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Q3 2026 Investor Conference Call Transcript

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TELUS Corporate Participants

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Gopi Chande - TELUS Corporation - EVP & CFO

David Fuller - TELUS Corporation - EVP & Group President, TELUS Communications

Navin Arora - TELUS Corporation - EVP & Group President, Global Platform Businesses

Ian McMillan - TELUS Corporation - Head of IR

Analyst Participants

Maher Yaghi - Scotiabank

Drew McReynolds - RBC Capital Markets

Stephanie Price - CIBC World Markets

Vince Valentini - TD Securities

Tim Casey - BMO Capital Markets

Jerome Dubreuil - Desjardins Securities

Matthew Griffiths - BofA Securities

David McFadgen - ATB Cormark Capital Markets

Presentation Transcript

Operator
Good day, everyone. Welcome to the TELUS 2026 Q3 Earnings Conference Call. I would like to introduce your speaker, Ian McMillan. Please go ahead.

Ian McMillan - Head of IR
Hello, everyone. Thank you for joining us. Our third quarter 2026 news release, MD&A, financial statements and detailed supplemental investor information were posted on our website earlier this morning along with the earnings presentation referenced on this webcast.

Today's agenda will include opening remarks from Victor Dodig, TELUS President and Chief Executive Officer and Gopi Chande, our Executive Vice President and Chief Financial Officer. After the presentation, there will be a question-and-answer period where we will be joined by David Fuller, Executive Vice President and Group President, TELUS Communications; and Navin Arora, Executive Vice President and Group President, Global Platform Businesses. This will be followed by brief closing remarks by Victor.

Turning to slide 2, prepared remarks, slides and answers to questions contain forward-looking statements. Actual results could vary from these statements. 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 third quarter 2026 and 2025 annual MD&A.

Please note that all referenced dollar amounts are in Canadian dollars unless otherwise stated. Additionally, financial performance is compared to prior year period unless otherwise noted.

With that, let me turn the meeting over to Victor.

Victor Dodig - President & CEO
Thanks, Ian, and hello, everyone. Thank you for joining us for our third quarter earnings call. As I promised on our second quarter call in July, today we will provide you with more granularity on our priorities.

My remarks will focus on our transformation strategy, while Gopi will provide an overview of our third quarter results and financial details behind our plan. So, let's start on slide 5.

Our transformation strategy has one clear objective, and that is to solidify TELUS' position as the leading communication and AI infrastructure player in Canada. It's an intentional and a strategic pivot to profitable growth. To achieve this, we're executing against three key priorities that I outlined during our second quarter call results in July.

The first is to strengthen our financial foundation. We will continue to strengthen our balance sheet by reducing our debt and by focusing our efforts on our core Telecom business and pursuing a monetization strategy for our non-core assets.

Our second priority is to hone our operational discipline. This means that we're transforming our cost base, how we do business, particularly in our Telecommunications business, as well as streamlining and improving processes across our enterprise to deliver a more seamless experience for our TELUS customers and for our TELUS team members.

And our third priority is to deploy these resources to drive profitable and sustainable growth and returns. So, I want to go through each of these priorities in greater detail beginning on slide 6 with our first priority, which is strengthening our financial foundation.

With our second quarter results, we announced three key actions: we reset our dividend payout ratio to a sustainable level; we terminated the dilutive discount on the dividend reinvestment plan; and we put a moratorium on acquisitions. These decisions were difficult, but they were necessary and they demonstrate our commitment to financial discipline.

We're committed to strengthening our balance sheet, and to have a clear path to achieving a net debt-to-adjusted EBITDA leverage ratio of 3 times or lower by the end of 2028. To that

end, we're intentionally pursuing an asset monetization strategy and prioritizing our TELUS Health and TELUS Agriculture & Consumer Goods businesses.

We are advancing this plan with one asset in our health portfolio which is in an advanced stage with a prospective buyer. We'll manage these engagements on our terms to ensure we maximize the value of our businesses to our shareholders. And as we sign these agreements, we'll share those developments with you.

We're also reviewing how we can unlock equity value from our PureFibre network while maintaining control, similar to the successful partnership approach we took with our wireless towers through Terrion. Now, we're early in the process and conversations with potential investment partners are encouraging.

So, let's turn to slide 7, our second priority, which is to hone our operational discipline. With our new leadership team in place, we conducted a comprehensive assessment of our business, and we identified a clear set of levers to simplify our operations, improve our cost structure and concentrate resources behind profitable growth.

Today, we are announcing a program that targets $900 million in annualized cash savings exiting 2028, driven by operational cost and margin improvement as well as CapEx efficiencies. Up to 80% of these run rate savings are expected to come from Telecom, with the balance coming from the Global Platform Businesses.

Within Telecom, we've already made a number of strategic pivots in our consumer business that prioritize profitability and capital efficiency.

Under Dave Fuller's leadership, we have refocused our consumer internet business on our fibre-built communities and moved both our home security business and our TV offerings to a capital-light model that will dramatically improve our return on capital for these businesses.

Our team has also streamlined our organizational structure and simplified our product portfolio by winding down unprofitable and capital-intensive initiatives. These actions will deliver approximately $250 million in structural cash savings, predominantly capital, with the full run rate benefit expected beginning in 2027. These savings are also captured within the $900 million target that I just referred to.

Let me now detail the initiatives that underpin these additional benefits. I'll start with our core Telecom business. This program will be executed across five key areas.

The first is focused on streamlining our customer experience, reducing customer pain points and reasons to call us, and leveraging AI to automate and ensure that TELUS is the easiest provider to do business with, all in the name of improving our Net Promoter Score and ensuring that our customers are happy customers.

