The power of our purpose

Q4 2022 Investor Conference Call Transcript

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TELUS Corporate Participants

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Doug French - EVP & CFO

Jim Senko - EVP & Chief Product Officer

Jeff Puritt - TELUS International President & CEO

Michael Dingle - TELUS Health Chief Operations Officer (COO)

Navin Arora - EVP, TELUS Business Solutions

Tony Geheran - EVP and COO

Zainul Mawji - EVP & President, Home Solutions & Customer Excellence

John Raines - President of TELUS Agriculture & Consumer Goods

Robert Mitchell - Head of Investor Relations

Analyst Participants

Maher Yaghi - Scotiabank

Jerome Dubreuil - Desjardins Securities

Aravinda Galappatthige - Canaccord Genuity

Drew McReynolds - RBC Capital Markets

Vince Valentini - TD Securities

Stephanie Price - CIBC Capital Markets

David Barden - Bank of America

Simon Flannery - Morgan Stanley

Presentation Transcript

Operator

Good day, everyone. Welcome to the TELUS 2022 Q4 earnings conference call. I would like to introduce your speaker, Mr. Robert Mitchell. Please go ahead.

Robert Mitchell - TELUS Corporation - Head of Investor Relations

Thanks, Karl.

Hello, everyone, and thanks for joining us today. Our fourth quarter 2022 results news release, MD&A and financial statements and detailed supplemental investor information were posted on our website this morning at telus.com/investors.

Our call today, we will begin with remarks by Darren and Doug. The Q&A portion of our call will be joined by Zainul Mawji - President, Consumer Solutions; Navin Arora - President of Business Solutions; Jim Senko - our Chief Product Officer; Tony Geheran, our Chief Operating Officer;

Jeff Puritt - President and CEO of TELUS International; John Raines - President of TELUS Agriculture & Consumer Goods; and Michael Dingle, our Chief Operating Officer at TELUS Health.

Briefly, this discussion and answers to questions, contain forward-looking statements. Actual results could vary materially from those statements. The assumptions in 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 in our 2022 annual MD&A.

With that, over to you, Darren.

Darren Entwistle – President & CEO

Thanks Robert, and hello everyone. Throughout 2022, TELUS achieved strong operational and financial results across our business, leading our North American peer group with respect to 2022 Operating Revenue, Adjusted EBITDA and Free Cash Flow growth, along with most operating metrics.

This is a trend the TELUS team has consistently demonstrated over the longer term. Our robust performance in the fourth quarter and for the full year reflects the chemistry of our globally leading broadband networks and customers first culture, driving our hallmark combination of profitable customer growth alongside strong financial results.

Industry-leading telecom net additions of 301,000 represented our best fourth quarter on record and concluded another year of industry-leading expansion of our customer base. Indeed, in 2022, we delivered all-time record customer growth, surpassing total annual net additions of more than 1 million for the first time. This included another best ever year for fixed subscriber growth of 274,000 and the highest mobile phone net additions for our organization since 2010 with 401,000 net new customers.

Our industry-leading growth reflects the consistent potency of our operational execution, unmatched bundled product offerings across mobile and home and team member culture focused on delivering exceptional customer experiences over our globally leading PureFibre and 5G networks.

Our team's passion for delivering customer experience excellence, once again contributed to strong client loyalty across our key product lines, including blended Mobile Phone, PureFibre Internet, Optik TV, Security and Voice churn, all below 1 per cent for the year.

Also for the full year, operating revenue growth of 8.6 per cent came in above our revised guidance of approximately 8 per cent. EBITDA growth of 9.5 per cent landed comfortably in the midpoint of our revised guidance range. Moreover, we achieved strong free cash flow growth of 64 per cent for the year, exceeding our original free cash flow target.

In addition, Capex was in line with our target and reflected the final year of our accelerated broadband build programme that has been considerably successful. Strength in our core telecom operations continues to be bolstered by continued strong operating momentum in our highly differentiated technology-oriented businesses - TELUS International, TELUS Health, and TELUS Agriculture and Consumer Goods.

Let's now turn to take a look at the fourth quarter…

TELUS once again achieved industry-leading operating revenues and EBITDA growth of 12.6 per cent and 11.3 per cent, respectively. Looking at mobile, TELUS achieved strong customer growth of 218,000 net additions in the fourth quarter.

This included healthy mobile phone net additions of 112,000, which was similar to last year. Notably, the strength continued to be driven primarily by loading on our premium brand, reflecting our consistent focus on profitable customer growth. It also included leading and record fourth quarter connected device net additions of 106,000, up 31 per cent on a year-over-year basis.

Importantly, our team delivered another quarter of industry fast loyalty results, which continues to be the hallmark of the TELUS organization. Blended mobile phone churn was an industry low 1.22 per cent in the fourth quarter, reflecting a year-over-year increase as a result of the intensely competitive Black Friday promotional environment.

Looking at our industry-leading postpaid mobile churn, this was once again below 1 per cent in the quarter. Indeed, at 0.75 per cent for the year and relatively flat over last year, 2022 represented our ninth consecutive year of industry-leading postpaid wireless churn below 1 per cent.

