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Q4 2025 Investor Conference Call Transcript
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TELUS Corporate Participants

Darren Entwistle - TELUS Corporation - President & CEO

Doug French - TELUS Corporation - EVP & CFO

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

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

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

Ian McMillan - TELUS Corporation - Head of IR

Analyst Participants

Stephanie Price - CIBC World Markets

Drew McReynolds - RBC Capital Markets

Vince Valentini - TD Securities

Maher Yaghi - Scotiabank

Jerome Dubreuil - Desjardins Securities

Presentation Transcript

Operator

Good day, everyone. Welcome to the TELUS 2025 Q4 earnings conference call. I would like to introduce your speaker, Ian McMillan. Please go ahead.

Ian McMillan - Head of IR

Hello, everyone. Thank you for joining us today. Our fourth quarter 2025 news release, annual MD&A and financial statements, and detailed supplemental investor information were posted on our website earlier this morning.

On our call, we will begin with remarks by Darren and Doug. For the Q&A portion, we'll 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 securities commissions in Canada and the United States, including our 2025 annual MD&A.

With that, over to you, Darren.

Darren Entwistle - President & CEO

Thanks, Ian. And hello, everyone. As you know, this morning I announced that I'll be retiring from TELUS on the 30th of June, 2026. It has, without a shadow of a doubt, been a tremendous privilege to be part of the TELUS team for the past 26 years and to have an opportunity to work alongside many of the people on this call.

The success TELUS has realized belongs to the extraordinary team members who have built so passionately, the amazing culture that sets this company apart, and that has led to our significant accomplishments over the years. This team shows up every single day to serve our customers, support our communities, and build the company that Canadians and shareholders can trust. To be part of this extraordinary team and to support them has indeed been the greatest honor of my career.

As a result of my retirement, I'm pleased to share that Victor Dodig, an exceedingly accomplished and talented leader, will become CEO, effective the 1st of July. I'll remain part of the TELUS family as an advisor to Victor until May of 2027.

The CEO progression was enabled through a robust succession planning process. Indeed, our board of directors have selected an outstanding successor in Victor, who is, of course, the former CEO of CIBC. Victor embodies TELUS' core values, embraces a commitment to putting customers first, demonstrates exceptional character and excellent business acumen, and cares deeply about creating stronger communities.

Victor's tremendous skills, CEO expertise, leadership values, and his proven track record of value creation will effectively complement TELUS' strong leadership team and position him and the company well to lead TELUS into this exciting new chapter. We'll have more time to speak about this leadership progression in the coming weeks. However, today, I'd like to focus on TELUS' strong fourth quarter and 2025 full year operating and financial results.

In the fourth quarter and for 2025, our team's unwavering commitment to operational excellence continued to differentiate the TELUS organization delivering strong, quality customer growth and robust financial performance. Our leading asset portfolio and focus on profitable customer expansion delivered strong results to close out 2025, including our fourth consecutive year surpassing 1 million combined mobility and fixed customer additions.

Powered by our world-leading broadband networks and, of course, our famous customer-centric culture, this momentum positions us well for continued growth in 2026 and beyond.

Once again, TELUS led the industry with 1.1 million mobile and fixed customer net additions in 2025. This included record connected device net additions of 716,000, robust mobile phones of 207,000, and fixed net additions of 158,000, representing our 16th consecutive year delivering positive wireline net additions, which is indeed a highlight and it does significantly and positively differentiate the TELUS story within Canadian and global telecoms.

This performance is a testament to the compelling value of our comprehensive bundled offerings across mobile and home nationally, and our team's passion for delivering client service excellence in combination with our fibre assets and our best-in-class 5G wireless network.

Indeed, our sustained focus on customer experience leadership continues to drive best-in-class customer loyalty results. This was demonstrated by industry-leading postpaid mobile phone churn of 0.97% for the full year in 2025. And notably, marks our 12th consecutive year below the 1% threshold, which is a global hallmark of the TELUS organization and, of course, a best-in-class result. This churn result is up to 25 basis points better than our peer group.

Despite a dynamic operating environment, TTech adjusted EBITDA, including Health, increased 3.1% for 2025. This result is within our guidance range and demonstrates our team's disciplined execution and unrelenting focus on cost efficiency and effectiveness. Furthermore, TELUS achieved record free cash flow of \$2.2 billion for the full year. This represented an increase of 11% over 2024 and exceeded our annual target. It is notable that this growth of 11% in 2025 is on top of the 12% free cash flow growth we realized in 2024, and the 38% free cash flow growth we realized in 2023. And of course, it is foundational to the double-digit free cash flow we are forecasting to deliver through 2028.

Let's turn now and take a look at our fourth quarter results. In the fourth quarter, our team achieved industry-leading total telecom customer net additions of 377,000. In wireless, we drove strong industry-leading total net additions of 337,000. This included mobile phone net additions of 50,000, and industry-leading connected device net additions of 287,000, representing an all-time quarterly record for our organization.