The second is focused around driving higher revenue per customer and enhancing our already industry-leading customer retention metrics. The third stream is to optimize our sales

mix toward lower-cost channels and digital onboarding. The fourth is procurement enhancement across both operating and capital spend, while the fifth is focused on network and field force effectiveness and capital optimization. We know how to do this and we're going to get it done.

In our Global Platform Businesses, we're focused on three things: first, leveraging AI and automation to deliver better results for our customers with less effort; second is earning more from each customer by deepening the relationship with them across higher-margin services and tightening pricing and contract terms; and the third is running leaner by simplifying how we deliver and how we trim overhead.

Again, we know how to do this and we'll get this done. These actions target a stronger margin profile across TELUS Digital, Health, and Agriculture & Consumer Goods. So, taken together, our efforts will support achieving our target of $900 million in annualized cash savings exiting 2028.

So, moving to slide 8, which is our third priority, and that's to deploy the resources that we free up to drive growth and returns in our core business. First, we're committed to reducing our leverage, and we'll use proceeds from the dividend reset and asset monetization strategy to achieve our leverage ratio target of 3 times or lower by the end of 2028.

In parallel, we will strategically invest in organic growth in our core telecom assets. We'll fund this growth through disciplined CapEx with a focus on preserving premium economics. This includes growing our PureFibre footprint, the gold standard for broadband connectivity, delivering capabilities that alternative technologies, including cable and satellite, simply cannot match.

We began building our fibre network more than a decade ago and it now reaches over 3.8 million homes and businesses with strong penetration rates across our footprint. We continue to grow this footprint in high-return, underserved markets in urban and suburban communities where we are quickly driving strong penetration gains and product intensity.

Our PureFibre network is a highly valuable asset and a critical differentiator across our business. It strengthens our competitive position in the markets we serve and our AI infrastructure more broadly.

Our PureFibre network is also the foundation for an accelerated source of growth and we're well positioned to meet one of the fastest areas of growing demand in the economy, and that's AI infrastructure.

So, slide 9 shows how we're pursuing the AI infrastructure opportunity, something that we mentioned we'd cover with you on the second quarter call, and that's to leverage our core strengths and advantages that we have invested in and developed over decades. And those advantages are our PureFibre network, which I've mentioned a couple of times; data centres, where we already own and operate them with the scale and technical expertise to operate

them; telecom and AI infrastructure offered together; and a brand trusted by both businesses and government.

Importantly, we're committed to Canadian sovereignty and data residency. Canadian data stays in Canada, which is the foundation of our sovereign approach. Together, these support a disciplined, capital-efficient strategy built on TELUS' core strengths, aimed at sustainable, profitable growth.

So, in that vein, we have three initiatives, the first two of which are near-term priorities. That first one is we're using our fibre to connect other data centre operators to the grid. This is where our PureFibre network gives us a real edge. Several deals are underway and the economics of these transactions and our win rate so far are strong.

Second, we're building sovereign AI capabilities for Canadian businesses and governments. This is where owning our data centres sets us apart. We'll start with our data centres in Rimouski and Kamloops, both operating today, plus our strategically located central offices. This includes both GPU-as-a-Service and ready-to-use wholesale solutions. Across our sites, we've secured 38 megawatts of power, which we plan to bring online steadily through to the end of 2028.

Our approach is to use the assets we have first, then add GPU capacity as customer demand materializes. We'll do this ourselves or with an investment partner, whichever delivers the best returns to our shareholders, while staying disciplined with how we deploy capital.

We're focused on winning more of the opportunities already in front of us and we'll invest carefully while staying committed to reducing debt and growing free cash flow. The demand is strong. I think we all know that. Canada needs more data centre capacity than it has today.

Canada, I think, represents 1% of compute globally; the EU represents 5%; and, you know, that the US and China is where most of it is. So, we need to build that. We have a pipeline today of more than $1 billion in total contract value across our digital infrastructure business. And over the next three years, we project about $500 million in revenue with healthy margins, depending, of course, on market factors such as supply chain conditions.

And third, we're exploring data centre shells with power already secured. This would be done through partnerships, again, capital investment partnerships that protect our balance sheet and our commitment to paying down debt. So, it's still early and it's not included in the estimates that I just shared. You can expect to hear more of that on future calls.

In closing, our efficiency program will deliver significant cash savings through growth and through cost efficiencies, and free up resources and focus management attention on our core business. Our telecom strategy ensures we maintain and grow our core business, and our AI infrastructure initiative positions TELUS in a high-growth market with strong cash flow benefits where we have the right to win.

Our monetization strategy alongside the equitization of our PureFibre network, which we will control, will strengthen our balance sheet and enhance our financial flexibility to invest organically in these high-growth, high-return areas. And the result of our efforts to-date is clear.

We have a seasoned leadership team that is focused and moving swiftly to drive greater efficiency and better position TELUS to deliver sustainable, profitable growth and returns for our shareholders. We expect our actions to gain traction and translate into improved revenue, improved margins and improved cash flow.

And now with that, let me turn the call over to Gopi for a detailed review of our results.

Gopi Chande - EVP & CFO
Thank you, Victor. Today, I will cover our third quarter operating and financial performance and provide further financial details for the key progress areas Victor just outlined.

Let me begin on slide 11 and our third quarter consolidated results. Consolidated service revenue of $4.5 billion was lower by 1% year-over-year. Growth in our core Telecom business, including mobile network and fixed data service revenue, was offset by TELUS Digital.

Consolidated adjusted EBITDA of $1.8 billion declined by 5%, primarily due to weaker results in TELUS Digital and from $78 million of one-time items recognized in the third quarter last year, as we shared on our Q2 earnings call.

Normalized for those, consolidated adjusted EBITDA was lower by 2%. Basic EPS was negative $0.42 due to the TELUS Health non-cash impairment, which I'll discuss shortly. Adjusted EPS was $0.16, down from $0.24 a year ago, reflecting after-tax impacts of lower operating income.

