BCE Q4 2023 Results and 2024 Guidance Conference Call

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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 Q4 2023 Results and 2024 Guidance 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 dividend growth objective and 2024 annualized common share dividend and dividend payout ratio level, BCE’s anticipated capital expenditures and network deployment plans, the cost savings and other benefits expected to result from workforce reductions, as well as estimated related severance payments, our transformation initiatives and the benefits expected to result therefrom, the expectation of stable adjusted EBITDA margin in 2024, the expected financial impact of the Best Buy Canada transaction, the expected timing and completion of the proposed acquisition of the Canadian out-of-home media business of OUTFRONT Media Inc. and the benefits expected to result therefrom, the projected level of our net debt leverage ratio in 2024, 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 February 8, 2024 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 February 8, 2024. 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 Q4 2023 Results and 2024 Guidance 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 Q4 2023 Results and 2024 Guidance Conference Call for periods beyond 2024 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.

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:

- Slowing economic growth, given the Bank of Canada’s most recent estimated growth in Canadian gross domestic product of 0.8% in 2024, down from 1.0% in 2023
- Easing, but still elevated, consumer price index (CPI) inflation as the effects of past interest rate increases work through the economy
- Easing labour market conditions
- Muted growth in household spending due to slow labour income growth, high debt-servicing costs and weak consumer confidence
- Soft business investment growth due to slow demand and still-elevated borrowing 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 remains 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:

- Increase our market share of national operators’ wireless mobile phone net additions
- 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 average revenue per user (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, but at a slower pace than during any of 2020 to 2023
- Continued growth in retail Internet and Internet protocol television (IPTV) subscribers
- Increasing wireless and Internet-based technological substitution
- Continued focus on the consumer household and bundled service offers for mobility and Internet customers
- Continued large business customer migration to Internet protocol (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 our 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, expansion of Addressable TV (ATV), as well as DTC subscriber growth contributing towards the advancement of our digital-first media strategy
- Leveraging of first-party data to improve targeting, advertisement delivery including personalized viewing experience and attribution
- Continued escalation of media content costs to secure quality programming
- Continued scaling of Crave through optimized content offering, user experience improvements and expanded distribution
- Continued support in original French programming with a focus on digital platforms such as Crave, Noovo.ca and iHeartRadio, to better serve our French-language customers through a personalized digital experience
- 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 2024:
- An estimated post-employment benefit plans service cost of approximately $215 million
- An estimated net return on post-employment benefit plans of approximately $70 million
- Depreciation and amortization expense of approximately $5,000 million to $5,050 million
- Interest expense of approximately $1,650 million to $1,700 million
- Interest paid of approximately $1,750 million to $1,800 million
- An average effective tax rate of approximately 25%
- Non-controlling interest of approximately $60 million
- Contributions to post-employment benefit plans of approximately $55 million
- Payments under other post-employment benefit plans of approximately $60 million
- Income taxes paid (net of refunds) of approximately $700 million to $800 million
- Weighted average number of BCE common shares outstanding of approximately 912 million
- An annual common share dividend of $3.99 per share

Assumptions underlying expected continuing contribution holiday in 2024 in the majority of our pension plans
We have made the following principal assumptions underlying the expected continuing contribution holiday in 2024 in the majority of 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
- No adverse material financial, operational or competitive consequences of changes in or implementation of regulations affecting our media business

The foregoing assumptions, although considered reasonable by BCE on February 8, 2024, 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 2024 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2024 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, elevated inflation, high interest rates and financial and capital market volatility, and the resulting negative impact on business and customer spending and the demand for our products and services; the negative effect of adverse conditions associated with geopolitical events; regulatory initiatives, proceedings and decisions, government consultations and government positions that negatively 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 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; high Canadian Internet and smartphone penetration; the failure to evolve and transform our networks, systems and operations using next-generation technologies while lowering our cost structure, including the failure to transition from a traditional telecommunications company to a tech services and digital media company and meet customer expectations of product and service experience; the inability to drive a positive customer experience; 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 an effective data governance framework; the failure to attract, develop and retain a diverse and talented team capable of furthering our strategic imperatives and high-tech transformation; the potential deterioration in employee morale and engagement resulting from staff reductions, cost reductions or reorganizations and the de-prioritization of transformation initiatives due to staff reductions, cost reductions or reorganizations; the failure to adequately manage health and safety concerns; labour disruptions and shortages; the risk that we may need to incur significant capital expenditures to provide additional capacity and reduce network congestion; service interruptions or outages due to network failures or slowdowns; 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 failure by other telecommunications carriers on which we rely to provide services to complete planned and sufficient testing, maintenance, replacement or upgrade of their networks, equipment and other facilities, which could disrupt our operations including through network or other infrastructure failures; the complexity of our operations and IT systems and 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; 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 or the dividend on common shares will be increased by BCE’s board of directors; the failure to reduce costs and adequately assess investment priorities, as well as unexpected increases in costs; the inability to manage various credit, liquidity and market risks; 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; pension obligation volatility and increased contributions to post-employment benefit plans; 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 environmental, social and governance (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 sufficient corporate governance practices; the adverse impact of various internal and external factors on our ability to achieve our ESG targets including, without limitation, those related to greenhouse gas (GHG) emissions reduction and diversity, equity, inclusion and belonging.

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 Safe Harbour Notice Concerning Forward-Looking Statements dated February 8, 2024 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) and with the U.S. Securities and Exchange Commission (available at SEC.gov). This document is also available at BCE.ca.

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Good morning, ladies and gentlemen. Welcome to the BCE Q4 2023 Results and 2024 Guidance Conference Call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, sir.

