Rogers Communications Inc.: $525 Million Write-off Gives Canadian Tech a Bad Name

Description

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) announced December 16 that it was abandoning its plan to develop its own internet protocol television (IPTV) product, opting to partner with U.S. cable operator **Comcast Corporation** (NASDAQ:CMCSA) and its X1 cloud-based television platform.

Rogers's decision to stop investing in its in-house IPTV development will cost shareholders $525 million in the form of a fourth-quarter pre-tax non-cash impairment. While the write-off might not affect the company's cash flow, it most certainly reflects badly on Rogers's technological capabilities and, by extension, the entire Canadian tech industry.

How is it that **BCE Inc.** (TSX:BCE)(NYSE:BCE) could develop Fibe, its own in-house IPTV product, but Rogers had to call on Comcast to get the job done?

Between Rogers, **Cogeco Communications Inc.** (TSX:CCA), and **Shaw Communications Inc** (TSX:SJR.B)(NYSE:SJR), Canadian cable companies have now written off more than $600 million in failed technology development over the past three years.

Analysts might like the move, but this tells me one of two things: either Canada's technology industry is sub-par, or Rogers is. I'm inclined to go with the latter.

When I was a young child in the late 1970s, I received shares in Canadian Cablesystems Limited from my grandfather, who had worked for the company for many years. It owned Metro Cable in Toronto along with interests in several other cable operators across the country. Ted Rogers acquired Canadian Cablesystems in 1979 in a reverse takeover.

I owned the shares into the late 1990s before deciding there were better places to put my money. I've never owned Rogers shares since. This latest announcement definitely doesn't change my opinion of the company. Its lack of innovation is legendary.

"It was a matter of looking at how the technology was evolving, how we were doing with our program, and making the deal happen [with Comcast],” said Rogers spokesman Aaron Lazarus about the partnership. “This was about making the right long-term decision for our customers.”

Sure it was.

I have to figure that incoming CEO Joe Natale, who was CEO of **Telus Corporation** (TSX:T)(NYSE:TU) until stepping down in July 2015 and doesn’t officially start at Rogers until next July, was less than thrilled about continuing to throw money down the drain on a product whose development wasn’t taking shape quickly enough.

But don’t think for a second that Rogers does anything for the customer.

This was all about cost and convenience. Comcast has 6,000 employees working on its IPTV technology; Rogers simply couldn’t match that firepower. If you can’t beat them, join them.

Yes, it makes sense, but why did Rogers go down that money pit in the first place? The company said this decision had nothing to do with former CEO Guy Laurence stepping down in October. If you believe that, I have some nice swampland to sell you in Florida.

At the end of the day, this looks really bad for Rogers, and you know they’re only going to make it worse by ultimately laying off the people in Toronto who were working on IPTV; this is despite assurances that those people will have jobs in its TV division. I don’t have proof this will happen, mind you, but I wouldn’t be shocked if it did.

As for technology in this country, god help us if Rogers is the best that we’ve got.

If you’re considering investing in Rogers stock I would wait until Joe Natale’s had a chance to work his magic—say, sometime in 2018. In the meantime, I’d seriously look at BCE instead.

At least BCE knows how to complete a technology project.

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Author
washworth