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Q2 2025 Investor Conference Call Transcript
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TELUS Corporate Participants

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Doug French - TELUS Corporation - EVP & CFO

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

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Jerome Dubreuil - Desjardins Securities

Kannan Venkat - Barclays

Maher Yaghi - Scotiabank

Matthew Griffiths - Bank of America

Stephanie Price - CIBC World Markets

Tim Casey - BMO Capital Markets

Vince Valentini - TD Securities

Presentation Transcript

Operator

Good day, everyone. Welcome to the TELUS 2025 Q2 earnings conference call. I would 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 second 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. For the Q&A portion, we will be joined by Zainul, Navin 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 the securities commissions in Canada and the US, including our second quarter 2025 and our annual 2024 MD&A. And with that, over to you, Darren.

Darren Entwistle - President & CEO

Thanks, Robert, and hello, everyone. In the second quarter, our team's commitment to operational excellence empowered TELUS to deliver another quarter of industry-leading customer growth and strong financial performance.

These results demonstrate the strength of our leading portfolio of bundled offerings across mobile and home and the strategic expansion of TELUS PureFibre connectivity to homes and businesses, inclusive of Ontario and Quebec.

We're delivering much more than just affordable Internet. We are providing Canadians with differentiated and unique competitive services, including AI-fueled smart home energy management, next-generation healthcare, affordable innovative security and exciting entertainment solutions.

Our investment in Canada will be augmented by our recently announced \$2 billion investment to expand broadband services in Ontario and Quebec. This will allow TELUS to prudently progress national scale through smart broadband network builds and drive product innovation, competition, investment, and affordability in Canada.

The CRTC's wholesale fibre decision mirrors the access granted to Eastern-based companies in the West and as well, the wholesale access that TELUS is providing the cable companies on our broadband wireless network in Ontario and Quebec.

Relative to our peers, TELUS stands out as the company committing to bold future-focused infrastructure investments, reflecting our confidence in the Canadian market over the longer-term and our strategy of bundling wireless and wireline broadband services.

Importantly, our track record aligns with the federal government's goals of unlocking private investment, building one Canadian economy by removing interprovincial barriers, addressing cost of living challenges for families, diversifying Canada's economy through driving innovation of Canadian IP, and ensuring Canada is on the leading edge of AI, digital innovation, and smart sustainability.

Turning back to our strong second quarter performance. We achieved total mobile and fixed customer growth of 198,000 in the quarter. This was driven by mobile phone and connected device additions of 167,000 alongside fixed customer additions of 31,000.

The dedication of our team in delivering customer service excellence contributed to continued strong loyalty results once again this quarter. Notably, postpaid mobile phone churn was 0.9%, consistent with Q2 of last year as we realized our 12th consecutive year below the 1% level.

Looking at our financial results, we achieved solid and resilient TTech EBITDA growth, including TELUS Health of 4%, which is consistent with our Q1 results. In mobile, we drove phone net additions of 55,000 and connected device net additions of 112,000.

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 result, which, of course, is the hallmark of our organization.

Let's turn now and take a look at our wireline business. TELUS delivered another quarter of industry-leading total fixed customer additions. Indeed, we were the only company within the industry to deliver positive net additions within the wireline sector.

This included 27,000 Internet net additions alongside industry-best fixed data services revenue growth of 73%. This is underpinned by our leading PureFibre offering and our consistent strategy of leveraging our superior portfolio of bundled products and services on a national basis that differentiate us meaningfully from the competition in a way that matters to customers.

Furthermore, TELUS Health continues to demonstrate strong operating momentum globally, achieving operating revenue and adjusted EBITDA growth of 16% and 29%, respectively, and Doug will comment shortly on what the EBITDA growth looks like on a normalized basis and how consistent that growth has been historically.

Moreover, the team drove a very strong year-over-year increase in global lives covered to almost \$160 million, inclusive of workplace options alongside continued organic growth expansion. These results were fueled by product enhancements, expanded sales channels, including cross-selling and effective cost management through technology and synergy optimization. Our team's deeply rooted dedication to putting customers first serves as the foundation for this success, and we're building on it.

Since acquiring LifeWorks, we've realized \$400 million in combined annualized synergies. You may recollect that our original target in this regard was \$150 million to \$200 million. This \$400 million includes \$322 million from cost efficiencies and \$78 million from successful cross-selling strategies that are continuing to grow markedly.

We remain on track to meet our goal of \$427 million by the end of 2025, and we will augment this materially with Workplace Options global synergies that are on the come. We are excited to accelerate TELUS Health's growth momentum through 2025 and well beyond on the path to very interesting and productive monetization strategies.

The consistency of our results reflects our team's passion for delivering superior customer experiences over our world-leading wireless and PureFibre networks. Our significant broadband network investments drive extensive socioeconomic benefits for Canadians and communities from coast to coast. At the same time, they are enabling continued advancement in our operational, financial, and customer experience performance.

Looking ahead, our financial position and our operational outlook remains strong, supported by continued EBITDA growth and stable capital expenditures, resulting in a meaningful free

cash flow expansion on a chronic basis prospectively. This will be enhanced by significant value creation in our growth businesses and a multiplicity of asset monetization opportunities.

In this regard, today, we announced a definitive agreement with La Caisse, who will acquire 49.9% interest in our newly formed Canadian wireless tower infrastructure operator, Terrion. This initiative will monetize our world-class tower infrastructure portfolio, creating long-term value and strengthening TELUS' financial flexibility.