One key factor behind this consistent industry best performance is the superiority of our world-leading networks. In this regard, in 2022, TELUS once again earned numerous accolades from independent third-party organizations.

Notably, Global analytics company Opensignal out of the U.K., recognized TELUS with five industry awards in the year for both our 4G and 5G networks, making TELUS Canada's most awarded network by Opensignal for the 11th consecutive time. Similarly, TELUS was honoured with three awards from U.S. based Ookla in 2022, including being named North America's fastest mobile network according to results from their speedtest.

Moreover, Canada-based Tutela recognized our wireless network with four national awards for Excellent Consistent Quality, Core Consistent Quality, 5G Excellent Consistent Quality and 5G Core Consistent Quality. Likewise, our wireline network also received praise, ranking as the fastest nationwide internet service provider in Canada amongst major carriers by PCMag for the third consecutive year.

These acknowledgments clearly illustrate TELUS' leadership in offering our customers the fastest, most expansive and most reliable service in Canada across both our wireless and PureFibre networks. Moreover, this recognition of TELUS' national broadband network leadership underscores the tremendous value of our generational investments in world-leading network technologies, including our now concluded accelerated broadband expansion program undertaken over the past two years. Importantly, these investments will continue to drive extensive socioeconomic benefits to Canadians in communities from coast to coast for, decades to come.

To close on mobile, industry-leading fourth quarter ARPU growth of 2.2 per cent over last year was supported by roaming improvements as a result of increased international travel. It was also supported by strong performance on our premium brand, also supported by strength within our MRC and supported, of course, by our low churn rate, keeping our premium customers.

Notably, mobile phone, lifetime churn and the revenue that we generate continues to be up in terms of lifetime revenue by 48 per cent higher than our national peers, reflective of the combination of our consistent focus on high-quality economic customer growth and leading client loyalty and what a combination that is and what a huge differentiator that is versus our peers.

Now let's take a look at our fixed operating results, where TELUS delivered another quarter of industry best wireline customer growth. Our team achieved strong fourth quarter Internet net additions of 42,000, up 5 per cent on a year-over-year basis. We continue to drive strong growth in our TV product line with industry-leading net additions of 17,000, relatively flat over the prior year despite modestly higher churn.

Furthermore, residential voice was again a very positive story this quarter, with industry-low line losses of only 4,000, which was down 60 per cent on a year-over-year basis and represents our best fourth quarter result since 2002.

Notably, this reflects our momentum with respect to our product intensity or product bundling and the inherent churn benefits associated with this strategy that are proving to be so successful for TELUS. Strong and leading security net additions of 28,000 further reflects our successful strategy of driving profitable customer growth and multiproduct penetration.

Overall, our robust industry-leading external fixed net additions of 83,000 represented our best quarterly wireline customer growth on record. These performance attributes reflect the strength of our unique and highly attractive bundled offers across our unmatched portfolio of products and services, products and services that are buttressed by our ever-expanding broadband networks, our leading customer-centric culture as well as our strong and highly differentiated social capitalism attributes that truly do underpin the strength of the TELUS brand and culture.

Now let's take a look at our TELUS Health business…

In 2022, health services revenue increased by 75 per cent, nearing the $1 billion revenue milestone, including four months of contribution from the acquisition of LifeWorks at the beginning of September. As we progress into 2023, we continue to focus intensely on integrating and scaling our global health operations to build the healthiest communities and workplaces on the planet. Notably, we recently united LifeWorks with TELUS Health together under the TELUS Health name and one brand going forward, with the aim of integrating the best of the global branded culture from across both LifeWorks and TELUS.

The expanding scale of our health care programs within our integrated TELUS Health organization includes covering 68 million lives, an increase of more than 47 million over last year. In addition, digital health transactions were up over 5 per cent in 2022 to more than 580 million. Furthermore, we welcomed 1.7 million new virtual care members in the last 12 months alone, increasing our membership to 4.5 million, up 61 per cent over the prior year.

For 2023, we anticipate strong growth at TELUS Health, including solid organic growth as we continue to integrate and expand this business into an asset of scale and significant global consequence. This will be supported by our intense focus on crystallizing meaningful synergies of $200 million or more that we expect to drive over the next three to five years, inclusive of revenue synergies from cross-selling and $60 million in near-term cost synergies. And of course, TELUS International has a critical role to play to help us achieve these results and beat the targets that we've set for ourselves.

Before we close on health, I'm pleased to share the appointment of Sid Kosaraju as our President of TELUS Health. With more than 20 years of global experience leading organizations with a focus on innovative health care technology and services, Sid is exceedingly well-positioned to lead the ongoing transformation and scaled growth of TELUS Health.

Indeed, leveraging its tremendous expertise, Sid will drive product innovation, distribution strength and an engaged culture that puts customers first across our health care business. Myself and the executive leadership team look forward to supporting Sid and our TELUS Health team as we accelerate our transformational strategy of leveraging data analytics and dynamic insights to revolutionize access to advanced health care services - including preventative health and wellness optimization solutions, driving remarkable health experiences for the benefit of the clients and individuals that we serve in Canada and worldwide. The economic growth that stems from that will put us on the IPO trajectory that we all find so exciting.

