Q1 2025 Investor Conference Call Transcript

Friday, May 9, 2025

TELUS Corporate Participants

Darren Entwistle - TELUS Corporation - President & CEO

Doug French - TELUS Corporation - EVP & CFO

Navin Arora - TELUS Corporation - EVP & President of TELUS Business Solutions

Zainul Mawji - TELUS Corporation - EVP & President of TELUS Consumer Solutions

Jason Macdonnell - TELUS Digital Experience - Acting CEO, and President, Customer Experience

Tobias Dengel - TELUS Digital Experience - President of TELUS Digital Solutions

Robert Mitchell - TELUS Corporation - Head of IR

Analyst Participants

Benjamin Swinburne – Morgan Stanley

Drew McReynolds - RBC Capital Markets

Jerome Dubreuil - Desjardins Securities

Maher Yaghi - Scotiabank

Stephanie Price - CIBC

Vince Valentini - TD Cowen

Presentation Transcript

Operator
Good day. Welcome to the TELUS 2025 Q1 earnings conference call. I'd like to introduce your speaker, Mr. Robert Mitchell. Please go ahead.

Robert Mitchell - **Head of IR**
Hello, everyone. Thank you for joining us today. Our first quarter 2025 results news release, MD&A, financial statements, and detailed supplemental investor information were posted to our website earlier this morning. On our call today, we will begin with remarks by Darren and Doug. In the Q&A portion, we will be joined by Zainul, Navin, Jason and Tobias.

Briefly, prepared remarks, slides and answers to questions contain forward-looking statements. Actual results could vary from these statements. The assumptions on which they are based and the material risks that could cause them to differ are outlined in our public filings with securities commissions in Canada and the US, including our first quarter 2025 and annual 2024 MD&A.

With that, over to you, Darren.

Darren Entwistle - President & CEO
Thank you, Robert, and hello everyone. In the first quarter, our team's dedication to operational excellence, coupled with cost efficiency empowered TELUS to deliver another quarter of industry-leading customer growth and financial performance.

These results were achieved within a dynamic operating environment, demonstrating the resiliency of our business and the strength of our leading portfolio of services. Indeed, our team's passion for delivering customer service excellence, again, contributed the continued strong loyalty across our key product lines.

Our industry-best total mobile and fixed customer growth of 218,000 net additions represented our strongest first quarter on record. This performance was driven by strong demand for our highly differentiated, integrated product offerings across mobile and home, powered by our leading PureFibre and wireless broadband networks.

Our team's commitment to customer service contributed to continued strong loyalty results across our key product lines, once again this quarter. Notably, postpaid mobile phone churn was 0.84%. This represents a 6 basis points improvement over last year, as we progress through our 12th consecutive year below the 1% level.

Looking at our financial results, we achieved solid and resilient TTech EBITDA growth of 4%. In mobile, we drove Q1 total net additions of 168,000. This includes mobile phone net additions of 20,000 and record Q1 connected device net additions of 148,000.

These results were supported by our ongoing focus on economic, margin accretive customer growth. This is evidenced by our consistent, industry-leading lifetime revenue, underpinned by our industry best churn.

Let's turn now and take a look at our wireline business. TELUS delivered another quarter of industry-leading total fixed customer additions of 50,000, alongside industry-best fixed data services revenue growth of some 3%.

Furthermore, our highly differentiated technology and data-centric growth businesses continue to demonstrate impressive momentum for TELUS.

TELUS Health, which we begun to report as a separate business segment, achieved revenue and EBITDA growth of 12% and 30%, respectively. Moreover, the team drove a 7% year-over-year increase in global lives covered, to 76.5 million. This was fueled by global expansion, product enhancements, expanding sales channels, and effective cost management through technology and synergy optimization - underpinned by a deeply rooted dedication to putting customers first.

We are excited to maintain and build on this momentum throughout 2025 and well beyond. Notably, since acquiring LifeWorks, we have realized $376 million in combined annualized synergies. This includes $306 million from cost efficiencies, and $70 million and growing from successful cross-selling strategies, and they are plentiful.

We remain on track to meet our goal of $427 million by the end of 2025, and continuing to push the outside of that envelope well beyond the 2025 timeframe.

In May, TELUS acquired Workplace Options, a leading global provider of integrated employee well-being solutions with 88 million employees served across 200 countries and territories. In aggregate with TELUS Health, this brings our lives covered to more than 160 million or roughly 8% of the entire global market. Together, we will offer the most comprehensive suite of health and well-being solutions globally, powered by innovative technology and delivered with unmatched service excellence.

This acquisition will be made in partnership with a leading private equity investor within the healthcare vertical with deep expertise across the healthcare landscape, and they will be a value-added partner, supporting our efforts to accelerate growth and realize significant synergies.

Moreover, within TELUS Agriculture & Consumer Goods, our team demonstrated strong performance, with a 20% revenue increase on a year-over-year basis supported by enhanced profitability and notable margin improvements.