Thane Fotopoulos – Vice President – IR

Thank you, Matthew, and good morning, everyone, and thank you for joining our call. With me here today are Mirko Bibic, BCE’s president and CEO, and our CFO, Curtis Millen. You can find all of our Q4 disclosure documents, including our Safe Harbour Notice, concerning forward-looking statements for 2024 on the Investor Relations page of the BCE.ca website, which we posted earlier this morning. We have a lot of material to get through on the call, however, before we begin, I want to draw your attention to our safe harbour 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 our publicly filed documents for more detailed on assumptions and risks. With that, Mirko, over to you.

Mirko Bibic – President and CEO

Thank you, Thane, and good morning everyone. Our quarterly and full-year financial performance demonstrate the stability of our business and our proven ability to execute under any circumstances. The Bell team takes pride in delivering what we promise, taking the necessary near-tum actions, including driving costs out of the business and balancing growth with profitability to meet our commitments to our customers and to our investors, while at the same time putting in place the technology, product, customer service and cultural foundation that we know will drive growth in the medium to long term.

Our results for 2023 validate this fact, as we achieved all our financial guidance targets and maintained a stable EBITDA margin, even while facing significant media advertising headwinds; unsupportive government and regulatory decisions, and a macroeconomic environment marked by higher interest rates and sustained inflation. We also made tangible progress on our key strategic imperatives in 2023, showing that the investments we’ve been making across every part of our business since the onset of COVID are working, and these priorities remain the foundation for Bell’s future success.

We met our broadband fibre buildout target, and we surpassed our mobile 5G and 5G+ coverage objectives. In fact, we now offer multi-gig symmetrical internet speeds of 3 GBs in 6.5 million locations. That’s a big competitive advantage that our cable competitors cannot match across their entire footprint. And our performance and quality gap over cable is reflected in our internet subscriber metrics. We also secured new 5G+ spectrum licenses in the recently completed 3800MHz auction. We now have the most 5G+ spectrum in Canada, acquired at a total cost that was the lowest among national wireless carriers.

In wireless, we delivered a great result in an increasingly competitive environment. We delivered a healthy step up in sales; strong net additions focused on high quality premium brand customer loadings; positive organic ARPU growth in Q4 and throughout the year, and importantly, we managed our promotional offers in a disciplined way to balance growth with profitability, with a sizeable improvement in product margin in Q4.

Fuelled by our fibre footprint, we also grew broadband internet market share, contributing to strong residential internet revenue growth of 7.1% in 2023. In particular, we stepped up share gains and our competitiveness in the province of Québec given our fibre advantage and bundling capabilities.

Turning to media, digital revenue was up 19% and represented 35% of total media revenue, versus 29% last year, and that’s a notable result given current challenging advertising market conditions. This is also notable given our strategic shift to digital, and investments to sustain this strategy are continuing with long-term access
to premium content from core partners, including Warner Bros. Discovery and the NFL; the recent introduction of ad supported subscription tiers on Crave, and upcoming distribution on Amazon Prime Video, which we announced this week, as well as the launch of addressable advertising that will enable advertisers to target ads to specific households or devices. We’re well positioned to capture an even higher share of industry digital ad market revenue going forward.

On the customer experience front, our investments in building the best broadband networks, which are consistently recognized by third parties as being the fastest, together with online digital support tools and innovative apps, continue to deliver better customer experiences. These efforts are a big reason why we’ve increased our share of digital online service transactions through self-serve tools to nearly 70% of all digital transactions, and why Bell customer satisfaction scores continue to improve, as reflected in the latest report from the CCTS, which showed, as you know, a 6% drop in Bell’s share of overall complaints. Again, the best performance among national service providers for an eighth consecutive year.

Now on slide 5 of our presentation, it’s clear from all the data points I just provided that we made good progress against our strategic imperatives in 2023, and we fully appreciate that our shareholders look to Bell for the safety and growth of our cash flow. However, we must address a number of factors in our operating environment, and that includes unsupportive federal government policies; higher interest rates and inflation; changing consumer preferences regarding service experience and delivery, and managing through a fundamental technology transformation. Competition and customer expectations are also putting downward pressure on ARPU, requiring a more agile and scaled down cost structure. Media companies are facing increasing competition from global tech players, an ongoing advertising recession and a declining legacy distribution business. And the Canadian regulatory environment is marked by policies on fibre resale that are negative, specifically target Bell, and a broadcasting framework that, curiously, still does very little to assist Canadian media companies.

Because of the CRTC’s targeted actions, we are halting the elevated capex spending program that we’ve been operating under since 2021. As a result, we are notably slowing the pace of our fibre footprint expansion, and we’re capping fibre speeds at 3 GBs per second. This also led to $105 million less capital being invested than planned for in Q4 of 2023, and we intend to reduce capex by at least an additional $1 billion over the next two years, including a minimum $500 million year-over-year decrease in 2024 alone. Given the lack of government and regulatory support for the historic capital investments Bell has made since the onset of COVID in 2020, and an unwillingness or inability to level the playing field between domestic competitors and global tech giants, we’re also shifting our focus away from overly regulated parts of our business towards key growth areas where we plan to accelerate investment, such as cloud and security services; advanced advertising and digital transformation, just to name a few. And consistent with this refocusing, we’re today announcing the sale of 45 radio stations and the closure of 107 Source stores.

To succeed in a landscape that’s being reshaped, it’s more important than ever to continue to align our operating model and cost structure to customer expectations and the revenue profile of our business segments. And for these reasons, we’re undertaking a significant workforce restructuring initiative, our largest in nearly 30 years, that will eliminate approximately 4800 positions, including 750 contractors, or 9% of all BCE employees.

