cable competitors, let alone satellite broadband that hasn't launched yet. Obviously, it will be well received, I think, in some very, very deep rural areas at some point. But I think that's kind of my reflection on that question, Drew.

Over to you, Glen.

Glen LeBlanc – Executive Vice President and CFO

Thanks Mirko, and good morning Drew. Pension exposure, great question. It's hard to believe that discount rates continue to drop. At a time when we were looking at discount rates at the end of 2019 between our plans and we're running around on average of 2.8% and now at the end of the quarter we were bouncing around

2.23% to 2.37% between our multiple plan. So, significant decrease in the discount rate. But all of that said, we remained at 99%, we're bouncing 99% to 100% on any given day from a solvency ratio perspective, which is just remarkable. And I'm incredibly proud of what our team has done to put us in this position. We didn't get here by accident. We got here by following a very prescriptive glide path ensuring that over 70% of our assets are now invested in fixed income. So that gives us a natural hedge against this declining discount rate.

So, remarkable job. On the sensitivity, if you saw discount rate drop another 25 basis points and reached 2% or sub 2%, it's around $125 million to $150 million and when you consider a pension plan of over $5 billion in total, that's pretty manageable. So, I feel like we've positioned ourselves incredibly well to mitigate this risk and never in my wildest dreams did I think we'd be looking at discount rates like this and still have a fully funded plan.

Over to bad debt exposure, as I mentioned in my remarks and I think there's—I'll unpack this a little further. I took an extra provision of $36 million as a bad debt expense, but I also took provision of $28 million through revenue. So a total of $64 million additional provision related to COVID. Through revenue, a provision of revenue, that's really accommodations we gave customers, customer credits we gave, waiving late pay charges and making arrangements for folks who were struggling during this difficult time.

So, in total, if you look at the P&L impact of COVID, bad debt and revenue impacts, it's about $64 million. If I broke that down by BU, 45% wireless, 45% wireline, about 10% media.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, that's perfect, Glen. Thank you both.

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Yes, thank you for taking...

Mirko Bibic – President and CEO

Maher, we can't hear you. Sorry, you cut out.

Operator

Hello. Can you pick up—he dropped off his line. I'll just go to the next person. Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery – Morgan Stanley – Analyst

Thanks a lot. Good morning. Mirko, I wonder if we could talk about 5G for a minute. You rolled out the service to some of the key cities here. Any early learnings, any early observations and where do you see the biggest opportunity for the company? Is it really around the B2B type used cases? What sort of conversations you are having there—we should be thinking about for the future? Thanks.

Mirko Bibic – President and CEO

Thanks, Simon. Yes, so we did launch on June 11, you know that. So the cities were Montreal, the GTA, Calgary, Edmonton, Vancouver and we will be expanding to about 28 additional markets in 2020. So all that's going according to plan. I'm really pleased with our competitive positioning here on 5G because our speeds are 1.7 Gpbs which is fastest in the industry and we're going to be even faster next year when 3.5 GHz spectrum becomes available for mobile. I'm also quite pleased that we have a 3.5 GHz spectrum advantage going into the auction given our Inukshuk Holdings.

And just generally on that network side with so many advantages including our network sharing arrangement with Telus as you know and the number of cell sites that we have which are fiberized which will be so important for the service attributes customers will be looking for 5G.

So far look, it's early days. I'm quite pleased with how well it's going in the context of having just launched, having launched kind of still with stores having not been completely fully opened at the time that we did. I'm really pleased with how well-positioned we're going to be to capture growth in 5G and to that question which is the last part that you asked me about Simon. I mean, I see growth potential in the consumer space just kind of like on the consumer side when we upgraded from 2G to 3G, 3G to 4G etc. there's always a spike in penetration, smartphone adoption especially usage and that drives revenue and you're right there are going to be a multitude of used cases on the enterprise side, and on the IoT side which will be in a great position to capitalize on especially when you think about our distribution advantage with BBM Bell business markets and our enterprise strength.

Simon Flannery – Morgan Stanley – Analyst

Great. Thank you.

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Thank you for taking my question and getting me back in the queue. I wanted to take Vince's question and flip it other side with capex expected to increase. I guess, with 5G you have spectrum auctions coming up next year. You also have increased volatility in the markets that you're operating in. Do you think you have other assets that could be divested off and I'm thinking here real estate, potentially and you always in the past talked about the importance of owning cell towers. In the world of 5G, do you think that dependency and importance is to the same extent or you could get capital out of the market, out of your assets from that portion of your asset mix and redeploy it somewhere else? Thank you.

Mirko Bibic – President and CEO

Okay. Thanks Maher. Nice to hear you come back on the line. I am going to, in some respect, reiterate some of the things I said in response to Vince's question which is I'm quite happy with our asset mix but we will always be looking up to optimize that as things develop.

On the specific question you asked in terms of divesting cell site or tower portfolio. I am of the view that that is a very competitively important asset and I think it's especially important in the world of 5G. So owning that infrastructure remains an important part of our core business and I don't see that changing in the near term that's for sure. And in terms of just more general, the point about cost savings with respect to real estate, if I

take the real estate question a bit more broadly, clearly with what we've gone through in the last few months and what we are going to put a sharp focus on real estate optimization and particularly from an office space point of view and that's something that we're going to be looking at as others across the Canadian economy surely are.

