



# BCE

## BCE Q2 2023 Results Conference Call

**Mirko Bibic**  
President and Chief Executive Officer

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### **CAUTION REGARDING 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 2023 Results Conference Call, as reflected in this transcript, are forward-looking statements. These statements include, without limitation, statements relating to BCE's financial guidance (including revenue, adjusted EBITDA, capital intensity, adjusted EPS and free cash flow), BCE's 2023 annualized common share dividend, BCE's planned capital expenditures for the second half of 2023, BCE's network deployment plans and anticipated capital expenditures as well as the benefits expected to result therefrom, strong projected BCE adjusted EBITDA and free cash flow trajectories in the second half of 2023, BCE's financial strength to execute on its strategic and capital market priorities for 2023, 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, commitment 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 3, 2023 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. We regularly consider potential acquisitions, dispositions, mergers, business combinations, investments, monetizations, joint ventures and other transactions, some of which may be significant. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any such transactions or of special items that may be announced or that may occur after August 3, 2023. 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 2023 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 2023 Results Conference Call for periods beyond 2023 assume, unless otherwise indicated, 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, except for an assumed improvement in the risks related to the COVID-19 pandemic in future years.

### **Material Assumptions**

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

### **Canadian Economic Assumptions**

Our forward-looking statements are based on certain assumptions concerning the Canadian economy. In particular, we have assumed:

- Moderating economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 1.8% in 2023, down from 3.4% in 2022
- Easing, but still elevated, consumer price index (CPI) inflation due to lower energy prices, improvements in global supply chains and the effects of higher interest rates moving through the economy
- Ongoing tight labour market conditions, but with some easing as tighter monetary policy moderates the demand for labour
- Slowing growth in household spending as demand for interest-rate-sensitive goods and services weakens and more households renew their mortgage at higher rates
- Soft business investment growth due to slowing demand and high financing costs
- Prevailing high interest rates expected to remain at or near current levels
- Population growth resulting from strong immigration
- Canadian dollar expected to remain near current levels. Further movements may be impacted by the degree of strength of the U.S. dollar, interest rates and changes in commodity prices.

### **Canadian Market Assumptions**

Our forward-looking statements also reflect various Canadian market assumptions. In particular, we have made the following market assumptions:

- A higher level of wireline and wireless competition in consumer, business and wholesale markets
- Higher, but slowing, wireless industry penetration
- A shrinking data and voice connectivity market as business customers migrate to lower-priced telecommunications solutions or alternative over-the-top (OTT) competitors
- The Canadian advertising market is experiencing a slowdown consistent with trends in the global advertising market, with improvement expected in the medium term, although visibility to the specific timing and pace of recovery is limited
- Declines in broadcasting distribution undertaking (BDU) subscribers driven by increasing competition from the continued rollout of subscription video-on-demand (SVOD) streaming services together with further scaling of OTT aggregators

### **Assumptions Concerning our Bell CTS Segment**

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

- Maintain our market share of national operators' wireless postpaid mobile phone net additions and growth of our prepaid subscriber base
- Increased competitive intensity and promotional activity across all regions and market segments
- Ongoing expansion and deployment of Fifth Generation (5G) and 5G+ wireless networks, offering competitive coverage and quality
- Continued diversification of our distribution strategy with a focus on expanding direct-to-consumer (DTC) and online transactions
- Moderating growth in mobile phone blended ARPU, driven by growth in 5G subscriptions, and increased roaming revenue from the easing of travel restrictions implemented as a result of the COVID-19 pandemic, partly offset by reduced data overage revenue due, among others, to the continued adoption of unlimited plans
- Accelerating business customer adoption of advanced 5G, 5G+ and Internet of Things (IoT) solutions
- Improving wireless handset device availability in addition to stable device pricing and margins
- Further deployment of direct fibre to more homes and businesses within our wireline footprint
- Continued growth in retail Internet and IPTV subscribers
- Increasing wireless and Internet-based technological substitution
- Continued aggressive residential service bundle offers from cable TV competitors in our local wireline areas, moderated by growing our share of competitive residential service bundles
- 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 medium-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
- Increasing customer adoption of OTT services resulting in downsizing of TV packages
- Growing consumption of OTT TV services and on-demand video streaming, as well as the proliferation of devices, such as tablets, that consume large quantities of bandwidth, will require ongoing capital investment
- Realization of cost savings related to operating efficiencies enabled by a growing direct fibre footprint, changes in consumer behaviour and product innovation, digital adoption, product and service enhancements, expanding self-serve capabilities, new call centre and digital investments, other improvements to the customer service experience, management workforce reductions including attrition and retirements, and lower contracted rates from our suppliers
- No adverse material financial, operational or competitive consequences of changes in or implementation of regulations affecting our communication and technology services business

### **Assumptions Concerning our Bell Media Segment**

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

- Overall digital revenue expected to reflect continued scaling of our Strategic Audience Management (SAM) TV and demand-side platform (DSP) buying platforms, as well as DTC subscriber growth contributing towards the advancement of our digital-first media strategy
- Continued escalation of media content costs to secure quality programming

- Continued scaling of Crave through broader content offering, user experience improvements and expanded distribution
- Continued investment in Noovo original programming to better serve our French-language customers with a wider array of content on their preferred platforms
- Leveraging of first-party data to improve targeting, advertisement delivery and attribution
- 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
- No adverse material financial, operational or competitive consequences of changes in or implementation of regulations affecting our media business

#### **Financial Assumptions Concerning BCE**

Our forward-looking statements are also based on the following internal financial assumptions with respect to BCE for 2023:

- An estimated post-employment benefit plans service cost of approximately \$210 million
- An estimated net return on post-employment benefit plans of approximately \$100 million
- Depreciation and amortization expense of approximately \$4,900 million to \$4,950 million
- Interest expense of approximately \$1,425 million to \$1,475 million, instead of \$1,375 million to \$1,425 million
- Interest paid of approximately \$1,450 million to \$1,500 million, instead of \$1,400 million to \$1,450 million
- An average effective tax rate of approximately 26%
- Non-controlling interest of approximately \$65 million
- Contributions to post-employment benefit plans of approximately \$60 million
- Payments under other post-employment benefit plans of approximately \$75 million
- Income taxes paid (net of refunds) of approximately \$800 million to \$900 million
- Weighted average number of BCE common shares outstanding of approximately 914 million
- An annual common share dividend of \$3.87 per share

#### **Assumptions underlying expected reductions in 2023 annual contributions to our pension plans**

Our forward-looking statements are also based on the following principal assumptions underlying expected reductions in 2023 annual contributions to our pension plans:

- At the relevant time, our defined benefit (DB) pension plans will remain in funded positions with going concern surpluses and maintain solvency ratios that exceed the minimum legal requirements for a contribution holiday to be taken for applicable DB and defined contribution (DC) components
- No significant declines in our DB pension plans' financial position due to declines in investment returns or interest rates
- No material experience losses from other events such as through litigation or changes in laws, regulations or actuarial standards

The foregoing assumptions, although considered reasonable by BCE on August 3, 2023, 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 2023 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2023 financial guidance targets, essentially depends on our business performance, which, in turn, is subject to many risks. Accordingly, readers are cautioned that any of the following risks could have a material adverse effect on our forward-looking statements. These risks include, but are not limited to: the negative effect of adverse economic conditions, including a potential recession, and related inflationary cost pressures, higher interest rates and financial and capital market volatility; the negative effect of adverse conditions associated with geopolitical events; a declining level of business and consumer spending, and the resulting negative impact on the demand for, and prices of, our products and services; regulatory initiatives, proceedings and decisions, government consultations and government positions that affect us and influence our business including, without limitation, concerning mandatory access to networks, spectrum auctions, the imposition of consumer-related codes of conduct, approval of acquisitions, broadcast and spectrum licensing, foreign ownership requirements, privacy and cybersecurity obligations and control of copyright piracy; the inability to implement enhanced compliance frameworks and to comply with legal and regulatory obligations; unfavourable resolution of legal proceedings; the intensity of competitive activity and the failure to effectively respond to evolving competitive dynamics; the combination of Rogers Communications Inc. and Shaw Communications Inc. creating a Canadian competitor with larger scale, and the acquisition of Freedom Mobile by Vidéotron Ltd. also increasing its scale with a likely change in competitive dynamics in several provinces; the level of technological substitution and the presence of alternative service providers contributing to disruptions and disintermediation in each of our business segments; changing customer behaviour and the expansion of cloud-based, OTT and other

*alternative solutions; advertising market pressures from economic conditions, fragmentation and non-traditional/global digital services; rising content costs and challenges in our ability to acquire or develop key content; higher Canadian smartphone penetration and reduced or slower immigration flow; the inability to protect our physical and non-physical assets from events such as information security attacks, unauthorized access or entry, fire and natural disasters; the failure to implement effective data governance; the failure to evolve and transform our networks, systems and operations using next-generation technologies while lowering our cost structure; the inability to drive a positive customer experience; the failure to attract, develop and retain a diverse and talented team capable of furthering our strategic imperatives; the failure to adequately manage health and safety concerns; labour disruptions and shortages; the failure to maintain operational networks; the risk that we may need to incur significant capital expenditures to provide additional capacity and reduce network congestion; the inability to maintain service consistency due to network failures or slowdowns, the failure of other infrastructure, or disruptions in the delivery of services; service interruptions or outages due to legacy infrastructure and the possibility of instability as we transition towards converged wireline and wireless networks and newer technologies; the failure by us, or by other telecommunications carriers on which we rely to provide services, to complete planned and sufficient testing, maintenance, replacement or upgrade of our or their networks, equipment and other facilities, which could disrupt our operations including through network or other infrastructure failures; events affecting the functionality of, and our ability to protect, test, maintain, replace and upgrade, our networks, information technology (IT) systems, equipment and other facilities; the complexity of our operations; the failure to implement or maintain highly effective processes and IT systems; 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; the failure of our vendor selection, governance and oversight processes, including our management of supplier risk in the areas of security, data governance and responsible procurement; the quality of our products and services and the extent to which they may be subject to defects or fail to comply with applicable government regulations and standards; reputational risks and the inability to meaningfully integrate ESG considerations into our business strategy and operations; the failure to take appropriate actions to adapt to current and emerging environmental impacts, including climate change; pandemics, epidemics and other health risks, including health concerns about radio frequency emissions from wireless communications devices and equipment; the inability to adequately manage social issues; the failure to develop and implement strong corporate governance practices; various internal and external factors could challenge our ability to achieve our ESG targets including, without limitation, those related to greenhouse gas (GHG) emissions reduction and diversity, equity, inclusion and belonging; the inability to access adequate sources of capital and generate sufficient cash flows from operating activities to meet our cash requirements, fund capital expenditures and provide for planned growth; uncertainty as to whether dividends will be declared by BCE's board of directors or whether the dividend on common shares will be increased; the inability to manage various credit, liquidity and market risks; the failure to reduce costs, as well as unexpected increases in costs; the failure to evolve practices to effectively monitor and control fraudulent activities; 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 impact on our financial statements and estimates from a number of factors; and pension obligation volatility and increased contributions to post-employment benefit plans.*

*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 2022 Annual MD&A dated March 2, 2023, BCE's 2023 First and Second Quarter MD&As dated May 3, 2023 and August 2, 2023, respectively, and BCE's news release dated August 3, 2023 announcing its financial results for the second quarter of 2023 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 [Sedarplus.ca](https://www.sedarplus.ca)) and with the U.S. Securities and Exchange Commission (available at [SEC.gov](https://www.sec.gov)). These documents are also available at [BCE.ca](https://www.bce.ca).*

## **CORPORATE PARTICIPANTS**

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## **PRESENTATION**

### **Operator**

Good morning ladies and gentlemen, and welcome to the BCE Q2 2023 Results Conference Call.

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

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### **Thane Fotopoulos, Vice President, Investor Relations, BCE**

Thank you, Giselle. Good morning, everyone, and thank you for joining our call. Today I'm here with Mirko Bibic, President and CEO of BCE; our current CFO, Glen LeBlanc; and our future incoming CFO, Curtis Millen. You can find all of our Q2 disclosure documents on the Investor Relations page of the bce.ca website, which we posted earlier this morning.

Before we begin, I'd like to draw your attention to our safe harbor statement on Slide 2, reminding you that today's slide presentation and remarks made during the call will include forward-looking information and therefore are subject to risks and uncertainties. Results could differ materially. We disclaim any obligation to update forward-looking statements, except as required by law. Please refer to BCE's publicly filed documents for more details on our assumptions and risks.

So with that, I'll turn the call over to Mirko.

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### **Mirko Bibic, President and Chief Executive Officer**

Thank you, Thane, and good morning, everyone.

As our Q2 results released this morning show, Bell's operating performance remains resilient benefiting from the team's consistent execution and customer-centric approach, our significant investments in broadband infrastructure, product bundling, quality subscriber loading and disciplined cost management.

