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Q3 2023 Investor Conference Call Transcript

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TELUS Corporate Participants

Darren Entwistle - President, CEO & Director

Doug French - EVP & CFO

Jim Senko - EVP & Chief Product Officer of Consumer Solutions

Navin Arora - EVP & President of Business Solutions

Robert Mitchell - Head of IR

Tony Geheran - COO & EVP

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Analyst Participants

Drew McReynolds - RBC Capital Markets

Jerome Dubreuil - Desjardins Securities

Maher Yaghi - Scotiabank

Simon Flannery - Morgan Stanley

Stephanie Price - CIBC

Vince Valentini - TD Securities

Presentation Transcript

Operator
Good day, and welcome to the TELUS 2023 Q3 Earnings Conference Call. I would like to introduce your speaker, Mr. Robert Mitchell. Please go ahead.

Robert Mitchell - TELUS Corporation - Head of IR
Hello, everyone. Thank you for joining us today. Our third quarter 2023 results news release, MD&A, financial statements and detailed supplemental information were posted on our website this morning.

On our call today, we'll begin with remarks by Darren, Doug and Zainul. For the Q&A portion, we will be joined by other members of our executive leadership team. Briefly, prepared remarks, slides and answers to questions contain forward-looking statements. Actual results could vary materially from these statements, the assumptions on which they are based and the material risks that could cause them to differ are outlined in our public filings with Securities Commissions in Canada and the U.S., including our third quarter 2023 and annual 2022 MD&A.

With that, over to you, Darren.

Darren Entwistle - President, CEO & Director
Thank you, Robert, and hello, everyone. In the third quarter, our TELUS team once again demonstrated execution strength in our TTech business segment, characterized by the potent combination of leading customer growth alongside strong operational and financial results. This was complemented by sequential EBITDA improvement and margin expansion in our DLCX segment.

Notably, we achieved our strongest quarter of telecom customer growth on record with total net additions of 406,000, up 17% on a year-over-year basis. This was driven by strong demand for our best-in-class portfolio of bundled services. Our all-time record customer growth is reflective of our dedicated team, who are passionate about consistently delivering customer experience excellence, leveraging our superior service offerings and digital capabilities over our world-leading wireless and PureFibre broadband networks.

In the third quarter, we delivered solid consolidated operating revenue growth of 7.5% and resilient EBITDA growth of 5.5% in spite of the macroeconomic challenges TELUS International continues to manage through globally.

Let's turn now to our TTech mobile operating results. TELUS achieved leading and record wireless customer growth of 339,000 net additions in the third quarter, up 24% over this time last year. This included strong Mobile Phone net additions of 160,000, up 7%. Notably, this represents our best third quarter on record and our best quarterly result since the second quarter of 2008. This strength was driven alongside our continued focus on profitable and margin-accretive customer growth. Indeed, this consistent and disciplined approach will continue throughout the fourth quarter and into 2024 to ensure our net adds exclusively drive EBITDA and cash flow accretion.

It also included leading an all-time record quarterly connected device net additions of 179,000, which was up 44% on a year-over-year basis. This reflects continued strong momentum with respect to our 5G and IoT B2B solutions that are so critical for the future. Importantly, our team delivered another quarter of industry best loyalty results, which continues to be the hallmark of the TELUS organization and is emblematic of our customers first culture in action.

Whilst blended Mobile Phone churn of 1% and postpaid churn of 0.84% were up slightly against the backdrop of heightened competitive activity, both represented industry best results. Notably, our postpaid churn is now in the tenth consecutive year at less than 1%, and we'll soon be entering its 11th year. The close on Mobile third quarter ARPU of $59.19 was down slightly year-over-year as a result of intense promotional activity in the market and heightened activity in the flanker space. This was mitigated, however, by our long-standing focus on AMPU-accretive loading, driven by our team's passion for winning and retaining profitable customers. At the same time, we are maintaining a keen eye on efficiency by remaining highly disciplined on device subsidies and leveraging our leading digital capabilities.

Furthermore, connected devices and IoT will increasingly be an important contributor to network revenue, ARPU and AMPU growth in the quarters ahead. Indeed, our solid ARPU and leading churn continued to drive our industry best Mobile Phone lifetime revenue, which consistently exceeds our national peers by a considerable margin. This is reflective of the combination of our continued focus on high-quality customer growth and leading client loyalty, enabled by our highly engaged team, who passionately deliver superior service offerings over our world-leading broadband networks, offering customers the fastest, most expansive and most reliable service in Canada.

Let's turn now and take a look at our fixed operating results. TELUS delivered another quarter of robust external fixed net additions of 67,000 in the third quarter. This represented an industry-leading result of the company's reporting to date. Moreover, it included strong and steady Internet net additions of 37,000, powered by the significant advantages of TELUS' extensive PureFibre network.

Our leading performance reflects the continued strength and success of our unique and highly attractive bundled offerings across our truly unmatched portfolio of products and services. These are buttressed by our ever-expanding globally leading PureFibre and 5G networks, all of which are backed by our long-standing customer-centric culture. I'll turn the call over to Zainul in a moment to provide further color on our consumer TTech performance.

