



BOARD OF TRADE OF METROPOLITAN MONTREAL

TUESDAY, JANUARY 28, 2014

NOTES FOR A SPEECH BY MR. LOUIS AUDET

PRESIDENT AND CHIEF EXECUTIVE OFFICER, COGECO INC.

**“THE FUTURE OF QUEBEC: ECONOMIC CULTURE AND OPENNESS TO THE
WORLD”**

(English translation from original French)

Thank you ...

Mr. Chairman, Distinguished guests of the head table,

Dear friends,

It's always a great pleasure and a great honour for me to come and share my points of view with the members of the Board of Trade of Metropolitan Montreal. Thank you very much for inviting me.

I'd like to take this opportunity that you've given me to begin by talking about Cogeco. After that, I want to share with you some useful ideas in our quest to build a society characterized by wealth, equality and growth.

Cogeco has come quite a long way since the fall of 1985, when we became a publicly traded company. Back then, our annual revenues were about \$25 million. For fiscal 2014, which began last September 1st, we are forecasting revenues of about \$2 billion and EBITDA of some \$900 million.

In 2008, we decided that the time was ripe to apply our telecommunications expertise to servicing the large-corporations market. We purchased the assets of Toronto Hydro Telecom in August of that year, in the process acquiring a rich fibre-optic network that we have continued to develop, to the point where it now covers the entire Greater Toronto Area, serving the data-transport and hosting needs of large companies. In 2011, we bought MTO Telecom, gaining a comparable data-transmission infrastructure that covers the entire Greater Montreal Region. With those moves, we now have Canada's two largest business markets covered. Of course, these business customers can also access the fibre-optic network exclusively owned by our Cogeco Cable Canada subsidiary, which extends from Windsor to Gaspé.

A year ago, almost to the day, we acquired Peer 1 Hosting in a friendly takeover worth \$665 million. Peer 1 Hosting is a world leader in the supply of Internet and cloud-computing infrastructure to small and medium-size businesses, with 16 data centres and 20 points of

presence in cities in Canada, the United States and United Kingdom, as well as Amsterdam, Frankfurt and Paris.

Cogeco Data Services operates four Tier 3 data centres (Tier 3 refers to the standard developed by the Uptime Institute) in the Toronto / Barrie region, with a total gross floor area of 100,000 square feet. We are presently designing a new, state-of-the-art data centre on the Island of Montréal, with a gross floor area of 100,000 square feet, set to open soon.

In addition, Peer 1 Hosting, with only 60 percent of its gross hosting capacity currently in use, has the potential to recruit even more clients internationally. This is very significant for Cogeco, which up to now, across all of its business lines, had always held assets serving defined geographical areas. With Peer 1 Hosting, our capacity to serve clients has gone global.

The excellent reputation of our companies means that our services to large, medium-sized and small businesses are poised for an exponential surge. They are already showing superior annual growth.

Looking at our cable distribution operations, Cogeco Cable Canada serves 350 municipalities in Quebec and Ontario with a network that passes 1.6 million households, 830,000 of which are our customers. We deliver video, Internet and wireline telephony services, and the quality of our products and service has been recognized by the municipalities themselves. We have ranked well in *J.D. Power's 2013 Canadian Service Provider Customer Satisfaction Studies*, and Service Quality Measurement Group's customer service level study. We are continuing to extend our cable systems to industrial parks and institutional centres, including hospitals, school boards, universities and shopping malls, providing business customers in these locations with services including high-speed Internet, multi-line telephony, virtual PBX and dedicated Ethernet links. This is a high-growth market for us. I should add that we serve our customers from call centres located here in Canada, in Burlington, Ontario, and Trois-Rivières, Quebec.

At Cogeco Cable Canada, we are currently winding up tests with about 100 loyal customers of a new ultra-high-performance video platform, developed in cooperation with an internationally renowned supplier. We have yet to set a launch date, but it's not far off. What I can tell you is that the multiple functionalities and potential that this platform offers are at the very leading edge of the market.

In November 2012, we acquired the 13th-largest cable company in the United States, Atlantic Broadband, with networks serving 500,000 households, 230,000 of which are our direct customers. Atlantic Broadband offers video—including the well-known TiVo service—as well as Internet and phone services to residential and business customers in about 280 municipalities in Pennsylvania, Maryland/Delaware, South Carolina and Florida. Last April, Atlantic Broadband switched on a fibre-optic ring that circles the entire Miami Metropolitan Area. This brings us enormous potential for customer growth among the major corporations in that city, supported by one of Peer 1 Hosting's Tier 3 data centres, also located in Miami.