Against this backdrop, BCE delivered strong 3.5 percent growth in consolidated revenue for Q2 and a notable sequential improvement in adjusted EBITDA which increased 2.1 percent over last year. We continue to front-end load our capex spending a further \$1.3 billion in new capital this quarter, which keeps us firmly on track to expand Bell's pure fibre network to 650,000 new locations and to grow our 5G service footprint to 85 percent of the country, while also enabling standalone 5G plus service for almost half of all Canadians.

Bell Wireless and Bell pure fibre rank as Canada's fastest mobile, Internet and WiFi services in Ookla's latest network performance report. With previous recognitions won by Bell, we are Canada's most awarded mobile and Internet services provider. Such third-party recognition reinforces both Bell's technology leadership and customer value proposition to offer the best networks at affordable prices.

We leveraged our leading broadband networks and services to deliver a record Q2 number of total wireless mobile phone, mobile connected device, retail Internet and IPTV net subscriber additions, which increased 76.5 percent over last year to 241,516.

More specifically now on Wireless, we reached a notable milestone in the quarter surpassing 10 million mobile phone subs on the back of our highest Q2 postpaid net adds in 18 years. Collectively, total mobile phone and connected device net activations were up 86 percent over last year to 205,076 driving healthy service revenue growth of 4.4 percent.

Going forward, population growth, penetration headroom, the ongoing transition to 5G and bundling wireless with Internet service should continue to support strong subscriber base expansion not just for Bell, but for the entire industry. And we're also serving new Canadians more effectively by expanding our retail channel

presence in neighbourhoods with a large immigrant presence, offering customer care and direct marketing services in more languages, partnering with companies such as Air Canada and the Institute for Canadian Citizenship to provide newcomers with Bell telecom services. And offering unlimited nationwide data usage plans with 5G access at affordable prices on the newly rebranded Virgin Plus.

Of particular note regarding Virgin, we recently completed the repositioning of the brand as I mentioned which includes a fresh new look and new value proposition, centered around pillars of affordability, member rewards, inclusiveness and network quality.

In residential wireline, as our footprint advantage keeps expanding, we're driving stronger subscriber loadings. We added 52,148 new net fibre-to-the-home customers in Q2. That's up 38 percent over last year. And of these, approximately 17 percent subscribe to Gigabit+ speed tiers. And in fact, 20 percent of all new fibre customers in the month of June activated a 3 gigabit plan driven by successful F1 racing campaign in Quebec, all demonstrating once again that speed matters to consumers. This is a major competitive differentiator that keeps us sustainably ahead of our competitors.

Our growing base of fibre customers, which now accounts for more than 60 percent of Bell's retail residential Internet customer base, combined with speed upgrades and an improving tier mix given fibre's superior customer experience, contributed to 7 percent Internet revenue growth in Q2. And notably, we achieved these wireless and Internet subscriber results against the backdrop of declining prices, demonstrating that our industry is delivering the highest quality services at decreasing prices despite persistent inflation.

According to the most recent Stats Canada data, the price of all goods and services in aggregate across the Canadian economy has increased 2.8 percent over the past year, while the cost of cellular and Internet access services have declined 14.7 percent and 3.2 percent, respectively.

I'll now turn to Media. Despite an advertising recession across North America that continues to affect advertiser demand and spending, we've weathered near-term pressures relatively better than peers as a result of our leading platforms and content and focused execution of our digital-first media strategy.

Digital revenues were up 20 percent over last year and now comprise 33 percent of total Bell media revenue compared to 27 percent last year. That's an encouraging result especially given current market conditions.

More notably, at our Upfront presentation in June, we announced a number of major additions and expansions to our ad offering, including a launch just last week of an ad-supported subscription tier for Crave and the introduction of addressable advertising later this year initially for viewers on our Fibe TV app. We're the first Canadian broadcaster to bring addressable TV on linear channels to market through a BDU. This will enable advertisers to target ads to specific household or devices based on demographic and behavioural data across on-demand, live streaming and linear content.

In addition to Crave and addressable TV ads we've also introduced a new analytics product, Bell Attribution Insights, which provides advertisers with interactive reporting on campaign effectiveness across Bell media platforms, as well as further enhancements to our SAM sales tool, which grew revenue 30 percent this quarter.

On the customer service front now, we leverage innovative Bell apps and online support tools including Move Valet, Self-Install and Manage Your Appointment to deliver improving customer experiences particularly during a very busy July move period in the Province of Quebec. These digital low-touch and low-cost solutions are a big reason why Bell customer satisfaction scores continue to improve and why our suite of customer service apps continue to be the most awarded and highest rated telco apps in Canada.

Now, I'm going to turn over to Slide 5 for those following the deck for an overview of some key operating metrics for Q2.

Let's begin with Bell Wireless, where you see we've added 111,282 new net postpaid mobile phone subscribers. That's up 34 percent from last year. And as I mentioned a little bit earlier, that's our best Q2 performance in 18 years and it's a clear highlight in the quarter.



That result was driven by 30 percent higher gross activations. Again, that reflects robust immigration growth, continued 5G and multiproduct bundling momentum, increased penetration of second-line subscriptions and we effectively executed on promotional offers in what was a competitive market.

You'll see that our customer churn was up year-over-year, but that reflects greater market activity with a step-up in competitive intensity, but our churn remains well below pre-pandemic levels at 0.94 percent.

Our ARPU was essentially unchanged compared to last year and that's a good result given some of the competitive pricing pressures we saw in Q2, particularly on larger capacity data plans, which drove lower average revenue and the financial impact of more customers on installment plans.

Although roaming was a positive contributor again this quarter, as expected and as we mentioned earlier, the year-over-year lift wasn't as significant as during the post-COVID recovery period. Notably, the monthly recurring charge portion of ARPU remained stable. The direct result of more subscribers on premium 5G rate plans. And at the end of Q2, 47 percent of postpaid customers were on 5G capable devices and that's up from 30 percent just last year.

For mobile connected devices, we realized 79,537 new net activations and that's a year-over-year increase of nearly 80,000, showing strong customer demand for Bell IoT solutions, including business solutions and connected car subscriptions.

Now let's move to Wireline. We delivered—again, we delivered our highest Q2 retail Internet net adds since 2007. That's up 10.2 percent over last year to almost 25,000 and that reflects a higher number of legacy DSL subscriber losses in our copper service areas. However, as I mentioned earlier, if we look just at the performance within our FTTH footprint, you'll see the net additions at 52,000, demonstrates very, very clearly the market share gains we're making wherever we have fibre.