This restructuring initiative will yield in-year cost savings in the range of $150 to $200 million for 2024, or $250 million on an annualized basis. Now, restructuring the business is never an easy decision, but it’s what we need to do to simplify our organization and accelerate our transformation. Where possible, we are leveraging vacant positions and natural attrition in order to minimize the impact on our team. We’ll remove overlaps and consolidate certain functions across different teams, reducing corporate functions by 20% and over-indexing reductions in non-customer facing roles. While we’re eliminating positions in areas where demand and revenue are declining, we are continuing to hire and growth areas. And this restructuring program is enabled in part by our accelerated investments in automation, digitization and AI; strategic acquisitions, new partnerships and service launches to improve our competitiveness and innovation agenda. Given the transformation investments we’ve made since 2020, we are in a better position now to drive costs out of the business.

These transformation investments will continue in 2024 and beyond, and they’ll drive more opex savings in the medium to long-term than those being realized as a result of today’s announcement.
Now moving to slide 6. I want to provide some colour for you on how we’re driving our operational transformation from a traditional telco to a tech services and digital media leader with a number of examples of investments, partnerships and initiatives we’ve been undertaking. In wireless, as we’ve already announced, we’ve entered into a long-term strategic partnership with Best Buy Canada to rebrand, excuse me, 165 Source stores to Best Buy Express. Bell will remain responsible for store operations, while Best Buy assumes responsibility for consumer electronics merchandising; procurement; marketing; inventory ownership and management; logistics and supply chain, as well as other support functions.

Importantly, Bell will continue to control all mobility and internet sales. At Bell Business Markets, we’ve advanced our capabilities in cloud computing solutions and digital workflow automation with the acquisition of FX innovation last year and our partnership with ServiceNow, the global leader in digital workflow solutions. Our collaboration with ServiceNow creates unique value for the Canadian business market and will elevate the end-to-end experience for our customers.

And on the media side, it’s about reducing our dependence on overly regulated businesses like radio, and pushing even more aggressively into digital targeted ad platforms through scaling ad supported subscription tiers on Crave; expanding addressable advertising across more media properties, and acquiring OUTFRONT Media’s Canadian out-of-home business. And as I’ve mentioned, we’ll distribute Crave on Amazon Prime Video channels, which will enable even better Crave growth looking forward.

Against the backdrop of accelerating investments in key growth areas, we’re also laser focused on transforming our existing core business, and we’re looking at things like how to build better and more resilient networks; providing better service through enhanced distribution channels and sales coverage; speeding up innovation and time to market; modernizing and rationalizing our suite of products, and embracing digital solutions and automation. And a key piece of our product modernization program is leveraging our existing all-fibre network to provide better service to customers, saving money on maintenance costs and, of course, reducing our environmental footprint. We’ve made progress migrating customers and equipment to our fibre network, as well as consolidating and removing copper cables and equipment no longer required in the field.

We’ve launched fibre migration now to 105 central offices, transitioning 110,000 residential customers in 2023. And in 2024, copper customers in Manitoba and Atlantic Canada who need a repair will be transitioned over to fibre where we have fibre, as we already do in Ontario and Québec.

We introduced a new next-generation Fibe TV service powered by Bell’s in-house software on an Android TV set top box, and that, importantly, sets the stage for a move to a single IPTV platform and addressable TV capabilities at scale everywhere we operate. This new service is currently available to residential customers in Atlantic Canada, and that will be rolled out, as I said, to other regions across our footprint in the coming quarters. We’re also consolidating real estate, reducing the number of vendors we deal with, and, very importantly, simplifying our ordering and billing technology platforms by moving all core consumer products to a single billing architecture. This has now been launched at scale to 1.3 million customers in Ontario and Québec, and will continue to migrate more customers on the new billing platform as the year progresses. Each of these programs, and I’ve given you several examples; each of them will drive growth, better serve customers, and take costs out of the business. Importantly, they will support a stronger EBITDA growth trajectory, margin accretion, and free cash flow expansion in the years ahead, and that’s going to help support our dividend growth objective.

And that brings me to slide 7 and our dividend announcement for this morning. We’re increasing the BCE common share dividend by 3.1% for 2024. It’s our 16th year of uninterrupted growth, demonstrating our unwavering commitment to dividend growth. Dividend growth remains central to our value proposition, and we’ll continue to prioritize it in our capital allocation. And it’s apparent from our dividend yield that at this time, BCE’s share price is not being rewarded for the higher 5% dividend growth profile. We appreciate that our shareholders want a stable and a growing dividend, and we’re delivering on that expectation. The 3.1% increase for this year, 2024, will allow us to better balance capital allocation priorities with the ultimate objective of getting our payout ratio below 100%, and that provides us additional financial flexibility at the same time, given the higher interest rate environment, significant workforce restructuring we’re undertaking, and the acceleration of our techco transformation that will serve as the future catalyst to growth, and deliver the financial results that we
continue to deliver for our investors and that you can continue to expect from us. And on that, I’ll turn it over to Curtis.

Curstis Millen – Executive Vice President and CFO

Thank you Mirko, and good morning everyone. I’ll begin on slide 9 with BCE’s consolidated financial results. We had a strong quarter to end the year with 5.3% higher adjusted EBITDA that drove a 1.9% increase in margin to 39.7% and 7% adjusted EPS growth. This EBITDA result was achieved despite ongoing media advertising headwinds, and a step up in consumer promotional offer intensity, and moderated service revenue growth this quarter. Regarding capex, due to the deceleration of our fibre network buildout in the back half of the year, capex was down $609 million in full year 2023. As Mirko pointed out, we reduced planned capital investment by an additional $105 million in Q4 as a direct result of the CRTC’s fibre resale decision. Our strong EBITDA growth, substantial capex reduction, lower cash taxes and the positive change in working capital that we had signalled to the street throughout the year, drove a $913 million year-over-year positive swing in Q4 free cash flow.