Maher Yaghi – Desjardins Securities – Analyst

Thank you very much.

Operator

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

Batya Levi – UBS – Analyst

Great. Thank you. Can you provide some color on how the $85 million COVID related expenses were allocated in each segment and how do you think about wireless margins in the second half with activity picking up and one follow-up in media, does adding HBO Max change your profitability over segments in any way? Thank you.

Mirko Bibic – President and CEO

Why don't you go ahead Glen?

Glen LeBlanc – Executive Vice President and CFO

Okay. I will start on the first part on the $85 million. Look, I gave of that $85 million I said that operating expense of $36 million of that was bad debt and I gave you a breakdown of how that affected the BUs and I'm not going to unpack the rest of the details the $36 million represents the substantive portion of the $85 million. I gave you the color on what it was with the personal protective equipment and the donation, the increased sanitization cost, the donation of PP&E that we gave to our frontline workers, the cost we incurred trying to ensure that we were able to move our contact center employees home to work in a safe environment. As far as the split of that, the 45%, 45%, 10% is pretty accurate on the whole envelope and Mirko over to you.

Mirko Bibic – President and CEO

Yes. Look on the media question the HBO Max content, I mean that's over a longer term horizon over which we'll be monetizing that content. What it really does is it makes Crave that much more compelling in terms of a spot service to subscribe to and will allow us to scale the service even more and we saw some good progress in Q2 going from 2.7 million to 2.8 million subscribers and just making adding more compelling content just makes it that much more attractive which allows us to increase our sub base and basically leverage that contract over the longer term.

Glen LeBlanc – Executive Vice President and CFO

I think you had another question on margin, looking forward and frankly as Mirko said in his opening remarks, it is our belief that Q2 was the low watermark and that we will continue to see consecutive quarter improvement Q3 over Q2 and let's hope Q4 over Q3 as we get control of this pandemic. It's difficult for me to predict margins because I can't predict how this pandemic is going to affect us. As I said earlier wave two is there additional waves beyond that, is there shut down of commercial activity and heaven forbid closure of stores, etc. So our

focus right now is to serve the customers with the stores we have open now to ramp up our sales activity and fingers crossed that that continues well into the fall and we have this under control.

Mirko Bibic – President and CEO

Look sales are growing week after week, month after month and while traffic is clearly down in our stores, we're seeing strong conversion from the traffic that is in stores. I mentioned this last time we were on a call like this together and we're seeing that trend continue. So it all points towards positive momentum half of Q2.

Batya Levi – UBS – Analyst

Got it. Thank you.

Operator

Thank you. Our next question is from Matthew Griffiths from BoA Securities. Please go ahead.

Matthew Griffiths – BoA Securities – Analyst

Hi, it's Matthew sitting in for David. Thanks for taking the question. I just had two and Mirko in your prepared remarks you mentioned, you expect sequential improvement in Q3. I was just wondering if you could elaborate on what you see as the main drivers of that expectation and just secondly if I could with the acceleration in the self-serve and online channel, is that leading to any change in how you see the physical distribution network whether its size or its reach and maybe some cost savings that you could extract from there? Anything would be helpful.

Mirko Bibic – President and CEO

Okay. Good questions. Thanks Matthew. So on Q3 kind of, I'll pull from different comments we've made over the last hour. So on wireless, I just previously mentioned what we're seeing in terms of continued strength week after week. So I won't repeat that but we will reiterate it, on Internet as I mentioned earlier performance is quite resilient and we expect that to continue over the rest of the year.

On home phone, no significant sales but really strong churn and I called out the results in my opening remarks and we've seen a material improvement in the pace of decline and we expect continued improvement in the pace of decline throughout 2020.

TV, I called out a little bit earlier and the enterprise side and on media I had not talked about what we're seeing in media. We're seeing gradual improvement and momentum slowly building. Cancellations have stabilized. Some segments are advertising again and we're seeing bookings month over month accelerating. We're seeing strong demand for the fall season and I mentioned F1 just take F1 for example just to point out the pent-up demand for sports we're up over 20% over the first three races and we're on pace for new audience records for that property.

UFC, Nascar very strong viewership year-over-year and I think the Raptors are going to be very strong in terms of viewership. In fact the U.S. versus U.S. team matchups that we've had on TSN since the NBA has come back have been triple our normal audiences for matchups featuring U.S. teams. So all that bodes towards progressively improving loadings or bookings on media

And self-serve, look, like I said earlier, I still think that the predominant way Canadians are going to want to shop for telecom services particularly wireless over the near term is in store and so that natural advantage we have swings back our way. Yes, we're going to need to scale self-serve and you kind of see it in our results and when we direct activity online, it does lead to a lower COA which is a lot of goodness and then the footprint will be optimizing that as we go. And that's a function of consumer behavior, consumer patterns, our readiness on online and will continually be evolving that mix between online and traditional retail store footprint.

Thane Fotopoulos, Vice President, Investor Relations

Thanks Mirko on that, unfortunately we have timed out. So I do thank you for your participation on the call this morning. I will be available for the balance of the day for any questions follow-up questions and clarification. So with that take care and stay safe.

Operator

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