Indeed, this allows us to accelerate balance sheet deleveraging and progress towards achieving our target ratio of 3 times net debt to EBITDA by 2027, whilst turning off our discounted dividend reinvestment programme on a progressive basis over the same time period.

Strategically, Terrion will focus on building new towers for TELUS, who will be its largest customer from the start, whilst also developing partnerships to expand tower access across the industry and further monetize this valuable asset.

We are working with a Canadian partner in La Caisse to support broad national wireless access for the benefit of consumers and small businesses across the country. This move also aligns with TELUS' commitment to infrastructure sharing, leveraging smart partnerships to extend the reach of our technology whilst continuing to lead in network quality and services.

Just as we are providing mandated wholesale access through the regulatory MVNO framework on our broadband wireless network across both our traditional operating territory and our expansion territories, and also enabling competitors to access our fibre infrastructure under the CRTC's pro-competition wholesale framework, we are now extending that to our wireless infrastructure across Canada. This will enable broader use of our wireless tower real estate to maximize its utility for Canadians.

Indeed, having a single company focused on tower expansion will positively impact all wireless providers' ability to deploy acquired spectrum to enhance coverage, capacity, and service improvements for their customers.

Again, it's good for competition, it's good for investment and competition and investment are synergistic. Importantly, our new tower initiative mirrors our position on Internet wholesale. Specifically, that fair access to infrastructure can foster meaningful competition, affordability, and consumer choice, whilst incentivizing private investment along the way.

I would like to thank Eros Spadotto, my long-time colleague and TELUS former Executive Vice President of Technology Strategy for assuming the CEO role of Terrion. I expect that he is going to deliver an excellent performance in this assignment.

My sincere thanks as well to the TELUS and La Caisse team for working diligently and innovatively to bring this important initiative to fruition.

Finally, reflecting our TELUS team's long-standing commitment to putting our customers and our communities first in June, the TELUS Friendly Future Foundation held its second Annual Gala. Notably, the Foundation raised more than \$2.6 million in sponsorships, cash donations, and in-kind contributions to support the foundation's TELUS Student Bursary Fund.

This was also complemented, over and above the \$2.6 million, with our partnership with CIBC in this regard to expand the Student Bursary Fund still further.

Since its launch in 2023, the TELUS Friendly Future Foundation has provided over \$4 million in TELUS student bursaries, helping more than 1,000 students from underserved communities reach their dream of post-secondary education, whilst also affecting meaningful change within their communities through volunteerism.

In closing, I'd like to express my gratitude to our team at TELUS for their efforts, their resiliency and their grit in executing on our consistent winning strategy to meet or exceed the commitments that we have to all of our stakeholders. And on that note, let me turn the call over to Uncle Doug.

Doug French - EVP & CFO

Thank you, Darren, and hi, everyone. TELUS had another very strong quarter of operating execution, financial performance and delevering activities. Mobile network revenue was down slightly as mobile phone and connected device subscriber additions as well as higher IoT revenue of 9% were offset by lower mobile phone ARPU.

While the 3.3% decline in ARPU is reflective of the ongoing competitive pressures observed during the prior periods as well as lower overage and roaming revenues, we are seeing an improved operating environment as market conditions stabilize. We saw ARPU trend improvements quarter-over-quarter across new activations, rate plan changes and customer renewals, reflecting our ongoing efforts to mitigate network revenue pressures.

Fixed data services grew 3% year-over-year, our 18th quarter of positive growth, driven by subscriber ARPU, growth in internet, as well as security and automation. Additionally, fixed revenue was supported by higher managed services in the business area.

TTech adjusted EBITDA increased 3% alongside margin expansion of 100 basis points to 41.7%. These results were driven by our consistent emphasis on profitable customer growth and ongoing focus on cost efficiency and effectiveness and asset monetization progress.

TELUS Health revenues and adjusted EBITDA grew 16% and 29%, respectively, and adjusted margin expanded 180 basis points to 17.5%. This growth was driven by organic growth in Employer Solutions as well as business acquisitions, including Workplace Options.

TELUS Health EBITDA, excluding Workplace Options was over 20%, that is eight quarters in a row now of over 20% EBITDA growth in TELUS Health. Growth was also supported by various other services, including our payvider vertical. In 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.

At the end of Q2, informed by TELUS Digital's most recent financial model refresh, we recorded a non-cash impairment adjustment to goodwill. The key assumptions that were updated during the latest model included higher weighted average cost of capital, lower perpetual growth rate, and lower cash flow forecast from pricing and margin pressures.

You can find all the details of the impairment and assumptions underlying it in the notes to the financial statements of both TELUS and TELUS Digital. With this impairment, net income for TELUS was largely offset by the impairment after deducting non-controlling interest share and basic EPS was zero. On an adjusted basis, net income was \$342 million and EPS was \$0.22.

Capital expenditures, excluding real estate, declined by \$11 million or 2%, primarily driven by the completion of certain projects in wireless and fibre network builds and the planned transition to fibre builds and partner build model for brownfield and new market areas.

Overall capital intensity was 13% and unchanged over the period. Free cash flow of \$535 million increased by 11% compared to the same period a year ago, driven by higher EBITDA as well as lower capital expenditures and interest paid.