The results that we are achieving in these businesses reflect our dedicated efforts to deliver outstanding customer experiences, maximizing shareholder value, and driving our social capitalism initiatives, all the while with a data-centric insights-based strategy just like our core telco.

The strategic investments we have made in our leading broadband networks underpin the continued advancement of our strong financial and operational performance. This includes growing EBITDA, which, when combined with moderating CapEx, supports meaningful and sustainable free cash flow generation, as evidenced by the 22.3% growth this quarter.

This gives us a lot of confidence in the robust outlook for consistent long-term profitable growth and the sustainability of our industry-leading multi-year dividend growth program. Today, we are announcing a 7% dividend increase reflecting our commitment to delivering superior value to our shareholders. This builds on our consistent track record of delivering on our multi-year dividend growth program first established in 2011.

Furthermore, we announced today for the fifth time, the extension of our industry-best dividend growth program. TELUS is targeting 3% to 8% annual growth for our dividend from 2026 through 2028. This moderated growth range will allow us flexibility to support the key priority of deleveraging our balance sheet and eliminating the dividend discount DRIP program associated within our dividend reinvestment plan. This is in line with our target of achieving a net debt to EBITDA ratio of circa 3 times by 2027 in conjunction with the ratcheting down and removal of the discount dividend reinvestment plan.

Our dividend growth model will be supported by the best combination of EBITDA growth rates and capital intensity ratios globally, yielding meaningful and sustainable free cash flow expansion. Moreover, as we have seen today, this is augmented maturely by significant value creation in our emerging growth businesses and a succession of asset monetization opportunities that are deeply material that will further reduce TELUS' leverage and interest outlays, improving the cash story yet again at this organization.

Our management team at TELUS remains laser focused on building on the strong operational and financial performance momentum with which we exited 2024 and achieved in the first quarter. We remain dedicated to achieving our robust targets for 2025 and delivering sustainable free cash flow expansion year in and year out for the foreseeable future.

Reflecting our TELUS team's long-standing commitment to putting our customers and our communities first, this month we will celebrate our 20^{th} Annual TELUS Days of Giving in 33 countries now. Over the past two decades, thanks to the support of our valued clients, we have led our corporate peers globally by contributing 2.4 million days in the communities where we live, where we work, and where we serve, striving to make the future friendly for all.

If you want to understand why our churn rate is where it is, you need to look quite clearly at the relationship that we built with our communities underpinned by the social purpose of this organization.

In closing, I'd like to express my gratitude to our team for their efforts in this regard and for their expertise, their resiliency, their grit in executing on our consistent winning strategy to meet our commitments to all stakeholders, no matter how difficult market conditions may be.

And on that note, I’ll turn the call over to you, Doug.

Doug French - EVP & CFO
Thank you, Darren and hi, everyone. Effective with our Q1 results today, we have changed our reporting structure and introduced a new TELUS Health reporting segment, which was previously included in TTech. We have also provided historical information in our core TELUS Health, which you'll find in our IR supplemental.

Mobile network revenue was down slightly as robust mobile phone and connected device subscriber additions, as well as higher IoT revenue growth of 11%, were offset by lower mobile ARPU. The 3.7% decline in ARPU is reflective of ongoing competitive pressures and lower roaming.

Fixed data services grew 3% year-over-year, driven by strong customer growth across our leading product portfolio of PureFibre internet, TV, and security and automation. Additionally, higher internet, security and automation ARPU supported growth.

At the segment level, TTech Operating revenues were up 2%, driven by higher mobile equipment revenue, fixed data services, fixed equipment, and Agriculture services revenue.

TTech Adjusted EBITDA, excluding health, increased 3% alongside margin expansion of 30 basis points to 42.4%, demonstrating our disciplined operational execution and cost management in a highly dynamic operating environment.

These results were driven by our consistent emphasis on profitable customer growth, the benefits from our ongoing focus on cost efficiency and effectiveness, gains planned from our non-core asset divestitures, as well as our real estate and copper monetization program.

In Health, Health Operating revenues and Adjusted EBITDA grew by 12% and 30%, respectively. The growth was driven by organic growth across various services, including our payvider vertical, retirement and benefit solutions, cost reduction efforts, as well as a mix and of our recent acquisitions and employer solutions.

TELUS Digital Operating revenues and Adjusted EBITDA were in line with expectations. Please refer to TELUS Digital's earnings release and analyst call commentary earlier today.

On a consolidated basis, reported net income and basic EPS more than doubled year-over-year, primarily due to lower restructuring. On an adjusted basis, net income and EPS were essentially unchanged on a year-over-year basis.

Capital expenditures, excluding real estate, declined by $132 million or 19%, primarily driven by planned slowdown of our fibre and wireless network builds.

Overall, consolidated capital intensity of 11% was down 300 basis points over last year.

Our quarterly free cash flow of $48 million was higher by 22%, driven by lower CapEx and higher EBITDA. These factors were partially offset by higher taxes and interest paid.

Looking ahead, we remain focused on driving towards achieving our 2025 targets, which we reiterated today. This includes targeting TTech Operating revenues and Adjusted EBITDA growth, including TELUS Health, of 2% to 4% and 3% to 5%, respectively.