We chose Atlantic Broadband for the following reasons: its respectable size, excellent networks, untapped potential, fragmented competition, and seasoned executives. In so doing, we have diversified our business risk and increased our growth potential in a segment that we are proficient in, and in a country that has many similarities with Canada.

I'm sure you're asking yourselves: Why are these telecommunications industries so healthy, and so profitable?

This exhibit contains the answer to your question. It's provided by Cisco, a network equipment provider that knows what it's talking about when it comes to the explosive growth in data transfer worldwide. We can see here that data transfer is set to triple between 2012 and 2017, going from 43.5 exabytes per month in 2012 (one exabyte equals 10^{18} bytes, and one byte equals eight bits) to 120.6 exabytes per month in 2017. The source of all this data is the entertainment and personal-business management activities conducted by our residential customers on our cable systems, and the increasingly sophisticated needs of our business customers.

A second fundamental trend is the growing acknowledgement by companies that maintaining their infrastructure, hosting and data-processing capabilities up to stringent business-continuity and disaster-recovery standards is beyond their strategic capabilities. As a result, they now outsource those critical functions, without significant loss of control.

Considering that these movements are just gathering steam throughout the world, it's clear that our growth trajectory is being fuelled by trends that will continue to hold promise for several decades to come.

A word now about our media operations, which are concentrated in Quebec. Our 13 radio stations, including the two flagship properties in Montréal, *98.5 la puissance des mots* and *Rythme FM*, deliver unmatched local community involvement and news services, thanks in part to the Cogeco News Agency, providing information to 40 member stations across Quebec and employing seasoned parliamentary correspondents in both Ottawa and Quebec City.

Our content creators are driven by a passion for authenticity and closeness to the various audiences they serve, and that's something I'm extremely proud of. With our acquisition of the Corus network of stations in 2011, we took huge strides forward.

The acquisition of Métromédia Plus in December 2011 brought us an out-of-home advertising network that we are continuing to grow across Quebec in partnership with municipal public-transit authorities, including exclusive provider status in Montreal's bus and metro system, where we are currently installing display screens. Here is a great example of a proximity campaign that we enabled for Air France in the Montreal metro.

As you can see, across all its business units, Cogeco is above all a service company. And we are a company that listens to our customers. Our mission statement reads: "Powerful connections for our customers, authentic connections with our customers." This mission is grounded in a code of business conduct that we take very seriously, and in our corporate values, which go hand-in-hand with our heritage as a family-run business: respect, integrity, innovation, teamwork, and a passion for customer service. In terms of strategy, further to all these acquisitions and for the foreseeable future, our plan is to focus on optimizing our financial results and reducing the level of our indebtedness.

I'd like to turn now to a topic that everyone in this room cares about: the prosperity of Quebec, meaning the welfare of our fellow citizens and of future generations. It's a topic that we all continue to obsess over, because we are all painfully aware of the fact that we are not creating enough wealth in Quebec.

I want to draw your attention to two examples of situations we cannot remain indifferent to. And I do so in all sincerity and transparency, because Cogeco and the Audet family believe it is important for our corporation to maintain strong head offices in Quebec, radiating outward to the world from Montreal, like the one we maintain. And we long to see Quebec society grow stronger and more prosperous. This is our wish and our firm belief.

A look at the per capita GDP statistics for 2012 tells us that out of Canada's 13 territorial jurisdictions, Quebec ranked 10th, at \$44,428. If we include the U.S. states, we came in 37th out of 64. I remind you, that ranking includes all citizens, be they rich or not. And I also remind you that, while about 42 percent of Quebecers, and Canadians as a whole, pay no income tax because of their social situation, that figure is the same in the U.S. So we are talking about a valid metric for comparing collective wealth.

And yet, as a society, we keep on taking certain decisions that do us enormous economic harm. I'm not a politician, but I can't help thinking that the proposed "Quebec Charter of Values" is a project that is damaging to our economy and, ultimately, to our ability to fund the social programs that our elected officials will want to put forward, regardless of which party is in power.

Why should this be so, you ask? It's quite simple. As the Chief Economist at National Bank Financial has clearly demonstrated, industrialized countries that do not favour immigration are condemned to negative economic growth. Now, imagine how the message of the Values Charter is playing in other countries! It is being perceived as a strategy of exclusion fuelled by xenophobia—the opposite of our multicultural, open society. It is not the sort of message likely to attract the immigrants needed to ensure economic growth, as some countries known for practicing a variety of exclusionary methods—Japan or Russia, for example—have learned the hard way.

Please, let us not make the same mistakes. Let us not play with fire. To my mind, this is no longer about whether this or that article of the proposed Charter is acceptable. This is no longer about debating the merits of *laïcité* - secularism. This is no longer about Quebec society's flagging self-confidence, or the fear of otherness. The discourse of division and exclusion that this proposed legislation has brought about is worrisome, and it runs counter to the values of multiculturalism and tolerance that have always been hallmarks of Quebec society. The contrast

between the government's slogan "A Quebec for all," and the proposed Charter lays bare an attitude of cynicism—and intimidation, even—that our society cannot tolerate any longer.