This was supported by our strong and unrelenting commitment to economic margin-accretive customer growth. This is once again evidenced by our consistent industry-leading customer lifetime revenue supported by our industry best churn result and an improving ARPU performance that was the best in the industry on a sequential basis. Indeed, as a result of our moderating ARPU decline, network revenue returned to positive growth in the fourth quarter, something that we intend to build upon in 2026. This is an encouraging result that we look forward to executing against in the coming year and thereafter.

Moving now to take a look at our wireline portfolio. TELUS delivered another quarter of industry-leading total wireline customer growth of 40,000 in the fourth quarter. This included 35,000 Internet net additions, powered by our leading PureFibre offering on a national basis.

Our consistent strategy of leveraging our superior and growing portfolio of bundled products and services on a national basis continues to differentiate our company meaningfully from the competition in a way that matters to customers and a way that creates shareholder value.

We are delivering far more than connectivity. We are empowering Canadians with transformative digital experiences, including AI-powered smart home energy solutions, cutting-edge tech enabled healthcare and wellbeing services, comprehensive security offerings, and, of course, premium entertainment solutions. Furthermore, we drove continued strong momentum in our unique and highly differentiated data-centric B2B growth businesses.

Our TELUS Health team delivered another strong quarter of double-digit revenue and adjusted EBITDA growth, fueled by strategic investments, continuous product innovation, and disciplined execution across our global platforms. We successfully delivered \$431 million in LifeWorks annualized synergies, surpassing our \$427 million public target and the commitment that I made to you in this regard.

This comprises \$334 million in cost efficiencies and \$97 million in cross-selling revenue, demonstrating our ability to execute on transformational integrations. Notably, this result is nearly three times above our original target of \$150 million that we set when we first acquired LifeWorks in September of 2022. Moreover, we expanded our global reach to more than 161 million lives covered, solidifying our position as the world leader in workforce, digital health and well-being services. By way of just one example, our commercial initiative with M42's Abu Dhabi Health Data Services, marks a significant milestone in our expansion into high growth markets globally. This collaboration combined TELUS' proven global expertise with M42's regional clinical excellence and AI capabilities to deliver comprehensive workforce health solutions across the Middle East and within the broader region. And it clearly aligns explicitly with Prime Minister Carney's Snow and Sand International Trade Initiative.

As we continue to expand our operational footprint, our engagement with financial advisors to explore strategic investment opportunities for TELUS Health demonstrates tangible progress on our well-articulated commitments to the investment community.

As a leading digital health platform with expanding global reach, AI-driven innovation, and strong profit and cash flow growth, TELUS Health is well-positioned to attract strategic partners that unlock significant value for our shareholders.

In parallel, following the privatization of TELUS Digital, we are accelerating our enterprise-wide AI and data capabilities, enabling strategic cross-promotion of our industry-leading AI product set throughout our entire business portfolio.

At the same time, we are enhancing TELUS Digital's capacity to drive growth opportunities across its external client base. This positions TELUS for differentiated growth with our AI-enabling capabilities revenue targeted to grow from circa \$800 million in 2025 to approximately \$2 billion in 2028 across both TELUS Digital and TELUS Business Solutions, including important contributions from our sovereign AI factories.

Notably, in the fourth quarter of 2025, AI-enabling capabilities revenue increased by 44% to \$229 million, supporting a 35% increase for the full year, underscoring the strong momentum in this high growth area and what it portends for the future. This performance reinforces our position as a trusted partner to enterprises navigating digital transformation and implementation of AI and validates our strategy of leveraging TELUS as an innovation lab to commercialize cutting-edge AI-enabling capabilities for our clients.

Alongside this growth, we expect the integration of TELUS Digital to unlock meaningful operational efficiencies that we intend on harvesting. This includes delivering annual cash synergies of approximately \$150 million to \$200 million with circa \$150 million being realized within the 2026 financial year.

Driving our performance is a disciplined approach to financial management, supported by strong business fundamentals and significant free cash flow growth generation. Our confidence in delivering free cash flow growth at a minimum of 10% compounded annual growth through 2028 reflects our strong financial momentum in action.

Additionally, effective with today's dividend declaration, we are reducing our DRIP discount to 1.75% from 2%, with further reductions planned through 2026 and into 2027, with the full removal taking effect in the 2027 financial year. Importantly, we continue to assess a more accelerated step down facilitated by the execution of our monetization program targeting \$7 billion of assets under management. And I think it's interesting to know, when we look at the \$7 billion of dispositions that we're considering, the synergistic effect with our overall growth strategy.

By way of example, our PureFibre build is what is enabling our real estate monetization and our copper recycling. Our real estate monetization and our copper recycling cumulatively are going to end up paying for about half of the cost of our fibre build. Now, that's a strong strategy.