Turning to Bell CTS on slide 10, starting with a high-level summary of Q4 subscriber metrics. Overall, I would say that we’re doing a very good job in wireless, striking a healthy balance between volume growth, acquisition cost, and ARPU. We delivered a record quarter for postpaid mobile phone gross activations that drove 128,715 new net subscribers. This result, which comprises our second highest Q4 for consumer postpaid net adds after last year, was achieved even with a higher number of switchers, reflecting aggressive offers from our competitors that we chose to match selectively.

This disciplined approach was reflected in our promotional offers, where handset subsidies were on average 32% lower than they were in 2022, driving a significant improvement in wireless product margin. Wireless ARPU was up 0.4% this quarter, driven by our focus on premium 5G subscriber loadings and further growth in outbound roaming; a great result in light of the more aggressive rate plan offers during the Black Friday and December holiday sales period, demonstrating our reliance on network quality and distribution strength, rather than promotional discounting to drive profitable subscriber growth.

Switching to our industry leading broadband segment, Bell Internet added 55,591 total new net retail subscribers, our second best Q4 result in nearly two decades. And on the TV side of things, we added 23,537 net IPTV subscribers, which is approximately 17,000 lower versus Q4 of 2022. This was an expected result, as our result, last year benefited from a significant number of customer activations, driven by the World Cup.

Moving to Bell CTS financials. This is a very good set of results to end the year. Top line revenue grew a respectable 1.7% in Q4. This was achieved despite ongoing legacy declines, a tough year-over-year comp for business product sales, and a richer residential service bundle discounts reflecting a more intense promotions market compared to last year. Total consumer wireless revenue increased 5.5%, profiting from a higher sales mix of premium mobile phones on the product side and positive ARPU growth on the service side.

Residential internet revenue was up 5.4%. CTS revenue also benefited from higher sales of security and cloud-focused managed and professional service solutions to businesses, as well as the financial contribution from our acquisition of FX Innovation in June. The combined impact of continued consumer strength across our wireless residential home services, together with improved business wireline results, better wireless promotional offer discipline, and lower weather-related cost pressures drove strong EBITDA growth of 4.8%. Clearly, this is a financial highlight for Q4.

On to slide 11. Bell Media continued its digital revenue growth and in aggregate, performed better than we expected during the quarter. Digital revenues were up 27% over last year. Underpinning this result was Crave, which grew direct streaming subscribers by 14% on the back of market leading content, as well as the financial contribution from our acquisition of FX Innovation in June. The combined impact of continued consumer strength across our wireless residential home services, together with improved business wireline results, better wireless promotional offer discipline, and lower weather-related cost pressures drove strong EBITDA growth of 4.8%. Clearly, this is a financial highlight for Q4.
displacements, was down 9%. That performance is better than our peers, which is a testament to Bell Media’s programming strength, diversified mix of assets, and focused execution of our digital-first strategy.

Despite the unfavourable revenue backdrop, EBITDA increased 14.7% in Q4. This result was supported by the favourable impact of various restructuring initiatives undertaken in 2023 to help rightsize our cost structure and asset portfolio, along with lower TV programming costs due to the Hollywood strikes and last year’s World Cup broadcasts.

I’ll now turn to our 2024 financial outlook, starting with revenue and EBITDA on slide 13. Based on the latest economic forecasts and industry outlooks, our revenue and adjusted EBITDA growth ranges for 2024 take into consideration potential recessionary risks, competitive pricing pressures, and business product sales lumpiness. Additionally, our strategic distribution partnership with Best Buy Canada will see the elimination of approximately $300 million in largely consumer electronics revenue from our consolidated results in 2024.

The impact on EBITDA will not be material given relatively low margin for consumer electronics. As a result, we’re setting our guidance growth ranges for 2024 at 0% to 4% for total revenue and 1.5% to 4.5% for adjusted EBITDA. Given this outlook and benefiting from the cost savings we expect to realize from the transformation initiatives that Mirko outlined earlier, including a 9% reduction in our workforce, we predict BCE’s margin for 2024 to remain, at a minimum, stable year-over-year. And notably, if you exclude the financial impact of the Best Buy transaction, our target guide of ranges are consistent with last year, showing the relative stability of our business and the confidence we have in our proven ability to execute under any circumstance.

Underpinning the steady growth is our continued focus on premium mobile phone subscribers, with increased emphasis on market growth as we capitalize on our wireless network leadership, ongoing 5G upgrade cycle and strong immigration levels. We also plan to continue winning the home by leveraging our industry leading symmetrical internet speed advantage over cable, delivering the best customer experience with our products, and driving greater cross-sell penetration of higher value mobility and internet households.

In our B2B sector, our objective is to build on our momentum from 2023 by accelerating growth in cloud, security and workflow automation solutions in the large enterprise space, while also expanding key channels and leveraging our fibre footprint in SMB. At Bell Media, although the timing of an advertising recovery remains uncertain, we’ll continue to drive advanced advertising, digital products like Crave, as well as new distribution initiatives such as Crave’s partnership with Amazon, to further grow our market share of digital ad spend. These digital opportunities, together with the financial contribution from our pending acquisition of OUTFRONT Media, and restructuring cost savings, should drive improved media financial performance in 2024.