And it was also another very good quarter for Bell IPTV, which added 11,506 net new subscribers. That's three times higher than last year, as we continue to benefit from the pull-through effect of pure fibre Internet and of course our TV product leadership. Satellite TV net customer losses increased as you see, driven by higher competitive promotional offer intensity and home phone net losses improved 6 percent.

Now, back to Bell Media just for a brief moment. As I referenced, advertising market remained difficult again in the quarter, while digital growth was strong. Underpinning the digital growth was Crave and TSN streaming subscribers, as well as a 30 percent increase in revenue from our SAM sales tool.

With respect to Crave specifically, our subscribers were up 5 percent over last year to approximately 3.2 million. That was supported by a 27 percent increase in direct-to-consumer streaming subscribers while TSN Direct and RDS Direct collectively grew subscribers by 85 percent; thanks in large part to the 2023 Formula One Canadian Grand Prix which had the highest F1 audience on record across all Bell media platforms.

As far as CTV goes, it continued to perform ahead of plan marking its 22nd consecutive year as the #1 network in prime time and expanding its audience advantage in the spring broadcast season by approximately 30 percent over our closest competitor.

And on the French language TV front Noovo saw a significant 17 percent increase in full day audiences in the key 25 to 54 demographic in Q2, even as the overall French conventional TV market declined 10 percent. So net-net that drove a 5-point market share gain for Noovo over our competitors. And RDS was once again top-ranked non-new specialty channel among all viewers benefiting as I mentioned from the Canadian Grand Prix as well as the Memorial Cup Hockey Tournament.

In summary, I want to thank the Bell team for their efforts in Q2. Our performance demonstrates that the game-changing investments that we've been making over the last several years, together with a laser sharp focus on our core business where further meaningful growth opportunities await, are bearing fruit. That said, we need to continually focus on day-to-day execution which includes, in particular, aligning our cost structure with the revenue profiles of each of our operating segments. And at the same time, we'll closely monitor developments in

the regulatory arena as they relate to policy decisions regarding our fibre investments and further developments regarding Bill's C11 and C18.

Further on the Media front, more needs to be done by the CRTC faster. The ecosystem in Canada is under severe stress and requires urgent government assistance. When massive U.S. companies with global scale and global footprints are having extreme difficulty contending with the difficult advertising markets, you have to ask how Canadian broadcasters are expected to navigate it when the regulatory playing field is not—does not present an environment where the same rules apply to all. But what's encouraging is to see the Federal Government trying to help out on the news side of things and the industry at large pushing back against very aggressive moves by Meta and Google. More needs to be done.

Before closing, I wanted to address recent media reports out of the U.S. concerning lead covered cables and legacy telco copper networks. This makes up a very small percentage of Bell's overall wireline infrastructure with only 0.36 percent of our network still containing lead. Bell transitioned away from installing lead covered copper cables in the 1960s when we began to deploy plastic polymers in place of lead for the majority of our cable deployment. Since the mid-2000s Bell has also been replacing these copper cables with fibre.

As we upgrade our network from copper to pure fibre, we have been removing any lead-containing components in active construction areas where feasible and safe to do so, in line with established safe handling protocols.

With that, and for the last time, before he retires as CFO at the end of the month, I'll turn the call over now to Glen who will provide more details on our Q2 financial results. On behalf of all members of the Bell team, I'd like to thank Glen once again and to extend my heartfelt gratitude for all your contributions, your leadership plan and your invaluable counsel in helping this great Company move forward year after year. You'll be sorely missed.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Good morning, everyone, and thank you, Mirko for your kind words. I'm proud and honoured to have been part of such an amazing organization for 30 years. I have witnessed the transformation of this great company from a legacy telco, into a tech services powerhouse and the best is yet to come. I will be keenly watching from the sidelines, as the next generation of leaders take Bell to the next level.

And now for the last time, as CFO, on to the results.

In what has become a hallmark for the Company, another quarter of consistent and focused execution that delivered strong 3.5 percent consolidated revenue growth and 2.1 percent higher adjusted EBITDA. This was achieved despite ongoing media advertising headwinds Mirko mentioned, and the step-up in competitive intensity across all our consumer product lines and a B2B sector that has not yet fully recovered from the global supply chain disruptions experienced over the past couple of years.

Despite the positive EBITDA contributions from operations, net earnings and statutory EPS were down year-over-year due to a \$377 million noncash loss on BCE's share of an obligation to repurchase at fair value the minority interest in a joint venture equity investment. As profiled in our quarterly budget for 2023, adjusted EPS was also down this quarter decreasing 9.2 percent. This was driven by an expected increase in interest expense due to higher rates, as well as higher depreciation and amortization, reflecting the rapid growth in our broadband capital assets.

As for free cash flow, it was down approximately \$300 million year-over-year mainly on the timing of working capital, which as I mentioned last quarter, will largely reverse out by year-end, and higher capex as we advanced some spending earmarked for later in the year, given favourable construction conditions this past spring.

In line with our internal forecast and consistent with our guidance target for 2023, we expect a much stronger free cash flow trajectory in the back half of the year, with a minimum \$600 million favourable year-over-year swing coming from just capex alone.

Let's turn to our Bell CTS segment on Slide 8, where total revenue was up a very healthy 4.3 percent this quarter. A strong result that was driven by a 7 percent increase in residential Internet revenue and a 4.4 percent higher wireless service revenue, which were fuelled on the back of some of the best Q2 mobile phone and retail Internet subscriber metrics as Mirko mentioned, in well over 15 years.

The year-over-year growth in revenue also reflected a much improved B2B performance trajectory, supported by the increased project spending by large enterprise customers, which strengthened as a result of the improvement in data equipment availability compared to the shortages that we experienced last year, as well as the financial contribution from our recent acquisition of cloud services provider, FX Innovation.

The ongoing recovery in the business data equipment sales, together with increased sales of higher-value mobile phones, yielded a 21.5 percent growth in Bell's CTS product revenue this quarter. The combined impact of the continued consumer strength across our wireless and residential home services, together with the improved business wireline results and lower year-over-year weather-related pressures, drove improved EBITDA growth of 2.8 percent this quarter.

Let's move over to Bell Media on Slide 9. Against the backdrop of the ongoing ad recession in North America, Bell Media's revenue decline in Q2 was still only 1.9 percent. This represents a much better performance than our media peers which is a testament to the team's strong execution, our diversified asset mix, programming strength, and the success of our digital-first media strategy.