Secondly, when you look at the opportunity to bring in a strategic investor in TELUS Health, the investments that we have made historically in this business are going to yield significant multiples over the capital that we've invested. As part of our capital allocation framework, we are maintaining our dividend at the current level until our share price and associated dividend yields better reflects the considerable growth prospects of TELUS.

Based on the current quarterly dividend, our cash dividend payout ratio is approximately 70% on a prospective basis and we anticipate that it will remain in the seventies over the course of our multiyear plan, with the net effect of our deleveraging plan in action and the DDRIP removal. Resuming dividend growth will be contingent upon maintaining this payout ratio trajectory with the DRIP discount fully removed as we execute against our strategic plan, including free cash flow generation, and achieving our deleveraging target.

Indeed, in 2025, we undertook several targeted activities to further appreciably strengthen our balance sheet. This included the successful issuance of hybrid debt securities, as well as our partnership with La Caisse and Terrion, our dedicated wireless tower infrastructure operator, enabling wholesale access and co-location.

Notably, our Terrion transaction reduced TELUS' net debt by \$1.26 billion, or approximately 17 points on TELUS' net debt to EBITDA ratio, accelerating deleveraging and advancing TELUS' progress towards robust and long-term sustainable growth.

Looking ahead to 2026, our team is advancing additional monetization opportunities, including strategic investors for both TELUS Health and TELUS Agriculture & Consumer Goods, and the accelerated monetization of real estate and copper assets. These efforts will be buttressed by operational growth, including robust EBITDA and free cash flow expansion, supported by moderating capital expenditures and an industry-leading CapEx intensity ratio of 12% trending to circa 10%.

Our comprehensive deleveraging strategy is moving ahead of plan with the leverage ratio ending 2025 at 3.4 times and expected to reach circa 3.3 times or lower by the end of 2026 and achieve 3 times or better by the end of 2027.

Our strong financial and operational performance are enabled by our world-leading broadband networks, our data-centric growth assets, including what we are building and have built on the AI front, and as well, our commitment to customer service excellence. This provides a sustainable foundation in delivering on our 2026 targets announced today, including consolidated service revenues and adjusted EBITDA growth of up to 4%, consolidated free cash flow of approximately \$2.45 billion, and finally, moderating capital expenditures of circa \$2.3 billion that support that CapEx intensity ratio trending from 12% to 10%.

Underpinning our outlook is a growth strategy centered on amplifying profitable revenue expansion, complemented by ongoing and important focus on cost efficiencies being realized, positioning TELUS to deliver sustainable, value-accretive growth.

In closing, 2025 marked the 25th anniversary of our iconic TELUS brand and the 20th year that our team members have participated in our annual TELUS Day of Giving. Since 2000, TELUS, our team members and retirees have contributed \$1.85 billion, including 2.5 million days of giving, equivalent to 19 million hours in our global communities. This is more than any other company on the planet.

And here's the equation at TELUS: Social purpose and leading the way globally drives higher employee engagement. Higher employee engagement drives better business execution. And this has yielded a culture where better business execution from that higher engagement leads us to deliver the type of customer service outcomes and the lowest churn rate within global telecoms for decades now. It's quite the combination.

And in closing, I'd like to express my gratitude to our global team for their efforts and expertise in executing on our consistent strategy to meet our commitments to all stakeholders.

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

Doug French - EVP & CFO

Thank you, Darren, and congratulations on your retirement. Our fourth quarter and full year results demonstrated strong operational execution and financial discipline, closing out 2025 with strong momentum across all key metrics and continued significant progress on our deleveraging commitments.

During the seasonally competitive fourth quarter, we executed in a highly tactical and disciplined manner that is evident in our financial results. We delivered positive revenue growth, while ARPU continues to stabilize, declining 1.6%, demonstrating an accelerated sequential quarterly improvement.

Notably, this is the strongest sequential improvement amongst our peers, reinforcing the effectiveness of our go-to-market strategy, and the focus on economic loading. Furthermore, TTech adjusted EBITDA excluding lower mobile equipment margin from lower contracted volumes, increased 2.7% and free cash flow increased 7%, supported by our positive free cash flow impacts of lower contracted volumes on disciplined device financing, in addition to our lower cash restructuring.

To summarize wireless, we had the largest network revenue growth, the largest improvement in ARPU and the lowest contracted volumes in subsidies in handsets. This is a trifecta in value generation; and the numbers, not talk, support the financial market discipline that we have shown.

Fixed data services revenue in the fourth quarter increased approximately 2%, driven by continued Internet customer growth and higher Internet ARPU. Declines in business fixed data revenue continued to reflect revenue, variability, and customer contract changes, and was partially offset by continued growth in small business and medium business. Overall, TTech's adjusted EBITDA margin expanded 240 basis points to 40.9%, driven by our commitment to strong economic growth and persistent efforts to reduce costs, including our competitive advantage of TELUS Digital's AI enablement.

