Q2 2026 Investor Conference Call Transcript

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TELUS Corporate Participants

Victor Dodig - TELUS Corporation - President & CEO

Gopi Chande - TELUS Corporation - EVP & CFO

Ian McMillan - TELUS Corporation - Head of IR

Analyst Participants

Drew McReynolds - RBC Capital Markets

Maher Yaghi - Scotiabank

Stephanie Price - CIBC World Markets

Tim Casey - BMO Capital Markets

Jerome Dubreuil - Desjardins Securities

Vince Valentini - TD Securities

Adam Shine - National Bank Financial

Presentation Transcript

Operator
Good day, everyone. Welcome to the TELUS Q2 2026 Earnings Conference Call. I would like to introduce your speaker, Ian McMillan. Please go ahead.

Ian McMillan - Head of IR
Hello, everyone. Thank you for joining us. Our second quarter 2026 news release, MD&A, financial statements and detailed supplemental investor information were posted on our website earlier this morning. Today's agenda will include opening remarks from Victor Dodig, TELUS President and Chief Executive Officer; and Gopi Chande, our Executive Vice President and Chief Financial Officer. After the presentation, there will be a question-and-answer period followed by brief closing remarks by Victor.

Turning to slide 2. Prepared remarks, slides and answers to questions contain forward-looking statements. Actual results could vary from these statements. Additionally, please note that all dollar amounts referenced today are in Canadian dollars unless otherwise stated. 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 United States, including our Q2 2026 and 2025 annual MD&A.

With that, let me turn the meeting over to Victor beginning on slide 3.

Victor Dodig - President & CEO
Thank you, Ian. Hello, everyone, and thank you for joining us on today's earnings call, which is my first as President and CEO of TELUS. I'm excited to be here and I look forward to working with all of you.

I want to start by recognizing Darren Entwistle. Over the past 26 years, together with our team, Darren built the network, the culture and the foundation of our company, and we are grateful for his service and the impact that he's had.

For those of you who are new to TELUS or new to me, let me provide a brief background for context. Prior to joining TELUS as CEO, I was President and CEO of CIBC for 11 years. Before my planned retirement October 2025, I spent over 20 years with the bank, leading businesses and gaining financial and operational experience.

Working for and leading CIBC has given me a deep understanding and appreciation for customer service excellence, managing in highly regulated industries, building a collaborative culture, and nurturing the strategic plan, talent and execution discipline required to transform an organization. In addition, I've served as a Director of the TELUS board for three years, which has provided the on-ramp to shepherd the work we need to do here going forward.

So please turn to slide 4. Today, I will discuss how we're accelerating the TELUS transformation and driving progress with intentionality and with speed to deliver improved performance. The plan, which I will outline, will see us build on our strong foundation. We will drive financial discipline. We will simplify our business. We will restore balance sheet strength. We will drive greater operational discipline and we will focus investments in our core telecom business and digital infrastructure, which are our crown jewel assets. All of this to ensure that TELUS is in the best position to deliver sustained value to our customers, opportunity for our team members and returns to our shareholders over the long term. These guiding principles of focus, of simplicity and of discipline are central to our plan.

Importantly, our second quarter 2026 results and our 2026 guidance update underscore a company that's in active transition, leveraging our strengths and addressing challenges to position TELUS for long-term success. Gopi will cover our performance and outlook in greater detail later on in the call.

Turning to slide 5. To support our plan, we made strategic changes to our executive leadership team and organizational structure. First, I'm excited to be joined by our new CFO, Gopi Chande, who's right here in the room with me as we execute together on our transformation and deliver value for all our stakeholders. Further, as you saw last week, I'm also very pleased to welcome Dave Fuller back to TELUS, now as Executive Vice President and Group President of Communications.

Dave brings 25 years of telecom industry experience, including 15 years at TELUS and a number of senior executive roles across both our business and consumer organizations. Dave will lead our newly established telecom business, which will be known as TELUS Communications, that brings together our consumer and business solutions teams under a single accountable leader. This structure is designed to simplify decision-making, to sharpen our operational focus, and to accelerate execution against our priorities. I look forward to working closely with Dave in the years ahead.

Navin Arora, now as Executive Vice President and Group President, will lead our Global Platform Businesses, a portfolio that includes TELUS Digital, TELUS Health and TELUS Agriculture & Consumer Goods. In addition, Navin will assume oversight of enterprise corporate strategy, corporate development, our AI data center strategy and execution, as well as TELUS Global Ventures, bringing together the strategic and financial discipline governing this portfolio together under one leader.

These changes give us clear lines of accountability, a focused operator leading our core telecom business and a disciplined steward managing our global platform portfolio. This is an important step as we set up to execute the priorities ahead with focus and with speed.

As part of these changes, Zainul Mawji will depart TELUS September the 1st. Her numerous contributions to our company over the past 25 years are immeasurable, and we wish Zainul every success going forward.

Please turn to slide 6. Now let me spend a few minutes and offer some initial observations about our business and current industry dynamics. This is really important context for the discussion on the strategy that's going to follow.

On the 1st of May, I joined the management team at TELUS as CEO Designate. During the two months before becoming President and CEO on July the 1st, I worked alongside Darren and the rest of the leadership team to gain a deep understanding of our business from all angles, which surfaced important insights into our company and our operating environment.

The inherent strength in our organization is undeniable. We have a true leadership position in our TELUS PureFibre network, sustained customer growth and loyalty, and we're advancing the next generation of AI-enabling capabilities. We're investing in true nation-building infrastructure projects, including sustainable sovereign AI data centers that will support Canada's technological independence and drive economic prosperity. This foundation is strong, and it offers TELUS real opportunities for growth.

Yet at the same time, we have challenges. While I'm mindful that our industry is inherently competitive, we're navigating macroeconomic headwinds and the lower immigration, which is translating into lower demand for certain core products across all carriers. In addition, there's a greater need – there's a need for greater simplicity at TELUS and a return to our roots. To that end, I see a real opportunity to focus on our core business, harness our technology, and encourage a culture of innovation and a culture of efficiency.

I see the opportunity to further deepen our customer relationships, something our TELUS team is exceptional at, and double down on our competitive advantage here. And I see the opportunity to invest in the technology and infrastructure that will play a vital role in Canada's economic growth and prosperity at a critical moment for our country. Now to be certain, our strategic plan is built on what we can control and execute on.