Advertising revenue was down 9 percent owing to a continued soft advertiser demand and spending across all traditional media platforms. This was moderated by a robust digital advertising growth of 19 percent.

Subscriber revenue increased 3.9 percent year-over-year driven by continued strong Crave and sports direct-to-consumer streaming growth. Consistent with the year-over-year decline in advertising this quarter EBITDA decreased 5.3 percent.

Although that may appear to be a decent result under current economic conditions, we and our industry continue to be greatly impacted by a number of challenges, including operating losses across our news divisions, a prolonged advertising slump with no signs of immediate recovery, the shift of advertising revenue to foreign digital platforms, content cost inflation, and more challenging regulatory environment that has not adapted to the new realities facing media. This has required us to right-size our operating cost structure and asset portfolio to align with the expected revenue potential of our media business. Going forward we will need to continue doing so in order to deliver for our shareholders in this unconstructive economic and regulatory environment.

Let's turn to Slide 10 for a brief update on our balance sheet and our liquidity position. We remain quite well-positioned with more than \$4.4 billion of available liquidity at the end of Q2, which is bolstered by a US\$850 million public debt issuance during the quarter.

Our debt maturity schedule also remains well-structured with an average debt to maturity of approximately 12 years and an after-tax cost of debt that is well below prevailing interest rates at just under 3 percent.

Moreover, we have no outstanding financing requirements for the balance of this year as all 2023 debt maturities have already been pre-financed. And with a strong pension solvency surplus totalling \$3.5 billion and free cash flow that is growing organically year-over-year, we have the financial strength against the current macroeconomic backdrop to execute on our strategic and capital market priorities for 2023 including the C-band spectrum auction later this year.

Lastly, I wanted to highlight Bell's continued leadership in ESG financing structures with the launch of our first sustainability linked derivatives this past May. This follows the announcement of our sustainable financing framework in April of '21, Bell's inaugural \$500 million sustainability bond offering in May of '21, and the conversion of our \$3.5 billion committed facilities to a sustainability-linked loan last November. We look forward to a follow-on sustainability bond issuance in the future when the right mix and size of eligibility investments within our framework are available.

Let's wrap up on Slide 11 with consolidated financial results delivered in the first two quarters that are in line with budget together with a strong projected EBITDA and free cash flow trajectories in the second half of the year that are underpinned by our strong operating momentum across the business and our consistent proven execution in a competitive marketplace, I am reconfirming all our guidance targets for 2023.

On that note, I'll turn the call back over to you Thane.

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**Thane Fotopoulos, Vice President, Investor Relations**

Thank you, Glen. So to keep the call as efficient as possible, please limit yourself to one question and a brief follow-up, so that we can get to as many of the questions in the queue as possible with the time we have left.

However, before I hand it over to the Operator, I just wanted to take the opportunity to say to Glen what a privilege and pleasure it's been to work with you. You are a great leader and mentor, and I'm grateful for all the guidance, support and encouragement you have provided. But above all, what I have valued most is your kindness, trust and friendship.

With that Giselle, we're ready to take our first question.

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you.

The first question is from Maher Yaghi from Scotiabank. Please go ahead.

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### **Maher Yaghi, Scotiabank**

Great. Thank you for taking my questions. And I do want to say Glen thank you for all your support over the many years that we've known each other. You'll definitely be missed. So maybe I'll start with my first question. Mirko, I recognize that BCE is in the middle of an (inaudible) regarding MVNO with Quebecor. But I'm interested in getting your reaction to the announced MVNO ruling by the CRTC on the Rogers and Quebecor MVNO tariff, more specifically on the basis and precedents that the CRTC has chosen to arrive at this tariff calculation and its cost analysis.

And just a follow-up question on free cash flow. Glen, I guess, BCE has delivered year-after-year on its guidance targets. So I'm not implying any issues here, but when I observe your free cash flow generation, it's down 46 percent in the first half and your outlook is for growth of 2 percent to 10 percent. Lots of moving parts, I'm sure. Capex as you mentioned is a big point here in the recovery. But could you help us bridge the results to-date and how we're going to get to the 2 percent to 10 percent growth? Thank you.

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### **Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Yes, I'll start. Maher, thank you for your remarks. As I said in my opening statement, we will spend more than \$600 million spending in the back half less than last year. So if you look at our spending trend in 2022, we spent over \$3 billion in the back half of 2022 and that will be more than \$600 million lower. Add to that the associated impacts to working capital at that lower spend we'll do.

We have lower cash tax installments in the back half. We are confident that we will deliver on the guidance provided. So I know that historically we probably had a smoother free cash flow profile than we have this year. But it really was a product of us taking the opportunity to spend heavily in the front half of this year to really—you heard me say it before you make hay in this business when the sun shines.

So that's where we're at. I remain confident Maher, and over to Mirko for the second part of the question.

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### **Mirko Bibic, President and Chief Executive Officer**

Okay. Thanks Glen. Good morning. So on the MVNO decision I think you're probably referring to the—I know you're referring to the MVNO decision recently handed down relating to two other providers. It's hard to comment, because I mean we obviously don't know the rates that were at play or the offers that were made in that final offer arbitration because the details are confidential.

So it's kind of hard to kind of make any predictions as to what comes next. I would say there were some, I'll call it attention grabbing references in the decision on how costing was arrived at or how the winning offer was chosen. And I think they're attention grabbing in my mind because they do break from kind of how things have been done in the past.

But my sense of it is that those comments must have been made within the confines of the facts presented to the CRTC in the sense of the offers made because otherwise if we're to read those comments on appropriate

costing as a signal for what will more broadly come in the future I think the implications of that could be pretty far reaching. And again now I'm hearing from—I'm going to pivot from Wireless to Wireline.

We spent so much time quarter-after-quarter-after-quarter and in all our public communications talking about our accelerated capex program and trying to get to close to 9 million fibre locations done by 2025. And if you kind of repeat that over and over again you almost kind of start thinking that that—the job is done at the end of 2025.

And I think the problem here is the job is not done at the end of 2025 because even when we have close to 9 million locations done there will be 3.5 million locations, mostly households, in Bell's operating footprint. So that's just for Manitoba to Newfoundland, 3.5 million locations left to cover. And that's what really worries me and that's what at risk.

So, fundamentally, I mean, I'm veering off on a bit of a tangent here Maher, but I think the public policy government and regulators in Canada are really going to have to decide what the priority is. Is it to get the job done for all Canadians in terms of coverage, or is it to continue to implement decisions with the view of driving down pricing even further? But in an overall environment where pricing has been well handled by market forces, frankly, if you look at the directional—the direction of pricing and quality over the last very short period of time. I'll stop there.