Cash from operations of $1.5 billion was close to flat, and free cash flow of $396 million was lower by 35%, reflecting lower EBITDA and higher CapEx, both as expected.

Slide 12 outlines our results for our core TTech business. TTech service revenues of $3.3 billion was higher by 1%, and adjusted EBITDA of $1.6 billion was down 5% as expected due to one-time items in Q3 of last year. Normalized TTech adjusted EBITDA was lower by 1%.

Digging deeper into the components of TTech, mobile network revenue of $1.8 billion was up 1%, reflecting our disciplined operational execution, evidenced by our focus and ability to preserve premium economics and stabilize ARPU year-over-year.

Mobile phone net additions of 84,000 reflected strong base management, as demonstrated by the 10 basis point improvement to blended mobile phone churn landing at 1.01% for the quarter, our lowest quarterly result in three years, while postpaid churn also improved to below 0.9%.

Fixed data revenue of $1.2 billion increased by 2%, supported by steady growth in consumer from a higher Internet subscriber base, and security and automation revenues. Our Internet net additions totalled 10,000, due to lower growth loading reflecting a deliberate shift to prioritize sustainable margins and capital efficiency over subsidized volume, partially offset by lower churn.

Turning to our Global Platform Businesses on slide 13. Service revenue at TELUS Digital was $637 million, and it declined 11%, while adjusted EBITDA of $62 million was lower by 9%. These results reflected the impacts from hyperscale client volume ramp-downs, as we discussed last quarter.

In TELUS Health, we saw an improvement in year-over-year growth in service revenue, up 2%, and adjusted EBITDA declined by 5% due to lower other income. As outlined in our disclosure today, we recorded a non-cash goodwill impairment of $800 million for our TELUS Health business, reflecting updated growth expectations, broader market conditions and current valuation perspectives from ongoing strategic processes.

Importantly, it does not change our commitment to TELUS Health or our focus on strengthening operating performance, optimizing our portfolio and unlocking long-term shareholder value. We remain disciplined and deliberate in advancing these opportunities for our teams, with a clear focus on maximizing value for shareholders while continuing to position TELUS Health for sustainable, profitable growth.

Turning to slide 14, let me provide the financial details supporting our strategic priorities, specifically honing our operational discipline. As we've shared today, we have embarked upon a multiyear efficiency program targeting annualized cash savings of approximately $900 million exiting 2028. This will be achieved through operational cost and margin improvements as well as CapEx efficiencies.

We are already seeing this discipline in action through several key initiatives driving significant capital efficiencies, giving us confidence in our ability to reduce our core capital expenditure profiles in 2027.

In order to achieve the $900 million target, we expect to invest approximately $150 million across the various focus areas Victor outlined. Our comprehensive transformation strategy is designed to deliver a durable impact, building a more focused, efficient, growth-oriented organization positioned for sustainable profitability.

Now, let me review our balance sheet on slide 15. We remain well-capitalized with total available liquidity of $3 billion and a net debt-to-adjusted EBITDA leverage ratio as of September 30 of 3.6 times. As expected, this was up modestly from 3.5 times a year ago due to higher debt levels and lower EBITDA, consistent with our updated outlook provided on the Q2 call.

Our operational execution, improving capital intensity over the longer term, free cash flow growth and asset monetization strategy will continue to strengthen our balance sheet.

Let me review our capital allocation framework on slide 16. To reiterate, we are committed to paying down debt to achieve a leverage ratio target of 3 times or lower by the end of 2028, and are fully committed to maintaining our investment-grade credit rating profile. Our enterprise-wide mandate is clear: we are only deploying capital to initiatives that generate strong, sustainable returns that exceed our cost of capital.

We also remain committed to ongoing shareholder return through a sustainable quarterly dividend of $0.1875 per share. Looking ahead, this disciplined approach ensures we remain focused on driving greater capital efficiency and maintaining disciplined investment in our core telecom and AI infrastructure businesses to deliver attractive financial returns and sustainable shareholder value.

Turning to our annual financial guidance on slide 17, for the full year 2026, we are reaffirming our consolidated guidance as updated with our Q2 results in July. This includes service revenue growth of flat to negative 2%; adjusted EBITDA growth of negative 2% to negative 4%; capital expenditures of approximately $2.6 billion; and free cash flow of approximately $1.8 billion.

In closing, we have a clear line of sight to deliver on our transformation strategy. We are moving swiftly and with conviction and commit to communicating our progress with transparency. We are confident that our actions will position us for stronger performance as we head into 2027 and beyond. Now, let me pass the call back to Ian to begin questions.

Ian McMillan - Head of IR
Thank you, Gopi. Karl, please proceed with questions.

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

Maher Yaghi - Scotiabank
Great. Thank you for taking my question. Victor, I wanted to follow-up, I mean, you guys have laid out a very strong plan for reducing the operational and CapEx cost of the company going forward, and the results will hit in the coming years. I wanted to follow up on that beyond the cost savings – and this goes to a conversation we had when you joined early on – is to figure out the revenue opportunity for TELUS going forward and where do you see the company growing into in the next couple of years, where the growth could come from mostly, and if you can maybe just give us an idea what you think the company can grow at on a more normalized basis now that the wireless business seems to be stabilizing? Thank you.

Victor Dodig - President & CEO
Hey, good morning, Maher. I'm going to share a couple of comments. I'll also pass it on to Dave on the telecom front as well. Look, the goal here is to capitalize on what we see as a real opportunity in our domestic market in Canada, in both the telecom sector and digital infrastructure, broadly speaking.

To do that, we need to free up resources within our company, and it has several component parts. The first is that transformation strategy that we outlined that'll free up $900 million in net cash savings exiting 2028. We're going to work really, really hard to get that done.