So, with that backdrop, let me turn to our priorities going forward. Moving to slide 7. Today, we're introducing our transformation strategy, which comprises three financial and operational priorities. The first is to strengthen our financial foundation, which means getting our balance sheet to where it needs to be, so TELUS has the financial flexibility to invest, to return capital and to operate from a position of strength. This includes a capital allocation framework that is sustainable and sets us up for long-term success.

The second is to hone our operational discipline, to control our costs and to reinvest in our core business. This is about running our business with greater rigor and discipline and a sharp focus on efficiency and returns on deployed capital. This will continue to enable competitive advantage across our telecom business and digital infrastructure.

And the third priority flows from the first two. As we strengthen our financial foundation and hone our operational efficiency, we'll be in a better position to generate robust free cash flow and deploy resources to drive profitable, sustainable growth and returns to our shareholders over the long run.

These three priorities will frame how I look at and how I talk about our performance going forward. We expect this plan to deliver a minimum compounded annual free cash flow growth of 10% over 2027 and 2028. This is a number I'm holding myself and our team accountable to.

Now let me walk through each of these priorities more specifically. If you would please turn to slide 8, we'll start with the first priority, which is to strengthen our financial foundation. First, fortifying your balance sheet is the prerequisite for everything else. We're carrying approximately 3.5 times net debt to adjusted EBITDA. Our updated target is 3 times or lower by the end of 2028, a commitment that we are confident in achieving.

The dividend reset we announced today is a direct action to accelerate that path to lower debt. We expect approximately $2.7 billion of cumulative cash savings from the dividend reset that we will use toward debt reduction. Specifically, effective October the 1st, our quarterly dividend will be $0.1875 per share, which represents $0.75 per share annually, a reduction of 55%. In addition, we're now targeting a payout ratio range of 45% to 60% of trailing 12 months free cash flow.

The discount on the dividend reinvestment plan is also being terminated effective October 1st. It served a clear purpose during the peak of our network build, preserving cash and capital intensity was at its highest. With our network build maturing and free cash flow growing, that mechanism is no longer necessary. To that end, we'll be driving greater capital discipline across our entire enterprise.

And while in-year CapEx is going up slightly due to supply chain dynamics and inflation, as well as an incremental strategic investment in our infrastructure, this is not a retreat from our commitment to a multiyear 10% capital intensity target, which remains on track. It's about strengthening the foundation from which we can and which we will build. To demonstrate our discipline, we have put a moratorium on acquisitions. Once we reach our targeted leverage level and fortify our balance sheet, we will revisit our capital allocation priorities.

Finally, we remain committed to monetizing non-core assets to optimize our portfolio and pay down debt, which will ultimately support a stronger financial foundation for TELUS. I'm going to provide an update on this work stream in a minute.

So please turn to slide 9 and our second priority, which is to hone operational discipline, control our costs and reinvest in our core. Operational discipline comes down to three things: value for every customer relationship, efficiency in how we deploy our resources and return on invested capital. TELUS has an incredible heritage of customer service. It's in our DNA. And we're fortunate to have a team that is the best in the industry of putting our customers first.

If we are looking at everything through the lens of return on capital, there's no better place to start than how we serve our customers. This includes driving product intensity and value for every customer relationship. This is going to a big part of the focus that I'll bring to our team in the first few months.

As part of our effort to reposition TELUS, we're taking a hard look at our cost structure. We will redeploy – we will deploy a surgical process that'll embrace technology, eliminate redundancies and ensure every dollar is deployed with discipline. We're currently conducting extensive work to make sure our cost structure decisions are made thoughtfully and are in the best interest of the overall enterprise.

Given the long-term importance of these decisions, we're focused on making the right ones rather than making fast ones. I expect to provide a detailed overview of the scope of this work on or before our third quarter earnings call in November.

As we sharpen our focus and free up capital, we will recycle resources to the parts of our core business where we have the strongest competitive position and the clearest path to drive value-adding returns for our shareholders. Our governing principle is straightforward, we will invest where returns on invested capital exceed our cost of capital, and we will seek to redeploy capital to areas of highest return potential. Every dollar, every dollar will be evaluated on this basis.

Turning to slide 10 and our third priority, which is to deploy resources to drive profitable, sustainable growth and returns. As part of our plan, we will expand Canada's digital infrastructure by strengthening the connectivity and networks people rely on every day. We will invest directly in next-generation technology, including high-speed network upgrades and sustainable sovereign AI data centers built to meet growing national demand.

In telecom, we will continue to build on our wireless and TELUS PureFibre network leadership, while extending our network into rural and indigenous communities. And in our

Global Platform Businesses, we'll continue to invest to better serve our customers and deliver a better return profile. The level and timing of these investments will depend in part on the state of our business and the progress we're making in executing the priorities I've just outlined.

With that, let me provide an update on our strategic portfolio review and asset monetization efforts, which are already underway ahead of my appointment as CEO. I'm on slide 11. Before I speak to our active processes, I want to point to Terrion as an example of how we think about unlocking value from within our portfolio.

In September 2025, we sold a 49.9% stake in Terrion, our wireless tower subsidiary for La Caisse. Through our partnership, Terrion now thrives as a stand-alone entity, providing superior network quality and service that TELUS customers continue to rely upon. This transaction resulted in proceeds of $1.26 billion, allowing us to reduce our net debt to adjusted EBITDA by 0.17 turns. It's a proof point for the approach and discipline we're bringing to our broader portfolio.

Now regarding TELUS Health, I want to stress that this is a great business with great people. We remain active in the market around certain non-core assets and we're encouraged by the discussions we're having with interested parties. We're also advancing the monetization process of our core non-real estate assets. Additional details on all these efforts will be provided as notable developments arise.

So, in summary, these processes are active and progressing. Together, they represent a significant source of proceeds that will go directly to paying down debt and accelerating our path to 3 times or lower leverage by year-end 2028. In the meantime, our priority is supporting our team and supporting our clients and keeping them focused on the right things.

So let me recap. Our second quarter results and reset of targets reflect a business in transition. And the decisions we announced today will advance the work already in flight. Our focus is on executing with discipline and positioning TELUS to deliver sustainable, profitable growth and returns over the long term. We are moving with clarity and we're moving with urgency. And I'm confident, very confident in the ability of our team to deliver.