In Health, operating revenues and adjusted EBITDA grew by 13% and 10%, respectively. The growth was attributed to the acquisition of Workplace Options, as well as our organic growth in payer and provider solutions, and with strong performance across all product lines.

Moving to TELUS Digital, operating revenues grew 3% for the quarter, supported by services in our TTech and Health segments, as well as expansion with our external customers, notably in banking and financial services. This was partially offset by a reduction in volumes from certain technology and eCommerce clients.

While TELUS Digital's adjusted EBITDA declined 5% year-over-year, the margin of 13.7% improved 260 basis points as compared to the third quarter. The team continues to streamline operations through digital transformation and further implementation of AI, particularly in CX delivery, as well as looking closely at geographical optimization.

On our balance sheet, we continue to benefit from a strong free cash flow generation, as we're executing a disciplined capital allocation and deleveraging strategy. In 2025, we've made meaningful progress strengthening our financial position, and our net debt to EBITDA leverage ratio declining to 3.4x as compared to 3.9x at the end of 2024, positioning us well as we advance towards our leverage targets highlighted earlier today in 2026 and 2027.

During the year, we completed several proactive initiatives to support this initiative. These include the issuance of our junior subordinated notes, as well as successful execution of multiple debt tenders that retired \$2.9 billion of outstanding debt securities. Notably, the \$400 million at 5.375% fixed-to-float rate junior subordinates notes represented the lowest hybrid notes issued in Canada telecom cable hybrid debt history. At year-end, our long-term debt carried an average maturity of approximately 14.7 years and a weighted average cost of debt of 4.75%.

Moving on to our financial outlook 2026 guidance, which reinforces our commitment to delivering strong shareholder value, and it includes consolidated service revenue growth of 2% to 4%, consolidated adjusted EBITDA growth of 2% to 4%, consolidated capital expenditures of \$2.3 billion, including real estate or approximately 10% decrease, and consolidated free cash flow of approximately \$2.45 billion, circa 10% growth.

Our outlook for free cash flow is driven by higher EBITDA and moderating CapEx, stable impact from contract assets offset by higher interest and restructuring charges. A detailed list of our assumptions for 2026 are included in our annual MD&A released today.

To conclude, our 2026 outlook reinforces our commitment to delivering strong shareholder value. We are confident in our ability to deliver sustained profitable growth, supported by a robust asset mix, diversified business portfolio and proven operational excellence.

With that, back to you, Ian.

Ian McMillan - Head of IR

Thanks, Doug. Operator, please proceed with questions from the queue.

Operator

Certainly. The first question is from Stephanie Price from CIBC. Please go ahead, Stephanie.

Stephanie Price - CIBC World Markets

Good afternoon, Darren. Congratulations on your retirement.

Darren Entwistle - President & CEO

Thanks, Stephanie. Thank you.

Stephanie Price - CIBC World Markets

I was hoping you could maybe talk a little bit about the current wireless environment. It seems like it's a little bit more promotional than we typically see in Q1. How does TELUS think about its strategy on the flanker versus fighter brand side here?

Darren Entwistle - President & CEO

Thanks for the question, Stephanie. I'll hand it over to Zainul to comment on that.

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Hi, Stephanie. Thanks for the question. So you're correct in observing that the industry is engaged in some irrational tactics. Unfortunately, following a period of some additional sanguine behavior that you've seen flow through in our results, of course.

When this activity is manifested both above and more recently below the line, our response has been pretty unequivocal. We believe maintaining healthy industry economics is contingent on driving the brand differentiation, as you highlighted, between premium flanker and prepaid segments. And when we see behavior of masking promotions to erode value at the premium level, that undermines the perception of premium brands and initiates a pretty detrimental race to the bottom in the mind of the consumer.

So in that situation, flanker and prepaid brands serve as a really important function in catering to the value-focused demographic within the market. And we don't want to be criticized, we're really apologetic for how we respond to that competitive aggression, and our performance substantiates our position. We're the undisputed leader in establishing the optimal balance and quality loading to ensure superior economics. We've led in churn reduction, in network revenue, growth, in ARPU amelioration, and most critically, in cash flow growth year-over-year. And that's on the back of significant improvement year-over-year, not on the back of a poor performance in one year.

So that sustained level of value creation is not as a result of destroying value on our part. We have accomplished it through a series of deliberate strategic moves ranging from redefining the premium segment and optimizing bundling up economics to enhancing customer retention, achieving sustained year-over-year unit economics, and really judicious device subsidy management as you've seen in our cash flow improvement.