So, a lot of work, a lot of heavy lifting and a lot of change in the way we do business. The second piece is to monetize our non-core assets. All good businesses, and like I said, we're in advanced stages with one. We're going to activate another TELUS Health asset this month so that we can free up those resources. And the third, as I mentioned in my remarks, is to unlock some of the equity value, which is at a very early stage in discussions, in our PureFibre network. All of those resources will be redeployed to paying down our debt and to organic growth.

When you think about capital allocation at TELUS, you think about those two side by side: getting that leverage level to a better place and growing organically, especially by growing fibre, our fibre presence in Ontario and Quebec and in our western region. That is the best defence against these technologies that are emerging. That is a real growth opportunity in addition to our data centre strategy, and I'm sure you'll hear from Navin as well in a moment on that.

So, Dave, you want to talk a little bit about telecom? Because you're off to a good start in terms of stopping certain things, the results are really strong. But I think you're going to continue to see us methodically progress into better premium relationships across the telecom spectrum with our customers.

David Fuller - EVP & Group President, TELUS Communications
Thanks, Victor. Yeah, Maher, we fundamentally believe that we can continue to grow the telecom business in the low-single-digits, both top and bottom line going forward. I would say that growth is driven by three areas. First of all, in the consumer business, continued strength in our mobility franchise, I think, is something we forecast through 2027 and 2028, provided that the sensible and stable market that we saw throughout Q3 persists in 2027 and beyond. Plus, we think on the consumer side there's continued opportunity to progress our PureFibre build in communities across the country.

Secondly, moving to B2B, I would say that there's a significant opportunity, as Victor's already alluded to, around infrastructure build and fibre network builds associated with AI data centres. And more broadly, when you look at the tax changes that the government recently announced around the mega tax donation, a boom in potential infrastructure spending across the technology space that can benefit us from that increased spend from many of our B2B customers in the enterprise space and the public sector space.

And then the third is operational efficiency. Victor outlined the areas that we're focused on. But when you look at AI and the automation benefits that it can bring, I believe it's a generational opportunity to significantly transform how we support and service our customers, to allow them to support and service what they want to do through self-serve tools, to automate significant portions of our processes today that are manual, and to remove friction and improve the customer experience on a substantive basis. That all has been rock-

on second-order benefits across continued churn reductions against our already class-leading churn results, as well as lower cost of acquisition, lower cost of renewal, and lower operational support costs within our organization.

Maher Yaghi - Scotiabank
Thank you very much.

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

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

Drew McReynolds - RBC Capital Markets
Yeah, thanks very much. Good morning. Just want to unpack just two numbers that you've thrown out. First, on the $900 million cash savings, just trying to understand all the moving parts here. So, I think, Victor, if I understand your prepared remarks, of the $900 million, there's $250 million that you highlighted as CapEx efficiencies that begin at run rate in 2027. If I've got that right, so does that imply the rest of it is $650 million in OpEx? And then where does the $150 million in investment come in? Thank you.

Victor Dodig - President & CEO
Okay, all good questions. I'm going to hand that off to Gopi just to take you through that because I think it's important they understand how that all kind of fits together.

Gopi Chande - EVP & CFO
Perfect. Good morning, Drew. So, the way to think about that $900 million cash, first of all, just defining our nomenclature: think about it as $75 million in December 2028 times 12. And so, that's how we get to the $900 million cash. Specifically to your question, really pleased that we have decisions that are made that already give us line of sight into $250 million CapEx. The split is roughly 50/50 CapEx and EBITDA. As you noted, there are investments we need to make, so $150 million as Victor noted. As these programs typically run, those investments are needed more upfront to unlock some of the benefits. And so, we'll give the specifics around 2027 when we give our guidance in February.

And the last comment I'll make is the split between where those savings will show up: so, about 80% in our core telecom business, which as you know is more than 90% of our EBITDA, and 20% in the Global Platform Businesses. So, I'm really pleased with the detailed action plans that both Dave and Navin have to execute on this. So, we're confident in its delivery.

Drew McReynolds - RBC Capital Markets
Okay. Thank you, Gopi. And if I could just add one more clarification, on the AI infrastructure piece, you quantified $500 million over the next three years in revenues, and I think those are from the first two buckets. So, the existing data centre plus the connectivity. Is that $500

million a cumulative revenue recognition over the three years, or do you hit run rate $500 million kind of by year three? I'm just trying to understand that.

Navin Arora - EVP & Group President, Global Platform Businesses
That is a cumulative number. And maybe I'll give a little bit more colour on the strategy there. So, as Dave mentioned, actually, the first thing I'm going to say is that we're not going to boil the ocean around speculative or volatile data centre type decisions. So, we're really going to be executing on two immediate, high-return, low-risk priorities where we have a competitive advantage. And so, Dave mentioned the first one around our fibre connectivity of other developers' data centres. Our incumbent territory of British Columbia and Alberta has large, campus-style data centres that are coming in, and we're going to be plugging them into our PureFibre network. And these are high-margin, long-term transport deals.

And what we really like about them is that customers fund the network build capital right up-front. So, that is a big part of our growth and as part of that $500 million number. And then the second is the sovereign Canadian AI compute. And we're using our existing data centre facilities Rimouski, Kamloops, and the central offices that Victor mentioned. We already own them. We have the power, we have the talent, we have the expertise, and we're going to be thoughtful about how we expand that from the current 2 megawatts to the 38 megawatts of secured power that we have. And we'll be really matching the demand build-out of the GPU capacity with signed customer contracts. And we'll be thoughtful about how we fund that within the debt commitments that Gopi and Victor talked about. The business case is really strong with high IRR and we're excited about those expansions.

Drew McReynolds - RBC Capital Markets
Okay, thank you very much.

