

**Business Description:**

**BCE Inc.** is a leading telecommunications operator in Canada, providing communication solutions to residential, business and wholesale customers. BCE has 7.9 million subscribers, 5 million access lines, 2.3 million broadband customers, and 2.4 million video subscribers. The business operated in four different categories: 1) Bell Wireline, 2) Bell Wireless, 3) Bell Media and 4) Bell Aliant. The Bell Wireline segment provides local telephone, long distance, data and other services. The Bell Wireless segment provides wireless data and voice. Bell Media provides conventional, specialty and pay TV, digital media and radio broadcasting to customers across Canada. Bell Aliant provides local telephone, long distance, internet, data, TV, wireless, home security and other value added solutions to its customers. BCE recently completed the privatization of Bell Aliant. BCE also has a number of other assets including indirect equity ownership stakes in Maple Leaf Sports & Entertainment Ltd (MLSE), Q9 Networks Inc. (Q9), Montreal Canadiens Hockey Club and the Bell Centre in Montreal and a minority stake in the Globe and Mail.

**Investment Thesis:**

- **A safe dividend payer that has consistently grown its distributions.**
  - BCE has a progressive common share dividend policy and a target payout between 65% and 75% of free cash flow. We believe this demonstrates a strong commitment to shareholder returns. Dividend per share has grown at a CAGR of 5.0% and 8.0% for vintage years 2002 and 2009, respectively. BCE has reaffirmed their ability to grow the dividend while, at the same time, reinvesting into its business by funding a number of growth initiatives.
- **The industry structure in Canada is oligopolistic with 3 large companies dominating the market.**
- **BCE holds a leading position in most of its operating categories.**
  - BCE, through its subsidiaries, has established a network of hard infrastructure assets directly to its customer's households. This has allowed BCE to maintain a leadership role in the sector, and preempt new entrant's competition.
  - BCE is leveraging its current platform and content to maintain a leadership position.

Market share	BCE	Rogers	Telus
Access Line/Phone Subscribers	52%	13%	35%
High Speed Internet Subscribers	27%	23%	17%
Television Subscribers	10%	22%	11%
Wireless Subscribers	29%	34%	39%

- **BCE's stock is a reliable source of dividend income, exhibiting low volatility and a broad following in the marketplace.**

- **BCE's top line growth is supported by its capital expenditure program.**
  - A network sharing agreement with Telus allows extra flexibility for investments (due to lower wireless capital requirements).
  - BCE targets market share gains in wireless by accelerating distribution, investing in broadband networks and services, achieving a more competitive cost structure and improving customer service.
  - BCE is improving its wireline market position by leveraging the momentum of fiber optics adoption.
    - BCE has nearly doubled its FibeTV subscribers year over year, which has allowed BCE to bundle other service offerings to households.
- **Improved profitability due to improved business mix.**
  - The company's revenue mix includes more wireless, data and fiber offering, which also led to an improved the average revenue per user (ARPU) as a result.
- **Strong management and execution led to improvements in the business structure over the past decade.**
  - In 2014, 82% of revenue was generated from growth services such as wireless Internet, TV, media, and wireline data (fiber optics). The remaining 18% came from traditional wireline voice. Whereas, in 2008, growth services accounted for 69% of revenue with the remainder generated from traditional wireline voice accounted for 31% of revenues.
- **Strengthening distribution with over 1,400 mobile retail locations globally through its Glentel acquisition.**
  - Bell and Rogers have a joint venture agreement to operate Glentel together. Both are 50/50 partners.
  - There are approximately 494 retail locations across Canada.
  - Reduced competition concerns that were previously involved with BCE's original acquisition.





## Industry Growth Drivers/Trends: (Industry: Telecommunications)

- **Data hungry demographics.** Canada's younger generation have one of the highest consumption rates in the world for data. Canadians exhibit double the world wide average in their use of bandwidth.

- **Market size.** The wireline market in Canada generated total revenue of approximately C\$36 billion during 2013. The increased use of data is expected to increase ARPU.

- With over 13 million households in Canada, the wireless market in Canada generated a total revenue of approximately C\$21 billion from around 28 million customers.

- **Geographical features** of Canada are supporting the three player oligopolistic structure.

- **Wireless industry structure is becoming more competitive.** Canadian telecom companies have been faced with regulatory concerns; including a new wireless code that aims to improve customer experience and the industry structure with the potential addition of a fourth competitor. BCE's exposure to wireless regulatory risk is partly mitigated by the fact that the company derives roughly 60% of its revenues from its wireline business and the potential time-lag faced by a new entrant in building out a new rival wireless network.

- **The wireless market industry in Canada is under-penetrated.** The Canadian smartphone penetration is only about 77%, which indicates that there is still growth left in the market. This is well below several European countries where penetration rates are greater than 90%.

- **Internet Protocol migration for business and Voice Over Internet Protocol and wireless substitution.**

- **Specific to Canadian market.** Companies operating in Canada have chosen a higher competitive ground (i.e. competing on brand, features, service rather than on price).