Let's turn now and take a look at TELUS Business Solutions, or TBS, which continues to contribute meaningfully to the success of the wider TELUS organization. Notably, this includes delivering another strong quarter with continued revenue and EBITDA growth. Our performance reflects the strength of execution and cost transformation and our highly differentiated solutions, market segment and geographic diversification. It is also indicative of how we uniquely extend our social purpose through our stand with owner's brand promise, including technology solutions that empower businesses to thrive in an increasingly digital world.

During the quarter, our TBS team secured several notable wins to bring our highly differentiated assets and capabilities to meet the evolving needs of our customers. This included a significant strategic deal with Flo to provide TELUS' world-leading connectivity to the most extensive electric vehicle network footprint in Canada, as well as underpinning a record-setting quarter for connected devices performance.

Since announcing the move of TELUS Agriculture & Consumer Goods, or TAC, to TBS, we've begun executing a robust strategic plan, leveraging the strengths of both organizations to capture the market opportunity across the business, also allowing us to streamline our focus, align the right talent, the key leadership roles and of course, as always, improve our cost structure. Whilst TAC revenues of $83 million in the quarter were relatively flat against the backdrop of ongoing macroeconomic headwinds, we remain strongly confident in the positive outlook for this exciting business.

Notably, our Consumer Goods business had its strongest sales quarter in over 3 years, with a strong sales funnel to continue that momentum going forward into 2024. TAC is exceedingly well positioned as the globally leading provider of digital technology and data insights, leveraging its superior products, platforms, distribution channels and enviable client base to scale this business into a true asset of consequence and deliver meaningful and sustained growth for the TELUS organization.

Furthermore, we are accelerating efforts to build AI capabilities into the full suite of product offerings to capitalize on data commercialization and monetization across animal agriculture, agronomy and rebate management, and as well our consumer goods capabilities of trade promotion management and retail execution.

Let's turn now and take a look at our TELUS Health business. We achieved third quarter revenues of $422 million in TELUS Health, alongside 20% EBITDA growth normalizing for LifeWorks. We continue to execute on our global growth strategy and progress towards our goal of being the most trusted well-being company in the world, accelerated by the acquisition of LifeWorks. And this includes our health care services and programs now covering nearly 70 million lives around the world, an increase of more than 9 million on a year-over-year basis. It includes supporting health outcomes on nearly 151 million digital health transactions during the third quarter, up more than 5% over the same period a year ago. And it includes increasing our virtual care membership to 5.5 million, up nearly 40% over the prior year.

As we evolve to answer the needs of our customers worldwide, we foresee TELUS Health continuing its double-digit growth over the medium and longer term. Indeed, since acquiring LifeWorks, our team is committed to driving $427 million in annualized synergies by the end of 2025. This includes $327 million expected to be realized through operating cost synergies from continued integration and optimizing our organizational structure, systems and our real estate portfolio. Furthermore, we continue to anticipate $100 million from longer-term revenue synergies driven by cross-selling health service products within our TELUS Health customer base and throughout our TELUS portfolio of assets, including TELUS International.

To date, we've achieved $194 million in combined annualized synergies towards our overall objective. These synergies will allow us to reinvest in the growth of our business, and as well, improve our profitability whilst we focus on delivering efficient, secure and best-in-class health and wellness solutions to our customers.

Notably, we continue to grow our revenue opportunities globally with significant wins in Canada, the U.S. and Europe exemplified by deals won year-to-date, representing over $450 million in total contract value. Indeed, in the third quarter alone, we closed several material deals across our employer line of business, our payer and provider line of business and our retirement benefit solutions portfolios. The strength of our combined health and well-being solutions and services remain unmatched in the marketplace.

Now let's turn and take a look at TELUS International. Earlier today, TI reported steady year-over-year revenue growth, a meaningful improvement in sequential profitability and margins, and reiterated its 2023 full year outlook. Revenue growth was driven by a combination of higher volumes and the ramp-up of projects across key clients, notably within TELUS International's AI data solutions, demonstrating the significant potential in the AI space and portending what is to come in the quarters and years ahead.

TI's adjusted EBITDA margin increased meaningfully quarter-over-quarter, a positive trend that we expect to continue in the fourth quarter and into 2024. The strong improvement reflects the team's considerable efforts to realize the significant cost savings from our cost efficiency program aimed at rebalancing supply and demand factors across TI's operations, most notably those in Europe.

Despite the near-term macroeconomic pressures that TI has faced this year, we remain highly confident in TI's strategy and TI's investment thesis. This is amplified by meaningful opportunities in respect of digital transformation, particularly with generative AI adoption, and the continuing critical importance of differentiated digital consumer and B2B business experience solutions in the overall marketplace.

In this regard, earlier this week, TI launched Fuel iX, an enhanced end-to-end offering that integrates generative AI in the clients' customer experience ecosystems, enabled by TI's capability in digital consulting, TI's capability in data analytics, their capabilities in self-serve applications, and TI's leveraging of their AI-enabled platform integration.

Critically, Fuel iX helps companies overcome disjointed data and organization silos and ensures that AI is thoughtfully embedded in the functionality of day-to-day client experience, operations and workflows, driving better outcomes and driving better inherent efficiency.

Moreover, TI offers an accelerator program that unlocks gen AI potential with a clear path to production for companies at the start of their AI journeys, representing a vibrant tailwind for TI's medium and long-term growth and profitability.

Doug is going to provide further commentary on both TTech and TELUS International's third quarter results in just a moment.