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**Maher Yaghi, Scotiabank**

No you actually veered right where I wanted you to veer because fibre-to-the-home is essential for your future growth. Thank you for those remarks.

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**Thane Fotopoulos, Vice President, Investor Relations**

Thank you. Next question please.

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**Operator**

Thank you. Next question is from Drew McReynolds from RBC. Please go ahead.

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**Drew McReynolds, RBC Capital Markets**

Yes. Thanks very much. And good morning, and all the best Glen. I wish you well. Couple for me. Just first on Bell Media actually. Mirko you made a lot of progress digitizing this asset and the asset clearly punches above its weight certainly in the media landscape here in Canada. When you look at the digital revenue contribution, how do you want that to kind of trend let's say over the next two to three years? I know there's a ton of moving parts but just what are your expectations there?

And then, secondly shifting to Wireless. We've seen and you mentioned a bunch of initiatives to better service immigrants in the country. Just wondering what your expectation there is in terms of incremental traction and success in doing that and whether we saw some of that in Q2? Thank you.

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**Mirko Bibic, President and Chief Executive Officer**

Yes. On the Wireless side and clearly there's a population surge in Canada that's not about to abate anytime soon. So, we certainly do well in the premium segment. And in terms of—so that's one category we do really well in. We do quite well in the switcher market. For lack of a better way of putting it, customers are going to switch from one provider to another. I think we do quite well in that segment.

On the newcomers to Canada segment, we're doing okay. I think we need to do better and we will do better. And we've been pretty open about some of the initiatives we put in place to get a bigger share of that segment of the market. And that's just the early days on some of those new initiatives. So I don't think you're really seeing in the very strong results we presented in Q2 really the cruising—we're not at cruising altitude, let's just say on those initiatives. So there's more upside there.

And part of that is kind of the re-launch of Virgin Plus. And while it's early days, it's only a couple of weeks, some positive momentum in just two weeks on the Virgin re-launch. Although that's a Q3 phenomenon because it was done in July. So I'll leave it at that Drew on those elements.

On Media, look, I mean I think the direction is where do I want to end up here. We want to continue to pivot very strongly towards digital. And I like—we've been talking about this for about three years and I really like the momentum we're driving here on that strategy.

So the pillar is really where do we drive our revenues? We derive our revenues from subscription and advertising.

On the advertising front, we've put in place a lot of tools to enable advertisers to choose us for their digital and targeted ad needs and that's only going to get better with addressable TV. And on the subscription side of things, again it's making sure we always have the very best premium content and making sure that content is available on the digital platforms that we have that we're going to continue to improve from a user experience perspective.

So the growth pillars for Bell Media going forward are really going to be Crave, the CTV and Noovo apps and TSN and RDS Direct. Those are the growth pillars.

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**Drew McReynolds, RBC Capital Markets**

That's great. Thank you.

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**Operator**

Thank you. The next question is from Stephanie Price, CIBC. Please go ahead.

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**Stephanie Price, CIBC World Markets**

Hi. Good morning. Hoping if you could talk a little bit about the sustainability of service revenue growth as we head into the back half of the year. Just curious how you think about the more competitive back-to-school and holiday periods.

And then just my follow-up, just curious about how we should think about the enterprise piece of the business heading into the back half of the year. It sounds like the equipment availability has maybe started to improve a bit here.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Yes. I'll add on the back half on enterprise and Stephanie, it's Glen. Yes. We're feeling pretty good. We're actually starting to see projects from our large enterprise customers get back into full gear again. As you said part of that is because we have the availability of product. Albeit not what it was pre-pandemic, a heck of a lot better than it's been in the last number of years.

So we're feeling pretty good about the momentum we're seeing there. I don't see any signs of slowdown that would—the canary in the coal mine things you see and when people start talking about recession, we're not seeing any of that. Projects are kicking off. You're seeing it in our product revenue growth that we had in this quarter. So I remain pretty confident that the back half will see some additional momentum that the first half it didn't.

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**Mirko Bibic, President and Chief Executive Officer**

Yes. And then on the broader kind of competitive landscape and revenue growth which I'm going to interpret as service revenue growth, Stephanie I—look, I think if you look at what we delivered in Q2 with the very strong mobile phone and retail Internet subscriber growth you'll see that that came with quite healthy service revenue growth on residential Internet at 7 percent and wireless service revenues at 4.4 percent. So those are strong numbers and in fact quite similar to the past three quarters, which is really a good result if you think about some of the more intense promotional pricing that we saw in Q2. And I won't repeat what Glen said to any great degree on the business side. We are also seeing service solution revenue strength, decent strength there.

So, you put all those things together and then you look ahead to the back half of the year, I think we're going to continue to deliver strong service revenues and particularly as we're lapping the return to pre-COVID levels of promotional activity that we saw at the back half of last year, particularly during the Black Friday period.

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**Stephanie Price, CIBC World Markets**

Great. Thank you very much. And congrats Glen on the retirement.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Thank you.

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**Operator**

Thank you. Next question is from Vince Valentini, TD Securities. Please go ahead.

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**Vince Valentini, TD Securities**

Yes. Thanks very much. And best of luck to you Glen in your future. Two things if I can, one I'll call a clarification. You gave a good answer on free cash flow earlier, but I have no doubt you'll hit your guidance, you always do. But can we assume that the high end of that guidance range is starting to look a little out of reach given what we saw in the first half on free cash flow.

And the second one, the spectrum thing. We see you paid \$145 million to subordinate some spectrum from Explorer in Quebec. Given that it was 3500 band, I assume it adds to your cap for the upcoming auction? And can you clarify that and maybe tell us how many megahertz you bought?

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**Mirko Bibic, President and Chief Executive Officer**

Yes it does add to our cap.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Yes. And Vince on the free cash flow, as I provided the answer earlier, significant reduced year-over-year capex spend, a fairly sizable difference in timing of installment payments, an acceleration of earnings. We have a higher earnings profile, EBITDA profile in the back half of our business than we do in the front half. All of that leads me to be very confident. As you said we will deliver on our guidance. Now I would say, suffice to say, I don't see us at the high end but we'll deliver on the guidance.

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**Vince Valentini, TD Securities**

Thank you, And the number of megahertz, is it 20 megahertz from Explore?

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**Curtis Millen, Incoming Chief Financial Officer**

It varies across the different regions, Vince.

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**Vince Valentini, TD Securities**

Okay. Thanks.

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**Operator**

Thank you. The next question is from Matthew Griffiths of BofA Securities. Please go ahead.