Looking ahead, we remain focused on driving towards achieving our 2025 targets, which we reiterated today. This includes TTech, including Health operating revenues and adjusted EBITDA growth of 2% to 4% and 3% to 5%, respectively. Consolidated capital expenditures, excluding real estate of \$100 million, are targeted to remain stable at \$2.5 billion. Lastly, consolidated free cash flow 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 13 years with a weighted average cost of 4.71%. Additionally, our financial position remains robust and our leverage ratio declining to 3.7 times, down 20 basis points sequentially since the first quarter.

As we progress through 2025, we expect continued improvements to our leverage ratio, including a net debt to EBITDA ratio by 3 times by 2027, alongside removing the discount associated with our dividend reinvestment program.

In June, we successfully raised \$2.85 billion in hybrid securities across multiple offerings in Canada and the United States, building upon the \$1.6 billion raised in April. These financings support deleveraging with 50% of the proceeds receiving equity treatment by the credit rating agencies.

Subsequent to June 30, we completed our debt tender to retire \$1.8 billion of securities in Canada and the United States for the repurchase in the amount of just under \$1.6 billion, recapturing approximately or circa \$230 million of reduced future cash flow debt obligations.

Our continued organic operational growth, including EBITDA expansion, declining capital intensity and free cash flow, combined with the ongoing asset monetization initiatives will further strengthen our balance sheet.

Notably, we monetized our wireless towers that were announced this morning, will reduce our leverage by approximately 0.17 times on a pro forma basis. Including this transaction, we expect to achieve leverage ratio of 3.55 times exiting 2025 as we progress towards our 2027 target of 3 times.

The accounting for this tower transaction was an equity transaction. There will be no debt on our balance sheet. We will be consolidating the entity of Terrion. In addition, there will be no impact to EBITDA. Free cash flow in our planning period will be positive from this transaction between interest reductions and the leasing opportunities as highlighted by Darren. All the rent paid to Terrion is at fair market value lease rates that you would see in the market.

Looking ahead through 2025 and beyond, we are well-positioned to drive sustainable performance as we maintain our focus on profitable growth. Our strategic initiatives and customer expansion, product innovation and service enhancement will further strengthen our market position and drive long-term value creation. With that, Robert, back to you.

Robert Mitchell - Head of IR

Thanks, Doug. Operator, we're ready for questions, please.

Operator

The first question is from Jerome Dubreuil, from Desjardins. Please go ahead Jerome.

Jerome Dubreuil - Desjardins Securities

Hey, thanks for taking my questions. First, I'd like to start on whether we should read anything in terms of strategic shift from your proposed privatization of TIXT. I mean, does it mean there's a change in terms of the monetization path for other tech ventures that are adjacent to telecom or the move is based on maybe more idiosyncratic items at TELUS Digital? Thanks.

Darren Entwistle - President & CEO

Move is related to support the deleveraging goals of the organization, and I don't think you should read anything into that on an adjacency basis to the other monetization strategies that we have with our emerging growth businesses.

Jerome Dubreuil - Desjardins Securities

Okay, thank you. And if you can maybe provide financial details on the towers, maybe numbers about EBITDA of the entity. I recognize it's consolidated, but that would still be helpful.

Doug French - EVP & CFO

Yeah. We haven't disclosed the EBITDA, but you will see that all the towers are at fair market value rent. So I think it'd be fairly transparent on the number of towers we have. As mentioned, we will be consolidating so there will be no impact on debt, no impact on EBITDA. And we will be free cash flow positive in all of our future modeling on an annual

basis to TELUS when you bring in the business model that we have put forward and have agreed upon with our partner.

Jerome Dubreuil - Desjardins Securities

Thank you.

Operator

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

Maher Yaghi - Scotiabank

Great, thank you for taking my question. Doug, thanks for the additional disclosure this morning on the deal. You indicated that in the short-term to -- I guess, the medium-term, your free cash flow should be having a positive impact from the transaction. How should we think about the long-term impact of this deal as you deploy more towers? I think there's in the deal a plan to deploy more towers, and what happens if we see more colocations on these towers if your peers begin to put their antennas on them? So that's my first question.

Just a question on wireless. Darren, you indicated in your prepared remarks that you feel that the market is getting better in terms of its direction on price. I guess, what gives you the view that this could be sustained? I think this is an important question that a lot of investors are trying to get an answer to that the recent improvement in prices have the potential to be sustained over the medium-term. Thank you.

Doug French - EVP & CFO

On the first one, as you're well aware, the demand for data continues to increase. So within our model and our partnership with Terrion, they're going to continue to build towers for capacity and densification for TELUS. In addition, they will continue to lease with other colocations, as you highlighted.

The business model we have in front of us is that not only will we break even or be very positive or positive cash flow into the future, the co-locate based on our current plan, which is very reasonable, will also keep us cash flow positive for the term of the agreement.

And when you think of some of the challenging margins that the industry has, as Darren highlighted, this is a great opportunity for us to utilize assets across the whole industry better and more effectively to increase the profitability and return on these assets by all providers.

Darren Entwistle - President & CEO

So Maher, I don't have a crystal ball, and it's probably not appropriate that I wax miracle on pricing. So I'll just put those out as two caveats. In terms of what gives me hope, though I don't think certainty is on the table, is probably a few things. Number one, I think the current trend is encouraging. So it's not just AI that draws inference from trends on data, so I think that is an encouraging component.