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

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

Stephanie Price - CIBC World Markets
Hi, good morning. Thanks for the question. I was hoping to get a little bit more colour on the potential equitization of the fibre assets. You noted in the prepared remarks it'll be similar to the Terrion deal and that there was an opportunity for fibre expansion in Ontario and Quebec. So, just hoping you could share a little bit more colour on how you're thinking about the potential deal in terms of retaining control and how to think about footprint expansion and whether FibreCo would target wholesale opportunities as well.

Victor Dodig - President & CEO
Good morning, Stephanie. So, let me start and I'll pass it on to Gopi. So, again, three component parts in terms of freeing up resources, right? One is our transformation strategy; two is the monetization of non-core assets; and three is this – the PureFibre network that

you've alluded to in your question, Stephanie. Obviously, there's a couple of principles, first of all, we're in the early stages, but we're encouraged. We know that there's value there to unlock and we know that those proceeds can be used in our capital allocation strategy, which is to delever and which is to deploy.

And we know that there are over 1 million homes in Ontario and Quebec with line of sight to fibre that we can build for them. It costs money. We're mindful of where our leverage is. Those things got to work hand-in-hand. Think of it a bit as an accordion, right? If we can free up more resources, we can grow faster and manage our free cash flow growth, which is also important to our investor base. What gets included in that is something that I'd say we leave to a future call. Although, Gopi, there may be something you want to add as well. It's a large asset, that's for sure.

Gopi Chande - EVP & CFO
Yeah. And picking up on that, Victor, Stephanie, we're excited to surface the significant value in our own assets and use it to, as Victor mentioned, strengthen our balance sheet. So, some of it will be for deleveraging, some of it will go towards the fibre expansion, which we've got good experience in and supports the growth that Dave spoke about, and then some of it will go to, again, the initiatives that Navin spoke about. And ultimately, we look forward to being in a position to return capital to shareholders and potentially even stock buybacks. But as Victor mentioned, it's early stages, really positive discussions with potential partners, and we look forward to talking to you more about it as it proceeds. And maybe before I wrap, I'll pass it over to Dave.

David Fuller - EVP & Group President, TELUS Communications
Yeah, just two clarifications on the comments you made, Stephanie. Whatever we do in this space, we are going to absolutely maintain control, right? So, we are not contemplating and would never contemplate selling off the entirety of that asset. Secondly, unlike Terrion, it is not focused on the wholesale side of the business. This is about monetizing a very valuable portion of our fibre assets to allow us to then continue to invest in building out that fibre asset.

Stephanie Price - CIBC World Markets
Great. Thank you for the colour.

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

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

Vince Valentini - TD Securities
Hey, thanks very much. Let me start trying to clarify a couple of things you've already mentioned. First, Gopi, the $150 million cost to get these savings – you're already incurring $900 million restructuring costs this year. I assume the $150 million is incremental to that and kicks in after this year. Also for you, the 50/50 split, thanks very much for that on OpEx/CapEx. Just want to make sure, does that apply to the 80% of the cash savings that

are supposed to be in the telecom or TTech segment? Does the 50/50 ratio make sense there as well? I'll pause before I do my other ones.

Gopi Chande - EVP & CFO
Okay. So, maybe I'll start with the first. So, the $150 million is primarily CapEx, and we're going to invest that more upfront. So, in 2027 versus 2028, we'll give you that specific split in February. And then with regards to the restructure bucket, we're watching very carefully. So, what I can say for now, Vince, is we do expect restructure expense to be lower next year. There are some investments related to this program, but this program is more focused on changing processes and the way we work. And so there will be some natural efficiencies that come from how Dave has reorganized his group and so some severance associated with that. But we do expect expense to come down next year.

And now, you know this, but I'll remind you that our free cash flow calculation is off of the disbursements of restructure. So, that can vary. But expense coming down. And then in terms of the split between the two groups, a little bit more investment on the telecom side than in the global platform businesses. Again, we'll give more specific details exactly how that splits out in February of next year.

Vince Valentini - TD Securities
Thank you. Second clarification, then I'll throw one question. The fibre-to-the-home monetization you're contemplating, ballpark-like ranges, do you think these assets get similar type of EBITDA multiples or cap rates, however you want to think about it, versus what you achieved for Terrion, or is the fibre to the home worth a lot less to potential infrastructure partners than what the towers were?

And then just on the results themselves, Dave, welcome aboard and great first quarter, especially on the wireless metrics. I just want to make sure – I mean, these numbers are so good on sub adds and churn. There's nothing unusual here of accounting for government subs or any other programs to get 84,000 sub adds? And as part of – given how you've seen all the numbers now, you know how much better you did than your incumbent peers this quarter. Are you thinking that your price discipline is good enough or is there room to tweak even further? I'm thinking more specifically about Public Mobile that still seems to be the most aggressive offer from an incumbent and pretty much matches Freedom all the time. Is that perhaps some of the loading you're seeing? Thank you.

Victor Dodig - President & CEO
Why don't we start with you, Dave? Just work backwards in terms of the business overall and the results, which are good, they're strong, and they're actually rooted in a strategy of focusing on our premium brands, knowing full well that we have our flankers and we use them when we need them, but it's about building deeper, better relationships with our customers. So, over to you, Dave.

David Fuller - EVP & Group President, TELUS Communications
Yeah, thanks, Vince. Good to hear your voice again, and happy to be back. Stepping back, I would want to emphasize that for TELUS, Q3 was actually a very restrained approach to

promotional intensity throughout Q3. So, our success on net adds was entirely driven by our success in churn. If you look at our gross add number, it was actually down year-over-year by about 24,000. So, the entirety of the slight increase you saw year-over-year in our net adds was driven off the fact that we had substantive declines in both postpaid churn and prepaid churn, frankly down to numbers that we haven't seen for more than three years, at 0.87% and 1.01% in terms of blended churn.