Turning to TELUS Agriculture & Consumer Goods…

Annual revenues of $354 million were up 24 per cent in 2022 over the prior year, through a combination of organic growth and the impact of business acquisitions in 2021, as our team continues to integrate and grow this compelling global business.

We are creating significant value as the leading provider of agriculture and consumer goods technology solutions around the world as we advance the sector's efficiency and effectiveness, including food quality production, waste reduction, food and retail execution, trade promotion optimization and doing it all through advanced data analytics and dynamic insights that help our customers from agribusiness to food retailing. In 2023, we look forward to strong progress and double-digit revenue growth in this business.

Now let's take a look at TELUS International…

Despite a challenging macroeconomic environment, this morning, TELUS International announced strong 2022 results, including double-digit revenue growth, leading profitability and robust cash flow for the full year.

Indeed, TI's strong results and strong outlook also reflect the important relationship with TELUS as an anchor customer, enabling TELUS with superior customer service excellence and powering our digitization strategy - a unique relationship that significantly benefits both organizations and one that is expected to continue growing, and we will realize the success of that neutralism. TI's continued focus on profitable growth, powered by attractive end-to-end digital capabilities, position it as a trusted advisor for premier digital customer experiences and IT services for its over 650 global clients.

Earlier in January, TI consummated the acquisition of full service digital provider, WillowTree, significantly bolstering TI's front-end development and design competencies and importantly, unlocking unprecedented and deeply attractive cross-selling opportunities for both organizations. The transaction resulted in the addition of new marquee customers that further diversify TI's enviable list of client partners.

Importantly, TELUS International and WillowTree also support the acceleration of TELUS' ongoing digital transformation and key product development across the totality of our business, but in particular, in health and agriculture and consumer goods.

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

In closing, the TELUS team's ability to consistently drive profitable growth over the longer term on the back of a differentiated asset base, best-in-class customer experiences, world-leading networks and our unique growth businesses - provides us with confidence in the robust outlook for our business, and our ability to deliver on the ambitious annual targets that we announced today.

For the year, we are targeting industry-leading operating revenue and adjusted EBITDA increases of up to 14 and 11 per cent, respectively. As previously announced, we expect a very meaningful drop in core capital expenditures to approximately $2.6 billion following the successful completion of our accelerated broadband investment programme.

This will represent a Capex intensity ratio of circa 13 per cent, which represents a historic low for TELUS and is amongst the lowest globally within our peer group. As a result, we expect free cash flow of approximately $2 billion, up close to 60 per cent, supported by strong EBITDA growth and the material capital expenditure step-down.

Our targets will be supported by the healthy guidance for 2023 announced this morning by TELUS International, once again, targeting double-digit revenue and EBITDA growth alongside leading margins as they continue to drive solid and profitable operating momentum.

TI's financial objectives will be backed by their end-to-end design, as they build and deliver these capabilities, tapping in to the accelerated need for premium digital customer experiences, digital transformation, content moderation and AI data solutions across its strategic industry verticals on a global basis.

Importantly, the unparalleled skill innovation, grit and execution excellence of our team and progressing our consistent and winning strategy underpins our leading multiyear dividend growth program, now unbelievably in its 13th year and extended that particular ambition for annual growth of 7 to 10 percent through to the end of the 2025 financial year.

Finally, I'd like to take this opportunity to recognize our team for the way they continue to exemplify our social purpose in action. In 2022 alone, our team members and retirees donated $125 million and volunteered close to 1.5 million hours in support of charitable and community organizations. This is more than any other company in Canada.

Indeed, since 2000, we have demonstrated our global leadership in social capitalism by getting $1.5 billion, including two million days of global volunteerism. Myself and the leadership team continue to be inspired by the unparalleled compassion of our TELUS family, and their dedication to making the future friendly for all of our stakeholders. They are indeed the best exemplification of our brand values in action.

Before I came to TELUS, I spent 10 years in global telecoms, hunting for value in most places on the planet. So it is with some degree of familiarity that I'd say -- the growth profile that we have is truly unmatched on a global basis.

I don't know of a global peer that can match the strength and critically, the sustainability of our revenue growth, our EBITDA growth, our cash flow growth and our dividend growth. And that's not just the story for 2023. It's the story for 2024, 2025 and beyond. And that truly makes us unique.

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

Doug French - Executive VP & CFO

Thank you, Darren, and hello, everyone.

Our fourth quarter results extend our track record of delivering leading operational and financial results, supported by our high growth and diversified asset mix. In the quarter, we continued to see strong growth across all areas of our business. In mobility, we delivered network revenue growth of 6.5 per cent, driven by strong customer growth and higher ARPU.

Furthermore, as compared to the pre-pandemic Q4 2019 period, mobile network revenue is 11 per cent higher, showcasing our strong consistent growth and customer service excellence.

We continue to see a steady improvement in roaming revenue, with a Q4 amount of approximately 122 per cent as compared to pre-pandemic levels.