Secondly, the market has previously been irrational, so when prices create NPV negative outcomes, I don't believe that that's sustainable. So at some point, the market has to shift from irrational to rational. I don't think that's a particularly astute observation, but I think that transition has to take place because it's just not sustainable to have that level of irrationality leading to negative NPV outcomes. Now eventually, given the amount of capital that we deploy within our industry, I think economics have to drive our pricing decisions. And I'm hoping, maybe not in any given day or any point in time, but over the medium to longer-term, that's the axiom that's reflected in our go-to-market decision-making.

The other thing that I think is interesting to draw inference from, in terms of observable comps, is that looking across other jurisdictions globally, you see more sanguine behavior. So if it seems to work there, it might work here. Again, given the commonality of the economics overall for our industry, particularly how much we have to invest. So let's make sure that we get a proper ROI on that investment. Having said that, I think what you want out of an investment in TELUS is to hope for the best, but plan for the worst, which is why we're fanatical on the AMPU front, which is why you've seen a 10% unit cost-to-serve improvement.

Next, I think there's not many organizations that you're going to find anywhere in the world on telecom that's getting backstopped the way we are with TELUS Digital. And so that drives everything from hygiene cost efficiencies from labor arbitrage to the AI enablement of our business, which provides huge productivity benefits that manifest themselves in better AMPU results even in a pressurized ARPU environment. And that is a distinguished or differentiated capability of our organization.

Next, what else differentiates TELUS? We're not a one-trick pony on wireless. If you look at our wireline business, we're the only one that's growing there as it relates to net adds, and we've had a tremendous amount of consistency in terms of data revenue growth, and I would expect that to expand prospectively because we have a lot of product differentiation within this area.

You see the moves that we're making on home energy. You see the success that we've had within our security business. You see what we're striving to do on home health. Effectively, what we're doing is to say, okay, we spend all that money on broadband infrastructure, wireless and fibre; let's get economies of scope out of that fixed cost infrastructure by delivering new services over existing facilities. And the beauty of that is those new services aren't getting commoditized.

So if there's aggressive pricing activity taking place on one product, well, we've got six other products where that's not occurring. And that's true for TELUS, but it's not true for our competition. And I think that's a massively distinguishing factor for our organization.

And then lastly, we have our emerging businesses. And you heard Doug's comments as it relates to the economics on Health and my comments in terms of what the future looks like. But it's not just the growth attributes of those business that are differentiated from telecom pressures, but aligned with telecom in terms of the data analytic thesis along the way, but it gives us the topology of international exposure. So if things are under duress in the Canadian

market, we can enjoy an exposure in other geographic markets that are doing well. And I guess, really, what I'm saying is we've got a lot of elegant diversification within our portfolio that makes us very resilient.

Maher Yaghi - Scotiabank

Great, thank you.

Operator

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

Stephanie Price - CIBC World Markets

Thank you for taking the question. I just wanted to circle back on the towers for a minute, and I was hoping you can unpack the interest savings versus the rent payments when you kind of talk about getting to the net cash flow positive impact?

Doug French - EVP & CFO

The combination of the interest savings plus the colocation revenue are what would be the offset of the lease payments and our share of those because we are still owning 51% of that. That is the math in itself. And so I'll just leave it at that, and we'll -- we've built in and we've agreed to the model with our partner on those fronts, and we're planning to execute to that level.

Stephanie Price - CIBC World Markets

Okay. Sounds good. And then just on Koodo reintroduced 5G plans at the flanker level. Obviously, we saw the similar thing to back-to-school last year. Just curious if you could talk a little bit about that strategy and the positioning the flanker versus the flagship offerings as we head into back-to-school?

Darren Entwistle - President & CEO

Zainul, do you want to take that one?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Yeah, sure. Thanks for the question, Stephanie. So I think what we've done across our offers is really look at three pillars related to customer economic value from a data size, roaming and speed tier perspective, device subsidy and then the financing floor. And we've really done a lot of research on what we think customers are going to gravitate towards and the features and functions that are aligned with our AMPU objectives. Reintroducing 5G back into Koodo made sense from that perspective because there were other value drivers that we are monetizing out of the flanker strategy.

So we're really trying to keep it commensurate with what customers are willing to pay for, what attracts them to the brand, what service level and device type that they're going to gravitate towards and how that aligns with the overall economic value of the offer. So that's

how we moved towards that decision. And I think we're pleased with some of the traction on the premium versus flanker differentiation, but there's more to go in that regard.

Stephanie Price - CIBC World Markets

Thank you.

Operator

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

Vince Valentini - TD Securities

Hey, thanks very much. Two things. One, Doug, can you just clarify the working capital of \$223 million outflow. Obviously, that's the part that does not include the contract assets and easy installment plans. Is that something one-off, lumpy? And will it recur in the second half?

Second one, bigger picture back to wireless, but let me try to take the crystal ball out of it, not predict the future, but just if the recent trend of slight improvement in pricing discipline were to be sustained, how long will it take for your wireless service revenue to get back to positive versus the minus 1% clip you've been at. Is this something that's still going to take four or five quarters for all of the past pricing behavior to flow through, or are we much closer to an inflection point if again, if the current price discipline holds?

Maybe another way of asking that is, is there any way to quantify what percentage of your customer base is already repriced with very little risk of any further movement down?