Consolidated capital expenditures, excluding circa $100 million for capital and real estate development initiatives, are targeted to remain stable at $2.5 billion. Lastly, free cash flow guidance for 2025 of $2.15 billion is also confirmed.

As it relates to our balance sheet, the average term to maturity of our long-term debt stands at over 10 years with a weighted average cost of 4.40%. While leverage is elevated at 3.9 times, we remain committed to improving our leverage ratio, targeting a net debt to EBITDA ratio of 3 times by 2027.

Our efforts to deleverage our balance sheet will be supported by continual operational growth, including EBITDA and free cash flow expansion. Additionally, ongoing monetization initiatives, including the planned divestiture of non-core assets, continued real estate and copper monetization, as well as our potential monetization of wireless towers are well underway and will continue to further strengthen our balance sheet. During the quarter, we monetized certain non-core assets within the business, as well as our TELUS Global Ventures portfolio, receiving proceeds of $66 million.

In April, we successfully raised $1.6 billion in hybrid debt securities, with the proceeds being entirely directed to debt repayment, and 50% of the proceeds receiving equity treatment by credit rating agencies. On a pro-forma basis, when including the benefit of our hybrid offering, leverage would have been approximately 3.8 times at the end of the quarter.

As it relates to the DRIP discount, we expect to lower the discount from the current 2% by half a percentage point in each of 2026 and 2027 before removing it completely at the end of 2027.

If the balance sheet deleveraging plan, as we have outlined, is quicker in execution, we will review removing the DRIP discount earlier than the current timeline.

As Darren highlighted earlier, we recently completed the purchase of Workplace Options of approximately $500 million, net of assumed debt of approximately $100 million. We have also signed a non-binding term sheet with a third-party investor who will invest $285 million as part of the acquisition, which we expect to be completed in Q2.

As we progress through 2025, we are well-positioned to drive strong and sustainable growth despite the dynamic operating environment, supported by our leading asset mix and robust business strategy.

Before we move to our Q&A, I just want to congratulate Darren on his 100th earnings call since 2000. It's been a remarkable journey over the past 25 years, and congratulations, Darren.

Robert, over to you.

Robert Mitchell - **Head of IR**
Thank you, Doug, and congratulations, Darren. Operator, please proceed with the questions.

Operator
Thank you. The first question is from Stephanie Price from CIBC.

Stephanie Price - **CIBC**
Good afternoon. Maybe I will start with TELUS Health, just very strong revenue and even the growth in the quarter. Just curious what is fueling that? Is it primarily synergy related? Have there been other tuck-ins and maybe you could talk a little bit about Workplace Options and what that brings to the Health solution? And more broadly, how you see TELUS Health evolving over the next few years and the key milestones you're looking for from the business before a monetization opportunity?

Navin Arora - **EVP & President of TELUS Business Solutions**
I think I'll start by saying that we've been building very strong momentum in TELUS Health over the last couple of years and that growth is coming from a number of areas.

Number one, we have made some smart tuck in acquisitions that are accretive, immediately accretive. The synergies that we're getting from those acquisitions are on track and doing well.

On the other part of that, I would say, we have made some really good investments in terms of our go-to market and channel capabilities and those are yielding strong returns. In fact, we had our best bookings quarter in TELUS Health since the LifeWorks acquisition.

Thirdly, tied to LifeWorks acquisition, as Darren mentioned, we continue to have very strong synergies. A lot of the cost synergies are behind us, but the revenue and cross-sell synergies are just starting to really ramp up and in regards to cross-sell, we're starting to see some very good ramping across all of the B2B assets. So for example, cross-sell across the core B2B telecom, healthcare, TELUS Agriculture & Consumer Goods, and TELUS Digital was up over 5-times relative to this time last year.

So we feel very good about the momentum on Health. Bringing on Workplace Options is a really, really positive development for us. We're acquiring Workplace Options from a position of strength. It's a high growth asset that again is immediately accretive. Really strong industry-leading client experience capability, a really strong customer base. We're really pleased with the talent level and the level of leadership that's coming along with this asset.

The digital capabilities and the data capabilities and the monetization opportunities with the data that we get with WPO is super strong. Their cost structure is excellent. Their capital intensity is low. Great global reach, great complimentary set of products with what we have today in TELUS Health. So, I think we are really excited about WPO and more to come on that in the subsequent quarters.

And then just lastly, we're very pleased to be able to report TELUS Health as a segment. We're excited about where it can go. And in terms of the future, we will look at the right monetization or partnership opportunities as it evolves.

So that's it for me. Darren, any top-ups from you?

Darren Entwistle - **President & CEO**
Just one thing. Stephanie, to elucidate, of the 30% EBITDA growth in Q1, 26% was the organic growth rate. So the preponderance coming from organic.

Stephanie Price - **CIBC**
Thank you very much.

Operator
The next question is from Vince Valentini at TD Cowen.