We remain focused on driving sustainable ARPU growth by maintaining our consistent focus on high-quality customer growth, executing on our 5G monetization strategy, excellent base management, diligent cash management on handsets and leveraging our leading churn profile within a competitive and dynamic market environment.

Fixed data services revenue grew 5.9 per cent year-over-year or nearly 6.8 per cent when considering the divestiture of the Financial Services business in December 2021. Within fixed data, residential Internet revenue grew 8.4 per cent year-over-year as we continue to drive market share alongside higher ARPU.

Customers are continuing to move to our high-speed tiers, recognizing the superior customer excellence on our PureFibre network, while the compelling value of symmetrical speeds and reliability leads in this product set.

Health Services revenue of $411 million increased by $270 million over the prior period, reflecting the contribution from LifeWorks as well as continued organic growth. As we progress into 2023, we remain very focused on the LifeWorks integration and executing on the significant synergies and health outcomes our combined organizations can unlock together.

Early in January, we announced the successful acquisition of WillowTree, as highlighted by Darren. Together, these transactions represent important steps we are taking to scale our high-growth, technology-oriented business, further setting us apart from our global peer group while adding capacity for value creation and diversification of our overall business.

At the segment level, TTech operating revenues were up 13 per cent year-over-year. As a reminder, in the fourth quarter of 2021, we recognized a $410 million gain from the sale of our Financial Services business to flow through other income. TTech Adjusted EBITDA grew 10 per cent for the quarter and capital expenditures declined by 28 percent, reflecting the conclusion of our accelerated capital program.

DLCX operating revenues from external customers were higher by 9 per cent year-over-year, primarily from growth in our tech and game clients arising from additional services provided to existing customers and the addition of new customers. DLCX Adjusted EBITDA was up 23 per cent, while margins improved 200 basis points to approximately 25 per cent.

Consolidated operating revenues increased by 13 per cent year-over-year and Adjusted EBITDA growth by over 11 per cent.

Furthermore, our annual EBITDA growth in each of 2020, 2021 and 2022, our cumulative EBITDA growth was over $1.3 billion since the pandemic started, while most of our industry peers are still humanly negative. We did not go negative in any year.

Consolidated net income was down 60 per cent year-over-year, while EPS was down 64 per cent due to the disposition of the financial services business I highlighted earlier. Excluding the impacts of our virtual power purchase agreements, financing costs in Q4 were primarily higher due to higher indebtedness over the past 12 months, along with higher interest rate environment.

On an adjusted basis, net income was slightly higher by 0.6 per cent, while EPS remained unchanged to $0.23. Free cash flow of $323 million in Q4 increased by $280 million, driven by a decline in capital expenditures and higher Adjusted EBITDA, partially offset by higher mobile contracted volumes during the highly competitive Black Friday period and higher cash interest in the period.

Looking ahead, we have set leading annual financial targets while advancing our leading growth profile and building on the momentum of strong and consistent operating momentum. For 2023, we are targeting operating revenue growth of 11 to 14 per cent and Adjusted EBITDA growth of 9.5 to 11 per cent.

Our financial outlook reflects continued healthy growth within our telecom business, including profitable customer growth driven by continued demand for our superior bundled products over our leading broadband networks.

In 2023, we anticipate growing contributions from our unique in businesses, including TELUS International, which today released their financial targets, as well as growing contributions from TELUS Health and TELUS Agriculture and Consumer Goods.

Not included in our formal Capex target of our core underlying business in 2023, is $75 million in capital earmarked for real estate development, as we progress our proper decommissioning program and work towards delivering on our strategy of developing certain surplus real estate assets within the footprint, which we will monetize in the future. Our portfolio in real estate holdings will continue to increase over time with commercial, residential and industrial sites.

Lastly, free cash flow for 2023 is forecasted to increase by over $700 million or 60 per cent over 2022 to approximately $2 billion. The increase is industry-leading and materially higher than our peers, driven by EBITDA and lower Capex. This is partially offset by a couple of non-operating items such as higher cash interest payment, an increase in cash restructuring to drive margin accretion, higher handset investments from the continued loading of our high-value customers and higher taxes, inclusive of the impact of our recent acquisitions. A detailed list of these and other assumptions are set in section 9.3 of our 2022 MD&A.

We are confident in our ability to continue generating strong free cash flow for years to come, benefiting from an industry-leading growth profile that consistently showcases our superior asset mix and operational execution excellence.

Our continued strong operation and financial performance supports our robust balance sheet and liquidity position. We have a strong debt maturity schedule with average debt to maturity of over 12 years and only $500 million of debt maturing in 2023. The average cost of long-term debt remains at a low 4 per cent, while 86 per cent of our debt is fixed. Additionally, our balance sheet strength will further be enhanced by the strong cash flow as highlighted. The strong position further supports our dividend growth program now be in place through 2025, along with the delevering of our balance sheet and supporting strategic investments.

Robert, over to you.

Robert Mitchell - Head of Investor Relations

Thanks Doug. Karl, please proceed with questions.

Question and Answer Period

Operator

First question comes from Maher Yaghi from Scotiabank. Please go ahead.