Now with that, I'll turn the call over to Gopi to provide an overview of our financial operational performance and our updated outlook for the balance of 2026. Gopi, over to you.

Gopi Chande - EVP & CFO
Thank you, Victor, and hello, everyone. I'm also excited to serve TELUS in my new role. I do want to say thank you to Doug French for his leadership over the years. Today, I will cover Q2 financial performance, provide more details on our dividend reset and broader capital allocation strategy going forward, and walk through our updated financial guidance for 2026.

Turning to slide 13 and our second quarter consolidated results. Service revenue of $4.4 billion was down 1% year-over-year and adjusted EBITDA of $1.8 billion decreased 2%. While results reflect good underlying performance in mobility with network revenue continuing to improve, they were offset primarily by weaker results in TELUS Digital, and as it relates to adjusted EBITDA, lower real estate gains. I'll speak to each segment in a moment.

Normalizing for the impacts of other income, consolidated adjusted EBITDA was stable, demonstrating the resiliency of our underlying telecom business. Basic EPS was negative due to the TELUS Digital impairment, which I will address shortly, while adjusted EPS was $0.16, down from $0.22 a year ago, due to after-tax impacts of lower operating income and the elimination of the non-controlling interest for TELUS Digital.

Cash from operations increased by 15%, while free cash flow of $545 million was higher by 2%, reflecting lower net income taxes paid and lower lease payments, partially offset by increased interest and lower EBITDA.

Moving to slide 14 and starting with TELUS Technology Solutions or TTech. TTech service revenue of $3.3 billion and adjusted EBITDA of $1.6 billion were both relatively flat year-over-year. Drilling into the sub-components, mobile network revenue of $1.7 billion was up 1%. This performance reflects our disciplined operational execution, despite an active competitive environment, evidenced by our ability to preserve premium economics. Notably, this is our third consecutive quarter of mobile network revenue growth.

Encouragingly, during the quarter, we saw signs of a moderating promotional environment, a positive second half setup. This supported our fifth consecutive quarter of year-over-year improvement in ARPU, declining at a stabilizing pace of less than 0.5%.

On the subscriber front, mobile phone net additions of 17,000 reflected lower gross additions as we remained disciplined on quality premium brand loading, while blended mobile phone churn was up slightly to 1.08%, while postpaid churn was stable.

While demographic headwinds, including population growth and lower immigration levels, have meaningfully reduced the addressable market for new customer growth, we're encouraged by what we're seeing in the wireless competitive environment. Fundamentally, we're focused on controlling what we control, which will be supported by honing our operational discipline.

Turning to fixed data services. Revenue was stable at $1.2 billion, supported by growth in residential of 2%. In our Business Solutions portfolio, performance remained challenged by revenue variability and customer contract changes in the public sector, partially offset by growth in fixed data revenue with small and medium business clients. Internet net additions totaled 20,000 as our focus remains on accretive growth and a deliberate shift away from more aggressive promotional pricing.

Let me turn to TELUS Digital on slide 15. As outlined in our disclosure materials today, this quarter we recorded a pre-tax non-cash carrying value impairment of $2.1 billion. The factors for this write-down are as follows: First, we experienced more pronounced churn in the second quarter as legacy services provided to certain hyperscale clients are being automated faster than we anticipated, specifically content moderation as well as adrelevancy, search-related services. This is a reflection of customers no longer needing these services from external providers amid accelerated AI adoption. These services are expected to continue declining, and we're rightsizing our cost structure accordingly.

While we have begun to pivot to higher value complex AI data sets, that work is not yet fully enough to offset the accelerated pace of the legacy decline. To support this shift, we are actively executing a comprehensive commercial rebuild, pairing dedicated technical leads with industry experts, resetting account leadership and placing specialized senior commercial leads in key markets to strengthen our go-to-market and pipeline conversion success.

Finally, we've undertaken a reassessment of our AI-enabling services growth trajectory. While the market continues to move towards AI at scale and we still see exciting opportunities within these services, customer adoption is slower than we previously modeled as sales cycles have extended and deal sizes have compressed. We remain confident in the long-term trajectory of our AI capabilities, including the exciting growth we see in AI data centers.

Notably, at TELUS Digital, our customer experience management service line, which represents more than half of TELUS Digital's total revenue, continues to show incremental growth, leaning to CX AI engagements, which are proving to be our innovative edge that sets TELUS Digital apart from its peers.

Please turn to slide 16. TELUS Health service revenue of $533 million grew by 4% year-over-year and adjusted EBITDA of $99 million expanded modestly by 1%. These results were supported by one final month of inorganic growth from Workplace Options, offsetting softer organic growth. Looking forward, the quality and scale of our global health assets gives us confidence that this business can drive better organic performance with improved profitability as we execute on additional efficiency initiatives implemented in Q2.

The team continues to work through Workplace Options' integration, including product enhancement, expanding sales channel and effective cost management, all of which are expected to contribute to stronger financial performance. Regarding Agriculture & Consumer Goods, service revenues of $90 million increased by 6%, driven by higher animal agriculture revenue.

Let me now address the balance sheet on slide 17. Our financial position remains strong. We remain well-capitalized with total available liquidity of $2.7 billion and a net debt to adjusted EBITDA leverage ratio as of June 30 of 3.5 times, down from 3.7 times a year ago. As Victor noted earlier, we are committed to a target of 3 times or lower by the end of 2028. The revised time line moving from 2027 to 2028 is a direct consequence of the business headwinds described earlier. We remain fully committed to maintaining our investment grade credit rating profile. Looking forward, our operational execution, declining capital intensity and free cash flow growth and active asset monetization processes will continue to strengthen our balance sheet.

To achieve our goals, we are recalibrating the near-term capital allocation strategy to support a stronger TELUS in the future, as you can see on slide 18. As noted, first, we are focused on reducing leverage towards our stated targets, which will be supported in part by cash savings from the dividend reset and the proceeds from asset monetization efforts.

Second, we are deploying a disciplined approach to investments, focusing on strengthening core telecom and digital infrastructure, with 2026 CapEx expected to be approximately $2.6 billion, up from approximately $2.3 billion previously communicated. This increase is driven by a few main points.

The first is overall pricing inflation and supply chain dynamics impacting customer premises equipment. The second is a modest strategic investment directed towards our AI data centers, including network infrastructure upgrades and site enablement to support our state-of-the-art sovereign AI centers in Rimouski and Kamloops. And third, we're allocating additional capital in a deliberate shift towards customer-based management, such as addressing customer pain points, eliminating friction through interactions, and expanding wallet share within existing relationships, each of which improves churn economics and lifetime customer value.