Vince Valentini - TD Cowen
First, can I just clarify on the Workplace Options acquisition. The partner is putting up $285 million out of the $500 million total, but TELUS is retaining over 50% control. If you can just maybe clarify that for me? And then the other question, bigger picture is on wireless. Good results overall today, everybody's happy with the share price performance and great to see the dividend commitment. But I mean, wireless service revenue, almost minus 1% cannot be viewed as satisfactory, I'm sure, to you either, Darren.

Do you have any thoughts on what's going on in the market and what perhaps needs to change and do you think TELUS needs to play a role here on sort of balancing volume versus pricing as one of the leaders in the industry to sort of set an example for others? I would love to hear what your views are on the industry at this stage. Thanks.

Darren Entwistle - President & CEO
Thanks for the question, Vince. The answer to the second part of your question is yes, and we will provide color on that in a second with Zainul and myself, and Doug will kick it off as it relates to the Workplace Options acquisition and the role on the PE front of the $285 and how that plays out at an equity level. Doug, over to you.

Doug French - EVP & CFO
Yeah. So that $500 million was cash, Vince, there was $100 million of assumed debt. So, the all-in purchase price is $600 million in substance, and then the $285 million is obviously less than 50%. Thank you.

Darren Entwistle - President & CEO
Zainul, over to you.

Zainul Mawji - EVP & President of TELUS Consumer Solutions
Thanks, Darren, and thanks, Vince, for the question. I think, first and foremost, we have to say that we are not satisfied with that performance. It is not headed in the direction that we wanted, and we are going to significantly improve it.

I think it's important to highlight that there are a few levers that are going to be critical to achieving a better performance. And I'll focus internally because we have to focus on what we can control. I think, fundamentally, we have to do a much better job of leveraging our product intensity, our bundling capabilities, improving our loyalty and retention, which is headed in the right direction but it's certainly not achieving the performance that I think is commensurate with what we can achieve when we put more focus and energy into that.

And even in certain areas like leveraging AI and the capabilities that TELUS Digital provides to help us with revenue management and predictive models.

I think on the other side of it, is really balancing and aligning investment with outcomes. So when you look at the three core elements of rate, subsidy, device pricing and the financing for, ultimately, in this type of environment, what we need to do is ensure that our investment in subsidy enhance sets is commensurate with the right return levels.

And then, finally, I think there's an AMPU qualification element if there are segments of the market that are still profitable to support and drive growth and we need to make sure we continue to align the AMPU outcomes and the cost-to-serve model with the demographics of those markets.

So those are the areas that we are going to focus on. I'll keep it succinct, my peers may want to add with respect to the B2B side, but I think it's really important to highlight that we're not satisfied and we're going to focus on this to improve it.

Darren Entwistle - **President & CEO**
Do you want to add anything, Navin?

Navin Arora - **EVP & President of TELUS Business Solutions**
Just to top up, I would say, on the B2B side, we aren't satisfied either. I think we have some levers in terms of strong 5G IoT growth. We had really strong IoT loading in the quarter, that needs to be a more material percentage of our wireless network revenue.

On the B2B side, we've actually had strong loading and we'll continue to focus on accretive loading. We have an opportunity to continue to drive product intensity, which will help both with churn and lifetime revenue that we're very much focused on and the opportunity to drive geographic expansion across core segments like SMB and midmarket is also progressing well but an opportunity for us to do more there.

Darren Entwistle - **President & CEO**
I think, Vince, your point is well made. One of the benefits of having strong and resilient financial results and a premium asset mix as our results have demonstrated today is it gives us the latitude to take a leadership position in the market and move to a more sanguine economic model. So I think the point that you're pressing on there is quite cogent.

Secondly -- and this is, I think, where you would expect us to lead. We have been the most progressive on digital. It's driving our AMPU thesis, not from a traditional cost cutting, cost efficiency point of view, but leveraging our digital progression and leveraging our AI capabilities.

We have the best asset to support that in TELUS Digital and putting that to work in terms of the AMPU for our business overall and wireless in particular in terms of what we should be able to do on digital and AI better than our peers on a global basis. I think that has to be a priority for this organization because we have a differentiated capability set there.

And then lastly, you saw me make the comment that we set a record on connected devices. That is great, but it's not good enough. We have to scale more aggressively on the connected device machine to machine, IoT front that is profitable business, that is attractive revenue growth for this organization. It's a ROI on all that money we spent on 5G infrastructure and spectrum along the way. It's good business from a retention characteristic point of view, and we've got to scale that business. And that's the type of thing that really alleviates the ARPU pressure and shows up in terms of network revenue growth. So those are the three areas I think that are key to takeaway for investors.

Operator
The next question is from Jerome Dubreuil at Desjardins.

Jerome Dubreuil - Desjardins Securities
The first question for me, sorry for the long term guidance question, but given the three-year dividend growth plan, I'll allow myself. So, can you talk about the puts and takes maybe about the free cash flow trend that you're seeing in the coming years with numbers, if possible, that allows you to grow the dividend for the next three years by that much.