The significant broadband network investments that we've made and those that we continue to make enable the advancement of our financial and operational performance and underpin the long-term sustainability of our industry-leading dividend growth program. The 7.1% year-over-year dividend increase announced today represents the 25th increase since we initiated our multiyear dividend growth program in 2011, which is now in its 13th year. Since 2004, TELUS has returned more than $24 billion to shareholders, including over $19 billion in dividends, representing approximately $17 on a per-share basis.

Our robust outlook for the continuity of our strong free cash flow expansion portends well for future dividend growth, particularly in the context of our dividend payout ratio guideline of 60% to 75% and the opportunity for increases as we prospectively approach the lower end of that range in the quarters and years ahead. Indeed, this represents an attractive investment scenario, particularly in combination with our dividend growth program for a 7% to 10% annual growth through 2025 and an attractive current dividend yield of well over 6%.

To buttress our consistently strong performance against the backdrop of rapid transformation in our industry and the evolving regulatory, competitive and macroeconomic environment, we continue to focus on executing the extensive efficiency and effectiveness initiative across TELUS that we announced back in the month of August.

Importantly, the transformational investments we've prudently made over the course of more than a decade in building the best culture and enabling industry-leading customer experiences over our globally leading wireless and PureFibre broadband networks are allowing us to accelerate our well progressed plans to digitally revolutionize our business and further streamline our operating costs.

Our team's grit, resilience and ability to embrace change and continuously evolve the way that we operate have enabled us to substantially complete the targeted team member reductions. The incremental cost savings are expected to more meaningfully contribute to fourth quarter EBITDA, with the full run rate expected to be felt by the second quarter of next year. Whilst this initiative has certainly come with many difficult decisions, we've leveraged our decades-long track record of successfully navigating exogenous factors, from regulatory and competitive, to macroeconomic, and most recently through the global pandemic in order to rise and answer the current challenges and future-proof our business and all of our profitable growth aspirations.

Importantly, your company's global leadership in social capitalism was exemplified by the recent launch of the $50 million TELUS Student Bursary, the largest bursary fund in all of Canada. The TELUS Student Bursary will enable thousands of young people who might otherwise lack the means to enrich their lives through post-secondary education at a university, college or technical vocational school. Our annual bursary program will empower these leaders of tomorrow to pursue their ambitions, realize their potential and create a brighter future for themselves and their communities. Myself and our entire leadership team as well as the TELUS Board of Directors remain exceedingly grateful for our team's passionate efforts to support our global communities as we strive to deliver outstanding results for all of our stakeholders.

Finally, from the head and from the heart, I'd like to conclude by extending my sincere appreciation to my long-term colleague and friend, Jim Senko. Today marks Jim's final TELUS investor call before he retires at the end of the year. Over the past 22 years, Jim's amazing dedication to TELUS and his team, alongside his tremendous skill and expertise, have set a remarkably high standard of excellence for our entire organization. I know I speak on behalf of our entire leadership team when I say we will dearly miss Jim's considerable skill, his relentless competitive spirit and his outstanding ingenuity in respect of delivering innovative programs and exceptional outcomes for our customers.

Thank you, Jim, for the many outstanding contributions, and congratulations on a truly, truly, truly outstanding career.

On that note, I'll turn the call over to Zainul. Zainul, over to you.

Zainul Mawji - EVP & President of Telus Consumer Solutions
Thank you, Darren. Amidst an intensely dynamic market, we remain steadfast in our commitment to our consistent strategy, demonstrated by our strong results and driven by our dedicated team, who relentlessly put our customers first, provide the best products and services in our industry and passionately believe in our social purpose.

As Darren highlighted, our winning strategy has resulted in another record quarter for mobility loading, including robust share within the new Canadian and other key growing segments. In addition, our household intensification strategy is yielding impressive results. This has translated into industry-leading customer retention rates and strong customer loyalty. Our leading postpaid churn is resulting in an industry-best customer lifetime value of over $5,900. Our focus on product intensity has yielded superior churn and also optimized acquisition and retention costs.

While ARPU momentum has softened by competitive aggression, deceleration of roaming growth versus pre-pandemic performance and a skew in loading towards lower ARPU segments, we remain disciplined on quality profitable loading. Growth in the newcomer segment has been predominantly through our Public and Koodo brands, which are heavily digitized and have a lower cost to serve. We have achieved our tenth consecutive quarter of year-over-year network revenue growth, supported by a 60% year-over-year growth in the percentage of our base on 5G-enabled devices.

Mobility direct margin growth is outpacing revenue growth by 35%, or 4.2% versus 3.1%, respectively. Our device subsidy per subscriber is declining at a 3.5x faster rate than ARPU as customers step up to access device discounts. And as a result of our transformative cost evolution, we have reduced overall cost to serve by 4% year-over-year. This underscores our historic commitment to focus on profitable customer growth, an axiom that has served us well in the past and one we will continue into the future.

In fixed, customers continue to choose TELUS over our competitors. We have achieved year-over-year growth in Internet net additions in 5 of the last 6 quarters, enabled by our network superiority with PureFibre as we expand our premium leadership in the West through the launch of symmetrical 3 gigabits per second high speed, which is 20x the upload cap of the competition on a vastly more reliable network. This has supported a 19% year-over-year growth in the percentage of our base on 1 gig plus plans.