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**Matthew Griffiths, Bank of America**

Hi, guys. Thanks for taking the question. It's Matt just subbing in for Dave this morning. And Glen, just wishing you all the best in retirement as well. My first question is just on the strategy with the Virgin Plus and the new launch and particularly around the inclusion of 5G plans. I know, Mirko, you mentioned that you're doing well in the premium segment. And so, I'm wondering how the new Virgin strategy kind of helps that or how you see it adding to that? Just any colour would be really helpful.

And then on the ARPU side, overage was a bit of a headwind as people move to higher plans and they have less overage. I was wondering, if you could put some context to that, if there's—how much might be remaining or how quickly that is dissipating as people move, it would just be helpful to get context. Thank you.

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**Mirko Bibic, President and Chief Executive Officer**

Hi Matt, it's Mirko. I'll take the Virgin relaunch question. So really what we're trying to do, a little bit building on the prior answer, it's to reenergize the Virgin brand, recognizing that we do really well on the Bell brand in the premium segment. We also want to reenergize the Virgin brand and the strategy there was making the brand more appealing and relevant to a broader base of customers, particularly newcomers. So I mean I think that's the simplest way to put it.

As for 5G, just note, now we have plans available on Virgin on 5G, as well as 4G, not 5G Plus. And it was really not much of a secret that one of our competitors was going to launch 5G on its brand. So, it's always being mindful of what's to come competitively and positioning ourselves in that regard. And of course, there's still a price gap between the Virgin and Bell brand, particularly given the premium offering that the Bell brand continues to have.

**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Matt, it's Glen. On your question on ARPU, first of all, I'll say, I'm actually very pleased with how well ARPU held up. A couple of things I'll unpack there for you. We are at the point that we're no longer enjoying the tailwind of roaming that we were. I mentioned that roaming revenues are up. Last quarter, I think 74 percent I said. And this quarter they're only up about 35 percent. We reached the point now that a number I quoted in Q1 was that roaming revenues were now at 124 percent of pre-COVID levels. Well, they're at 125 percent this quarter. So, you're seeing a slowing there. It's impacting ARPU.

As far as data coverage, I would say a modest increase in the decline. We were down about \$12 million year-over-year in the quarter versus \$10 million in the first quarter. So it's not overly material. When I look out to the future on ARPU and what gives me confidence there's only 47 percent of postpaid subscribers are currently on a 5G capable device. And as you know that we see quite double the usage when people move to the 5G device from LTE. So, that's a great opportunity for monetization and gives us confidence in the growth of ARPU for the future. And thank you for your remarks, Matt.

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**Matthew Griffiths, Bank of America**

All right. Thank you, so much for the answers.

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**Operator**

Thank you. Next participant, Simon Flannery from Morgan Stanley. Please go ahead.

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**Simon Flannery, Morgan Stanley**

Thank you very much. Good morning and Glen best wishes for your retirement. I wonder if we could come back to fibre. Perhaps you referenced the 9 million target for '25. Could you just update us on the passings year-to-date and the outlook and how that plays into the capex timing? And then strong net adds on the fibre side. Maybe give us a sense of what the headroom here is and how the cohorts have been behaving what sort of penetration rates are still left to get in those markets that you've been building over the last several years before they reach terminal penetration? Thanks.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

There's no material change in our long-term fibre plans, Simon. As we said, we'd get to pass approximately 9.5 million homes of our 12-plus million and then we have our Wireless-to-the-Home footprint. I mean I think on the capital side of things just to remind you, 2022 was the high watermark on spending and we'd see a natural decline through '23, which you're starting to see or you will particularly see in the back half. That decline will continue through '25 – '24 and '25. So we ultimately see ourselves reaching a point where we'll reach what our strategic objective of fibre homes passed will be by the end of '25. And then your sub-17% CI and maybe sub that in '26.

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**Simon Flannery, Morgan Stanley**

And on the penetration levels?

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**Mirko Bibic, President and Chief Executive Officer**

Well, the penetration levels I mean you can—without getting into the specific penetration levels by tenure, which is quite competitive in terms of information, I would say that just if you look at the healthy loadings we've had like 52,000 fibre subscribers and really, really strong where we have fibre, you can assume that our penetration is very healthy where we have fibre, particularly in markets where we've had fibre for quite a bit of time. We're getting close to kind of the objective we set for ourselves in terms of market share in each and every community.

In terms of how we're tracking to, we said, we've always said for the year that we wanted to reach approximately 650,000 locations and we're well on our way in the first half given the investments we've made in the first six months of the year. And then more broadly, just strategically now, again we have a well-articulated accelerated capex build plan from now from—really from 2021 to 2025.

We've hit our targets every year since we launched or initiated the accelerated capex build plan. And post-2025 all else being equal, post-2025 we're clearly not going to stop building but we're going to go back to a build run rate that you would have been used to seeing from us prior to 2019.

So that would be the plan. And I think we're well on track on all of it. I mean the only thing that might bump us off of that plan as I look forward would be public policy and regulatory rules.

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**Simon Flannery, Morgan Stanley**

Great. Thanks a lot.

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**Mirko Bibic, President and Chief Executive Officer**

Thanks, Simon

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**Operator**

Thank you. The next question is from Jerome Dubreuil, Desjardins. Please go ahead.

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**Jérôme Dubreuil, Desjardins Securities**

Thank you. Good morning, everyone. I'll echo the comments. Congrats on your tenure Glen. Again on the guidance, we've talked a lot about the free cash flow guidance but I want to dive a bit more on the EBITDA guidance. You said you're expecting catch-up in the second half. If you can maybe describe what are the drivers of that improvement in the second half? And if you can maybe specify what's the expected impact of maybe storms and natural disasters that you have baked in your guidance and versus what we've seen so far?

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Yes. Certainly, I'll give you some colour commentary on that. A couple of things. One, you will recall that we incurred substantive storm costs in the back half of last year, with the vast majority of it being Fiona, about \$34 million with it. So, let's hope that that's behind us. Just in this quarter alone, we saw quite an improvement in storm-related costs. We incurred about \$2 million in this quarter versus about \$7 million—or \$9 million for the same period last year, so about a \$7 million improvement.

You heard in our opening remarks, that we took on a very aggressive workforce reduction program in the second quarter of this year and naturally the benefits of that will flow in the back half and not in Q2. So, that is

another area of improvement in trajectory or cost trajectory. Inflation we're starting to see a slowdown or at least a lapping, I should say, of inflationary pressures, about \$13 million inflationary pressures in this quarter compared to about \$12 million last year.