And then, the second one, Doug, you mentioned that if deleveraging is quicker than expected, we may remove the DRIP quicker. What specifically are you referring to in terms of potential events that may happen maybe outside of quicker organic growth? Thank you.

Darren Entwistle - President & CEO
Okay. I'll kick it off and I'll let Doug pull up our three-year free cash flow view so that he can give you multi-year guidance at a quarterly level on that front.

So, let's just say a couple of things. When we did the reset from 7% to 10% to 3% to 8%, you can imagine the amount of modeling, analytics, scenario planning, contingency views that we put into this from a conservatism perspective. So, we chose those numbers wisely to give us the latitude that we need prospectively. I'll let Doug comment on that in a second.

In terms of sustainability, I really meant what I said in my remarks. We are looking at TELUS to have the best combination of EBITDA growth prospectively and lower capital intensity to support the successive expansion at the free cash flow level, and that's underpinned by a few things that I think are important.

One is, we expect to see strong continued execution within our outperforming telecom business. I think you can expect it to be resilient when we're in a corrosive competitive pricing environment, and I think you can expect it to be robust when that environment gets more sanguine, which eventually it will.

I think we have an emerging growth story in Health and TELUS Agriculture & Consumer Goods that is second to none. And again, you're seeing that in today's results and to Navin's excellent point. The Health EBITDA expansion that we've disclosed in Q1 is really just a carry through of what we've been reporting on over the last six quarters in that regard.

Next, for us, it's a huge factor to be able to rely on, call upon leverage what TELUS Digital is doing on a leading basis on the digital AI transformation because for us that's a 4-point game. It helps us sustainably take costs out of our business, but it's equally potent in respect of revenue generating go to market strategies. And so for us, that's transformative and it's a unique asset within our portfolio.

And I don't think people have done the right tale of the tape on this because all of the above is complemented by a very smart, very specific, very well structured, laid out successive deleveraging plan that's going to yield prospectively continued cash and economic benefits to this organization.

Again, enabling what we want to do in terms of growth overall but also buttressing the sustainability, the do-ability, the predictability, the reliability of our 3% to 8% on the dividend expansion from 2026 to 2028.

And so I think that's a lot in terms of the free cash flow story of this organization and why it's unique to TELUS. But maybe Doug, if you want to provide a little bit of additional color on perspective cash, go ahead.

Doug French - EVP & CFO
In addition to that, as Darren highlighted, we continue to invest in our business appropriately with CapEx, but with our accelerated build and the completion of fibre, we have the ability to bring capital intensity down to industry, if not world-leading, lows as we've talked about in the past. So that will continue to be a future driver.

As we delever, cash interest will flat line and decrease over time, so we can assume you'll get an uptick in free cash flow over interest. Restructuring costs also were elevated as we had to right size our organization through some of the digital and economic challenges that we've seen over the last little bit.

And, you'll see that leases will also start to decrease in the future on payments for leases in 2026. So free cash flow starts to accelerate on all those fronts in addition to everything that Darren had already highlighted in his overview of the operations of the business.

On monetization or other events that would allow us to reduce the DDRIP sooner, we continue to talk about, as Darren referred to, the deleveraging plan. We have, in our base plan, I would say, a risk-adjusted execution that allows us to hit that plan and have multiple levers to get there. And if there are some items we can't execute on, we have others.

So I would say, if we can continue to execute more than the assumed rate, which I believe is conservative, it would allow us to delever faster and more deeply in that time frame, which would give us the opportunity to reduce the DRIP faster. And that includes the items that we continue to talk about. Darren talked about the value of Health and Ag and partnerships.

We did a hybrid, as you saw, in April, and we still are very low in the hybrid offering within our industry, and there's more room on that opportunity should we desire to go there. Our asset divestitures between copper real estate are well underway.

And then you would have seen the first wave of our non-strategic divestitures of $66 million this quarter, and we are not expecting anything unreasonable to hit our 3.0x plan. It really is then just accelerating any of these pillars that we just talked about.

Darren Entwistle - **President & CEO**
A new measure, I think, that would be helpful in terms of looking at TELUS is our goal to have the lowest or be near the lowest capital intensity minus the EBITDA growth rate. That particular outcome, capital intensity minus the EBITDA growth rate we want to lead the industry with and complement that by chunking our way through all of our deleveraging programs in a very methodical fashion.

Operator
The next question is from Drew McReynolds at RBC.

Drew McReynolds - **RBC**
Yeah, thanks very much. Three follow ups for me.

First on the, I guess since it is wireless question, in the spirit, Darren, of your 100th conference call, I recall, within one of these calls going back to 2018, you looked forward on the industry and I think it was a warning shot on competition and wireless pricing. And it seems since then you've kind of built TELUS to absorb whatever was coming, I guess, the industry's way and I think you kind of nailed it, to be honest. So just wondering, on the B2C wireless side, isn't this kind of largely commoditized now or do you really see it as transitory?

Second question, follow up just on the AI dynamic. Just maybe in the next three years going to 2027, can you give specific examples where you're driving lower cost and alternatively, seeing new growth revenues -- growth opportunities with AI?