In August, U.S.-based PC Mag named TELUS the fastest Internet service provider in Canada for the fourth consecutive year, and the best Internet service provider for Alberta and British Columbia. This demonstrates our commitment to connecting Canadians to the people and information that matter most and underscores the tremendous value of our generational investments in world-leading wire line and wireless network technologies.

PureFibre continues to yield superior results, including markedly higher products for household, 68% fewer outside plant repairs and resulting in a 26% higher margin per household. PureFibre Internet churn is 31% lower than copper, driving higher customer lifetime value. Our long track record of positive subscriber growth in video also continued in Q3 with our strongest growth in over 10 quarters. This hinged on the success of our industry-leading video platform, which offers bundled premium and OTT content in addition to the success of Stream+, our affordable OTT aggregation offering for cord shavers that is resonating significantly among customers across the country.

As Darren conveyed, our focus on innovation to provide the most comprehensive suite of products in the industry underpins our leading bundling strategy. We will continue to enhance the breadth and depth of our portfolio, offering unparalleled value to our customers with SmartHome Security and Automation, Stream+ and our unique suite of consumer health products like TELUS Health MyCare and MyPet. These results demonstrate our company's ability to drive consistent growth, deliver strong customer loyalty and maximize household lifetime value.

In what is anticipated to be a seasonally competitive fourth quarter, we will maintain our long-standing focus on quality, profitable customer growth that will deliver positive financial outcomes, including AMPU and cash flow per subscriber. Finally, if I could take a moment to echo Darren's comments and thank Jim for his unwavering dedication to our team. Jim, your outstanding leadership has set the team up well for the future. I am grateful for your partnership and support. We wish you all the best in this next chapter.

Now I'll hand it over to Doug.

Doug French - EVP & CFO
Thank you, Zainul, and hello, everyone. Mobile network revenue increased 3.4% year-over-year, driven by strong subscriber additions, which has been supported by Canadian population growth. ARPU growth declined by 0.5% in Q3, given the competitive environment, particularly within flanker and as roaming revenue growth slowed. Overall, AMPU is strong as we predominantly focus on profitable loading, cost reduction and service delivery, managing device subsidies to higher value loading and as we leverage our leading digital capabilities.

Our strong AMPU performance is further evidenced by our strong mobility direct margin contribution increasing by 4.2% in the quarter, notably exceeding mobile network revenue growth of 3.4%. On a year-to-date basis, ARPU is higher by 1.6%. And for the fourth quarter, we anticipate ARPU on a year-over-year basis to improve relative to Q3 through a continued focus on profitable loading, strong base management, leveraging our product superiority and bundling and including strong growth in connected devices.

Fixed data service revenue grew by 4.9% year-over-year, driven primarily by strong customer growth in Internet, Security and TV and higher but moderating revenue per Internet customer. Within fixed data, residential Internet grew 10% year-over-year, a leading result primarily driven by continued market share gains. Health Service revenue increased by 88% or $197 million over Q3 last year, reflecting the contribution from LifeWorks as well as continued organic growth. As a reminder, we have now lapped the LifeWorks acquisition on a year-over-year basis as of September 1.

EBITDA contribution in our Health business area, which excludes shared services from TELUS, continues to grow at a very good rate in the mid-teens, which will include any – which we expect to increase in 2024 and beyond, benefiting from organic growth, revenue cross-sell synergies and significant cost synergies. Overall, TTech operating revenues were up 7.8% over last year, and adjusted EBITDA grew by 7%.

DLCX operating revenues from external customers were up 5.8% year-over-year, driven by additional services provided to existing and new customers, including those from the acquisition of WillowTree. A strengthening of both the Canadian – sorry, the U.S. and European dollar against the Canadian dollar also benefited revenue growth. DLCX adjusted EBITDA was down 6.5%, primarily due to revenue pressures from some of their larger technology customers, partially offset by the rightsizing of their cost structure.

During the third quarter, our International team executed against its significant and ongoing efficiency plans to meaningfully right size that cost structure. Notably, as compared to the prior quarter, DLCX EBITDA improved 12 percentage points to adjusted EBITDA margin and increased 410 basis points to 21%. Heading into the fourth quarter, these ongoing efforts put TI in a strong position to continue to build on this momentum.

Overall, consolidated operating revenues increased by 7.5% and adjusted EBITDA of 5.5%. On an adjusted basis, net income was lower by 21% as higher depreciation, amortization and interest costs offset the strong adjusted EBITDA growth. While we have substantially completed our targeted headcount reductions that we announced in August, including approximately 4,000 in TTech and 2,000 team members within DLCX, we anticipate consolidated restructuring and other costs to remain elevated in the fourth quarter of up to approximately $175 million, all within our revised outlook that we gave last quarter as we continue to implement our efficiency programs, including non-labor initiatives.

Free cash flow in the quarter was up $355 million, increased by 7.3%, driven by lower CapEx, higher EBITDA and partially offset by our higher restructuring costs and cash interest paid. Our balance sheet remains strong, as evidenced by our successful multi-tranche $1.75 billion debt offering in September, including our fifth sustainability-linked bond, which contributes to TELUS' position as the largest SLB issuer in Canada. The average cost of our long-term debt stands at 4.33% at the end of Q3, well below current rates. In addition, we expect – or in addition, we have our long-term debt to maturity of 12 years, and our ratio of fixed to floating is at 85%. As we progress through the seasonality – competitive final quarter of 2024, we remain in a strong operating and financial position.