Maher Yaghi - Scotiabank

Maybe I'll start with a question on health. By my calculation, I'm getting around 5 per cent organic growth on the business on the revenue side and 2 per cent on LifeWorks. You discussed in your MD&A that demand for health and well-being services has never been higher than it is right now. So I'm trying to figure out, is it a pricing issue that you guys are having that is pressuring the top line from growing faster? And when you talk about your expectation for 2023 with the integration with LifeWorks. Can you talk a little bit on what you expect this business to look like in 2023?

Darren Entwistle – President & CEO

Okay. Doug will kick it off, and then Michael will do the follow-up.

Doug French - Executive VP & CFO

As you can see in our KPIs, yes, there is significant demand for our products. As you can see, our KPIs continue to grow. There was a rerate in one of our more material customers as we renewed for a long period of time that is generating significant long-term value. And I think the opportunity in front of us, as Michael will highlight, will be the integration and cross-selling that is in its infancy with LifeWorks at the moment. So Michael, maybe I can have you top up.

Michael Dingle - Chief Operations Officer (COO), TELUS Health

Thank you, Doug, and thank you for the question. That's right. Well, Q4 did see a slight slowdown in respect of one segment in the health business as a result of a customer reprice on a renewal. Q4 also saw our team laser focused on two priorities: the first being servicing our global customer base and the second being increasing the pace of our post-acquisition integration activities with respect to LifeWorks.

In addition to our post-acquisition integration efforts, the TELUS Health team has been hard at work partnering across TELUS to seize opportunities for collaboration, as highlighted by our substantial partnership with TELUS International, which is focused on customer experience and digital transformation, including bringing AI to TELUS Health's market-leading digital health solutions.

In Q4, we deepened our partnership with TI by partnering on over $100 million in business, which affords us the opportunity to deliver increased customer value through increased customer service levels across our business units. And we are ahead of our integration plans, which sets us up very well for 2023 and beyond.

As Darren shared earlier, 2023 sees us going to market under one brand - TELUS Health, underpinned by our strategic intent to be the most trusted well-being company in the world. Expect strong contributions from TELUS Health in 2023 and beyond. Combining the skills and capabilities of TELUS Health and LifeWorks creates a globally leading end-to-end digital-first employee wellness platform that now covers better than 68 million lives.

Our teams continue to drive strong growth fueled by the LifeWorks acquisition, as evidenced by cross-selling and upselling velocities across our global customer base today. We're focused on the pursuit of our unparalleled opportunity in TELUS Health to become a global leader in EFAP (employee and family assistance program) alongside data-driven, preventative health care and wellness and mental health.

Finally, I'll say we work tirelessly to extend our social purpose every day. Our recent collaboration with TELUS Agriculture & Consumer Goods is a good example of this as we partnered to bring mental health services to Canadian farmers in a partnership with the Canadian Center for agriculture and well-being.

Robert Mitchell - Head of Investor Relations

Karl, next question, please.

Operator

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

Jerome Dubreuil - Desjardins

Mine is on the strategy update you gave us a year ago. I wonder if you can update us on this. Basically, the points you were making is that you were looking to maintain tech leadership, resurrecting B2B and reducing cost as well as scaling the tech ventures. I wonder if there's any tilt or shift in these strategic priorities or are we still on the same road map basically?

Darren Entwistle - President & CEO

We're on the same road map, Jerome explicitly in that regard. Navin, maybe given the improving EBITDA trajectory of our B2B operations, given that was referenced in the question, why don't you provide a succinct response to that component?

Navin Arora – EVP, TELUS Business Solutions

Yes. Thank you, Darren. So as you said, Darren, B2B had a very strong 2022, and we expect that trend to not only continue but accelerate in 2023. And what I think is notable, especially as we look across other global B2B communication service providers, is that TELUS' B2B team delivered strong growth, not only on an EBITDA basis, but also revenue, margin and cash. And another key highlight is that this profitable growth came from across all B2B segments, right from small business through to enterprise and public sector.

So looking ahead, we feel quite bullish on where the business is going, and we expect strong and consistent growth over the next several years. And underpinning that growth are a few important contributors. So first, digitization and automation is really helping to concurrently improve our cost structure, remove non-value-add work, all while improving the customer experience. TELUS International will play a very important role in enabling this digitization capability, and we look to the recent WillowTree acquisition to help further both their capabilities and our digitization efforts in B2B.

Next, leveraging our significant investments and coverage in both PureFibre and 5G, which both reduced costs and improved service quality. We feel we've got a lot of opportunity to continue to drive further penetration and growth in these core connectivity areas. Also tied to 5G, we're very keen to see new revenue growth through vertical and horizontal based industry solutions, as well as the data monetization opportunities. And as part of this industry solutions capabilities, we see some really strong adjacencies with both health and agriculture in terms of how we go to market, and those adjacencies also drive some very significant differentiation in the market.

And then lastly, really strong geographic segment and product diversity, which gives us several levers to drive growth with significant market share upside. So all this to say, we expect strong cash contribution as well as accelerating revenue, margin and EBITDA growth in 2023 and beyond. And we expect that trend to accelerate not only in 2023, but for several years beyond that.