So, given the industry scrutiny regarding debt load and uncertainty that we've seen, cash flow is paramount and TELUS is unmatched in our capacity to demonstrate quality loading with a high payback. So, if you observe a period of time boxed, high irrational market behavior, our track record should unequivocally indicate that that's a reaction to aggression.

Stephanie Price - CIBC World Markets

That's good colour, Zainul. And maybe just a follow-up on ARPU. I think both Doug and Darren highlighted, the rate of decline has improved pretty significantly sequentially. Just curious about the puts and takes there and how you think about TELUS working towards ARPU growth?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Yeah, I think that's great. I would say that the other element of that is that we participated as well more significantly in the value segment through that ARPU growth. And so what you're really seeing is a reestablishment, as I highlighted, of premium. And giving customers a reason to step up and our value proposition in terms of true unlimited, price lock for value step up. And offering some roaming plans in that value proposition for premium have really redefined the premium. And so, with that, we've seen a renewal step up that we haven't seen in the last several years, actually, and that's manifested itself.

And then, finally, it gives us the ability to differentiate the promotional subsidy and attach a higher level of subsidy to where the higher value for what customers are willing to pay for premium plans is. And that's what's really created that differentiation.

Stephanie Price - CIBC World Markets

Thank you so much.

Ian McMillan - Head of IR

Thanks, Stephanie. Karl, next question?

Operator

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

Drew McReynolds - RBC Capital Markets

Yeah. Thanks very much. And I just would echo congratulations on retirement Darren; certainly wish you all the best going forward.

Darren Entwistle - President & CEO

Thanks, Drew.

Drew McReynolds - RBC Capital Markets

Two for me, if I may. I think first, in terms of the guidance range, and I think we could probably just stick to revenue growth, but maybe EBITDA growth. Just the usual question of what gets you closer to 4% versus 2% and some of the moving parts and assumptions there.

And then secondly, just with TELUS Digital now in the guidance and underneath the hood. Just wondering if you could provide us with an update on kind of growth and outlook expectations there. And then specifically just what its role is here in 2026 and helping to drive that \$150 million in synergies and the broader TELUS strategy? Thank you.

Darren Entwistle - President & CEO

Thanks, Drew. In terms of what gets us closer to the high-end of either revenue or EBITDA, I think it's pretty simple at TELUS. We've got three significant areas that we need to execute on. One is telecom, where the key growth drivers within that are within consumer and small business. Second is TELUS Digital and third is TELUS Health.

As it relates to both TELUS Digital and TELUS Health, we're looking in 2026 to realize double-digit EBITDA growth from both of those assets and a significant step up in nominal EBITDA and cash flow generation. And I think it's a laudable and exciting story.

Within the telecom business, it's pretty clear to us. We want to see growth come from four areas. Number one, and this is common to both consumer and SMB. We want to do well at new product development and new product scaling. We have a number of products within our portfolio that are highly differentiated from our competition and pretty meaningful and exciting to our consumers. And getting them into our bundles and scaling that, I think will be not just a growth opportunity in and of itself, but also a halo effect protecting our traditional telecom services from areas like price aggression, because we are differentiated within our overall product suite.

Second area of growth for us is improving churn. We have a significant opportunity to lower our churn rate at TELUS on both wireless and wireline, both consumer and business, and get back into a churn zip code that is emblematic of the type of churn rates that we posted in 2022 and 2023. So that's a specific goal for this organization. And again, the economics go beyond the obvious on that. So, not only do we get a better yield on gross-to-net by improving churn, but we can be more discretionary when it comes to COA, because we don't have to chase net adds because we're doing very well at the churn line. And that's a very positive economic story.

Third area of growth is product intensity. We have a material number of clients on the SMB front and on the consumer front that are single product customers. Getting those single product customers to two product customers, three-product customers, and four-product customers, when we have the quality of the product portfolio that we do is a very doable undertaking for this organization.

And again, we get a synergy with that because of course, as you know, as we drive up product intensity where the opportunity, as I just said, is plentiful, we are simultaneously going to be driving down churn because the more products that we have with a client, the stickier the relationship is.

And then the last growth area for us is national expansion. We have the opportunity on both a build-it-basis and a wholesale-basis to pursue smart, economically accretive, quality customer acquisition strategies on both consumer wireline and SMB wireline within Ontario and Québec, and we intend to do just that.

And then, the final area of growth is at the margin level. And God forbid that we ever forget this or become so blinded by the pure revenue to EBITDA growth opportunities that we miss our OpEx responsibility on cost efficiency.

And it's incumbent upon TELUS to really drive that cost efficiency story for two reasons. One is we have TELUS Digital. We own the totality of that asset, and we should be able to get excellent cost efficiency without sacrificing customer service, because of how we drive that particular asset. Secondly, TELUS Digital is truly a world leader when it comes CX AI applications, truly a world leader. And you don't have to ask just TELUS, you could look at some of the blue-chip clients that are buying our CX AI solution set, and leveraging AI to drive down our cost and improve our go-to market outcomes is a big part of our growth story as well.