Today, we reconfirmed our 2023 financial targets. Our positive outlook reflects the confidence we have in our business to successfully navigate through a dynamic and competitive macroeconomic environment globally. Our outlook is further supported by our significant investments in our cost efficiency, which we are expected to begin yielding more notable savings in the fourth quarter and well beyond. Furthermore, our go-to-market strategy remains consistent in prioritizing strong economic and financial outcomes, including EBITDA and cash flow accretion, balanced against the focus of profitable customer growth.

With that, I'll turn it back to Robert.

Robert Mitchell - Head of IR
Thanks, Doug. Mihai, we're ready to proceed with the questions, please.

Questions and Answers

Operator
First question comes from Maher Yaghi from Scotiabank.

Maher Yaghi - Scotiabank
Great. Darren, can you provide some context around your wireless net adds in the quarter? I mean, I asked this because your numbers were strong even though you stayed flat on handset financing, sitting at a higher price point than your peers' during the quarter. So what is it that allowed you to hit these numbers? And just as a follow-up on ARPU, you indicated that you expect ARPU to improve, Doug, next quarter. I'm trying to just understand what are the reasons behind the deterioration that we saw in Q3. Is it like mix shift, lower overage or a general decline in pricing across the different price points?

Darren Entwistle - President, CEO & Director
Given it's his last investor call, I'll give Jim the opportunity to hit the ball out of the park on this one as it relates to not just the loading answer, but the ARPU and the AMPU answer, why don't you tackle both, Jim.

Jim Senko - EVP & Chief Product Officer of Consumer Solutions
Thank you. Firstly, I want to thank you, Darren, Zainul and Doug and TELUS. I'm completely humbled by your words today. I really appreciate that.

So despite the highly competitive environment, we saw strong customer growth and accelerating AMPU or margin in the quarter. We had our best Q3 Mobile Phone nets, and we were up 10,000 year-over-year. And that was driven largely by the new to Canada loading and strong bundling. But also, we had best-ever connected device additions, which bodes well for future ARPU. And we do expect improving ARPU going into Q4.

And that's really being driven by two things. One is our step-up programs are gaining momentum and compounding. And we're lapping aggressive rate promotions from last Q4. So when you look at the loading, we are seeing and expect to see newcomer growth to continue. And though that growth is lower in ARPU, it's predominantly coming in our Public and Koodo brands, which are heavily digitized and have a lower cost to serve.

When you look at it, Public Mobile, which we're excited about, Public Mobile, but Public Mobile has no retail commissions, no call center costs and no subsidies. So we're getting – we're tapping into that volume, but our costs are coming down with that lower ARPU profile.

We also are doing well and expect to continue to do well from bundling, which is driving great household churn outcomes, not just for mobility, but across all of our products, protecting both our wireline and wireless. And they also come with the characteristic of lower device subsidy, as Zainul talked about earlier. The combination of the subsidy discipline, bundling and digital customer experiences are driving the meaningful EBITDA flow-through in cash flow.

And as Zainul mentioned earlier, our device subsidy is declining at a rate 3.5x faster than ARPU. So in Q3, when you look at it, our device subsidy per subscriber declined by $1.5 year-over-year, which is quite a dramatic number. And we expect this to continue, along with the growing preowned device volumes that we're seeing.

So yes, so we're getting that growth in the newcomer segment and through our bundling. A lot of that growth is coming without a device, but we're keeping our churn down through the bundling and the intensification across our product lines. And that lower device subsidy combined with the operational efficiencies is resulting in mobility direct margin growth that is significantly outpacing our revenue growth. So we have a nice dynamic happening there, which is tapping into where the growth is coming from, but also driving down device subsidy and our operating costs so that we're getting the volume, but we're also getting the margin as well.

And I'd say from an outlook perspective, we expect TELUS to continue to prioritize profitable loading over volume. Our ongoing focus will be AMPU. And as an example, we continue to drive step up to 5G and 5G Plus plans to unlock device promotions.

And then finally, I'd say we see promising revenue growth in the future from all the connected devices in IoT and believe there's even more future upside on 5G business applications, especially in this world fueled by artificial intelligence and automation. So net-net, we're tapping into where the loading volume is coming from. We're driving the cost down, and we're very focused on AMPU.

Robert Mitchell - Head of IR
Thanks, Maher. Next question, please, Mihai.

Operator
Next question comes from Vince Valentini.

Vince Valentini - TD Securities
Did I hear correctly that wireless EBITDA was up 4.2% year-over-year this quarter? Or was that some other metric?

Doug French - EVP & CFO
It's contribution margin. So in our financial statements, we disclosed as part of segmented info, the direct contribution. So that would be revenue minus, call it, direct costs. It does not include the allocated cost below direct margin.

Darren Entwistle - President, CEO & Director
And that's up 35% versus the revenue component. In front of the margin growth.

Vince Valentini - TD Securities
Got that part. And I wanted to ask, I mean, you are going to painstaking lengths to give us a lot of metrics to show how good the profitability is. And I fully agree, these all-digital brands

can't be judged just on ARPU if the profitability is good. But why give us so many metrics when every other company just gives us one simple metric called EBITDA, and then we can see how well you're doing in terms of EBITDA growth versus revenue growth?