Finally, as we announced today and as Victor addressed earlier, we reset our quarterly dividend to $0.1875 per share and are removing the dividend reinvestment plan's discount effective October 1, 2026. As a result, we have also updated our free cash flow dividend payout ratio to a range of 45% to 60% of trailing 12-month free cash flow from a range of 60% to 75% on a prospective basis previously. This will be our dividend policy moving forward beginning in 2027. Based on actions taken to date, TELUS will see cash savings of approximately $2.7 billion through the end of 2028 that we intend to use to support our deleveraging efforts.

Let me now close my remarks with our updated outlook for 2026, as outlined on slide 19. For the full year 2026, we now expect consolidated service revenue to be in the range of flat to negative 2%, with TTech service revenue forecasted to be closer to flat. Consolidated adjusted EBITDA for the year is now expected to be in the range of negative 2% to negative 4%, with TTech adjusted EBITDA also expected to decline within a similar range. This compares to our prior forecast for both consolidated service revenue and adjusted EBITDA to be 2% to 4% growth year-over-year.

Breaking it down, our revised outlook is due to our updated view of the current business environment, which includes both encouraging trends and challenges. Furthermore, our original target anticipated the pace of the underlying business growth would offset onetime benefits we realized in 2025, largely reflecting real estate gains. We no longer anticipate that level of growth, which results in about 200 basis points of headwind. To help with modeling this, we've provided additional details for you in the appendix.

Despite the in-year CapEx increase, which I outlined earlier, we remain committed to our multiyear approach of reducing capital intensity as a percentage of total revenue as we continue to drive towards our target of 10%. We believe we can operate at a substantially lower capital profile beginning as early as next year.

Finally, free cash flow for 2026 is now anticipated to be approximately $1.8 billion versus our previous outlook of approximately $2.45 billion as a result of lower EBITDA, higher CapEx and an incremental $100 million in transformation-related restructuring costs relative to our Q1 update.

In closing, we have work ahead of us. We are fully committed to our transformation program and communicating with transparency. We are confident that our actions today and the plan we have laid out will position us for stronger performance as we head into 2027.

With that, I'll turn it back to Victor before we start our Q&A.

Victor Dodig - President & CEO
Thank you, Gopi. So let me quickly wrap up our prepared remarks with a few key takeaways before we go into Q&A. TELUS is building from a foundation of strength and is competitively advantaged with industry-leading customer service, PureFibre and 5G networks, digital infrastructure, and a collaborative and energized culture. These assets are difficult to replicate, and we have them.

With experienced leadership and perspective, we are executing a clear strategy to transform TELUS. This work is already underway. Decisive actions to reset our dividend, recalibrate our broader capital allocation approach, advance our asset monetization program to support deleveraging and invest in our core business are proof of that.

And when we report our third quarter results in November, we'll go further with additional actions to support our efforts, including outlining our cost savings program and providing updates on our progress against our three strategic priorities to date. We remain steadfast in executing our plan and driving accountability. I'm personally energized by the opportunity to get back to our roots and committed to delivering long-term value to our TELUS shareholders, our TELUS customers and our TELUS team members.

And with that, let me turn the call back to Ian for our Q&A. Ian, over to you.

Ian McMillan - Head of IR
Thank you, Victor. Let’s please proceed with the questions from the queue, please.

Operator
Very well. The first question is from Drew McReynolds from RBC Capital Markets. Please go ahead, Drew.

Drew McReynolds - RBC Capital Markets
Thanks very much. Three for me. First, Gopi, maybe on the adjusted EBITDA guidance revision for 2026, which by the way I think probably caught most off-guard here. Can you just at a highish level just unpack the revision by segment? It would be helpful.

Second, Victor, maybe for you on the comprehensive review of the asset portfolio, I think most would have thought that comprehensive review would have been done kind of one to two years ago. So just wondering from your perspective, what's new or different here. Maybe it's scope. Maybe it's timing.

And then lastly, on the TELUS Digital outlook, back to you, Gopi, this one's going to be hard to kind of think through for the back half of 2026 and 2027. Can you just help us from a modeling standpoint as to whether Q2, I guess, is indicative of kind of what we should expect over the foreseeable future? Thank you.

Victor Dodig - **President & CEO**
So, Gopi, why don't you – actually, you know what, you've got two pieces. So, Drew, can I just talk about the asset portfolio? Let me just start with that.

Drew McReynolds - RBC Capital Markets
Absolutely.

Victor Dodig - **President & CEO**
Okay. So let me just give you some perspective about how I think about this. One is, we've got a core crown jewel in our telecom business. We've organized in a way to unlock value there. We've organized all of the other businesses under Navin and our global platforms business.

Every one of these businesses are good businesses. They're run by good people serving clients with value propositions that they value. Every one of them, the three components of TELUS Health, TELUS Digital, in spite of all the ups and downs that we've had, TELUS Agriculture – they're all good businesses.

Our goal is to continue to nurture the value in those businesses and focus on those that we believe should be monetized because they're better off in the hands of another owner and do that in a thoughtful manner. Thoughtful meaning, taking our time. We are engaged. There are confidential memorandum out, people know that, on the part of the TELUS Health business, so that we can maximize value for our shareholders.

Personally, I'm encouraged by the discussions that I'm seeing. I don't have any specific news for you, although to give you a sense that I'm encouraged, and to let you know that when I do have news, we'll let you know, all right?

On the real estate front, we're seeing the same kind of progress and we're going to be reviewing our TELUS Ventures portfolio. So, everything's really on the table in terms of understanding our portfolio, understanding those things we'd like to keep, and also ensuring that there's a monetization program in place to meet those leverage targets. It's all tied together. It's all part of the plan. I know it feels like it's at 10,000 feet. We'll get to 5,000 feet and 1,000 feet as the months tick ahead.

Gopi Chande - EVP & CFO
Perfect. Thanks, Victor. And Drew, thanks for the question. So there is a lot going on in our guidance. And I think you're absolutely right. The way to look at it is by segment. I'll lay out a framework and then speak to each of the pieces.