So, it was definitely not price-based. In fact, we were focused on the opposite. If you look at our prepaid to postpaid, specifically to your question around Public, our loading swing and our mix shift was substantively towards postpaid loading. So, in fact, our postpaid net add number was up markedly year-over-year, our prepaid number declined pretty substantially as well. And so big swing towards postpaid, not prepaid. So, it was not driven by Public loading at all.

And the other point I would make is even within that postpaid loading, pretty strong bias towards TELUS versus our flanker Koodo brands. So, our focus was very disciplined and very focused around our higher-value plans. And we'll continue to be like that throughout Black Friday. We also saw other positive economics across the board. I mean, you saw our ARPU number, I would say that was just continued trend. If you look at the ARPU numbers over the last several quarters, the declines have been getting lower and lower and lower, and we kind of got back to the point this quarter where it was kind of flat year-over-year. That was driven off strong success across pretty much all of our segments as I said, mix shift towards plans – higher-value plans in the T-brand side; migrations within our brands kind of up the value stack.

On the B2B side, we saw strong sequential growth across both SMB and enterprise. And to answer your other question, no, there wasn't anything done funny with the numbers. Those were kind of legitimate numbers on our side. And I think you can see it in our service revenue growth, 1% year-over-year.

I think the final point I'll just say around discipline is we also took a very disciplined approach to subsidy throughout the quarter in Q3, and made sure, as we will do through Black Friday, that if we were participating in a subsidy promotion, it was only on ones where we were backed up and supported by our device OEM partners. So, that would be it. Victor, do you want to make any comments on that.

Victor Dodig - President & CEO
I mean, I might make a few comments on the PureFibre, I'll hand it off to Gopi then briefly as well. I mean, in the end, when you listen to Dave speak, and hopefully from all of our remarks, you get this sense that there's an intentional strategic pivot to profitable growth with a good return on capital. I mean, that's the way we're thinking about our business and serving our customers with their needs in mind and making sure that they're happy being served by TELUS.

When it comes to fibre to the home it's worthwhile reemphasizing control is important to us. That is table stakes, foundational. When it comes to valuation, we do think that the current

shares don't even reflect the value of that fibre. It is very valuable. We know that from investors that have already knocked on our door to say, look, we can unlock some value here for you, you can redeploy it, and that's exactly how we're thinking about it. So, Gopi, maybe just shed a little light on perhaps some of the directional numbers of how we think about things.

Gopi Chande - EVP & CFO
So, Victor, I'm going to stay away from anchoring on any valuation, and specifically that's because we're still defining our perimeter. We have a lot of options in terms of what we can include in that. And so that is good flexibility for us that will influence the valuation. So, we don't want to anchor on that. But again, very excited about the potential on our own balance sheet that, echoing Victor's comments, we don't feel are reflected in our share price.

Victor Dodig - President & CEO
Good. Excellent. I think you actually had something in your research report long ago, Vince. You can kind of do the numbers and tell us what you think it's worth one day.

Vince Valentini - TD Securities
Thank you.

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

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

Tim Casey - BMO Capital Markets
Yeah, thanks. Good morning. A few for me. One, just on the PureFibre, I mean, is the structure of this deal akin to kind of a structured equity arrangement similar to what one of your peers have done that essentially becomes long-term money? Is that what you're proposing here?

Victor Dodig - President & CEO
Gopi, go ahead.

Gopi Chande - EVP & CFO
Yeah. So, Tim, I'll jump in. We're still working through the structure. But in general, no, that isn't what we're looking at. So, this is more about structuring this in a way that there's a partnership in terms of the returns between whoever we partner with or groups that we partner with and ourselves. And then contemplating whether at which point we put build future fibre into the structure. So, we'll continue to iterate on this and come back but not similar to what one of our peers did.

Tim Casey - BMO Capital Markets
Got it. Thank you.

Victor Dodig - President & CEO
While driving organic growth, Tim.

Tim Casey - BMO Capital Markets
Got it.

Victor Dodig - President & CEO
Good organic growth with a good return on capital.

Tim Casey - BMO Capital Markets
On that – you put one number around your AI strategy that was $500 million in revenues over the next few years. How do we square that with the projections from the previous management team that had a $2 billion number? Could you help us reconcile those?

And then second, on the $450 million in OpEx, Dave, can you talk a little bit about what's different, because monetizing automation on telecom platforms is kind of table stakes, everyone's doing that, if you're not doing that you're falling behind. So, can you give us an idea of things that you're not going to do that were being done under previous management to help us understand how you're going to surface that $450 million? Thank you.

Victor Dodig - President & CEO
All right, Tim, that's a good question. So, why don't we answer the first one, which talks about what the previous target was, what the current target is. And I will say that there's been a refinement to our strategic narrative, so that's much more focused on our core domestic market and revenues that we have line of sight to in businesses that we're good at and understand.

The previous target was maybe a little more ambitious, a little more global in perspective. When you actually think about our overall strategy going back to our core that fits tightly within that. So, maybe, Navin, you can shed a little bit of light on that, and we'll hand it off to Dave for the other part of the question.

Navin Arora - EVP & Group President, Global Platform Businesses
Yeah, I think, Victor, you hit it at a high level, and it is the refined strategy that we're moving ahead with, which is very much focused on three key pillars in our AI digital infrastructure play. So, the first – just to kind of summarize them again, the first is our PureFibre network connectivity to the data centres that are being built across Canada and mostly in our incumbent zones. The second is the expansion of our existing data centre facilities and bringing in the sovereign AI compute, as well as turnkey wholesale capabilities.

And then the third part of our infrastructure strategy is to look at powered shell data structure – or data centre infrastructure. And so, on the powered shell piece, that's not in the number that Victor shared the $500 million. We are looking at it and we'll consider that as part of our AI number going forward. And I would say the original number that was shared included a lot of the TELUS Digital elements, and we've now removed the TELUS Digital elements and

we'll be focused on these three pillars specifically within Canada and specifically on our infrastructure play.