Douglas French - EVP & CFO
We continue to drive synergies and rely on our bundled products within our wireline and wireless environment. And when you can actually do co-selling cooperation and co-customer service in each of those streams, your overall cost structure comes down on an integrated area. And so when we brought wireline and wireless together on a consumer and business level years ago, we've been monetizing those benefits and providing better customer touch points. So we actually don't go down to that level on an individual product level anywhere.

Vince Valentini - TD Securities
Okay. And just to make sure we're clear, the guidance on ARPU for the fourth quarter, you're not saying ARPU will be up from Q3. What you're saying is the rate of year-over-year decline will improve versus the 0.5% we just saw in Q3. Is that fair?

Doug French - EVP & CFO
That is correct.

Robert Mitchell - Head of IR
Thanks, Vince. Next question, please, Mihai.

Operator
Next question comes from Jerome Dubreuil from Desjardins.

Jerome Dubreuil - Desjardins Securities
The first one I have is coming back to Darren, your comment about the payout ratio in the future trending toward the lower end of your comfort zone. I think it was 65% to 75%. Just want to confirm that this does not include any DRIP going forward? And then related to that, maybe for Doug, what are the maybe free cash flow implications for next year? Not asking for guidance, but maybe directionally in terms of the – the items we don't think about too often like cash taxes and interest rates. And what would be these assumptions behind that payout ratio comment?

Darren Entwistle - President, CEO & Director
Okay. So the ratio is not 65% to 75%, it's 60% to 75% in terms of the payout ratio on the cash front. The comment that I made indeed indicated specifically in the quarters and years ahead that we expect through our EBITDA growth that we will be delivering, complemented by our significantly moderated capital profile that we will be pushing on the bottom end of that range. Particularly when you do the calculation on a prospective basis. So you can do your calculations in terms of our 7% TTech EBITDA growth this quarter, our reconfirming of guidance for the full year, and where you think we would be shooting for in terms of EBITDA guidance in 2024. If you run those numbers, we would be hitting or falling through the lower end of the payout ratio range of 60%.

And the point there, of course, is that, that bodes well for the affordability of our 7% to 10% dividend growth model. It also is indicative of our confidence in the free cash flow picture for this organization. We don't just expect to see significant free cash flow growth in 2024, but beyond 2024 as well. And we see that as a synergistic combination with the affordability and the expansion – potential expansion of our dividend growth model.

Finally, in respect of the DDRIP, our view here within management is that it's a necessary mechanism at the present point in time. We look forward to the future of turning that D component of the DDRIP off, given the free cash flow expansion strength of the organization and what it portends for the strength of our balance sheet.

Doug French - EVP & CFO
And maybe just adding to the capital and EBITDA that Darren covered. The next 3 main ones will probably be handset investments on renewals. And I would say we don't see a material change in that going forward. It would be cash taxes to your point. And again, I think there'll be no surprises on that front.

And then restructuring. And I think the only item to highlight is there will probably be some of the restructuring that we've executed this year or where the cash will be paid out next year. And when we give out guidance, we'll be clear on the cash versus expense component to free cash flow next year. But other than that, I would say it's very straightforward and clear, as Darren discussed.

Darren Entwistle - President, CEO & Director
And no repeating of union payments.

Robert Mitchell - Head of IR
Thanks, Jerome. Next question, please.

Operator
Next question comes from Drew McReynolds from RBC.

Drew McReynolds - RBC Capital Markets
Two for me. First, maybe for you, Doug, just on the cost savings that were actually realized in Q3. Obviously, they will ramp up in Q4. So just wondering if you could highlight for us just what percentage we did see here in the quarter. And then secondly, in a bigger picture question, maybe for you, Darren. You've alluded to the transformation period that the industry is in. It's probably always in some kind of transformation period. But I would love to get your just high-level view, looking out 3 to 5 years on kind of where you see the major changes in the industry, whether it's competitive, regulatory technology?

And why I'm asking this question is it looks like your playbook differentiates itself from your Canadian peers. And when I think about the contributors to growth that equity shareholders want to see, maybe you have a different definition of where those growth drivers come from over that medium term. So just at the high level, I'd like to get your updated thoughts on that one.

Darren Entwistle - President, CEO & Director
Okay. Go ahead.

Doug French - EVP & CFO
On savings, it will be at full run rate, as we suggested, by Q2 of next year. I would say we will probably exit the year a little greater than 50% to 60%. And in quarter then if you prorated it backwards, it would be substantially less than half this quarter. And approaching an exit rate of above the halfway run rate in Q4.

Darren Entwistle - President, CEO & Director
Drew, I really appreciate that tight question that you gave me. Let me just try and tackle this efficiently. I think the investments that we've made on the broadband front, both wireline and wireless, will be key in the years ahead, leveraging whatever the environment at that juncture will entail. For sure, our goal to commercialize and monetize those investments is going to be key. So when I look out, I look at 5G and to date, beyond faster speeds and bigger buckets, it's not really delivered on its promise on the productization front, particularly within the B2B and B2B2C space.

I am cautiously optimistic that over the years ahead, the productization on 5G is going to be a big value generator for our business because it's going to be a big factor within the private sector, the public sector and consumer lifestyles. I think with that also comes the massive opportunity because of the data volumes generated for the data analytics commercialization and data monetization opportunity. So I just see that as being massive.