If you take the lower end of our original guidance and the midpoint of our current guidance, there's about a 5-percentage point differential. And the way to think about that on an EBITDA basis is two of those related to TELUS Digital, one related to Health, one related to pausing real estate joint ventures, which I'll speak about in a moment, and then one related to telecom.

So I'll start with telecom. And this is a key point to take away, and that is year-over-year or H2 compared to H1, our telecom business is stable. We're seeing some momentum in mobility, and that's offset a little bit with some challenges in fixed and some indirect cost work we want to do.

On TELUS Digital specifically, the churn that I spoke to in my script around goodwill, that's known and it's reflected in our forecast. So, Drew, more towards your third question, H2 for Digital is weaker than H1.

If you think about our service revenue guide and our revised guidance, about two-thirds of that top line reduction is related to TELUS Digital. We are seeing for TELUS Digital though promising results come out of CX AI. And in our AI and data solutions business, we see promising opportunities in robotics and physical AI. So there is potential there, but it is a challenging H2.

And then for Health, our results were less good than we originally expected. But, again, looking at H2, we do see momentum on organic growth. We do see initiatives put into place that are gaining traction for margin improvement, including leveraging the WPO acquisition and the platform associated with that and generating efficiencies.

One-time items are a headwind year-over-year, and that's in the TTech segment. So I'll remind you that telecom also includes other income and TTech. And the telecom stabilization is not sufficient to overcome these non-recurring items from 2025. The 2025 items are relevant context because there's almost $100 million to overcome in H2 and 75% of that is in Q3. Much of that other income is related to real estate joint venture gains, and we've strategically paused from starting new joint ventures.

So, in summary, picking up on Victor's comments, we're in active transition. This is a forecast that reflects our current state. We do expect to return to growth and we do have confidence in the underlying trends of each of the segments.

Drew McReynolds - RBC Capital Markets
It's a lot to unpack. Thank you very much.

Ian McMillan - Head of IR
Thanks, Drew. Karl, next question, please.

Operator
The next question is from Maher Yaghi from Scotiabank. Please go ahead.

Maher Yaghi - Scotiabank
Great. Thank you for taking my question. Victor, welcome and thank you for the helpful commentaries in your prepared remarks. I just want to go back to something you mentioned on free cash flow growth and the commitment that you're making on that. When you said that you're committing for towards 10% free cash flow growth for the period between 2026 and 2028, is that off of the base of $1.8 billion that you guys updated the guidance on this morning?

Victor Dodig - **President & CEO**
It is. So, Gopi, maybe you can take that and I'll build on it.

Gopi Chande - EVP & CFO
So, Maher, it is off of that base. We appreciate that 2026 is a lower base. And so we do expect free cash flow to be higher next year. This is more about our commitment on a regular basis to have 10% free cash flow growth. This is about focusing on profitable loading in our core telecom business and getting EBITDA growth to positive and then our commitment to reduce CapEx. So those are the two key features. It is expected to be higher next year. And then it's more about the commitment to 10% growth in 2028 and go forward.

Maher Yaghi - Scotiabank
Okay. So if I look at that commitment and compare it to the previous framework that we were working with, it's about $800 million of lower steady free cash flow production in 2028, if I'm just using 10%, because there was a 10% commitment before off of the previous free cash flow line. So, that's a $800 million annual free cash flow production lower that I'm trying to figure out where the gap is coming from.

Gopi Chande - EVP & CFO
So, again, Maher, we're happy to work with you more specifically on the modeling. But in general, what I can say is we've got our EBITDA growth modeled. Again, hard to be very specific about the exact growth percentage as we're talking about 2028. We certainly return to growth in 2027 and grow from there.

Our CapEx is coming down. And I say that not just because our CapEx is going up this year. As Victor mentioned in his script, we are committed to being much more disciplined and adding simplification to CapEx, whether that be products or projects, and materially reducing the CapEx.

And then another feature will be restructure. We do have some investments we are going to need to make and want to make to achieve that CapEx reduction and to get and garner some of those EBITDA efficiencies. So, there is a restructure component.

And then embedded in there are going to be the savings from the reduction in leverage, some of the asset monetization that we will undertake along that way. So those are all of the features. And then, of course, the dividend reset as we speak about leverage. So hopefully, that gives you a little bit more sense on there is growth in EBITDA, there is reduction in CapEx and there is an investment in restructuring.

Victor Dodig - President & CEO
I think just to build on that, Maher, as we fill in the gaps on what a transformation looks like, there's a tremendous amount of EBITDA growth and value that can be unlocked by simplifying our business, not only from a cost standpoint, but also from our ability to generate better revenue outcome.

And that's where our confidence, as we look further out, comes from. That information will be shared with you as we kind of head toward the third quarter. That is the intensity with which the leadership team is going to focus on over the next little while.

Maher Yaghi - Scotiabank
Okay. And maybe just a follow-up, Victor. In the MD&A, you discussed how you want to deploy resources going forward, and you focus in your discussion there on the telecom part, but also mentioned digital and AI.

So I wanted to dig into that, trying to figure out how much capital you're willing to invest in AI. And if the existing at TELUS Digital business continues and remains essential for you to undertake that AI infrastructure investment or could be a portion of the business that could be also divested of or reviewed strategically?

Victor Dodig - President & CEO
Yeah. So there's a bunch of good questions in there, Maher. Thank you for that. One is, I want us to be thinking about AI, and I know that term is used way too often nowadays, not only within our TELUS Digital business, where you've quite rightly pointed out that we've got great capabilities. And in spite of the hiccup of the past quarter, we are seeing good growth in our CX AI segment in TELUS Digital and that's where we're helping notable companies globally with their customer service support using AI to produce a better financial outcome for our customers and for our shareholders.

We're trying to do that within our businesses. So let me give you an example in our core telecom business. Yes, we will need to invest, but I actually think that the resources that we can free up from our existing business and the simplification of our business will allow us to reduce churn, to deepen profitable relationships with customers, to increase cross-sell, as well as to reduce our operating costs over time.

In our Global Platform Businesses, we have tended to go to the market as three different brands of TELUS every time we call on a large enterprise. And the reason we put these businesses under Navin's leadership is not only to figure out, okay, which businesses do we want to monetize, but which ones allow us to go as one TELUS to serve our existing telecom clients in Canada with another suite of services, which would include TELUS Digital and an aspect of TELUS Health.