Moving to slide 14, despite growth in EBITDA, we project adjusted EPS to be in the range of $2.98 to $3.13 per share in 2024, or 2% to 7% lower versus last year. This year-over-year decline can be attributed largely to an approximate $200 million step up in interest expense due to higher rates and more debt outstanding from investments in our growth strategy; an estimated $100 million increase in depreciation and amortization expense, consistent with the growth in our broadband network, capital asset base; higher pension financing costs, and gains on the sale of real estate realized in 2023 related to our multiyear consolidation and conversion program that totalled $67 million, or $0.05 per share.

Turning to slide 15, we expect to generate $2.8 billion to $3.05 billion of free cash flow in 2024. This is 3% to 11% lower compared to 2023, and reflects around $400 million in one-time severance payments related to the 4800 employee reductions that Mirko detailed. Normalizing for the severance payments associated with our announced workforce restructuring initiatives in 2023 and 2024, free cash flow growth is in the range of 0% to 7% this year, providing support for the 3.1% dividend increase we declared this morning. This underlying growth and free cash flow is the result of higher year-over-year EBITDA and a $500 million decrease in capex that will drive a capital intensity ratio of 16.5% or less in 2024.

Although we have currently budgeted approximately $4.1 billion in capex spending for 2024, this amount can possibly be even lower depending on government policy decisions during the course of the year that may further disincentivize investment. 2024 free cash flow also reflects higher interest paid; stable to higher cash taxes, as the federal government’s accelerated CCA program is phasing out beginning this year, and lower projected cash
from working capital. This working capital drag is attributable mainly to the significant improvements in AR and inventory levels realized in 2023, which normalized following substantial COVID and supply chain impacts in 2022, as well as potential recessionary impacts on customer collections that may materialize with a harder economic landing.

Moving to slide 16, as we begin the year, we are in a very strong financial position. We have access to $5.8 billion of liquidity, and a balance sheet with a sizeable pension solvency surplus totalling $3.6 billion, which provide good overall financial flexibility to execute on our business plan and strategic priorities for 2024. Our net debt leverage ratio at just under 3.5 times adjusted EBITDA due to several years of generational capex spending and critical spectrum investments is projected to remain more or less stable this year.

Our debt capital structure also remains very well structured, with an average time to maturity of approximately 12 years, an after tax cost of borrowing that is below prevailing interest rates at around 3%, and a floating interest rate exposure that is below our historical target range of 20% to 30%. At these levels, together with no material debt refinancing requirements until Q1 2025, interest rates that are expected to ease and access to lower-cost, short-term financing options, we can be opportunistic in accessing the debt capital markets this year, if market conditions are favourable to pre-fund upcoming maturities and mitigate interest rate pressures.

Lastly, I wanted to note the capital leases are expected to begin declining this year, having reached a peak in 2023, which will drive lower principal repayments beginning in 2025.

To conclude on slide 17, 2024 is an important transformation year for Bell. It’s a year where we look to maintain operational momentum, while balancing growth with financial performance, as we continue our transition to a tech services and digital media leader. Within that context, the guidance targets we’re providing today are appropriate given the current economic, competitive and regulatory backdrops, while also reflecting the impacts of our workforce restructuring, and other transformation initiatives that will better position the company for future growth and financial success.

I will now turn the call back over to Thane and the operator to begin Q&A.
QUESTION AND ANSWER SESSION

Operator

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

Maher Yaghi – Scotiabank – Analyst

Thank you for taking my question. Believe it or not, I won’t ask you about Q4 or 2024. I think we need to discuss the elephant in the room here. One can’t set aside the regulatory environment when looking at pricing pressure hitting Canadian telcos on both wireless and wireline. I mean, we have seen similar issues in the Canadian broadcasting industry due to slow evolution on regulation. Mirko, I wanted to ask you, you know, is your telecom service in Canada at risk of seeing similar long-term profitability issues if regulation continues to lag technological advancements? You know, and underlying my question is this question: Beyond 2024, should we expect future years to see additional material cost reductions to continue to stay ahead of these regulatory pressures? Thank you.

Mirko Bibic – President and CEO

Thanks, Maher. You know, thanks for that question. There’s a lot there. Look, let me start with, want to reemphasize what I started with in my opening remarks. We continue to deliver strong results each quarter, and that’s because we’re always planning ahead. So we were making investments in 2020, 2021 to get us in a position where we could deliver strong results in 2023, and we’re continuing to do that. Always plan for the environment that’s around us now and where we expect it to go, and that’s kind of where your question is going. So that could be technology, that could be, you know, kind of macroeconomic; customer expectations, obviously, matter a lot competitive environment, and, significantly, regulatory. So I mean, look, if you look at our free cash flow guide—sorry, our capex guidance for 2024, we say less, you know, 16.5% capital intensity ratio or less. And we say that we’re kind of reducing capex by at least a billion over the next two years and the—or less, and the “at least” is basically saying, if it gets worse on the regulatory front in terms of some of these rules that we know very well, fibre access in this particular case, we will do more. And that could be cutting investments in these areas without—well, and then redirecting monies to growth capex and transformation capex, and it could be more restructuring for sure. Like the 16.5% capital intensity ratio is about $4.1 billion of capex planned for this year. And unfortunately, I had actually thought that we’d be at $4.1 billion in 2026, not in 2024 or 2025, when we were kind of anticipating to build to 9 million fibre locations by the end of 2025. So we’ve pulled our spending in earlier than planned, specifically because of the regulatory rules and federal public policies. We got to call those out as well.

And in the midterm, we can operate this company below that capital intensity, Maher, Given the work we’re doing now on our growth and our transformation agenda. I won’t relist them. I went at length at them on—in my opening remarks.

So now let’s go back on fibre. Fundamentally, like, why—the question we have to ask ourselves is, why continue to invest at the pace that we did in 2020, 2021, 2022 and 2023 if we’re going to make investments that are going to enrich the shareholders of our major incumbent telcos and cable companies? I mean, you got to ask yourself at some point, why don’t we just kind of ride on their networks, right? But ultimately that would be a terrible outcome for resiliency, network competition, price competition, et cetera.