## Competitive Advantages:

- Established customer base
- Deep spectrum holdings
- Strong brand identity
- Economies of scale
- Unique offerings
  - Fibe TV
  - Mobile TV

## Competitors:

Telus – Wireless, Wireline,  
Rogers – Wireless, Wireline  
Wind Mobile – Wireless  
Local Operators - Quebecor, Cogeco, etc,

## Customers:

**Residential** – Selling telecom services to individual residences.

**Business** – Selling telecom services to business clients.

**Wholesale** – Buys and sells local telephone, long distance and data from or to resellers and other carriers.

## Barriers to Entry:

- **Regulated oligopoly.** Wireless spectrum is difficult to come by and is auctioned to only a few firms.
- To build out a rival network to compete with BCE is unlikely due to the **high capital costs**, and long lead-time for execution.
- **Loyal customer base.**

## Officers and Directors:

There are 15 executive directors, the majority of which are independent. The Chairman is Mr. Thomas O'Neil, and the CEO is Mr. George Cope. BCE offers stock options for its executive management to align management and shareholders interest.

## Corporate Governance:

BCE has strong corporate governance practices that are designed to maintain balance between shareholders and management. The Chairman and CEO positions are held separately. In addition, BCE has received numerous corporate governance awards in North America.

## Ownership(% Shares Outstanding):

Investment Managers – 38%

Brokerage Firms – 7%

Insiders – 0.25%

Other – 55%

## Capital Allocation/Uses:

- A major business acquisition in 2013 was the purchase of Astral Media. The acquisition is expected to provide BCE with increased ad-revenue and subscriber fee revenues.
- Major capital expenditure items were related to the deployment of broadband fiber-optic cables to customers, the roll out of 4G LTE mobile across Canada, higher spending on network capacity to support increasing internet and mobile data consumption and new front-end stores (Bell and The Source) across Canada.
- BCE's corporate credit rating is BBB+, which enables the company access to lower financing costs and favorable terms.
- Current and target capital structure is around 60% debt to enterprise value.
- Cost of debt is approximately 5%.
- The existing network sharing agreement with Telus allows for extra capital flexibility (due to lower wireless capital intensity).

**Financial Statement Summary (in 000,000 C\$):**

	2013	2012	2011	2010	2009
<b>Income Statement</b>					
Total Revenue	20,400	19,978	19,497	18,069	17,735
EBITDA	7,527	7,893	8,357	7,986	6,544
Earnings per Share (Diluted)	2.5	3.2	2.9	2.7	0
Funds from Operation	5,501	5,403	4,890	4,769	4,846
Dividend per Share	2.3	2.2	2.0	1.8	1.6
Dividend Payout Ratio	92%	65%	71%	62%	-
<b>Balance Sheet</b>					
Total Debt	18,912	16,022	14,827	11,910	10,899
Total Equity	15,011	13,875	13,778	10,154	16,974
Total Debt: Total Equity	162.8	152.9	139.1	178	76.7
<b>Cash Flow Statement</b>					
Operating Cash Flow	6,476	5,552	4,869	4,724	4,886

**Key Ratios and Figures:**

	2013	2012	2011
EBITDA Margin	37%	40%	43%
Interest Coverage	4.4	5.1	3.1
Return on Invested Capital	8.5%	14%	14%
# Of Employees	55,830	55,500	55,250
Average Revenue per User (ARPU)	\$57.25	\$55.82	\$53.55

**Geographic Segments:**

	2013	2012	2011
<b>Bell Wireline</b>			
Total Revenue	10,097	10,220	10,621
EBITDA Margin (%)	38%	38%	39%
<b>Bell Wireless</b>			
Total Revenue	5,849	5,586	5,231
EBITDA Margin (%)	40%	38%	34%
<b>Bell Media</b>			
Total Revenue	215	161	1,542
EBITDA Margin (%)	-	-	-
<b>Bell Aliant</b>			
Total Revenue	2,759	2,761	2,775
EBITDA Margin (%)	46%	47%	49%

Sourced from Thomson Reuters and Company Reports

Any references to "dollars" or "\$" are to the Canadian dollar, unless otherwise indicated.

Certain statements included in this document constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to the business. The forward-looking statements are not historical facts, but reflect the Portfolio Management team's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise. Any opinions expressed are those of Portland Investment Counsel Inc. and do not necessarily state or reflect the views of BCE Inc. Publication in this document should not be considered an endorsement by BCE Inc.

This research and information, including any opinion, is based on various sources believed to be reliable but it cannot be guaranteed to be current accurate or complete. It is for information only, and is subject to change without notice. The financial highlights reflect the different assumptions, views and analytical methods of the analysts who prepared them. This Business Brief is not an offer to sell or a solicitation of an offer to buy the security. The security discussed in the Business Brief may not be eligible for sale in some jurisdictions. If you are not a Canadian resident, this material should not have been delivered to you. The information presented in the Business Brief should not be considered personal investment advice. As each individual's situation is different, you should consult with your own professional investment, accounting, legal and/or tax advisers prior to acting on the basis of the material in the Business Brief. Information presented in this material should be considered for background information only and should not be construed as investment or financial advice. Please consult a Financial Advisor. Every effort has been made to ensure the utmost accuracy of the information provided. Information provided is believed to be reliable when posted. All information is subject to modification from time to time without notice. Consent is required for any reproduction, in whole or in part, of this piece and/or of its images and concepts. PORTLAND, PORTLAND INVESTMENT COUNSEL and the Clock Tower Design are trademarks of Portland Holdings Inc. used under license by Portland Investment Counsel Inc.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel: 1-888-710-4242 • Fax: 1-866-722-4242 • www.portlandic.com • info@portlandic.com