And those outside Canada where we don't have a telecom business, we're working together with those businesses to call on those clients as one TELUS. That and the simplification of our business, I have no doubt that we will be able to deliver better financial results over time and improve that free cash flow and give you more visibility, particularly into 2028, where you're quite rightfully seeking it.

Maher Yaghi - Scotiabank
Okay. Thank you.

Ian McMillan - Head of IR
Thanks, Maher. Karl, next question, please.

Operator
The next question is from Stephanie Price from CIBC. Please go ahead.

Stephanie Price - CIBC World Markets
Thank you. Victor, congratulations on the role.

Victor Dodig - President & CEO
Thanks, Stephanie. How are you?

Stephanie Price - CIBC World Markets
I'm good. Thank you. Maybe following up on that TELUS Digital question. It's been acting as a drag. And yes, CX AI is obviously a growth area, but there's other pieces that aren't growing as much. Just curious how you think about TELUS Digital as part of the longer-term business here and some of the opportunities you see around that TELUS Digital business outside the CX AI?

Victor Dodig - President & CEO
It’s a good question. Some of the very real capabilities we have in there actually serve our core telecom business and help our customers get a better experience. So that I think is a tick mark.

The CX AI business is growing and it's profitable and we're encouraged by the developments we see there. Our AI services overall, Gopi mentioned the fact that clients are trying to be mindful about everything nowadays. They're looking at their tokenization costs. They're looking at what is AI benefit – how AI is benefiting us, how is it acting as a drag. There are benefits there.

But one of the things I didn't address in Maher's comments and question and what you're asking about is, how can we use those capabilities within growth avenues that are natural adjacencies to our footprint in Canada? One would be in our sovereign AI data centers, as we think through that. We've got some open. There's a real avenue there to not only secure the energy, build the box, provide the right level of equipment, but to put our AI intelligence inside and offer that to Canadian clients that are looking for this. The margins in that business are quite healthy.

One of the things that we're mindful of is how do we grow that business without increasing our CapEx? And our view in that value chain is there's a significant amount of margin that we can actually partner with capital partners to drive that growth to deliver what's inside that data center to our clients and grow that business as well, which I think we'll be more prepared to talk about in the third quarter.

Stephanie Price - CIBC World Markets
Thank you. And maybe just a follow-up for me on the core telecom business. Good to hear kind of the focus on profitable growth in that business. Maybe you could talk a little bit about ARPU. The rate of decline improved sequentially and was better than the Street was expecting. How do you kind of think about ARPU trajectory here as TELUS kind of works towards ARPU growth and focuses on profitability?

Victor Dodig - President & CEO
Well, you're quite right in pointing out, Stephanie, that ARPU is – the rate of decline is decelerating, which I guess is a good way of saying things. We'd like to see it grow over time. There's a couple of things that I'd say. One is there's definitely going to have to be more of a focus on our premium brand to continue to shore up our ARPU and develop relationships with our clients, and not only ARPU, but the overall share of wallet that we would have with the household or a business. That is going to be a core focus of Dave Fuller and the team.

At the same time, we see the competitive pressures from the other end of the spectrum. And this is where we're going to have to harness the value of our public offer, which is public is a low-cost digital-only offer, which can compete toe-to-toe at the low end of the market. So, it's really important to preserve the premium brand and use our front flanker brand in a smart way to preserve ARPU overall for TELUS. That's really our goal. And that's something that we will continue to focus on going forward.

And going forward, we're going to take it up a notch. It's all going to be about profitable growth, profitable growth for every dollar of capital invested, profitable growth, profitable relationships at every client level. I know it's not possible when you have 10 million-plus clients, but we're going to really start honing in on that and start really focusing on returns and profitable growth. And I think the market will reward us over time with that kind of a strategy.

Stephanie Price - CIBC World Markets
Thank you.

Ian McMillan - Head of IR
Thank you, Stephanie. Karl, next question, please.

Operator
The next question is from Tim Casey from BMO. Please go ahead, Tim.

Tim Casey - BMO Capital Markets
Good afternoon. A couple for me. One, Victor, there seems to be a conflict here in the message, if you will, in that you're talking about simplifying the business and returning to roots. But there are parts of Agriculture and Health that you seem to be characterizing as core. And I'm just wondering if you could flesh that out a bit, because I would have thought those two entities – you wouldn't keep those around if you were simplifying the core business.

And the second one, I just want to push back a bit, I mean, on your previous comment about focusing on profitable growth, and that's going to be new. I mean, just to be clear, we've heard from the previous leadership that that was the mantra used to be margin per user and things like that. So how are you going to get the troops to focus differently on that when it seemed to be a core focus of preserving the core brand and only profitable growth before you got there? Thanks.

Victor Dodig - President & CEO
Yeah. So thanks, Tim, for your question. So, there's no real conflict in my message, although I can understand why you would see it that way at this point in time. If I can give you more granularity around our portfolio and how we're thinking about monetizing it and show you a picture of what I think it'll look like 12 months from now, I think you'd say, you know what, you guys are right, you're focusing on your crown jewels. Whatever you kept is a natural adjacency to how you serve large enterprises like large enterprises, and therefore, some capabilities may be alongside that.

But I think you'll see a much more simplified TELUS over time, Tim, let me just assure you of that, okay? And you will get updates as each asset is reviewed and monetized. When there's a notable update, we're going to share that with you. We're not going to wait for quarterly results in that regard.

When you're talking about profitable growth, there is a mindset that you have to have within an organization. When you say that the premium brand can't be compromised, it cannot be compromised. I don't want to draw on my past experiences, although I will tell you that building multi-product relationships with clients reduce churn, improve profitability, and incenting a team to be doing business that way will be a leading driver of what we do.

Second thing is ceding too much territory to competitors that price at the low end of the market. If you do things smartly, you can go toe-to-toe with them but protect your premium brand. That really is our goal. And we're going to try and deliver for you insights as to how we're doing that as we go forward into the quarters ahead.

Let me just assure you that our goal is profitable growth and our goal is not to send conflicting messages and to have a much more simplified TELUS. The overwhelming majority of our returns today come from telecom. It'll grow over time, even as a proportion of overall earnings.

Tim Casey - BMO Capital Markets
Okay.

Ian McMillan - Head of IR
Thanks, Tim. Karl, next question, please.

Operator
The next question is from Vince Valentini from TD Securities. Please go ahead, Vince.