So that's where it's going to be coming from. And I like the fact that from a diversification point of view, we're not a one-trick pony on growth. We've got growth coming from telecoms. We've got double-digit growth coming from TELUS Digital. We've got double-digit growth coming from TELUS Health. I think that provides a robust story. So, if there's any shenanigans in one particular area, it can't knock us off of our stride. And, of course, we're never going to take our eye off the ball of cost efficiency along the growth path glide.

Doug French - EVP & CFO

And on the second question on the efficiencies of TELUS Digital, we split them out into four categories. We have below the line, which is interest and capital, which is probably a third of the savings. The other two-thirds are split between TELUS Digital and TELUS from efficiency and effectiveness. And those are all being executed in a lot of what Darren highlighted as we speak.

Drew McReynolds - RBC Capital Markets

That's great. Thank you very much.

Ian McMillan - Head of IR

Thanks, Drew. Karl, next question?

Operator

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

Vince Valentini - TD Securities

Hey, thanks very much. Let me start trying to clarify just a couple of things. Your last comment there, Doug. First off, did I hear Darren correctly, the double-digit EBITDA growth is expected for both TELUS Digital and TELUS Health in 2026?

Darren Entwistle - President & CEO

That is correct.

Vince Valentini - TD Securities

Okay, assuming I have that right, TELUS Digital has double-digit growth even though some of the \$150 million of synergies gets allocated to the telecom division as opposed to being allocated to Digital?

Darren Entwistle - President & CEO

That is correct.

Vince Valentini - TD Securities

And do we know yet if the reporting segments are going to stay the same? Or will we still get revenue and EBITDA for TELUS Digital going forward?

Darren Entwistle - President & CEO

So we will be re-segmenting in Q1 and the segmentation at the moment, I'm still doing some refinements, is what will be external customers will be the TELUS Digital segment. So the internal TELUS business for customer experience will be put back into telecom. We will restate, so you'll get the year-over-year comparative. And then it will be the digital, AI, and external CX that will be left in that number.

Vince Valentini - TD Securities

Okay. And I want to try to clarify what Zainul said earlier on the ARPU. It doesn't sound like there's anything unusual this quarter in terms of the material improvement in the ARPU trend, no roaming contracts or any other unusual items. So, keying off of that, given the good improvement you're seeing in renewal, upsell, and gradual improvement in pricing discipline in the market, is there any reason to think that we should take a step backwards from minus 1.6% in Q1 or Q2, or it continues to get better from that level?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Certainly not from us. So, I would say that you have the readout right. It's organic improvement, and we're continuing to see that progress.

Darren Entwistle - President & CEO

You're right, Vince. So, Zainul can do better. Good point.

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Appreciate that, Vince.

Vince Valentini - TD Securities

Last one. Apologies. But I mean, we're just – I'm inundated with this question all day. I assume some of the other analysts on the line are as well. But is a change in CEO meaning that we should be thinking about any sort of change in capital allocation or dividend policy? And if so, do these questions start to get addressed in the next couple of months or do we wait till after Darren takes his well-deserved retirement?

Darren Entwistle - President & CEO

I think it's important to focus on the facts, Vince. It was only two months ago that the board unanimously approved our three-year strat plan, and all that that entails. So, I would expect strong continuity in terms of what this organization is doing, and more specifically, strong continuity in respect of our growth initiatives, strong continuity in respect of our capital allocation initiatives, and strong continuity as it relates to our deleveraging program.

And we have a portfolio of activities underway to achieve that, that we have well-communicated to the Street. And I think this organization is intent on following through and delivering on those, whether it's the current administration or the prospective one. And we are excited by the catalysts that delivering against these initiatives will entail in terms of value creation at the TELUS organization.

Vince Valentini - TD Securities

Fair enough. Thank you.

Ian McMillan - Head of IR

Thanks, Vince. Karl, next question, please?

Operator

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

Maher Yaghi - Scotiabank

Great. Darren, I recognize you're going to be around for a while still, but I wanted to say it was a privilege to interact with you, and I wish you all the best in the next stage of your life.

Darren Entwistle - President & CEO

Thanks, Maher. That's very kind.

Maher Yaghi - Scotiabank

Of course. You mentioned that more will be shared in the transition process in the coming weeks, but could you provide just for us an understanding of what the board was making sure to lock in by hiring Victor?

Darren Entwistle - President & CEO

I think the board was looking to lock in a great leader with a proven track record, a leader that's familiar with driving a complex organization, dealing with all sorts of exciting opportunities, but working through some of the challenges that come with that, whether it's technological or regulatory. I think they're looking for a leader that had a set of leadership values that reflected the culture that has served the TELUS organization so well.