When the Charter was first proposed, people wondered what problem, exactly, the government was looking to solve. Today, it's obvious that the divisions stemming from it are causing far greater problems. It is simply not worth the trouble. It would be better for Quebec if this Charter were shelved. I call upon the Government of Quebec to find the political courage to put an end to this process, which is humiliating both for long-time Quebecers and for those who have arrived more recently.

We wanted to take things further and understand what's going on in Quebec society today. Already, the fact that 30 percent of Quebecers supported the "red-square" student protests that paralyzed Montréal for several months in 2012 and strongly contributed to the fall of the government was striking to us. So we asked the polling firm CROP to define a framework for analyzing the motivations of Quebecers today.

The study is entitled *La solidarité économique au Québec, attitudes et attentes à l'égard des gouvernements et des entreprises*, or "Economic solidarity in Quebec: Attitudes and expectations with regard to governments and businesses." It was conducted among a representative sample of 1,000 Quebecers in late October 2013.

One of the first findings is the level of divisiveness among Quebecers on the issues studied. As an example, the predisposition with regards to private enterprises greatly divides Quebecers. Around one out of two recognize their added value in society, their contribution, while the other half express very critical attitudes, going as far as being cynical, believing that private enterprises cause more detriment than good to Quebec. In more detail, we can classify Quebecers in the four following more or less equal size segments:

Progressives believe that equalizing wealth and improving access to services is the principal role of government. At the same time, they feel that private businesses aren't at all harmful to society—quite the contrary.

Economic Conservatives think that when private enterprise creates wealth, all of society benefits. In their view, entrepreneurial initiatives have priority, and governments create dependency.

The Ideological Left says that in times of socio-economic difficulty, the most important thing is to preserve social gains at all costs. The priority should be equal distribution of wealth. This group believes that very little corporate wealth trickles down to society, and that companies are harmful to society.

Darwinists think that companies are harmful and that little of their wealth is transferred to society as a whole. Their philosophy is that one must succeed without reliance on government, and that the only way to do that is through scheming and disobedience.

The CROP findings could not be more clear: one in two Quebecers believes that private enterprise does not serve the interests of the public—and not only that, that it is damaging to society!

So if I take things a step further, the conclusion is that under the present conditions, it is impossible for Quebec to move forward at its proper pace. If one half of society is continually called upon to pull the other half upward, we will never succeed, given the context of global competition, which is here to stay.

Seen in that light, the concept of the “Prosperity Campaign” put forward by the Conseil du Patronat is easier to understand. Unfortunately, it would appear there are still not enough executives on board with this idea to finance the three-year advertising campaign that has been envisioned to change people’s attitudes. The Conseil du Patronat’s campaign is necessary, and Cogeco supports it. I urge you to do the same.

But we must go further still. One in two citizens has a deeply entrenched attitude that reveals a profound misunderstanding of just how much economic ground Quebecers, rich and poor alike, have lost and of how the world economic system functions! Hence the need to address the problem at its root, which is why I conclude that there is an urgent need to introduce (some

would say reintroduce) a mandatory “home economics” course in every high school in Quebec. The broad outline of that course could be as follows:

- The need for households, businesses and governments to live within their means.
- A moderate debt load as a tool for well-being.
- Businesses as generators of jobs and opportunities, for individuals and their families.
- The requirement for profits to allow companies to invest and to create even more employment.
- The importance of healthy capital markets as sources of additional funding for companies to create jobs, and as a haven for individuals’ savings as they look toward their retirement years.

Naturally, as businesspeople, all this is obvious to you. But as I’ve said, it apparently is not obvious to one in two Quebecers. In this respect, perhaps it is too late for our generation; but it certainly is not too late for the next.

I therefore ask you to echo my message. The Quebec Ministry of Education must act.

I’d like to take this opportunity to commend the Quebec Foundation for Entrepreneurship for its remarkable work in fostering the desire for entrepreneurship and promoting the emergence of the next generation of Quebec businesspeople. In that vein, Cogeco has decided to join the Foundation’s *Bâtisseurs Élites*, committing \$150,000 spread over the next three years to support a program designed to promote business creation projects with young adults.

My friends, the greater collective interest demands that we, the business community, act on our convictions. Let us make sure they are properly understood!

I thank you for being here today, and I leave you with the wish that more of us will provide the impetus to help change Quebecers’ attitudes about our collective wealth. Rest assured that we are among these catalysts.

Good day, and see you soon.