Vince Valentini - TD Securities
Hey. Thanks very much. Can I start trying to clarify three things? And then I've got a bigger picture question. First for Gopi. Thank you for the breakdown on the EBITDA segments for the second half of the year, but I want to make sure I heard you correctly. The TTech segment accounts for about 1 point of the 5-point reduction, but all of that seems to be just because of the one-time items that don't recur. If I look at core TTech, I mean, as you know, it was barely down. It was basically flat year-over-year in the second quarter, but you're saying down 2% to 4% for the full year on EBITDA. But that's just because of the one-time items. If not for those, you'd be bouncing around roughly flat. So that's clarification number one.

Number two, on slide 11, and apologies, Victor, I mean, we have to learn your lexicon versus the very unique lexicon that Mr. Entwistle had for years. I want to make sure I just understand. When you say robust interest in certain health assets and strong market interest in real estate, is robust stronger than strong or is strong stronger than robust or are they just interchangeable in your mind? If I can...

Victor Dodig - President & CEO
It’s a good question. Let me start because you're asking me that question on my lexicon. So when I look at a business that we may wish to monetize and I feel like the value that's surfacing allows us to reduce our leverage, and I got to – I have an interested owner that actually will do good things with the business. I have a couple of those that are interesting to me in terms of people that have said we're interested in that asset. And that would qualify as robust, I guess, with a small R, not a large R, if I can be clearer on that, right?

When I look at real estate, there's also robust interest in that as well with small Rs, not large Rs. I mean, that's an industry in transformation as well. But I'm confident that we'll be able to get a few things done here that allow us to simplify the business and allow us to lower our leverage over time. I'd like to see those happen sooner than later.

But again, part of this process is to make sure that everyone understands that I'm in no rush and we're in no rush to just get something done. We're working for all of you and for the shareholders that you advise to get the best price and best investor possible to own the assets that we think are better in someone else's hands.

Vince Valentini - TD Securities
Okay. While you're on...

Victor Dodig - President & CEO
And we'll get to know each other better over time, Vince, and you can understand what my kind of – you can measure the spectrum of my words. I don't use many.

Vince Valentini - TD Securities
Yeah. No, I appreciate that. That's why I asked. And while you're on, before I let Gopi clarify the other one, so the other two things. One was you mentioned the AI intelligence inside the data center box, I think is the word you used. Does that mean you approve and you agree that TELUS should be buying these expensive chips and GPUs as opposed to just building the infrastructure?

Victor Dodig - President & CEO
So here's what I would say on that because there's always this raging debate on what should you be doing. Should you be building the shell? Should you be owning the chips? What else can you be doing? My sense, in speaking to the team and in kind of getting greater granularity around our strategy there, is there's a real demand emerging in our country for more than just the box. And it falls under the kind of umbrella of sovereignty, security. And that comes from not only government, it comes from academic institutions, it comes from hospitals. And we'd like to be able to fulfill that demand.

There's clearly other demand emerging in our country because of the ample energy and the ability to build these boxes. And you see that in the headlines of some of the stuff that you've read recently. But I think we want to be sustainable. We want to build smart data centers, and we want to do it in a way where we can get the kind of returns that you would expect of us, so it doesn't actually weigh on our leverage and improves our return on capital. I think we can actually do all of that, and I'm looking forward to providing that update with the team to you when we put that all together.

Gopi Chande - EVP & CFO
Perfect. And then, Vince, I'll top up on that first question. And so, there are two components. There's essentially two factors. One was the one-time items and then there is 100 basis points related to telecom. So transparently, the growth that we expected in fixed, in mobility, has not come to pass as expected in guidance. We are happy with what we saw in Q2 results on mobility and have some work to continue to do on fixed primarily in business. And we have some work to do on indirect costs and how quickly we continue to take them out of the business as our industry changes. So it's a combination of both the onetime as well as the pressure in telecom in the walk that I went through.

Vince Valentini - TD Securities

I appreciate all that. And I know Ian's going to kill me, but so I counted those as all clarifications. So, just the one big picture question, Victor, is have you changed or are you considering changing any of the compensation drivers? Are you going to add an ROIC metric or are you going to get rid of the volume growth metric? And can you clarify that for you and the new team members that you're putting around you, and I applaud that, there's some good people you're putting in place in my view. For you and those team members, does the clock get reset as of today in terms of any sort of stock options and meeting any targets? It's all about based on this new guidance and what we saw in the first six months.

Victor Dodig - President & CEO
Well, I can tell you that my general philosophy is to focus on aligning shareholder interests with – management's interest with shareholders' interest, and that's rewarding profitable growth over time. So that will be something that we can increasingly focus on.

I'm already a shareholder. I've already – it's all in public record in terms of what I own currently. I believe in this company and I believe in our ability to actually focus more intensely on profitable growth. And at the same time, people will say, well, does that mean you're not going to be loading like you were loading before?

You know what, if you manage your base well, you manage your existing portfolio of customers, households and businesses, and get your team incented to do the right things in terms of transforming how we do business, the cost of doing business and focusing on profitable growth, you will get the right outcome. And we will get the right outcome. It's not going to happen in three months. It's going to happen over a series of quarters. But I would like to think that you'll see bright lights start to shine as every quarter gets printed going forward.

I recognize the large reset that kind of was presented to you all this morning. I see it as a bit of an abbreviated detour, and I say abbreviated because we're going to work pretty intensely in course correcting and transforming our company over the next little while. And that we plan to share with you in the months ahead.

Vince Valentini - TD Securities
Thank you.

Ian McMillan - Head of IR
Thanks, Vince.

Victor Dodig - President & CEO
Thanks, Vince.

Ian McMillan - Head of IR
Karl, next question, please.

Operator
The next question is from Jerome Dubreuil from Desjardins. Please go ahead.

Jerome Dubreuil - Desjardins Securities
Hey. Hi, everyone. Thanks for taking my question. Gopi and Victor, congrats for the appointment. First one is another clarification, kind of similar line to Vince's question. I'm looking to understand what exactly is the base level of EBITDA we should be using for 2025. You mentioned there was $100 million of non-recurring items in the second half. I wonder if you can comment on what is the full year number just because I don't think we should be using minus 3% EBITDA going forward. And just want to clarify exactly what's the non-recurring aspect of the minus 3% for the year.