On the wireline front, I think it's all about economies of scope. When you spend $7 billion positioning fiber, I think the goal is how many differentiated RGUs that are meaningful to clients can you deliver over that particular mechanism to get the desired ROI? Which is why you see us going from voice and data and entertainment into the areas of security, into the areas of health, into the areas of energy and home automation on both the wired and wireless basis.

TELUS launched a strategy 23 years ago, saying that the future was all about data, both on wireline and wireless. And I think it's as true or more true today than what it was 23 years ago. And how well do you position yourself for that digital revolution and leveraging everything from legacy AI opportunities, the generative AI opportunities. And I believe that they are truly profound within both our telecom business and our emerging business. And they're profound because they can help us on the customer service front, better service for less money spent. They can help us on product development, new sources of revenue. They can help us on what we need to do to materially reduce our cost base. So our story of our margins growing 35% faster than our revenues isn't a story that's isolated to Q3 2023, but a story that's indicative of what happens over the next 5 years.

And we got to be an organization through TELUS and TI that's out there helping our B2B customers with their digital and AI transformation journey along the way. I also think people look at the sectoral place that we've made on agriculture, consumer goods and health. Those are really just data plays. There are digital thesis in action to drive value creation to leverage the advent of these capabilities and what they're going to mean in terms of driving better health outcomes, better food outcomes along the way.

As it relates to the regulatory environment, and God forgive me for saying this, but I see over the longer term, the environment moderating. I think a lot of the goals that the federal government has had on the regulatory front have effectively been answered. And I think this is an era to allow free market forces to determine competitive outcomes, not regulatory or government intervention. I'm not saying that it's going to go away. I believe strongly that it's always going to be there. But I believe that on the whole, the regulatory environment of the future will be more moderate or benign versus what we've seen in the past.

And if you look at whether it's the competitive landscape, the number of offerings that are out there in the competitive landscape, the number of competitors. Or if you just want to go down to the key metrics like has the affordability objective been achieved? Well, there's one hell of a dichotomy right now within the Canadian landscape, where if you look at the magnitude of general inflation on the CPI front, it's a nontrivial number. And you can see what federal governments around the world are doing as it relates to quantitative tightening.

On the flip side, prices on telecom have come down appreciably to the tune of like 17% to 20% within the wireless industry alone. So it is quite a deflationary, inflationary dichotomy as it relates to telecoms versus general goods and services along the way.

And then lastly, I think the organization that best executes the technology play does it with the best culture of execution and the best customer centricity, manages its cost base really well and finds the type of sustainable sources of growth that you see within the complexion of the TELUS portfolio and bundles those solutions in a way that's very elegant and meaningful to clients. I think that they're going to win. And so that's the best I can give you on a concise basis for the purposes of this call. Thanks.

Robert Mitchell - Head of IR
Thank you, Drew. Mihai, next question please.

Operator
The next question comes from Stephanie Price from CIBC World Markets.

Stephanie Price - CIBC Capital Markets
You posted solid Internet net adds in the quarter. And I'm just curious about what you're seeing in the West in terms of competition? But also what sort of contribution your non-Western footprint played in Internet adds in the quarter?

Darren Entwistle - President, CEO & Director
Okay. Maybe after my last answer, I'll hand it over to Zainul to do this one, Stephanie. Zainul, go ahead.

Zainul Mawji - EVP & President of TELUS Consumer Solutions
Thanks, Darren. So Stephanie, I think it's important to highlight that what we're seeing in the West is pretty consistent. Our value propositions are resonating. We're continuing to drive bundled economics and bundled households, as we've talked about. And as Jim reinforced as well, that's giving us some retention momentum that serves us well on the net adds front.

And there are areas that we're continuing to build new fiber capability even though our CapEx is declining, there is still fiber new footprint as well as tenured footprint that we're growing into. And we're seeing a lower sort of rate of -- or a higher rate of occupancy across footprint. So that's continuing to add to growth as well.

I would say that the eastern side is humble at this point. We're really looking at that in terms of we've been providing home security and automation nationally for several years now in some areas, having a solid Wi-Fi, and high-speed service is the backbone of that. And we're also seeing bundling economics helping us with wireless base management in those areas as well. So we'll continue to look at that and again, really focus on profitable net growth based on the rate at which we're able to access facilities as well as the bundling economics of the base.

Stephanie Price - CIBC Capital Markets
And then maybe just one other one for me, just on TELUS Health and its trajectory now that the rebranding has been completed. It looks like revenue growth was solid in the quarter and there was obviously very strong EBITDA growth. How should we think about the changes you're implementing in the business to drive growth and the trajectory here?

Darren Entwistle - President, CEO & Director
I think there's lots of opportunity within the TELUS Health arena. I think we've spoken at length on the cost synergy front and provided the specificity on the $327 million cost goal alone within the $427 million envelope, Stephanie. And we've already realized $194 million of the $427 million goal along the way.

The revenue and the cross-sell funnel is voluminous in the TELUS Health space. All of our products are hunting well within all of our theaters of operation Canada, the U.S. and Europe. And I'm particularly bullish about the opportunity, specifically within employer health solutions, both at the physiological level, but also at the mental health level. And it's not just the remediation component of that, but what we can do to promote and optimize a wellness from an employer health perspective, which fits beautifully with our existing thesis on workforce productivity.