Doug French - EVP & CFO

So on working capital, Vince, we expect working capital to be somewhat net neutral on free cash flow or on cash flow for the year. So it is the lumpiness of timing between just payables and receivables and the seasonality that our industry sees. So there is no expectation that it will be a drain on cash for the full year.

Darren Entwistle - President & CEO

Thanks for the disguised question on quarterly ARPU forecasting, Vince. I appreciate that. Of course, for me to give you a precise answer, I would have to know the trajectory of the recovery for the industry on a macro basis. I'll try to answer your question with two components. One is, the majority of our base has been repriced. I won't be precise as to the exact percentage in that regard, but it is the majority.

And if there is a continuity of the performance, I would hope within the next three to four quarters, we would achieve the inflection point that you're alluding to in that regard.

Vince Valentini - TD Securities

That helps. Thank you.

Operator

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

Tim Casey - BMO Capital Markets

Yeah, thanks. Two for me. Doug, you mentioned there's a variety of drivers on the fixed data line, which was up 3%. I'm just wondering if we should think of that as a sustainable number into the back half of the year and into 2026, given what you've seen in terms of competitive activity and your continued efforts in out of footprint?

And secondly, just maybe if you could, an update on some of the other deleverage drivers, I guess, particularly real estate. How are you thinking about what path you might choose there? And what are the interim monetization patterns you're going to see as you sell some stuff? Thank you.

Darren Entwistle - President & CEO

Zainul, do you want to take the fixed component first. I think you've got a pretty robust response to that to say the least. And then, Doug, why don't you do real estate?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Sure. Thanks very much for the question, Tim. So on fixed data growth, I think we've definitely shown a lot of consistency, as Darren highlighted in his remarks. I think the other element underpinning that is the diversity of the contribution.

So when you look at the diversity of that contribution, you can see that there's strong growth across a bundle and portfolio of services from Internet to other contributing elements, including our security portfolio, but also with respect to the business growth that helps support that fixed revenue profile. So Navin may want to top up on that. But I think that diversification certainly helps with the continuity.

Maybe the last comment I'll make is that you can see, I believe that while we are growing sustainably and consistently, we are also growing profitably. So whether that's in footprint or out of footprint, we're really looking at ensuring that our value propositions, our pricing and our customer acquisition are commensurate with driving profitable consumer growth and ensuring that we leverage our existing customer base to grow into from a household standpoint so that we're able to achieve that at a lower cost of acquisition.

So I believe that there's good sustainability in that growth profile, and we're being very disciplined in terms of how we're seeking that growth, and we're continuing to build our diversification accordingly.

Darren Entwistle - President & CEO

Just before Doug goes, given that the strength of the story here is not relegated exclusively to consumer, Navin, would you like to top up on a B2B basis and the opportunities that you see there on the performance on the TBS front across SMB and mid-market, both to date performance, but also potential?

Navin Arora - EVP & President of TELUS Business Solutions, TELUS Health, TELUS Agriculture & Consumer Goods, and TELUS Partner Solutions

Yeah. Thanks, Darren. I'd be happy to. I think the first thing I would say is that we continue to outrun competitive and pricing challenges with volume. And we're doing that both on the fixed and the wireless side.

We're seeing strong loading both in our incumbent areas as well as nationally. So we continue to see opportunities to grow market share across the country. And what I think is really nice to see is that our ability to drive product intensity is continuing to accelerate and improve, and that's really on the back of strong customer experience capabilities from the TELUS business team and customers seeing that as a key differentiator in making decisions to make product decisions that are beyond just one product. So I think that's been really great.

Our IoT business continues to grow well. We're monetizing 5G, both on connectivity as well as associated industry solutions and data capabilities, private wireless network doing really well as an example in that regard.

And just lastly, we continue to focus strongly on our margin profile. And as Darren mentioned, with the strong assets we have in TELUS Digital, we continue to drive AI and other automation and digital capabilities in the business and improving both our customer experience and cost profile concurrently. So I'll leave it at that, Darren. Back to you.

Darren Entwistle - President & CEO

Thank you, Navin. Doug?

Doug French - EVP & CFO

Yeah. So on real estate and other de-levering opportunities, we have three or four other buckets. So real estate itself, as you may recall, we had approximately 200 properties that we're looking at, and that would equate to a \$2 billion to \$3 billion portfolio that we could roll into a REIT when the scale was appropriate to do so. That would include over 5,000 to 10,000 rental units depending on the full rollout. We're still a couple -- probably a couple of years away from getting that scale in the build program.

We do have three buildings coming live early 2026, but in the meantime, we are still rationalizing real estate. You would have even seen in this quarter, there was in the other line, a real estate transaction which generated more cash for our organization, and we'll continue to do that where we can rationalize real estate and not under the development side, but we're building an asset a consequence, pruning where necessary and continuing to drive long-term value from that asset.

We still have -- we've only completed 3 of 31 central offices on the copper decommissioning side. So we still have a significant amount of room to go as well on our copper monetization. We've recycled over 5 tons so far and generating double that, almost 10,000 tons of greenhouse gas reductions from the recycling of that copper. And so again, that \$1 billion

opportunity we have is probably only in its less -- significantly less than 10% from an execution perspective, but we actually have sight to getting to those remaining 31.