And so, when I look at the excellent business acumen and strong leadership values that Victor exhibits, I think his propensity for customer service excellence, our nomenclature is customers first, will fit very well with the TELUS organization, supporting the type of world-leading churn rates that we have posted for decades. I think the focus on growth through strength, so growth in combination with a robust balance sheet is going to be something that he'll continue to focus on and delivering against those initiatives.

And then you heard in my comments, the link that I made to social purpose and leading the way in that regard, driving higher employee engagement, which leads to better business execution. And I think if we're known for one thing at TELUS, it's execution. We have done it well forever. And I think the grist for the mill there has been our culture. And I think Victor's affinity with social purpose and the importance that he places on people and culture is going to serve him tremendously well within the fold of the TELUS organization going forward. And then, I think, down to them also to find their own future ideation and genesis. I'm excited to see what the new administration and Victor's leadership team on their growth thoughts prospectively and new ideas and new opportunities and new things for the company to sink their teeth in to, so they make their mark on the organization in a positive way.

But make their mark on the organization in a positive way where it always comes back to putting customers first and doing right by the customer, because we know if we do that well, we do it better than the competition, then all of our stakeholders, including our investors, are going to benefit from the value creation that that delivers. And so, I think that would have been kind of the hallmark that they would be looking for within a CEO.

Maher Yaghi - Scotiabank

Okay. Thank you. Thank you for that. Just to follow-up on the discussion about the pricing environment early this year and how it has evolved compared to Q4. I think one of the frustrations the TELUS team has had was, as you mentioned, below the line discounting, especially on EPPs and stuff like that. You try to correct the situation with some of your discounts on Public and Koodo, but I did notice that this week you did some changes on your EPP plans and we have seen them drop. They're \$15 below what the TELUS branded price is on BYOD and possibly even more if you go to the store.

So I was wondering, that change, is that also a reflection of your frustration? And could we see that be removed, coming back to traditional pricing or the environment remains frustrating for you up until now? Thank you.

Darren Entwistle - President & CEO

Zainul, why don't you answer that and maybe I'll make a closing comment.

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Sounds good. Thank you, Darren. So, I think we have seen some better economics in the industry. And I think when you look at plans like EPP or other plans that are a function of the premium segment, but cater towards a specific target market, whether it's EPP or SMB, there's a couple of elements. One is the eligibility. And so, you do ensure that if you have very strict and tight eligibility of those plans, that they play a meaningful role in the overall portfolio.

So what I would say is you will see that we will be more reactionary. You will see that we will ensure that where we are losing some ground in value, we will want to participate effectively, whether that's in the value segment or in the premium segment. And you will see that we will drive the discussion around keeping certain promotions tightly managed so that they play their requisite role in the portfolio.

Darren Entwistle - President & CEO

I think, Maher, from our point of view, if the mean time to emulate an irrational price move is measured in seconds, it instantly commoditizes any benefit associated with the aggressive pricing on a land grab move. And so, if that emulation, speed of emulation, drives instantaneous commoditization, then what was the point of it in the first place?

And that's the type of discipline that Zainul's looking to instill in the marketplace, which hopefully should then drive a shift to differentiated value propositions that are more sustainable, that create value. And at the end of the day, provide more benefits to customers over the long-term and more benefits to investors. And I just think that's the hallmark of an organization at TELUS trying to do the right thing.

Maher Yaghi - Scotiabank

Okay. Thank you.

Ian McMillan - Head of IR

Thanks, Maher. Karl, next question, please?

Operator

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

Jerome Dubreuil – Desjardins Securities

Hey, thanks for taking my questions. First of all, congratulations, Darren, on an outstanding career. I wanted to ask about Sovereign AI coming back to that conversation. I think last quarter, you discussed the strategy of chips ownership for your Sovereign AI initiatives.

You know, owning the chips can be expensive depending on the model. So, the question is whether the chip strategy is still the right one, if this investment is included in the guidance, and if it is, would the assets be on the balance sheet?

Darren Entwistle - President & CEO

So yes, it's included in the guidance and I'll comment a little bit more on that front. Yes, on the balance sheet as well. But why don't I pass it over to Tobias to make some comments, and then if there's any clean up, I'll do it at that juncture. Tobias, over to you.

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

Yeah, Thank you. And thank you for the question. And Darren, congratulations on your retirement. And thank you for all the unwavering support of TELUS Digital and our alignment throughout the TELUS ecosystem.

So maybe I'll take a little bit of a step back in answering the questions, Jerome. When you think about TELUS Digital, what we accomplished in the fourth quarter, and is part and parcel to our growing momentum that you see in the numbers, is we've unified all our capabilities across Web, app development, Salesforce, Google Cloud, data and AI and specifically our CX AI capabilities around this positioning of winning the moments that matter.