And then last quick clarification or a comment, maybe to you, Doug. As you get closer to 3 times, what's your thought on the institution of an NCIB? Thank you.

Darren Entwistle - **President & CEO**
Alright. Here we go on that. Doug, you'll give the launch date for NCIB first. Tobias, I think it would be great for people to hear from you, given you're a global thought leader on AI product to go to market. I think a very exciting conversation. And then Zainul and I will answer at the end on B2C on that front. So Doug, go ahead.

Doug French - **EVP & CFO**
Yeah, I would assume it would be after that 2027 period, and we will bounce it off with all the capital allocation priorities that we've talked about on what is the best shareholder return at that time frame, ensuring our balance sheet is to the strength, not just for the hitting 2027 but future-proofed as well and then appropriate investment in the business, but I would assume it's after 2027.

Darren Entwistle - **President & CEO**
Tobias, do you want to comment on what excites you in terms of AI profitable revenue generating growth opportunities?

Tobias Dengel - **President of TELUS Digital Solutions**
Sure, Darren. Thank you. I would note that I'm on my 1/100th as many earnings calls as Darren today, so thank you for having me.

As Darren said, AI is a dual opportunity for us. On the one hand, it's helping TELUS drive those efficiencies and operating excellence, but on the other side, it's helping us take those learnings, know-how and products to clients to then monetize those. And I think that makes us extraordinarily unique, not just in the industry, but in the entire competitive landscape.

We have made AI team member enablement a competitive differentiator across TELUS and TELUS Digital. I think what's interesting about that is it's not just access to the LLMs and to AI tools, but it's entire ecosystem around how you find and support new AI ideas, how you do the change management of not just improving existing processes, but reinventing processes. How you look at privacy and control of your data, and then how you continuously innovate and use improvement cycles, agile development techniques, et cetera to make this happen.

And so I'll just share a couple of examples with you, as you requested. So first of all, we have about 50,000 users in the two companies that are -- that have access to the tools who have built over 15,000 co-pilots in the last nine months, and a 15-times increase in token consumption over the last nine months. So you can just see the volume of AI usage that's happening in the combined company.

So examples of that are an agent trainer, right? We've created a fuel contact center agent trainer, and usually when you're dealing with technology, you're investing and you're saying, all right, are we going to decrease cost or is this going to increase quality? And with AI in many implementations, you're actually able to do both on the same time. So for agent trainer, when we take our new agents through that, we're getting 15% to 50% reductions in training time, but also significant increases in proficiency which then leads to customers CSAT down the road.

We're giving our frontline agents copilots, which are reducing average handle time and calls between 10% and 45%, but they're also increasing CSAT at the same time between 10% and 20% because our agents have so much better access to the most current information, the most current offers, they're able to actually upsell on the call much more efficiently than they have in the past.

We have integrated into our sales motion, so we have higher KPIs, 10% to 15% higher KPIs in three areas: meetings, coverage, and funnel quantity. We have launched propensity to churn models working with Zainul and pricing simulation models.

We have proactive outreach based on AI analysis of data intents that's driving up to a 50% reduction in repeat calls and in targeted programs. And what's most exciting for us is all of this is just within TELUS, and this constant interplay of what we do for TELUS, bringing that to our clients and then conversely, with all the clients we talk to and work with, bringing that to TELUS creates a pretty unique opportunity for us in the industry.

Darren, anything you'd like to top up there?

Darren Entwistle - President & CEO
No, that was excellent, Tobias. To wrap this up, a few comments. I guess time will tell whether they're prophetic or erroneous.

Number one, we have to change the psychology within the industry as it relates to marketing and sales. We have a wireless industry where we have to have price competition parity. And I for one don't understand that.

Why can't we have a price premium? If we have better product features, but more particularly, better customer service for our clients, why do we always have to price match, and race to the bottom? Why can't we build a culture of psychology, a set of competency to be able to sell at a premium?

That's a transformation that this organization is working ardently to achieve. Should there not be a deserved premium if you can provide a higher quality of customer service, and we know empirically from customers that customers value reliability more than affordability. And so, the opportunity is out there for us.

Secondly, as I've said many times, we have been a chronic underperformer on product integration or bundling. There's tremendous upside opportunity as it relates to product intensity and the benefits of that are obvious. But the one thing that is a secondary consideration is that when you get better churn through better bundling, you also get better ARPU resiliency, which supports what you want to do on the network revenue growth front.

Third, back to the comment that I made earlier that I think is underappreciated, if you can do great things like what Tobias was specifically articulating on digital and AI and be more resilient on the AMPU front, which we should be clearly doing, and you can see the manifestation of that in our results, it allows you to have greater discretion and make better choices at the ARPU front. And that's an eclectic combination for this organization that's tremendously powerful.
Next, we're still scratching the surface on IoT and machine to machine. So, and let me be specific on that front, there's a lot of concentration on IoT within the logistics vertical, but our performance on IoT and Health has not been great. Our performance on IOT and Agriculture

has not been great as well. And as it relates to B2B2C on wholesale, we are deeply underperforming.