So I will pass it back to you, Darren.

Robert Mitchell - Head of Investor Relations

Karl, next question, please.

Operator

The next question is from Aravinda Galappatthige from Canaccord. Please go ahead.

Aravinda Galappatthige - Canaccord Genuity

I wanted to focus a little bit on TELUS Health. Thanks for the colour early on. But leave aside the synergies, and I recognize that's material with LifeWorks I wanted to get a sense of how we should think about the shape back towards perhaps stronger organic growth that TELUS Health and what the construct of that would be.

And then connected to that, I know that 12 to 18 months from now, you are looking at prospects of an IPO, maybe a strategic partnership on the latter option, maybe a little bit of definition around what kind of partnership you're looking for, which areas, what criteria to the extent that you can disclose right now?

Darren Entwistle - President and CEO

Okay. So Firstly, 12 to 18 months is not the IPO time cycle. But it could be the time cycle for bringing in a strategic partner. If you're wanting colour on what that model looks like, I think the example that we set in 2016 with Barings coming into TELUS International as a precursor to what we would eventually do on the IPO front, is a very good model to draw inference from -- the one area of important differentiation that we would be looking for is a partner coming in not just from a cash and a valuation point of view, but what they could add to the business strategically and commercially.

And in that regard, there are two key things that matter to us in terms of potentially seeking a partner. What can they do to assist us in the area of products and technology and what can they do to assist us in the area of distribution channels and global reach in terms of scaling our customer penetration and our global customer growth. Those are the attributes that we would be seeking if we chose to strike a partnership. It would be fair to say that we do like the 2-step model establishing a partnership first, creating a semblance of independence of the business whilst, of course, still integrated in terms of the operations with both TELUS and TELUS International. We think it's a good discipline in terms of getting the business to stand on its own two feet in a run-up to eventually earning the way to the IPO.

And one of the things that we implemented with TELUS International that we would again emulate with TELUS Health we had at TI, a preflight IPO checklist of things that needed to be achieved by TELUS International if they were going to earn their way to the right of IPO-ing the business and service to the strategy. And so the other thing that we would be looking at, which gets to the first part of your question, is a business where we deliver very strong organic growth double-digit organic growth at the revenue level and at the EBITDA level.

And that, of course, allows us to earn our way to the M&A opportunities because when you have a strong organic underpinning from a growth profile, you make better acquisition decisions because they are discretionary rather than necessities. Also, when you have stronger organic growth, you integrate those acquisitions significantly more effectively. And if you look at some of the choices that TELUS International has made in terms of its acquisition path and how well those choices were and how well those acquisitions were integrated, that, of course, is going to be indicative of the etiology with TELUS Health.

And then lastly, if we're going to do an IPO, it's going to be for a high valuation because clearly, an organization like TELUS we are going forward, the sources of cash are going to significantly and chronically exceed the uses of cash. It's not for a need of money. It's to establish a great valuation and a transaction currency that increases or amplifies the addressable market of acquisition opportunities that we can pursue, given the multiple that we've established with our transaction currency, we are only going to realize that high level of multiple if we have great execution results for TELUS Health in 2023, 2024 and 2025.

And those will be underpinned by excellence in organic growth, but also the harvesting of the synergies with LifeWorks. And those synergies are deeply significant. We've given you a lot of color on those on $200 million plus holistically and $60 million in the near term on the cost front, but the strength of what we can do on the cross-selling side of things, the strength of combining EAP with virtual care, the strength of what we can do on new product development and of course, underscored by the significant efficiency opportunity. I think that, that's going to buttress the growth profile that we want to have in terms of the TELUS Health IPO.

Robert Mitchell - Head of Investor Relations

Karl, next question, please.

Operator

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

Drew McReynolds - RBC Capital Markets

Yes. Maybe for you, Doug, with respect to free cash flow, obviously, a lot of growth year-over-year and nice to see Capex come down. I don't know if everyone on this call investor knows, but your free cash flow definition is probably the most conservative among your peers, and I think all the analysts understand that.

So when you think about the below EBITDA free cash flow items, my question is, when you think about the $2 billion in 2023, with respect to your earmarked Capex, your cash taxes, the contract assets, all of kind of the moving parts, is that $2 billion in your view, kind of more of a normalized level? Or are these things still kind of swinging back and forth a little bit more volatile with a little bit more volatility than usual?

Darren Entwistle - President & CEO

Less back and more forth over to you, Douglas.

Doug French - Executive VP & CFO

Exactly. There's definitely a few one items in there. The restructuring cash that we anticipate for 2023, we would assume would be a decline over time. So again, that would be more accretive outside the 2023 timeframe. I think with handsets, and thank you for pointing that out on the definition provided.

On the handsets, we've assumed that intensity levels we saw in Q4 throughout part of 2023. And including an investment in high-quality loading is exactly what we should be doing, and we were transparent in our assumptions around that. I think because COVID was a bit of a lull that once we get over 2023, we should see a normal run rate or more of a normal run rate on handset. So I think the climb back out of COVID, again, would be limiting a little bit this year, but 2024 and beyond, again, would be a year-over-year neutral basis. And then when you look at our Capex continues and the growth we've talked in EBITDA, I would say we're going to have nothing but accelerated growth on free cash flow in the future

Darren Entwistle - President & CEO

And interest...