When I look out to the back half of this year, and what we incurred last year, I actually see potential for modest improvement as opposed to a headwind that we've been experiencing for 12 months. And then the continued fibre technology. As we build fibre, we have a lower cost structure, a digital transformation, lower cost structure, or a real estate rationalization lower cost structure. Handset discounting has been better with BYOD.

So, all in all I think it's all hands on deck. We're excited about the momentum we see in the business right now. We're excited about the health of growth in this country, as Mirko mentioned, immigration. So you get it from that perspective we expect revenue growth to remain solid and I see some pretty nice momentum in place for the cost containment that we'll enjoy in the second half of the year.

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**Jérôme Dubreuil, Desjardins Securities**

Great. Thank you.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

You're welcome

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**Operator**

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

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**Batya Levi, UBS**

Great. Thank you. All the best Glen as well. Two, questions. One, on the new loadings. They've been very strong. Can you talk about the take rate for bundled offers versus the base and the impact that you're seeing on churn. And on the cost transformation for Media, should we assume that that's fully implemented and will start to provide some upside in the second half, or will there be more elements to it as we move ahead? And can we see Media margins head back to mid-20 percent with that transformation? Thank you.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Yes. The cost initiatives that we've taken on were really done in the latter part of Q2. So we really haven't enjoyed any benefits of those. So, absolutely, we expect those benefits to kick in particularly through Q3 and absolutely in Q4 to help improving Media. The media margins will return. What we're doing in our media business is true transformation and the move to digitization that we've already talked about. Advertising will return. And when it does return, we are going to have our assets positioned to capture a larger share of the marketplace than ever before.

I remain bullish on media margins, but we're still in an advertising headwind. Advertisers are right now reluctant. But when I believe when that returns, we will have used this time wisely to right the ship and focus on a broad suite of assets that allow us to capture greater share.

And over to Mirko, on the front end.

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**Mirko Bibic, President and Chief Executive Officer**

Yes. On the bundling, it's pretty clear that the market is evolving more and more towards one where the customer value prop is for many customers, defined by the bundle. And I think we're really well positioned when it comes to that with an ever-growing fibre footprint and fibre Internet superiority and a national wireless network on 5G and 5G plus where we're rated as the best on both those fronts. So right there, and with attractive pricing. And you put all those things together, and it's pretty compelling.

The price, the quality and the overlapping footprint on—we keep growing the percentage of our Internet customers who take mobile and the percentage of mobile customers who take Internet and the percentage of new customers, we're taking both of those at the same time from us from the outset. That continues to grow. It's one of our focus areas, and we have a lot of upside there. So that's another area of opportunity for the Bell family brands or the BCE family brands, to be more precise.

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**Batya Levi, UBS**

Okay. Got it. Thank you.

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**Operator**

Thank you.

The next question is from Drew McReynolds from RBC. Please go ahead.

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**Drew McReynolds, RBC Capital Markets**

Yes. Thanks very much for the follow-up here. Glen, couldn't let you go without a pension question, sorry about that. On the pension solvency surplus, like we all know on this call, Bell's been or used to put a lot of money into the plan because of just the punitive decline in interest rates on the solvency calculation. Obviously, we're in a slightly different environment and it may get even more interesting going forward. So the question is, do you have any ability to get back some of that surplus over time? Is there a mechanism or a process where that \$3.5 billion, if it gets to \$4 billion, \$4.5 billion, \$5 billion, do you have any access to that is the question.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Well, Drew, I appreciate you letting me take one last victory lap on pension. After a career of deficits and the necessary funding to get to this position, Curtis can thank me later. But we're in a surplus position. But the mechanism is easy, Drew, is that we're allowed to take contribution holidays and in the BCE plan, the Bell Canada plan, including DC. So it's not just defined benefit. It's defined contribution as well.

So the mechanism is easy. We can continue to take holidays. And with the deficit—or excuse me, a surplus the size of what we have 116 percent, \$3.5 billion, like we'll have an opportunity to take surpluses for the foreseeable future. And if your projections are true and it climbs beyond \$3.5 into \$4 billion, then Curtis will retire with a big surplus in decades ahead.

So again, Drew, thank you for everything, and thank you for giving me one last chance to brag about pensions.

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**Drew McReynolds, RBC Capital Markets**

Awesome. Thank you.

**Operator**

Thank you. The next question is from Aravinda Galappathige of Canaccord Genuity. Please go ahead.

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**Aravinda Galappathige, Canaccord Genuity**

Good morning. Thank you and let me offer my best wishes to Glen as well. I had a question on the enterprise or B2B side in general. Having closed the FX innovation acquisition. Mirko, what are your thoughts on sort of the headroom to make similar acquisitions in that broader space and perhaps even your appetite and maybe connect that to sort of your strategy to taking that, sort of the B2B segment back potentially to growth at some point, maybe an update on those elements? Thank you.

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**Mirko Bibic, President and Chief Executive Officer**

Okay. Thank you for the question. So look, I mean our strategy on our focus in the B2B segment is really kind of three core pillars there. Continue to improve the customer experience for enterprise customers would be one.

Another one would be, kind of to continue to put a sharp focus on the cost structure that we carry to support our legacy services which clearly are high margin, but declining in many respects on the legacy side.

And that's our—if we do that, we'll be even stronger in our areas of traditional strength, given our superiority in our connectivity and our distribution strength and the relationships we have.

At the same time we're going to continue to put a focus on future growth vectors in the enterprise space, and in particular, 5G, IoT, private networks and call it the—a little bit of the combination of the cloud business, and being advisers, so to speak, for lack of a better word, being partners with our large customers in their own digital transformation journeys. And that's where FX comes in.

So we're quite optimistic about the potential in all those areas. We have a right to play in the segments that I just mentioned, because of our core strength in connectivity and our distribution strength and our deep and long-standing relationships.

FX plays a very important part in that strategy, particularly in our customers' move, their own moves digitally into the cloud. And we're going to keep growing that business. That's certainly what we're going to do. And we're going to use the FX business based here in Montréal as a launch pad for future growth.

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**Aravinda Galappathige, Canaccord Genuity**

Thank you.

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**Operator**

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

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**Thane Fotopoulos, Vice President, Investor Relations**

Thank you, Giselle, and thank you again to all who participated on the call this morning. As usual, the IR team will be available throughout the day for any follow-up questions and clarifications. So with that, have a good rest of the day.

**Mirko Bibic, President and Chief Executive Officer**

Thank you everyone.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Thank you.

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**Operator**

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

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