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Q1 2026 Investor Conference Call Transcript
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TELUS Corporate Participants

Darren Entwistle - TELUS Corporation - President & CEO

Doug French - TELUS Corporation - EVP & CFO

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

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

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

Ian McMillan - TELUS Corporation - Head of IR

Analyst Participants

Jerome Dubreuil - Desjardins Securities

Drew McReynolds - RBC Capital Markets

Stephanie Price - CIBC World Markets

Vince Valentini - TD Securities

Maher Yaghi - Scotiabank

Presentation Transcript

Operator

Good day, everyone. Welcome to the TELUS 2026 Q1 earnings conference call. I would like to introduce your speaker, Ian McMillan. Please go ahead.

Ian McMillan - Head of IR

Thank you, Karl, and hello, everyone. Thank you for joining us today. Our first quarter 2026 news release, annual MD&A and financial statements and detailed supplemental investor information were posted on our website earlier this morning.

On our call, we will begin with remarks by Darren and Doug. For the Q&A portion, we will be joined by Zainul, Navin and Tobias.

Briefly, prepared remarks, slides, and answers to questions contain forward-looking statements. Actual results could vary from these statements. The assumptions on which they are based and the material risks that could cause them to differ are outlined in our public filings with securities commissions in Canada and the United States, including our Q1 2026 and 2025 annual MD&A.

With that, over to you, Darren.

Darren Entwistle - President & CEO

Thank you, Ian. Hello, everyone. In the first quarter of 2026, our team's unwavering commitment to operational excellence and cost efficiency has, once again, empowered TELUS to deliver industry-leading customer growth, stable profitability and industry-best free cash flow growth of 19% on a comparable basis. These results were achieved within a dynamic operating environment, reinforcing our disciplined approach to respond tactically to market conditions whilst preserving our premium TELUS brand value. This strategic focus reflects the enduring resiliency of our business and the compelling strength of our leading portfolio of bundled services nationally. Our mobile and fixed customer growth underscores the sustained demand for TELUS' premium offerings underpinned by our world-leading broadband networks and customer service excellence.

Notably, we achieved industry leading customer growth of 262,000 demonstrating the compelling strength of our integrated mobile and home strategy in action. This result included 12,000 mobile phone net additions and 229,000 connected device net additions, a first quarter TELUS record and the second highest quarterly result ever. This was further supported by internet customer net additions of some 21,000. Together, this growth is powered by our world-leading PureFibre and 5G+ broadband networks which continue to differentiate TELUS meaningfully from the competition.

Our PureFibre network is a significant strategic asset valued at approximately \$20 billion based on comparable fibre infrastructure asset valuations in the United States. This valuation reflects the substantial capital invested in building Canada's most extensive fibre-to-the-home network and underscores the competitive moat and long-term value creation of our broadband infrastructure. Indeed, TELUS is the top fibre operator globally with industry-leading penetration, product intensity, churn, and cost to serve performance parameters that set the benchmark for operational excellence.

Our consistent strategy of leveraging our superior and growing portfolio of bundled products and services on a national basis creates compelling value for our customers. This was supported by our commitment to economic margin accretive customer growth. This is, once again, evident by our ongoing industry-leading customer lifetime revenue supported by our industry-best churn result and continued improving ARPU performance. Indeed, as a result of our moderating ARPU decline, network revenue was higher by 1%, the second consecutive quarter of positive growth and modestly leading the industry. This is a trend we intend to build upon throughout 2026 and well beyond.

Our sustained focus on enhancing the customer experience, combined with the strength of our customer relationships and the value of our bundled solutions, positions us well for an improving trajectory going forward.

Let's turn to our unique and differentiated data centric growth businesses.

TELUS Health delivered another quarter of strong growth achieving service revenue and adjusted EBITDA growth of 11% fueled by strategic investments, continuous product innovation, and cost efficiencies across our global platforms. Notably, this marks our 15th straight quarter of double-digit adjusted EBITDA growth since acquiring LifeWorks in Q3 of 2022. This performance was bolstered by the \$431 million in annualized LifeWorks synergies, overachieving our \$427 million target and nearly three times our original \$150 million commitment.

Furthermore, when combined with TELUS Health's lower capital intensity, this business drives strong cash flow generation, serving as a strategic capital contributor to TELUS's overall capital allocation priorities. TELUS Health is now generating over \$2 billion in annual revenue and is targeting EBITDA of over \$400 million in 2026. By way of illustration, we are targeting more than \$200 million of simple free cash flow in 2026 coming from TELUS Health.