Victor Dodig - President & CEO
Thanks, Navin. Dave?

David Fuller - EVP & Group President, TELUS Communications
Yeah. So, I would focus first on – I mean, the $450 million, it's actually slightly more than that, it's closer to 55% of the $900 million by the time we get to the run rate savings at the end of 2028 are coming on EBITDA-enhancing initiatives primarily through OpEx reductions. It's kind of driven across four areas, right? So, it's not just simply AI automation, and I'm sorry if I confused things by using that automation word. It starts on the care side of the business, right?

So, we have – we believe significant opportunity to basically reduce the friction points and the reasons customers call us today. So, think that's across everything from rate plan simplification like a big part of this focus is around simplification of our rate plans, of our products, trying to reduce the number of unprofitable products that we're taking into the marketplace, our service offerings and bill simplification, right?

A huge percentage of calls we get today are questions around bill. You've seen across the board we've moved to shock-free plans on both mobility and on our wireline side, so again, there's less reasons to call. So, a large part of it is reducing pain points and reasons to call. Then in the calls that still have to happen, that's where AI comes in in terms of enabling self-serve options more easily for our customers to be able to answer their questions or answer – make whatever change they want to make with our service offerings themselves through our web portals and our apps.

And then eventually, if you do need to speak to an agent, agentic AI can help in that regard as well. And by no means are we going to be in a world where there's never a chance to talk to someone at TELUS, that will happen at kind of the tail end of that journey if we've not been able to answer your questions and help you out prior to that.

The second area is channel optimization, right? I think there's a big opportunity, and we've really focused the team in on focusing on profitable loading, right, and profitable gross adds. And that's across not just the profitability of the product, which we're also looking at enhancing, but it's also around cost of acquisition, right, and streamlining our cost of acquisition, and we think there's substantial opportunity in that regard.

Third is reliability, so using AI to be proactive about reliability across our networks, across our products, across our services, across our systems, and again, streamlining repair calls, reducing repair calls, reducing reasons to roll trucks. And then the last area is around field force efficiency, where we think there's another significant opportunity for us there. So, it's not just simply AI-based automation, table stakes as you termed it, but it's kind of across transforming how we support and service our customers today.

Tim Casey - BMO Capital Markets
Thank you.

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

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

Jerome Dubreuil - Desjardins Securities
Hi, all. Thanks for taking my question. I'd like to dive into your efficiency program. It's good to see the $900 million in savings that you expect, but can you share if there's a benchmark against what this objective is set, maybe in terms of a certain absolute level of OpEx or CapEx so we can track the process and start to think of a pro forma TELUS? For example, is the half of the $900 million CapEx savings including or excluding the Ontario and Quebec opportunity, just because we've had a few synergy numbers in the past in the industry and it was sometimes difficult to reconcile? Thank you.

Victor Dodig - President & CEO
Yeah, so Gopi is going to answer that question. I'll just remind you that the $900 million number deals with our core business footprint as it currently stands. As we – and you have to think about our growth also very, very much connected to the resources that we free up not only from that program, but from the monetization of assets as well as from the equitization of PureFibre. All of that will create a different growth profile that we'll continue to update you on as those numbers become clear, but your number – your question is specifically on the $900 million. Gopi, do you want to address that?

Gopi Chande - EVP & CFO
Sure. Yeah, and I want to pick up, Jerome, on Victor's transparency comment. You will get from us next year how to track this through exactly for the year. We will continue to report on the $900 million, and because there is an active asset monetization strategy that is why we have carved out how much is telecom versus how much is in the other businesses.

I want to reinforce as well what Victor said around what we're using this for, it is going to be for a balance of delevering as well as investment in growth across what we'll do in fibre, as well as AI, and monetization of our fibre while maintaining control complements this. So, it will be the combination of both of these, and as Victor mentioned earlier on the call, it is always going to be a balance between delevering and getting us flexibility on our balance sheet, but also stoking the growth that we see for the future of TELUS.

David Fuller - EVP & Group President, TELUS Communications
Yeah, my only top-up would be, Gopi, I mean, this was not the result of a top-down, let's just do a benchmarking exercise. This was the result of two months of detailed involvement from many team members across TELUS to do a bottoms-up review around how we can change our processes, where we need to invest in our systems and our digital capabilities to make

sure that we can drive these cost savings out of our business, and that's what gives us confidence in the number as we move forward, right?

So, there are detailed initiatives across each of these levers that we strongly believe in and are starting to work on already to make sure that we drive these efficiencies in our business.

Jerome Dubreuil - Desjardins Securities
Excellent. Thanks

Ian McMillan - Head of IR
Karl, we've got time for two more questions, please.

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

Matthew Griffiths - BofA Securities
Great. Thanks for taking my question. Maybe the first one is just on the wireless business. I think in the MD&A you guys reference, or there is a reference to kind of lower equipment margins, and so I just wanted to hear your thoughts on whether I guess, I think better net add performance, how that might be linked to the lower equipment margins that you are reporting.

And then secondly, on the AI kind of opportunity, just trying to break out here, you laid out these three buckets, one of them being expanding your current DC and the other is the powered shell opportunity. So, I wanted to understand perhaps like that 38 megawatts that you referenced kind of links to your expanding of your current DCs, and then if there's an additional ability to secure power that would link to the powered shell opportunity, and so linked with that, do you have any secured power that could support the powered shell infrastructure opportunity? Thanks.

Victor Dodig - President & CEO
So, why don't we work backwards on that? We have Navin to again answer I think more granularly on the data centre side. The three-pillar strategy, the first two pillars are activated, the third pillar is kind of under development, we'll come back to you with it. Anything you want to add there, Navin? And then Dave will answer the next question on wireless.