So yeah, the long answer-short answer is, there could be more to come depending on where this goes. And you didn’t focus on media in your question too much other than calling out kind of what’s been a slow evolution in the broadcasting environment on regulatory. But I mean, think about it, you know? We’ve been talking about the need for same rules for all in broadcasting, you know, domestic and international competitors, for years, and we’ve still gotten nowhere. We actually had the renewal of our TV licenses until 2026 without meaningful prior
consultation, despite the fact that we’re mired in an ad recession and an existential media industry crisis. We have the CBC that has greater flexibility on their news obligations than we do, despite the fact that we’ve made it very public that we lose $40 million a year on—on news. Like we want to deliver news, but we want to find a way to make this, you know, work. So the list can go on, but I’ll stop there.

Maher Yaghi – Scotiabank – Analyst

Thank you.

Operator

Thank you. The next question is from David Barden from BofA Securities. Please go ahead.

David Barden – BofA Securities – Analyst

Hey, guys. Thanks so much for taking the question. I guess maybe, Curtis, you know, I think the free cash flow guide was probably the biggest surprise. I just want to make sure I’m thinking about this correctly. If we do a free cash flow walk from 2023 starting at $3.14 billion, and we add a $500 million capex reduction tailwind, we add a $300 million midpoint guidance EBITDA increase, and then we subtract the $400 million of severance, and then we subtract $300 million of higher interest expense, we get to about $3.25 billion. So that suggests that there’s at least three-quarter billions to more, you know, incremental stuff. I guess that would be taxes and working capital. Could you kind of address the gap there? And I apologize to Thane for asking a related question, which is: If your free cash flow is $3 billion and your common dividend is $3.5 billion, and your preferred dividends are $200 million, we’ve got a pretty huge gap there. When do we close it? Thanks.

Curstis Millen – Executive Vice President and CFO

Great. Thanks for the question, David. So ultimately, we continue to drive free cash flow growth while we’re funding generational investments in our network. You know, there are growth initiatives that Mirko talked about that we’re funding. That’s cloud, that’s security services, and all the digital transformation projects. You know, as Mirko said, we were looking to spend more than $4.1 billion, but $4.1 billion still remains a pretty significant level of investment. I’d say, you know, it’s not a surprise 2024 is a transformational year given the scale of our workforce reduction. That’s $400 million of severance. That’s an exceptional one-time drag on free cash flow.

As you mentioned—I mean, there are a couple of one-time timing issues here in terms of working cap, driving some pressure in 2024. You know, one example is we’re building out broadband in fibre and broadband subsidy regions. So we incur those costs and then we get refunded by the government, but there is a timing gap there. Again, it’s just a matter of time. We do get the money back but it causes a pressure in 2024. And then again, as you noted, interest paid is quite a step up this year, given interest rates and the bigger balance sheet. So, you know, there are there are a handful of moving pieces, but ultimately we’re pretty confident in our ability to drive free cash flow growth, and our dividend at this level is supported by the free cash flow growth we’re going to push forward this year.

David Barden / Matthew Griffiths – BofA Securities – Analyst

Thanks.
Stephanie Price – CIBC World Markets – Analyst

Morning. Thank you. Just following up on the last question, I was hoping you could talk a little bit about the longer-term outlook for dividend growth. Do you see 3% as the new normal here, or is it more of a near-term impact from the restructuring? How should we think about dividend growth going forward?

Mirko Bibic – President and CEO

We’ll assess that Stephanie—hi, it’s Mirko. We’ll assess that year-by-year, of course. Look, we’re always going to use funds available to us in a balanced manner in line with the priorities I outlined in my opening remarks. So dividend growth remains number one, you know, this year. For this year, the 3% is absolutely appropriate, particularly given where our dividend yield sits at right now. And then we’ll always balance that against the growth capex that I’ve talked about, the transformation capex I’ve talked about. You know, there might be some smaller scale M&A opportunities that come up, they often do. So that’ll be—that’ll be how we line up our priorities and we’ll reassess it again next year. But I’d say 3% is a solid bump in this environment and it’s still competitive with our peer group.

Stephanie Price – CIBC World Markets – Analyst

Thank you very much.

Drew McReynolds – RBC Capital Markets – Analyst

Yeah, thanks very much. Good morning. So, Mirko, with respect to some of the top line uncertainty, whether, you know, it’s in your control and—but a lot of it’s not in your control, including regulatory, certainly from our perspective, lowering the cost to serve becomes a pretty big protector and driver of EBITDA and free cash flow growth. And I think you’ve alluded to that certainly in your opening comments. Can you just speak to, you know, how you’re lowering the cost to serve kind of programming, or program, beyond 2024? And in that, just where do you kind of stand on call for decommissioning for this year and what should we expect over the next few years? Thank you.

Mirko Bibic – President and CEO

Yeah, thank you. Thank you for the question. So again, as we—as we line up how we’re going to spend our capital most efficiently, you got kind of dividends on the one side, then you got network expansion which unfortunately is at a significantly reduced pace, but that will continue, and then it’s a question of allocating the rest as between kind of the, what I’ve been calling, you know, this morning, the growth capex and the transformation capex, and the right mix there, and as we invest more in the transformation of Bell, we’re able to get more efficient with our capex dollars over time, and, of course, drive costs out of the business and drive growth. So some examples, and I’m repeating a little bit what I said in my opening remarks, but it’s important:
moving core consumer products to single ordering and billing architecture is—I mean, it has so many benefits. A more understandable bill, a better customer experience.