So we launched our SmartEnergy product, a classic IoT solution that would show up in network revenue growth, and we're nowhere built on it.

We have to have the ability to scale on that product and see it complement the legacy revenue lines within our wireless portfolio, and we have to get better at product development in general.

At the end of the day, we spent all this money on broadband, broadband wireless and broadband wireline. Our job should be to exact economies of scope. More products over the same medium. So let's get more product development happening within our 5G capability set and let's scale it so that it actually shows up with an impact on ARPU and AMPU for this organization.

And then, finally, I'll give you a true data insight. If we went back and did a set of data analytics over the last five quarters on what we did with pricing in all of our channels at TELUS and evaluated it on a pro forma basis as to what the optimum pricing decision would be to solve for the best economics, we left a ton of money on the table.

Now you think about what Tobias just said on AI, if we can leverage that data set, leverage our AI capabilities within the area of price optimization with lifetime revenue economics, we will make better decisions and not leave that money on the table. And that's a tremendously smart thing to do, and it fits well with our capability set.

So that's where I think we need to go in the future. And that's just AI on price optimization. Imagine what it can do on copilot bundling opportunities and the like. So that's where I think this industry needs to go over the next three to five years. And if the industry doesn't go there, well, TELUS will, and we'll be this differentiated benefit and enjoy those benefits for that. So that would be my forecast for now.

Drew McReynolds - **RBC**
Yeah, very interesting insight. Thank you, Darren.

Operator
The next question is from Maher Yaghi from Scotiabank.

Maher Yaghi - **Scotiabank**
Great, thank you for taking my question. So I'll go back to the question on wireless. It's been four quarters that we're seeing ARPU decline, about 3.5% -- in the 3.5% zone. When I look at your reports to the ARPU and correct me if I'm wrong in any of my numbers that I'll discuss, maybe about $7 in in your ARPU is related to handset subsidy. So your average service revenue ARPU is like $51 maybe.

And when we were looking at the market, the front book right now for average customers is probably $45 -- between $40 and $45. So, are we to expect ARPU long term to decline by another $3, $3.50 before we reach or before we cycle through all the back book into the front book or any of my numbers are wrong?

Doug French - **EVP & CFO**
Thinking backwards through the math on that and the weighted average of all our products, I'm not sure I can answer your question clearly. I do think, there is, obviously, product mix, product quality, bundling, and other items that go into that on -- does the whole base gravitate to the floor or not to and that's the question you're asking, I think I'll have to come back with a what might that look like or Zainul can top up on.

The opportunities even as Darren just highlighted that there's room to not gravitate for all the reasons of quality and product and pricing even within a handset world where at times device floors where offers are being out there for a financing handset is uneconomic at ARPUs of levels that are well below even what you quoted.

So I think it's going to be an average of all of that. Our goal, obviously, is not to gravitate to that bottom, to leverage all the tools, leverage all the products, and continue to build as Darren and Zainul have highlighted. And I guess that's probably the best I could do at that top level, but Zainul, is there any top up?

Zainul Mawji - **EVP & President of TELUS Consumer Solutions**
No, I just -- I think you've covered it well. It's a complex mix between BYOD and contract revenue in terms of the handset mix and where customers are gearing in terms of the cost of devices and the length at which they're keeping their devices.

So, you know, I think that that all of those factors have an impact on that calculation and then as I mentioned, you know, you look at your base and your loyalty impacts and how to ensure that, you know, you have offers in the market that are attractive to your existing base to renew, coupled with the right investment for the right rate plans and the right BYOD and AMPU economics for the demographic that you know is not loading on the handset basis.

So it's a complex mix of all of those factors and I think the key thing is that - as Darren highlighted, product intensification and the ability to drive a better household mix and better economics overall in terms of economies of scale have to be the way that we drive accretion in the business.

Maher Yaghi - **Scotiabank**
Okay, and my next question, just to follow up on the question about the dividend, and I don't want to make it very theoretical here, but as long as you have the DRIP in place, any increase in your dividend is causing more dilution to shareholders, especially with the dividend yield on the stock at $7 and change, given also your cost of capital and et cetera. You're paying out more than your cost of capital.

So, I try to dissociate the leverage from the decision about the dividend because the dividend has to be paid out from annual free cash flows rather than using the balance sheet. So, why not wait until you stop the DRIP and bring down your distribution ratio below 100 before continuing to grow the dividend? That's my question that I was trying to figure out.

Darren Entwistle - **President & CEO**
I'm a bit frustrated, so I'm pausing to bite my tongue on this response. Number one, we're a pretty quantitative organization, so as I said previously, we've modeled this eight ways to Sunday, flexed it with scenarios and conservatism and had an endogenous factor within it, looking to have a Pareto optimal outcome for equity and debt holders. Frequently, they're the same institution.

Next, at an intellectual and emotional level, the management team is extremely keen to remove our Discount Dividend Reinvestment Plan. So we are preoccupied with that. To the extent to which Doug and his remarks described the DDRIP ratchet down as a ceiling, not a floor, and if we can do better, we will do better than that, and that's contingent upon our deleveraging plan.