Navin Arora - EVP & Group President, Global Platform Businesses
Yeah, maybe I'll just top up that on the expansion to 38 megawatts, we're not only seeing healthy IRRs, but what we are seeing on the GPUs themselves is a payback period of less than two years. So, we feel very confident around that investment, and in terms of the powered shell, your comment or your question around confirmed power, we're working through that, and when we're ready to announce any projects that we're going to move ahead with, we'll let you all know.

Victor Dodig - President & CEO
Good. And just to add on Navin's point, that second bucket where we're actually expanding our own data centres, there has been a refinement in our strategic go-to-market approach to not finance all of the GPUs, but some of the GPUs, and some clients are going to want us to do that, others will want to do that on their own, and that'll be a much – both of them are very, very attractive from a return standpoint.

We're also mindful of capital intensity when it comes to growing our data centre business, and that's going to be very, very much linked to our monetization, equitization, and transformation strategies, right? So, Dave, maybe you can answer the question on wireless.

David Fuller - EVP & Group President, TELUS Communications
Yeah, sure. First thing to remember is equipment margins and equipment revenues are largely hinged actually off renewals, not acquisitions, right? So, we have a much bigger base than we have gross adds in any given quarter, and so renewal activity is the predominant driver of that. I would say our equipment revenues were down on lower volumes year-over-year. Our gross adds were down, as I'd already mentioned, some 24,000 or so year-over-year, and we also focused on being quite disciplined throughout the quarter in terms of subsidy promotions and rate plan promotions.

So, all of that meant lower volumes across the board, including in renewals. And on the margin front, they were marginally different year-over-year, but not significantly so. Sequentially, they were up, but that's a function of the fact that back-to-school is always a heavier loading and renewal period than earlier in the year.

Matthew Griffiths - BofA Securities
Thank you, Dave.

David Fuller - EVP & Group President, TELUS Communications
Thank you, Matthew.

Ian McMillan - Head of IR
Thanks, Matthew. Karl, let's take the last question from the queue, please.

Operator
The final question is from David McFadgen from Cormark. Please go ahead, David.

David McFadgen - ATB Cormark Capital Markets
Oh, great. Thanks for squeezing me in. Just a couple of questions. So, given you took the write-down on TELUS Health, I was wondering if you can give us sort of a ballpark as to what you think that business is worth now, and then second question is what would it take for you to eliminate the DRIP entirely, and is that something that you want to do?

Victor Dodig - President & CEO
Sure. Well, Gopi, maybe you can highlight some of the comments around both of those questions, starting off with the impairment.

Gopi Chande - EVP & CFO
For sure. So, well, thanks for the question, David. A reminder, the impairment is non-cash driven by the three items I mentioned, so some updated growth expectations, market conditions, and current valuations perspective. I'm not going to comment on the specific valuation of TELUS Health. I wouldn't read in too much to this impairment in terms of what that means for each of the assets within it. What you can read into it is how far along we are on parts of the monetization.

So, one of the items to think about is, as we go through this monetization process, we're going to have to look at each sale, whether it's a service line or within a business or the business itself, we look at it independently, we assess the likely sales proceeds against the allocated accounting value, and then that's going to give us an impairment or a gain. So, you're going to hear us talk about this for a while as we execute our strategy, and there's puts and takes.

And while we continue to have these businesses, we are going to invest in them, look after our customers and look after our team. So, we'll continue to keep you posted as that progresses. And then with the discount remaining on the DRIP, it's not something that's on our radar right now. It's a low uptick that we have of people remaining without the discount. So, it's something we'll continue to monitor. We're very committed to returning value to our shareholders. So, it's an item we'll watch, but not something of major concern right now.

David McFadgen - ATB Cormark Capital Markets
Okay. All right. Thank you.

Ian McMillan - Head of IR
Thanks, David. Thank you, everyone. Before we close out the call, let me pass it back to Victor for some brief closing remarks

Victor Dodig - President & CEO
Well, thank you, thanks Ian, and thank you, everyone, for your great questions today. What we set out to do here today is to share a transparent update on our transformation strategy and the path forward to achieve TELUS' full potential, and we're in the early innings of what we believe will be full potential.

TELUS is building from a foundation of strength. We're an exceptionally well-positioned company backed by industry-leading customer service, our expansive PureFibre and 5G networks, our growing infrastructure capabilities, which we tried to outline to you today, and an increasingly collaborative and energized culture.

We have the right leaders in the right roles. We have an executive leadership team that possesses a deep institutional understanding of our business and seasoned experience necessary to navigate change, and very, very focused on our strategic pivot to profitable growth and a good accretive return on capital.

Our approach is grounded in disciplined execution and clear accountability. We've already demonstrated this through some decisive actions that we've already taken across all three strategic priorities again, and those are to strengthen our financial foundation, hone our operational discipline to free up resources, and deploy that capital to areas of sustainable growth in Canadian telecom and digital infrastructure.

We're aggressively pursuing monetization of non-core assets to support further deleveraging and balance sheet strength. We're exploring the equitization of our PureFibre assets to support strategic investments in our core telecom and Canadian AI infrastructure businesses. It's all underpinned by our $900 million cash savings program. We're building a leaner, we're building a more focused TELUS to better position ourselves to compete, innovate, and create long-term value for Canadian consumers and businesses at a time where this sector and TELUS is very much needed.

We're moving with clarity, we're moving with urgency, we're moving with purpose, and we're confident that our transformation strategy will position us for stronger performance as we head into 2027 and beyond. When we report our fourth quarter results in February, we'll provide our full year 2027 outlook and an update on our transformation strategy progress, and I'm sure we'll see many of you between now and then. Thank you for your time today and continued interest in TELUS. And I think that's it, Ian. Thank you.

Ian McMillan - Head of IR
Thank you, Victor. This concludes our Q3 earnings call today. Please reach out to the IR team for any additional follow-up. Thank you.