Obviously you only have one architecture to manage, not multiple billers to manage. Fewer manual kick outs, which means fewer people needing to oversee billing. And fewer—you know, shorter time to market when you want to make adjustments. So that’s something we were really focused on for the last several years, and thankfully mid-last year we were able to start migrating customers. We’re going to continue to invest in our digital apps. We’ve been talking about that for several years now, and it keeps getting better. Customer self-install continues to scale, especially where we—obviously where we have fibre. AI and generative AI are big opportunities that we’re going to harness at, you know, more meaningfully in 2024, and especially beyond. On the copper decommissioning up to 105 central offices, as I mentioned, and that’s going to keep growing over time.

We’ve got too many—too many legacy products, especially in the enterprise side, and we’re going to rationalize that, and that’s going to kind of make us leaner and better. I highlighted in my opening remarks the move to a single IPTV platform. That has multiple benefits: better product, better customer experience, that’s one. A single Fibe TV architecture across our entire operating territory. We’re not going to have three or four or five TV services, which we currently do. So big cost savings there.

And on the growth side of that is the addressable TV capabilities that are going to drive digital advertising revenue for Bell Media. So that that one there has multiple benefits. From better customer experience, to better digital ad capabilities, to lower-cost structure. Real estate. Always looking at that. We’re consolidating our vendors, managing our supply arrangements very carefully. Standardizing contractor rates, insourcing where we can. Terminating some long-term partnerships that we’ve had, some of which have been public. Like, these are all the things that we’re doing to drive costs out of the business and actually enable better growth.

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Drew McReynolds – RBC Capital Markets – Analyst

Thanks. Thanks for that.

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Operator

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

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Simon Flannery – Morgan Stanley – Analyst

Great. Thank you very much. Good morning. I wanted to just talk about the macro, if I could for a minute. You talked a few times about potential recession being included in your guidance, and I want to really see what you were seeing on the ground today. I think you talked about higher business disconnects, as well as some lengthening of payable cycles and so forth. So to what extent are you being cautious here, or are you actually starting to see some signs? Obviously I’ve talked a lot about media, but more in the communications side of the business. Thanks.

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Mirko Bibic – President and CEO

Right. Okay. So look, our guidance on revenue and EBITDA are pretty much in line with previous years, but for the impact of the Best Buy transaction on product revenues. So I mean, that’s one thing I’d say right off the top. So we’re balancing kind of what we see as and the macro environment, but also, you know, the areas where we’ve—where we’ve done quite well, whether or not it be, you know, internet or a wireless loadings, we’re seeing on the enterprise side quite strong service revenue growth and kind of what we call “the growth
verticals,” you know, cloud service solutions, security, automation, digitization, that kind of work that we do for our customers.

Actually, we saw pretty strong organic solutions, revenue growth at Bell Business Markets. And, of course, then that’s excluding the impact of FXI, which is also going—to going to grow. So, you know, I think on the enterprise side, it’s a question of continuing to maintain our position in our core business, kind of the legacy business, while taking costs out of that business; continuing to harness the growth that we’re seeing on kind of the new solutions, and improving the customer experience. That would be what we’re trying to do on the enterprise side. In the small business segment, like, we’re not really seeing too much downsizing and rationalizing, or too much of an increase in business closures. But like I said in previous quarters, we’re monitoring that carefully. And then on the wireless side, I’d say, you know, customer payment patterns are okay.

We haven’t seen a material change, but again, worthy of further monitoring. And the environment remains pretty competitive. But I have to say, I was quite pleased in Q4 with how we managed the competitiveness. Like we did—we did a really nice job leveraging our premium brand strategy to load customers on the better network at higher ARPU and you can see that in our organic ARPU growth. And we’ve used the flanker for, you know, Virgin in particular to better segment the customer base and serve the value segment. So we’re resisting dropping price on the premium brand for the sake of saying that we’re loading customers on the premium brand. So, I mean, I think there’s still some upside there on the wireless side and, of course, on internet.

Simon Flannery – Morgan Stanley – Analyst

Great, thanks a lot.

Operator

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

Tim Casey – BMO Capital Markets – Analyst

Thanks. Curtis, can we go back to your walk down on free cash flow and your comment on working capital? Are you implying there’s a relief coming in 2025, because you’re talking about those working capital items being one time in nature? I mean, I just think people are struggling with the, you know—the walk down on this and how you end up with free cash flow guiding below $3 billion. Thanks.

Curstis Millen – Executive Vice President and CFO

Yep. Thanks for the question, Tim. I think there are a couple of things. And some of these things, unfortunately, will take more than one year to normalize out. I mean, if you’re looking at the one that I mentioned in terms of government subsidy build. So we’ll be building out over the next couple of years, and then the two years after that, it swings in our favour. Another one I’d mentioned—so in 2023, you know, as supply chain normalized our AAR—excuse me. So receivables and inventory levels came down quite substantially, but that creates a year-over-year pressure where there’s no incremental, or limited incremental improvement year-over-year. So as a win in 2023, but it’s already normal in 2023, so there’s no incremental win in 2024.

Tim Casey – BMO Capital Markets – Analyst

Thank you.
Operator

Thank you. The next question is from Jérome Dubreuil from Desjardins Securities. Please go ahead.

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Jérôme Dubreuil – Desjardins Securities – Analyst

Hi, thanks, good morning. One on network convergence. You do have a high level of overlap between your wireless and wireline networks, but you’re not 100%. You know, we’re seeing competitors making strides and putting more focus on fixed wireless even in urban areas. Is this something you are increasingly considering, or are you happy with your current addressable market? And maybe also just possible in the context of network sharing agreement? Thank you.