Doug French - Executive VP & CFO

And interest…we are at a bit of that peak after the WillowTree acquisition. You'll see us delever over the next few quarters and as the year progresses into the next few years. And with that, the interest amount also will be more managed or more reduced.

Operator

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

Vince Valentini - TD Securities

Question on connected devices and the impact they're having. The first time you gave us disclosure was 2018, there was about 1.2 million, and now it's more than doubled to 2.47 million devices. Is that starting to have a meaningful impact on your service revenue and ARPU? And maybe you could just clarify or verify for me that you include that in service revenue, but it's not counted as a subscriber. So it should be inflating ARPU with the extent that line gets bigger.

Darren Entwistle - President & CEO

So that's correct. It's included in revenue, but it's not included in the sub base. And if you look at the 2.2% ARPU growth, both absolutely and relative to our peers, I think you can see the success of connected devices, finding its way through to the economics of the business. Frankly, it's still not yet scaled sufficiently. So there's tremendous upside on that front still to be harvested, which I think will be aided and abetted by what we're doing on the 5G front and product development that leverages 5G bandwidth in that regard. Navin, do you want to maybe just top up a little bit on the connected device front and maybe even if you want to highlight a couple of vertical examples that are indicative of the future growth that we expect to realize and the strong economics that go with it and maybe also highlight that this is not just an ARPU story on connected devices. It's an ARPU story, given the attractive margins. Over to you, Navin.

Navin Arora – EVP, TELUS Business Solutions

Yes. Thanks, Darren.

So gratefully, we are very bullish on IoT connected devices and actually the industry solutions capabilities that will ride on top of that connected device and connectivity capability. So as I mentioned previously, this is a meaningful nine figure business for us. It has double-digit growth on the IoT and industry solutions side.

And we're getting some good traction in the market across several key verticals and horizontals. Just before I give some examples, we're really liking how 5G IoT and PureFibre are driving some nice adjacencies across our health and agriculture business units, again, providing some important market differentiation.

One example would be really how we're taking advantage of our Western incumbency and the logical linkage to key natural resource industries. So TELUS was selected to help build one of the largest private wireless network solutions for a mining operation in Canada. Another key area where we are focused is on transportation. And so recently, TELUS was selected as the exclusive 5G connectivity partner for Project Arrow, which is Canada's electric vehicle manufacturing initiative. And maybe one other example of where we're partnering with is academia and industry as we just announced a $5 million investment with University of Windsor to accelerate the development of 5G technology applications in agriculture, advanced manufacturing, cybersecurity and connected vehicles.

And as Darren said, we're not only bullish on the revenue growth in this space, but we really like the margin profile. And that's mainly driven by a high-volume business with a lot of automation, a lot of self-serve and end-to-end digital capabilities. So in terms of scaling that revenue growth, huge potential, but at very little cost increases. So we definitely like the economics of this business.

So with that, I'll pass back to you, Darren.

Darren Entwistle - President & CEO

Also with sticky churn in terms of client retention, another attractive feature, which helps you achieve attractive lifetime revenues out of the IoT sector. And then secondly, the biggest opportunity going forward is milking the data analytics overall, those data volumes.

Thanks, Vince, for the question.

Operator

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

Stephanie Price - CIBC Capital Markets

I was curious if you could think about the strategy around the acquisition of two small Internet service providers in Ontario. Just curious if interested now wireless plus wireline offering in Ontario? And maybe more broadly, how you think about the growth vectors in telecom post the potential Rogers Shaw merger?

Darren Entwistle - President & CEO

Thanks, Stephanie. Zainul, do you want to take that question?

Zainul Mawji - EVP & President, Consumer Solutions

Sure. So Stephanie, we have been doing small tuck-in acquisitions in specific areas where we've competed for a number of years. These are no different. We have a very significant and growing smart home security business. As an example, these particular acquisitions are helping to advance our capabilities in that area. And so they're relatively consistent with these types of acquisitions we've done in the past in Ontario and nationally.

Operator

The next question is from David Barden from Bank of America. Please go ahead.

David Barden - BofA Securities

It's Matt sitting in for David. I was wondering just on two points, if I could. I know you just released 2023 guidance. But if I look ahead a little bit, can you talk about what your expectations are for maybe improving flow-through of your EBITDA growth to free cash flow as you move forward with some of these acquisitions and your plan?

And secondly, on the $75 million of Capex for the kind of real estate opportunity, can you touch on whether or not this includes also like a partner? I know that's been a discussion in the past that you might bring in a partner for these things. And then also on the lag between when you would make these investments and when you might see a return, like how many years the right measure? Should we expect to kind of lap for this type of action?

Darren Entwistle - President & CEO

Doug, why don't you take that?