As Darren said, serving the customers is everything. And for us, it's serving our clients across their entire customer journey. And every piece of that is now underpinned by AI. And so, when we look at where we are, where we have permission to be successful, and what advantages we have versus other competitors, it falls into a couple of different categories. One is with TELUS, right? TELUS is a fertile testing ground for us. It's a real-life lab. It's where we show real capabilities in motion, in practice, things like reducing meaningfully first call resolution and save rates. And where we partner on the full stack of Sovereign AI capabilities, that includes the chips, as you mentioned.

The second area that we can differentiate ourselves in is CX AI. AI, obviously impacts enterprises across the entire ecosystem, but an area where we are winning, should win, is this concept of CX AI, where we have hundreds of existing clients, tens of thousands of seats we provide those clients, and we can partner with those clients to really deploy CX AI at scale, and really focus on complex workflows where AI supports the humans doing those workflows.

And particularly excited that we just received a Gold Stevie Award, which is their highest level for our B2B sales efforts with a major fintech customer, where we improved conversion rates by nearly 50%, generated over \$100 million of incremental value for them.

But importantly, outbound B2B sales is an area where AI will support what we do, because empathy is so critical, it's not going to be fully replaced by AI, it's going to be complemented by AI. And all of that then translates into what we're seeing. As Darren mentioned or Doug mentioned, we have a 44% increase in year-over-year in Q4, 35% growth for the full year related to our AI-enabling capabilities as we work towards that \$2 billion target in 2028. And I would say the final leg of the stool here is how we're using AI to take costs out of the system.

As noted, we have \$150 million to \$200 million goal, and we're laser-focused on streamlining our cost structure and TELUS' cost structure to effectuate that, including both moving team members to the most appropriate geography globally, and second, through deploying our AI processes to accelerate workflows and reduce costs.

I'll just end with one example there. Deployed in the fourth quarter, Fuel training tools, AI training tools to reduce our contact center agent proficiency by 50%. So the time it takes to become proficient is down, up to 50%. And those are the kinds of costs that we're going to be addressing throughout TELUS and with our clients.

Darren Entwistle - President & CEO

I think, Jerome, the other thing that is key is fortuitously, I think maybe we're a bit lucky as well as smart. We had legacy data centers in Rimouski and Kamloops that, unlike others, we did not sell.

So we're leveraging that sunk cost. And down to the team, the architectural qualities of those data centers were such that we could make them fungible and turn them into Sovereign AI factories with a minimum amount of capital investment to accomplish that outcome, which is exactly what we have done and why we can get it done within the CapEx envelope that's seen our CapEx intensity drift from 12% towards 10%.

Even at the OpEx level, these Sovereign AI factories will be run because of the technology prowess that we have by a skeleton crew. And so, we're extremely cost-efficient here at both the CapEx level and at the OpEx level.

The other thing that Tobias and Hesham have done is that we're balancing growth so that supply equals demand. So the rollout of these data centers, the enablement of the data centers, the investment in the chip construct within it is being bridled according to the pace of demand. And I think that, again, is a very smart way to drive this overall strategy.

Fortunately, we cut a great strategic partnership with NVIDIA that gives us an advantageous and strategic position, both as it relates to new chips, but also in terms of cost, economics and volumes that really play into our favor at the TELUS organization.

And then within our positioning, back to what is truly sovereign about it, we are unique, because every element of the Sovereign AI thesis is controlled by TELUS, which is a real differentiating factor for us. So, whether it's inference, whether it's models, or whether it's training, this is all in-house at TELUS, which I think enhances the sovereign component to our story, which we know matters tremendously at both the customer level as well as at a government level.

And then the other thing that in our favor economically, that Tobias referenced in terms of TELUS being the anchor tenant, is we get to enjoy great economies of scope. So when you think about the development of GenAI applications on the co-pilot front, and our world leadership on the fusion of CX AI, our co-pilots that have been developed for TELUS, whether it's agent trainer, co-pilots on retention, co-pilots on upselling, co-pilots on customer service, our co-pilots that are also going to benefit from the tribal knowledge that TELUS Digital is accruing because they're not just doing this for TELUS, they're doing it for 700 external clients. And so the external clients get the benefit from the learning curve at TELUS and TELUS gets the benefit from the learning curve at the external clients. And when it comes to CX AI, we are the 800-pound gorilla. And that two-way flow of learning is going to be terrific for the performance of the TELUS organization, whether it's go-to market outcomes or cost efficiency outcomes.

Jerome Dubreuil – Desjardins Securities

Thank you.

Ian McMillan - Head of IR

Thanks, Jerome. Karl, I'm recognizing that we're through the hour, so we'll pause the call there. Thank you, everyone, for joining the call today. Please reach out to the IR team with any follow-ups.

Operator

This concludes the TELUS 2025 Q4 earnings conference call. Thank you for your participation, and have a nice day.