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Mirko Bibic – President and CEO

Jérome, we’ve had a fixed wireless product and market since 2018, and we had a pretty aggressive build target initially, which we had to scale back because of some regulatory outcomes and then and then forged ahead again when the regulatory rules got a little bit better in 2019-2020. By the way, another show as how regulatory decisions do matter. But we have a pretty sizeable, addressable market with fixed wireless. We’ve been selling our products since 2018. We continue to upgrade it, and it works. It works in rural where you don’t have very well—in rural where you don’t have, you know, fibre or DOCSIS cable. It’s my view fixed wireless access will never be competitive where there is, you know, fibre, and top-tier cable. And then in rural areas, you also have to appreciate, compared to 2018, there’s now Starlink as an option for customers. So long way to say I’m happy with where we are with our addressable market on fixed wireless access, and how that product performed, especially at the beginning when we launched.

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Jérôme Dubreuil – Desjardins Securities – Analyst

Thank you.

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Operator

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

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Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. Thanks for taking my question. It’s on the adjusted EBITDA guide, 1.5% to 4.5%. I just wanted to understand sort of the lower end there. I mean, there’s obviously the benefit of the acquisition in media. And then, you know, the $150 million to $200 million translates to, you know, somewhere between 1.5% to 2% roughly. Is it that perhaps, because of the ad conditions, you’re assuming a steeper decline in media? Is that what is sort of dragging down that low end? I wanted to understand the low end of that range a little bit better. Thanks.

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Curstis Millen – Executive Vice President and CFO

Yeah. Hi, Aravinda. Thanks for your question. I mean, the simple answer is, it’s the same guidance as last year, but for the adjustment on the low end, which takes into account the range of $150 million to $200 million of cost savings, so that $50 million range there driven by our workforce reduction. So in line with last year’s guidance range.
Aravinda Galappathige – Canaccord Genuity – Analyst

Okay, but then, I mean, the acquisition obviously adds about half a turn. Isn’t that the case?

Curstis Millen – Executive Vice President and CFO

Yeah. So you’re talking about OUTFRONT? Yeah. OUTFRONT hasn’t closed yet. So, right. There’s a bit of a balance here between ad market recovery and potential closing of the acquisition.

Aravinda Galappathige – Canaccord Genuity – Analyst

Okay. Okay, thanks.

Operator

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

Christopher Joseph Schoell – UBS – Analyst

Good morning. This is Chris for Batya. Just digging into the postpaid phone churn result, any colour you can give on the performance you’re seeing by geography and whether the level of competition has been consistent across regions? And any early colour you might be able to provide on 1Q and a level of switching intensity ease so far in January. Thanks.

Mirko Bibic – President and CEO

Yeah, so, look, on churn, we’re not sitting idly by. Like, we’ve got to watch this very carefully. It has gone up. It feels a lot more obviously like pre-COVID than it has in the last several years. So what we’re going to do is, you know, continue to leverage our household bundling strategy where we’ve been pretty effective over the last couple of years, including in 2023. Focus on the premium loadings in the way I suggested a couple of questions ago. Continue to improve customer experience; I think that common billing platform I’ve talked about is going to help. We’re going to use Crave quite strategically. And, you know, these are the things that we’re going to do to make sure that churn stays under control, but it has to be looked at quite seriously. And that’s what we’re going to do looking forward. Now, if we look back at Q4, you can see how diligent we were, right? We managed to deliver record sales, strong service growth, solid nets, organic ARPU growth, significantly better product margin, and basically we didn’t have to overspend to deliver kind of the solid results we did. So again, it’s always about balancing the—you know, the spend on the share you gain while making sure that you’re doing all the right things tactically to keep churn in check.

Christopher Joseph Schoell – UBS – Analyst

Okay. Thank you.

Thane Fotopoulos – Vice President – IR

Yeah, Matthew, we’re starting to time out, so this will be our last question.
Operator

Perfect. Thank you. The next question is from David McFadgen from Cormark Securities. Please go ahead.

David McFadgen – Cormark Securities - Analyst

Oh great. Thanks for squeezing me in. Just a question on the capex. I know, you know, like the regulatory decisions that have been made, but don’t the financial metrics just force you to cut capex anyways if you want to get down to a below 100% payout ratio? I mean, you have to pay $400 million in severance, $300 million in higher interest expense; does that just kind of force your hand to lower the capex anyways? And now that it’s a lower capex, when would you expect to reach the nine million homes?

Mirko Bibic – President and CEO

Well, no, we outlined two years ago—well, in 2021, that our goal was to hit nine million fibre locations. And we signalled quite clearly and consistently to shareholders that, as a result, we were going to operate at an elevated payout ratio, but that it was the right thing to do at the time, given the environment for the long-term strategic benefit of shareholders. But that was done in the context of the regulatory environment we had in front of us then. So we are reducing capex as a direct result of the regulatory environment. Because we had clearly signalled that, you know, we were going to operate at the elevated payout ratio, because, again, we’re always managing for kind of, you know, in-year, but we’re also managing for the long-term. And, you know, we are—or we can always—you know, at $4.1 billion of capex compared to $4.6 billion, you know, obviously it’s a reduction, but we get to choose where to spend that $4.1 billion, right? And we’ve chosen to de-emphasize fibre and focus on other growth vectors and transformation. So even within the reduced capex budget for 2024, there are allocation decisions that are totally in our control.

David McFadgen – Cormark Securities - Analyst

Okay. All right. Thank you.

Operator

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

Thane Fotopoulos – Vice President – IR

Thank you Matthew. So thank you again for your participation this morning. And as usual, Richard and I will be available throughout the day for follow-up questions and clarifications. So on that. Have a great day. Thank you.

Operator

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