And then we have our, call it, our pruning opportunities where we do have ventures and certain business opportunities that are not necessarily in our strategic long-term footprint. And you've seen a couple of those monetizations as well. And you'll continue to see those in the tens of millions over the next few quarters. And then probably midterm, we still have the partner opportunity, and I think Darren referred to this as well in both health and TAC.

But as we build these assets a consequence and you've seen the -- especially the accelerated growth in TELUS Health that there is definitely a lot of interest in bringing in partner relationships as well as partner interest on inbounds to us of can they -- how can they help us grow that business?

Tim Casey - BMO Capital Markets

Thank you.

Operator

The next question is from Drew McReynolds from RBC. Please go ahead.

Drew McReynolds - RBC Capital Markets

Yeah, thanks very much. My question, just, I think, bigger picture, probably just start off for you, Darren, on, I guess, Canada's sovereign AI push here with respect to the ecosystem and infrastructure, and it all seems very fresh, and of course, I think Canadian telecom investors just wondering kind of what the role of traditional telcos like yourself will be in this broader ecosystem. We've seen some news announcements from many operators here. Just would love to get your sense of where you think the biggest incremental revenue growth opportunities are potentially within this ecosystem.

Darren Entwistle - President & CEO

I'm going to be tight, not expansive on this because I'm very frustrated with thought leadership and intellectual property leakage here in terms of the strategy that we have been pursuing. So three areas for me that I think are interesting. One is there's a huge opportunity on the sovereign AI factory front.

We are ideally positioned to leverage on an optimized basis, particularly given our relationship with NVIDIA and where we can take that on a progressive basis in terms of compute power and how that can be leveraged on both an inference and on a training basis, and that duality is important as well as our sustainability thesis getting into the realm of liquid cooling and the like. And I think we have an opportunity there to play a pivotal role in that regard.

And you have to be mindful that telcos are originators, carriers, deliverers, storers of data. So our position here, including within the broadband infrastructure and security front is exceedingly strong so that would be component number one.

Component number two is the ingestion of AI within our business. And the upside opportunity there, I don't think has any limits in terms of what it can do for us at a productivity level on go-to-market operations from sales, to service, to care, to assure, to billing and collection in that regard as well as the cost efficiency attributes.

And then thirdly, is the external go-to-market opportunity within TELUS Digital solutions led by Tobias and his team. And we are unique with this asset on the TELUS Digital Solutions front, which is both a fantastic enabler for TELUS Corporation proper, but it's also a terrific vehicle to take our AI solution set out into the external market on a global basis.

And in some cases, but not limited to recycling the product factory that TELUS is on the AI front in terms of our ecosystem, developing trial testing, using and scaling these services and proving it out and of course, then taking that particular show on the road with TELUS Digital Solutions.

Tobias, maybe I'll ask you just on the latter point that has less competitive sensitivity to it, just to talk about our attributes on this front and why we like our competitive positioning in this regard.

Tobias Dengel - President of TELUS Digital Solutions

Yeah. Thank you, Darren, for the question. I would say that -- and I mentioned this on the TELUS Digital call earlier that this second half of the year, we're seeing a real transition in the marketplace from proofs of concept to actual production level deployment of AI.

And, one of the most exciting things for us at TELUS Digital is to work with TELUS as customer zero to really prove these concepts out at scale, and that gives us a big differentiator versus most of our competitors who don't have a built-in customer zero.

I can give you two quick examples. TELUS Expert Messenger has been launched. It's our asynchronous messaging customer support platform. And because it's asynchronous, it's ideally suited for AI in its current state. I think we've all experienced AI can at times be slow, at times, you have to ask it, you have to really coach the answer out. So something asynchronous is perfectly positioned for AI.

We launched it this year. We've been able to improve first contact resolution by 9 percentage points, a 25% point reduction in agent attrition, which goes to speak how much if you deploy AI properly, how much it improves team member experience. And when we included AI in this platform, we got a 13% improvement in average handle time.

Another example is our agent trainer, which we've launched with TELUS with other clients as well. And I think an example of how powerful an AI-based agent trainer is, is we looked at the bottom quartile and putting them into an AI agent trainer within 30 days, 80% of the bottom quartile were top quartile performers and also concurrently driving a customer satisfaction score uplift of 16% within that cohort.

So those are illustrative examples of taking proofs of concept and taking them to a full production, and I think really allowing us to be leaders, especially in contact centers for global deployment.

Drew McReynolds - RBC Capital Markets

Thank you, that's really helpful.

Operator

The next question is from Benjamin Swinburne from Morgan Stanley. Please go ahead Benjamin.

Benjamin Swinburne - Morgan Stanley

Great, thank you. Two questions. I want to ask about the Internet business and then maybe come back to AI and data centers. So on Internet, some comment in your prepared -- in your earnings docks about churn being up year on year and sort of competitive intensity. I guess when I think about your brand and your fibre network, I think it's really well positioned to win in the market. So just wondering if you guys had any more color on sort of what's happening with churn and competition and whether you have any expectation for those trends to improve over the next couple of quarters?

And then, just back to this sort of tying AI and the data center businesses together. Is there an appetite or plan to deploy capital at TELUS towards new data center construction? I'm sure you're well aware Bell has been making a lot of news on that front. I'm just curious if you think that's an interesting opportunity or maybe not the best use of capital from a TELUS perspective? Thanks so much

Darren Entwistle - President & CEO

Zainul, do you want to take the first part on that if you don't mind, and maybe talk about what we've done on pricing related to wireline economics, but also where we're going in terms of our churn improvement measures?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Absolutely. Thank you for the question. So as we stated, we have seen some upticks in churn, not to our liking. We've been a very strong proponent and delivered on significant customer loyalty quarter after quarter. So even when we see some small changes, we take that very, very seriously.