Next, our deleveraging plan is not aspirational. It's not qualitative, it's not notional, and it's not long-term. So it's not one that extends out for the next five years. It's something that's getting done in the next 24 months, and it's highly specific, and doable.

As a result, we have a lot of confidence in our ability to execute against that plan and if we can, I think it presents us with the opportunity to be more expedient in the removal of the DDRIP. And we are very much focused on the execution of that, and you've seen what we've done already on the $1.6 billion with the hybrid and what we have in train right now with the monetization of our towers.

So I think that's hard evidence that speaks to the legitimacy of us eating our way through that well-structured sequential deleveraging plan with the attendant benefits as it relates to the DDRIP.

Next, if I was just going to have a look at the organization at a temporal moment in time and say, okay, at this particular tight time zone, we've got a pro forma modeling payout ratio range of free cash flow greater than 100% when you make certain adjustments on the DDRIP front, and say, okay, well, let's put in place a long-term plan to deal up a short-term issue.

I don't think that's the right thing for this organization to do. If we had a chronic issue on that front where the payout was going to exceed our cash generative capabilities, then yes, we would take a different decision.

But I don't think that, and when we make our decision on the dividend growth model, we are taking a longer-term view for this organization. And that longer-term view says that 3% to 8% is the right thing to do, balancing the interests of both equity and debt holders with the lowering of the low end of the range from 7% to 3% along the way. And it gives us the cash latitude to do what we want to do.

The 3.8 is not driven off that temporal analytics on a finite basis in terms of the payout, but on the longer-term view as it relates to having the best combination of EBITDA growth and lowering capital intensity for this company, it reflects our growing deleveraging through the execution of our asset monetization plan.

It reflects the contribution from our emerging growth assets that are impervious to the price fascinations within the telecom industry. It reflects our confidence in our continued cost efficiency capabilities underpinned by digital and AI.

And so that's the difference in terms of your question. We're putting out a longer-term view that is synergistic or synchronized with the longer-term view of the sustainable free cash flow expansion that this organization is generating, including the 22.3% in this quarter.

Operator
Final question is from Benjamin Swinburne at Morgan Stanley.

Benjamin Swinburne - **Morgan Stanley**
Thank you for squeezing me in, and thank you for the disclosure on TELUS Health. As this business continues to compound, I'm wondering if you know this is an opportunity to unlock value, either through a sub IPO or some other way to monetize the business and if we should interpret the decision to disclose more information as a step in that direction.

And then there's been a lot of talk on the call about sort of TELUS' focus on improving the wireless performance. Not a ton on how the competitive environment is currently shaping up here early in Q2. I don't know if you had any color on whether your competitors were shifting their approach to the marketplace here in early second quarter. Anything -- any comment there would be helpful.

Thank you.

Darren Entwistle - **President & CEO**
Navin, you want to take the first one. Zainul can take the second.

Navin Arora - **EVP & President of TELUS Business Solutions**
Yeah, thanks Darren. So as we said before, we are open to looking at different monetization opportunities for TELUS Health. I think the way we're looking at it is, when is the right time for us to maximize that value. We are, as you've seen over the last several quarters, we are seeing some really strong growth, we are integrating a number of the assets we have.

We're seeing strong top line and EBITDA growth. We're bringing in technology components that are going to digitize the business, allow us to monetize more data, bring in AI in partnership with Tobias and team. And all of those things are critical to improving the

EBITDA and revenue multiple of this business and the valuation of the business. So we will continue to execute well and when the timing is right, look to take the right steps around monetizing this business.

Doug French - **EVP & CFO**
And then maybe just a quick top up. And there has been a lot of interest as you could imagine in our health asset, both of our partnerships strategically perspective on participating in that growth and moving the whole strategy forward with that longer-term potential IPO and maybe back to Drew's question on NCIB. It could be even more linked to a transaction such as that which can unleash enough cash to do the next step on that front.

But I would say, we will take whatever steps on partnering versus IPO at the right time as we continue to grow value and this business at this growth rate in this sector is gaining a lot of traction on multiple and value expansion within our organization.

Zainul Mawji - **EVP & President of TELUS Consumer Solutions**
I think we talked a lot about our introspective view of how we want to approach the market and what our learnings are. I can't comment specifically on our peers, but what I can say is that some of the elements of discipline that we're trying to make sure that we're aligning to in the market, we're seeing other signs of that, I think that we're seeing some performance related to looking at the offerings on the lower end of the market and aligning them with the right -- the value bundle and ensuring that there's a better AMPU focus.

And I think it's early in the quarter in terms of the way that promotional subsidies and other things will be undertake. But I think what we can talk about is the approach that we're going to take and how we want to drive value in the market.

Robert Mitchell - **Head of IR**
Thank you everyone for joining us today. Please feel free to reach out to the IR team with any follow-ups you may have. Operator, over to you**.**

Operator
This concludes the TELUS 2025 Q1 earnings conference call. Thank you for your participation and have a nice day.