The AI from legacy – the generative AI opportunity in TELUS Health is extremely attractive. I talked about Fuel iX on TELUS International and what we're doing with external clients, but TELUS and TELUS Health are also buyers of Fuel iX in terms of what we can do to leverage our data thesis on steroids within TELUS Health and monetize that on a very, very attractive basis. And it's all within the field of doability within the primary care ecosystem or dealing directly with employers along the way. And we set a goal for how fast and how significant we want to scale this business into an asset of consequence.

And so the task that management has set for itself is what we call our forging 50 program, where we're looking to take our monthly EBITDA within TELUS Health from the low $20 million to $50 million over the next 18 months. That's an exciting program. It's going to be driven by revenue growth through new product opportunities, new markets and cross-selling as well. It will also be significantly aided and embedded by our efficiency programs. But when we accomplish this particular program and get to that $50 million per month level or $600 million on an annualized basis with the CAGR that would underpin it, I think the valuation implications are relatively obvious, and we are certainly excited by those. And that's the type of aspiration that we've got for this asset. And I think it's doable.

Robert Mitchell - Head of IR
Thanks, Stephanie. Mihai, we have time for one more question, please.

Operator
Last question we have in the queue comes from Simon Flannery from Morgan Stanley.

Simon Flannery - Morgan Stanley
Great. Just a couple of follow-ups on 5G, if I could. You talked a bit about the opportunities here, IoT and other things. One thing we started to hear from the U.S. carriers more is a lot of interest in private networks. I was just wondering to what extent are you starting to see those deployments start to gain traction here? And then the other thing we're seeing a lot in is fixed wireless in the U.S. How are you thinking about using fallow capacity in 5G outside of your wire line footprint as a potential broadband alternative for bundling with your wireless service?

Darren Entwistle - President, CEO & Director
Simon, that's a very fortuitous question to conclude with. I want to thank you for it. Navin, fastball down the middle of the plate for you, given the traction that we've got on the private wireless network out front. So I'll hand that one over to you. And Tony, why don't you talk about FWA and how we leverage that capability within our connectivity portfolio in terms of making smart choices on connectivity and the economics associated with that?

Navin Arora - EVP & President of Business Solutions
Yes. Thanks very much, Darren, and Simon, thanks for the question. So we've actually had significant success and had meaningful progress when it comes to commercializing a number of our private wireless network opportunities. Really, given our superior network leadership, we're very bullish on leading the market across all our segments when it comes to this important product set.

We have a large funnel of opportunities to provide solutions, and they support critical use cases across many industry verticals. And interestingly enough, lots of ESG-related use cases to drive environmental efficiencies, as well as worker safety through autonomous vehicles, robotics, video analytics and security and safety device-type applications.

And while we're talking about monetizing 5G, as you saw, we had record loading on connected devices this quarter. And a lot of what we're doing with connected devices bodes well for the future. And as we build out greater industry solutions use case, we expect acceleration across that 5G monetization capability. So specific areas would be smart building technology solutions. You may have read the release. And of course, in Darren's comments, we talked about Flo as an important new customer, new win, where we're in the process of installing 60,000 intelligent electric vehicle chargers across North America.

Previously, we did something similar with JOLT, up to 5,000 EV charging stations here across Canada. So – and then lastly, we've got a lot going on when it comes to smart cities as well. So this will be an important developing story and an important contributor to ARPU as we move into 2024. So back to you, Darren, and then over to you, Tony, I guess.

Darren Entwistle - President, CEO & Director
Go ahead, Tony.

Tony Geheran - COO & EVP
Thanks, Darren. Simon, great question. The – what you're seeing in the U.S. with the millimeter wave fixed wireless access is something we're excited about as a capability, not yet available in Canada as the spectrum hasn't yet been released. But ostensibly, we would see broadband connectivity leveraging PureFibre, we're economically feasible as the first choice is, by far and away, the best technology to deliver a broadband experience or a wideband experience, if you will.

We would leverage our 4G and 5G mobile assets for mobile broadband connectivity. And we have been using our mobile spectrum to support wireless high-speed Internet in some remote and rural areas. And that will continue to be an edge strategy, particularly in low-dense community environments. And then when the fixed wireless millimeter wave spectrum becomes available, that will be probably the final piece in the connectivity jigsaw puzzle, if you will, excluding LEO satellite servicing areas where that plays a role. We would leverage fixed wireless access as one of our connectivity network measures to drive the widest possible extensible broadband coverage we can get. And of course, in some of those areas, you're going to be leveraging government subsidy where it's available, as we've been doing very successfully for the past few years in remote and real communities.

So really, it's a mix of those technologies, Simon, and we would see – it will have a role to play. It will extend fixed network areas where maybe the geography or the cost in a term, particular terrain is prohibitive. And I'll allow you to get that coverage – will allow an attractive urban infill in certain circumstances, where tactically, you may want to deploy this in advance of a build that's ongoing. So we would expect to be utilizing the capability as soon as the spectrum is available.

Robert Mitchell - Head of IR
Thank you, Simon, and thank you, everyone, for joining us today. Please feel free to reach out to the IR team with any follow-ups you may have. And with that, Mihai, back over to you.

Operator
This concludes the TELUS 2023 Q3 earnings conference call. Thank you for your participation, and have a nice day.