We have seen affordability constraints across the consumer environment and aligning with customers on what their price preferences are and ensuring that we right size bundles towards their preferences.

But I think that the key element here is that we're really leaning in and working with Tobias to leverage AI on churn propensity, on churn early identification, on aligning pricing models. And we're seeing goodness with respect to making sure customers are seeing more

consistency in their pricing and more opportunities to drive value into their households through other streaming or other bundles that we offer.

So I think overall, we're not happy with the trajectory that we've had in the past. We're taking very significant measures to ensure that we improve that trajectory, and we're continuing to leverage the assets that we're known for with respect to the AI capabilities, the loyalty, and customer service experience improvements and the bundling capacity of ensuring that customers see more than just one product value in terms of our holistic bundle, and our product road map will continue to improve in that regard.

Benjamin Swinburne - Morgan Stanley

That's helpful.

Darren Entwistle - President & CEO

And in terms of the next question, I guess the response could be best characterized as being fortuitous for us because TELUS had previously invested significant capital in the development of world-class, world-leading data centers in both Rimouski and in Kamloops.

And when I say world-class, we put a lot of effort and capital into the construction of those facilities to ensure that we optimize for power. We chose locations that had minimal seismic susceptibility and had sustainability and security attributes and broadband connectivity that was truly second to none. So we are recycling these facilities into our sovereign AI factory.

So we're completely bootstrapped, if you will, on that front, which means the capital required to undertake this activity in partnership with NVIDIA, it's not nothing, but it's effectively de minimis because we're leveraging an existing asset. And not only does that help us on the affordability or the capital efficiency front, it helps us on the speed front as well as the longevity in terms of how we can evolve the compute power and sustainability characteristics going forward. And that's quite a potent and highly differentiated story.

The only other thing I would say on this front is as these opportunities continue to evolve, it's not unforeseeable that we could also look at partnership opportunities there to bring in capital to support undertakings of this nature given our advantaged position, not unlike what we've just done with the case on the tower monetization. So lots of latitude and optionality here. And, there's nothing like sweating an existing capital asset to get a second life, if you will, on a return basis, and that's what we're doing.

Benjamin Swinburne - Morgan Stanley

Thanks, Darren.

Operator

The next question is from Matthew Griffiths from Bank of America. Please go ahead Matthew.

Matthew Griffiths - Bank of America

Hi, thanks for taking the question. On the towers, you mentioned that the plan or part of the strategy is to have Terrion build new towers and expand the business. So obviously, the monetization has benefits on deleveraging. This sounds like it has the potential to allow you to expand that business without necessarily having capital on the balance sheet.

So I was just wondering if you could maybe talk about that and if the -- any builds would be kind of debt financed by Terrion and maybe that would be separate than what -- you're consolidating it, so maybe it ends up on your balance sheet anyway, but just how that idea of deploying capital may have factored in?

And on the same idea of capital, I thought I heard Doug, I thought I heard you say that you're exploring or doing some partner build activity, and I was wondering if that related to fibre? I just wasn't sure if I heard that right, but obviously, across the industry, we see a lot of this type of model where people partner up and there's a third-party capital comes to contribute to fibre build. So just curious if I -- it might be a short question, maybe I heard that wrong, but if you could expand on that, if there's anything there, it would be helpful.

Doug French - EVP & CFO

Yeah. So Terrion will build the future towers for TELUS, and it will be funded by both us and our partners. So there is an opportunity there for cash flow opportunity but because we do consolidate it, it will show up in TELUS' books with the offset to our partner funding. So it will still be a net cash differential. But that's all built into the model when I talked about our model going forward.

And yes, on the partner planning, we're already using third-party partners in the West in building fibre. We are looking, and started, the same in the East and so it would right now be focused on fibre, but it's not limited to, as Darren just highlighted on data centers and other initiatives. So I would say, yes, that was the reference in mind was to fibre, but it is a great relationship going forward and other measures.

Matthew Griffiths - Bank of America

And can I follow up on that? Just the next thing that comes to mind is how much -- you mentioned, I think, earlier, the \$2 billion being devoted to build in the East. Is that a combined number? And is that a 50-50 number with a partner? And lastly, sort of anything you can say about the number of passings that this might be able to generate in the East? Thanks.

Darren Entwistle - President & CEO

That is a number related to the activity. How many balance sheets support that number remains to be determined. And as it relates to homes passed, I think let's leave that within the competitively sensitive category. And we will show our actuals against the investment prospectively in terms of that program. I think the important thing to highlight is a comment that Zainul has made.

We will be smart and strategic as it relates to this deployment. We're not coming in just to offer the same old, same old in terms of Internet, but at yet another hollow discount. We're looking to bring value and affordability to customers, but we want to ensure that customers get to enjoy the full portfolio of TELUS services ranging from health and security to smart energy and other ones that we have on the boil.

And finally, we have an axiom in terms of the economics of our expansion, which is that it is value accretive for the organization. And when we highlight that, I think we've got the track record and the empirical evidence to back it up because if you look at our fibre deployment in the West, it is truly world-leading.