Doug French - Executive VP & CFO

Yes. So we'll start the second question first. So on the real estate one, the $75 million does not include a partner at the moment. We have assumed we would get potential partners on individual real estate opportunities where appropriate and bring in high-quality partners to get things up and running.

But it really is to start to build the portfolio so that over the time frame you're thinking we would have something of substance that could be monetized probably in the 3-year period is probably the appropriate ramp on that one. But we absolutely intend to bring in partners, and that number could go down, the more we do that -- on the flow-through, I think in this -- and Darren highlighted that it's for the direction up on free cash flow and margins.

If you look at the integration costs we're currently doing for LifeWorks, our margins are going to continue to enhance. The double-digit growth we have in health is going to contribute to that as is that some of the acquisitions we did for J curves and the double-digit growth in both revenue and EBITDA are now going to contribute in addition to what Navin had highlighted.

And so I think you're going to continue to see more and more flow through on an ongoing basis, both in 2023 and beyond on all of those fronts in addition to the strength of our core business.

Darren Entwistle - President & CEO

And if you look at the EBITDA flow-through and the cash flow trajectory over 2023, 2024 and 2025, also calculate what the dividend payout ratio is of free cash flow. -- and the headroom that we're creating as it relates to our dividend growth model. I think those figures are very interesting.

Operator

The final question is from Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery - Morgan Stanley

Great. Can you talk a little bit about the market environment for 2023? I think looking through your discussion, you're assuming a slower macro growth rate next year. We've obviously had a lift from COVID in terms of pent-up demand. It sounds like you think that will continue. But how should we think about the overall industry KPIs across wireless and across broadband? Do you think we can sustain the pacing across the industry that we've seen in 2022 and 2023, given continued immigration, et cetera? Or are you expecting some sort of moderation overall?

Darren Entwistle - President & CEO

Okay. Jim, why don't you kick that off? And Zainul, why don't you do the part two?

Jim Senko - EVP & Chief Product Officer

Okay. So for sure. We're seeing persistent promotional activity in the low end of the market. But that said, industry best ARPU growth at 2.2%, really good underlying domestic ARPU characteristics coming from the high-value subscriber mix and also the base management and the step-up to 5G. We're also seeing industry best churn on the back of our product intensity and our customer experience. In fact, our postpaid churn continued to be really strong, very similar to pre-pandemic levels.

Our prepaid churn is elevated by -- due to travelers, but over 200 basis points better than our competitors. And when you look at our nets, Q4 nets were up 80,000 versus pre-pandemic 2019. So a lot of the focus we've gone on distribution, like Mobile Klinik, digital, direct-to-consumer are driving benefits. And so when we look into next year, we would expect that, that promotional activity is going to continue at the low end of the market, but our strength is really on the premium side of the market. And bundling, and we feel that's very robust. So we expect consistent trajectory from where we are on ARPU.

We see upside in business roaming. We're already seeing that in Q1. We will continue to see that high-value subscriber mix washing through the base. Our base management around 5G and Koodo Pick your Perk step-ups is working really well. The growth in our IoT subscriber base is now contributing meaningfully to our network revenue growth. And we're not as reliant on the low-end flanker promotions, which is good. So I feel really good on the wireless side that will continue this trajectory, and we'll see that kind of consistent -- growth. On the Home Solutions side and Zainul, maybe you want to top up, but we're seeing similar characteristics, especially around the bundling. And with the bringing together of Mobility and Home Solutions in the consumer organization, that presents tremendous opportunities for us to drive further efficiencies and even better bundling. But Zainul maybe you want to say a couple of words on the Home Solutions side.

Zainul Mawji - EVP & President, Consumer Solutions

Sure. Thanks, Jim. And I think you gave a really great summary. And one thing I would top up on as well is that we've been the lion's share of the net porting winner. So I think we demonstrate across the board that clients are choosing TELUS. We're getting the larger premium share of the market. We have a higher level of product intensity, a lower level of churn and a higher ARPU position. So the delta between us and our peers on customer lifetime value is significant and there's an opportunity for growth and continued growth there on the back of our completion largely of the fibre-to-the-prem build in the West. So if you take those characteristics and extend them out, we see a higher margin per household at over 20% increase. We see a significantly lower churn of 16 points we see a higher product intensity, 25% less cost and 70% less outside plant repairs.

So we have an incredible margin accretion opportunity, and we also have a significant level of digitization and product development taking place so that we can continue to grow our share and to develop new products under Jim's leadership as well as leverage TI and WillowTree in terms of driving margin accretion across our segments so that even in the lower end of the market, where we see significant immigration growth, we can come to the table with value props that are more margin accretive than our competitors.

So we're quite excited about the growth potential in the market, and we think that we're positioned incredibly well across segments and across the demographics. We absolutely do see some customers characterized is looking for value in their bundle, value -- higher levels of value in their purchase patterns. But because we provide solutions at every end of the market, we're really poised well for that growth.

Robert Mitchell - Head of Investor Relations

Thanks, Simon, and thank you, everyone, for joining us today. Please feel free to reach out to the IR team with any follow-up questions you may have.

Operator

This concludes the TELUS 2022 Q4 Earnings Conference Call. Thank you for your participation, and have a nice day.