Gopi Chande - EVP & CFO
Perfect, Jerome. So, in our appendix, we've actually included detail on that. I'll just walk you through it at a high level. So, what we've done is we've pulled out other income that is already on the face of our financial statements. And so, you can see that for last year and coming into this year.

As I mentioned, we've paused any new joint ventures and real estate. So, we don't expect any material gains associated with that. There will continue to be monetization of real estate as it comes available and we'll continue to have minor amounts of copper sales. So, that's what you can continue to see in the year.

And then again, we did call out a particular non-recurring item grouping in Q3 of last year, and those were just particular to Q3 of last year. We don't see anything like that coming through the rest of the year. So, you've got details on page 24, and we'd be happy to clarify any questions you have coming off of that.

Jerome Dubreuil - Desjardins Securities
That's great. Thanks. And the second one, I mean, the CapEx increase was a bit of a surprise by some investors. Can you maybe provide some maybe points to discuss about the ROI you're seeing on the additional CapEx, just maybe to reassure the investors that your focus on profitable growth is – I'm sure it is, but it is grounded in numbers and the returns you're expecting? Thank you.

Gopi Chande - EVP & CFO
Absolutely. That's a very fair comment, especially because we are committed to the 10% capital intensity over time. The focus – the incremental, as we mentioned there, there's some related to inflation, some modest investments. But then Victor spoke to how we're more generally thinking about AI data centers. And so, really the remaining investment we made is in our customer base, making it easier for them to work with us, putting in tools that make their experience with us delightful, making sure that they can use digital when they want to. And so some of that will continue into next year. Everything that is growth related will continue.

And then in general, some of the items are products and projects that we are wrapping up that we are bringing to a close and that isn't something that you can terminate quickly. And so we will get the returns as expected, but we are focused on simplification and focus in terms of what we invest in go forward.

Jerome Dubreuil - Desjardins Securities
Thank you.

Ian McMillan - Head of IR
Thank you, Jerome. Karl, we have time for one more question, please.

Operator
The final question is from Adam Shine from National Bank Financial. Please go ahead, Adam.

Adam Shine - National Bank Financial
Thanks a lot. I'll make it two quick ones. Victor, you've said very clearly that on the monetization front, you're in no rush. But is there a particular total number that perhaps you're looking to raise in regards to some of these efforts? And just secondarily, on the monetization exercise, I didn't really hear anything on agriculture and was wondering if that's something also to be divested or the fact that it wasn't mentioned, perhaps not.

And then just going back to Stephanie's question on the AI data center, I know you're going to come back to us with more details in Q3. Will that ultimately include some disclosure around a road map in terms of AI data centerrelated revenues, EBITDA, free cash flow, CapEx, kind of like what Bell has laid out for us? Or is that still a bit premature? Thanks.

Victor Dodig - **President & CEO**
Thanks, Adam. Again, both very good questions. In terms of the dollar figure for monetization, let me – rather than speaking about any of these specific businesses, because I don't want anybody to get worried. They're really good businesses. We want to run them well. We'll surface value from them well and we'll identify a couple that we're already kind of working on to surface value that will help reduce our leverage.

When I think about like the portfolio of leverage reduction opportunities, some of it comes from the maturity of our CapEx profile in our core businesses. Some of it comes from the transformation of our business. In a couple of months' time, you're going to get a better picture of what does that transformation envelope look like from a revenue enhancement standpoint and from a cost transformation standpoint. What do the – we'll get more clarity on the – we'll give you more granularity on the monetizations. And that'll all fit into that envelope of how does leverage get to 3 times or less by the end of 2028. That's how the puzzle pieces fit together.

And on your question on data centers, yes. I mean, look, I want to provide as much transparency as possible. Once I feel comfortable that the road map is buttoned down and I can speak to you about the economics of it. In my early review, I see attractive economics, right, in building a sovereign, sustainable, smart type of data center approach where I think that there'll be a demand.

I do not want to get caught up in the frenzy that I see out there of building, building, building, only to get caught flat footed. We can't afford to do that. That's not generally how we operate. So we'll give you more granularity as we go forward as well, Adam.

Adam Shine – National Bank Financial
Okay. I appreciate it.

Victor Dodig - President & CEO
Okay. Thank you.

Ian McMillan - Head of IR
Thanks, Adam. This concludes the Q&A. I'll pass the call back to Victor for closing remarks.

Victor Dodig - President & CEO
Okay. Thank you, everyone, for your great questions. Thank you, Ian. Thanks, Karl, for helping us moderate through this as well.

Let me close where I started. We've got a clear set of priorities for TELUS and we're committed to doing the three things that we've outlined: strengthen our financial foundation, be really, really disciplined around our operations, controlling our costs, freeing up resources to invest into the future, and redeploying those resources to profitable, sustainable returns and businesses that we want to be in.

What we have set out here today is a thoughtful plan. I know you don't have all the granularity you want, but I can tell you you'll get more of that as time moves on to realize the full potential of TELUS on a go-forward basis. And it's our plan to deliver on this as a leadership team. I've clearly seen in my first few weeks that we've got an extraordinary team at TELUS that embraces challenge. It's innovative. It's customer-focused. And I believe knowing this company and knowing what it stands for that we're going to be able to deliver on what we're promising to you.

So our objectives are clear, number one, reduce our leverage to 3 times or lower by the end of 2028 and no later than the end of 2028; two, deliver minimum 10% compounded annual free cash flow in 2027, which I think all of you recognize is likely easier hurdle because of where we'll end 2026, and give you greater granularity around why we believe we can do that in 2028; and three, supporting a dividend that's sustainable, that's competitive, and once we get our growth profile back and we're well within our payout range to grow that dividend again, as well as to use other ways to return capital to shareholders.

I'm proud to be working with our over 100,000 team members at TELUS as we embark on this next chapter. It'll be intense, it'll be bumpy, but it's all meant to transform our company to produce the kind of financial performance that we believe we can deliver for you going forward.

And with that, thanks for your time today. I know there was a lot to digest and I wish all of you a wonderful summer. And we'll be back to you on a one-on-one basis as you request and as we request. We'd love to see more of each other in the coming weeks. All right. Thanks, Ian, very much. And I guess we're done. All right.

Ian McMillan - Head of IR
We're done. This includes our call today. Please reach out to the IR team for any follow-ups. Karl, back to you.

Operator
Ladies and gentlemen, this concludes the TELUS 2026 Q2 earnings conference call. Thank you for your participation. And have a nice day.