There's not another organization that can match the success that we have realized on that front related to economics, product intensity where we're 3.4 products on a per household basis. What we've been able to achieve on average revenue per home, the lowering of churn, the lowering of cost-to-serve through truck rolls along the way, it's just tremendous. The penetration rates that we've secured within the communities overall would be a world-best result.

So we're bringing that intellectual property to bear, and we're going to live up to the axiom of building value, not just RGUs.

Matthew Griffiths - Bank of America

Thank you so much.

Operator

The final question is from Kannan Venkat from Barclays. Please go ahead.

Kannan Venkat - Barclays

Thank you. Darren, maybe a long-term question on the pricing structure within the market itself. When you think about the new to Canada market, it looks like structurally, that's going to be smaller. And then convergence, I mean, just given your own fibre plans and what's going on in the rest of the industry, it feels like everybody is just going to converge with respect to bundles.

So when you think about the flanker strategy or tiering the market across prepaid flanker and then, of course, the premium brands, does that tiering feel like it's too much for a market? I mean is there an opportunity here to maybe pricing by actually tiering the market less? And so any thoughts on that longer-term in terms of that would be great.

And then secondly, on the balance sheet side, just given what's going on in the industry right now and even if we do have a recovery in the next three or four quarters, it feels like the revenue growth rate we are heading towards is going to be slower than maybe what we saw, say, five years ago. So is 3 times leverage still the right number? Or as industry growth settles at a slightly lower level, should the leverage level drift closer to maybe some of your global peers?

Darren Entwistle - President & CEO

Zainul, do you want to take the first part of that question from premium to flanker on that front? And then Doug and I will cover the balance sheet piece later.

Zainul Mawji - EVP & President of TELUS Consumer Solutions

That sounds good. Thanks for the question. I think the answer is that it has to be dynamic. And it's not just an ARPU level of sort of delineation across these brands and offers, it's an AMPU level. And I think what we've seen is, as Darren highlighted, irrational behavior over the last little while in the market relative to the cost of acquisition, the three parameters I've talked about in terms of the promotional subsidy element, the device financing floor, the rate plans commensurate with sort of the value in those plans.

So I think we have to take a dynamic approach consistently and continue to evolve our strategy on an AMPU basis. I also think that when it comes to bundles, it's not just about wireless and wireline, as we've discussed. It's about having other capabilities in the bundle that are delineated to that market demographic. You're certainly correct in saying that as we've seen along with the irrational behavior, the sort of immigration trends, again, that might not be forever. So I think that we're going to consistently be dynamic.

We're going to consistently evaluate the market based on what we think are the right winning strategies to attract the demographic at the right ARPU and AMPU level. And I would say that given that we are seeing some rational -- return to rational behavior, there is opportunity to continue rightsizing what the winning strategies are with what the right service investment and the right promotional investments are for those different segments. If we see that change, we will adapt to that change accordingly.

Darren Entwistle - President & CEO

In terms of growth, I think we're missing out a lot of elements, like we're taking a singular focus related to wireless, and we're propagating it into the future with some negative assumptions associated with it. So building upon the comments that Zainul just made, I would expect longer-term progression here and a greater level of economic rationality along the way.

But I think that alone discounts or does not fully value the benefits that we're going to get out of AI and the meaningful impact that, that's going to have on our business from a sales service and efficiency point of view. And I think that's worth reflecting on further.

The other thing is it leads up the wireline side of the business. And we have a growing and profitable wireline side of our business that is a unique characteristic to TELUS. And again, aided and embedded or underpinned by the TELUS Digital organization.

We have an opportunity for national expansion. It's an attractive market for us to pursue in Ontario and Quebec. I guess it's our version of Zply if you will, along that particular path. And our track record on fibre deployment is literally world-best. So I think that's a nice growth opportunity.

We're loaded for bear on product differentiation. And I've highlighted this repetitiously on the call, but I think it's our job to squeeze economies of scope out of our fixed broadband infrastructure. But I think these services are attractive to both consumers and small businesses. I think we're continuing to exclusively focus on consumers. And TELUS has as much combined upside on SMB and mid-market as we do on the consumer front, and I see that as being underestimated.

And then lastly, we've got some pretty attractive emerging businesses on the health, agriculture and consumer goods side. And as it relates to 3 times net debt to EBITDA, I guess we could say, well, we'll cross that bridge when we get to it in the fullness of time.

But just so that you know, we're super scientific in the way that we model it. So it's not just a finger in the air, or we look at comps on an international basis. We actually do the science on the pareto combination of cost of equity and cost of tax-affected debt, and we are a tax-paying organization to determine how we can best minimize our weighted average cost of capital.

And so 3.0 is not a notional target, 3.0 actually equates to the minimization of our weighted average cost of capital through the Pareto combination of cost of equity and cost of tax-affected debt. So that's a science number, not a picked out of thin air or comp number. And we do that on the science front because we are material capital deployers, and you don't have to look further than impairment test to know how much a 100 bps shift on the WACC means when you're deployers of capital. So we want to get the minimization of the WACC rate. And right now, it's 3 times net debt to EBITDA, and we'll assess that on an annual basis going forward.

Kannan Venkat - Barclays

Thank you

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. And for those of you in Canada, we wish you a nice long weekend.

Operator

This concludes the TELUS 2025 Q2 earnings release call. Thank you for your participation, and have a nice day.