The economic scale of TELUS Health continues to grow, now covering nearly 170 million lives globally, further progressing our position as the world leader in workforce digital health solutions. TELUS Health is capturing meaningful industry, technology and societal tailwinds that position it for sustained growth.

Our financial advisors continue to support our comprehensive review of strategic partnership opportunities for TELUS Health. As part of this process, we are looking to bring in strategic investors across key areas of the business. This includes, by way of example, retirement benefit solutions as we look to accelerate growth, enhance capabilities and unlock value within TELUS Health's attractive lines of business whilst maintaining our commitment to customers and market leadership.

As we advance these aforementioned strategic partnerships, TELUS Health will concentrate its focus on strengthening still further its globally leading position across the workforce digital health and well-being market.

In this regard, our Employer Health Solutions platform remains the cornerstone of our TELUS Health growth strategy. Our goal here will be to drive penetration and cross-selling, deliver new product innovation, seize greater market share, expand geographically, and leverage full business digital AI transformation, and to do that, aided and abetted by TELUS Digital, and delivering sustainable value and value-accretive growth along the way.

This strategic review, which we foreshadowed a year ago and announced publicly in January, has generated significant interest from multiple parties reflecting the strength and quality of our TELUS Health portfolio. Notably, we have received more than 75 inbound inquiries from interested parties prior to launching the official marketing process demonstrating the significant value and market appetite in our health assets.

Furthermore, as part of this process, a confidential information memorandum is currently being distributed to qualified parties. And as you know well, proceeds from strategic partnerships will be deployed towards deleveraging, supporting our path to augmented financial flexibility in the future.

Another area of differentiated growth is TELUS Digital, the engine to TELUS' customer experience leadership for over the last two decades and the accelerator to our enterprise-wide AI and data capabilities. Indeed, TELUS Digital is uniquely positioned to provide TELUS and our clients complete end-to-end AI solutions from AI transformations all the way through to the compute needs of our clients with a special differentiating emphasis on world leading CX AI transformation for the massive global market in customer care operations.

At TELUS Digital, we are especially encouraged by the Q1 growth in our legacy CX business, which we are transforming end-to-end by deploying our CX AI capabilities, which include our proprietary Fuel platform and best-in-class third-party AI solutions. Indeed, our combination of existing CX relationships, deep client data, and world-class technical and AI capabilities underpinned by TELUS as our living lab, creates a unique competitive position for TELUS Digital in the industry. The results, well, they demonstrate that we're gaining meaningful traction with CX clients enabling cross-promotion of our industry leading AI solutions across TELUS.

Furthermore, the strategic expansion of our AI capability is synergistic with the integration of TELUS Digital, which continues to unlock meaningful operational efficiencies for us. Notably, annual cash synergies of approximately \$150 million to \$200 million is tracking well against plan, realizing annualized free cash flow synergies of approximately \$115 million as at the end of the first quarter of 2026. With TELUS Digital operating at a modest CapEx intensity of approximately 4%, combined with the cash synergies realized by TELUS, we are driving strong cash flow generation for the benefit of our shareholders of \$150 million per annum.

Moreover, between these cash synergies and strong cash flow generation, the discounted payback period on privatizing TELUS Digital will be realized in short order and shift, thereafter, the value accretion.

In respect of commercializing the compute capabilities that TELUS has been building, our Sovereign AI factory in Rimouski, which launched in September of 2025 as Canada's first fully Sovereign AI factory is now sold out, validating strong market demand for sovereign AI infrastructure. Accordingly, we are expanding our compute inventory in Rimouski to meet continued demand, whilst our second facility in Kamloops, British Columbia will be coming online in fairly short order.

This new compute capacity will serve the growing ecosystem of businesses, researchers, entrepreneurs and startups, and government organizations seeking to innovate rapidly and leverage AI capability for training, models or inference application. We look forward to sharing an important update regarding our Sovereign AI factories on Monday, May 11th, which will further demonstrate our commitment and progress in advancing Canada's digital infrastructure and AI capabilities.

Indeed, with these unique capabilities across the entire value chain of AI, we are creating prescient and meaningful new revenue streams for the TELUS organization and our portfolio of companies.

As we bring together the power of TELUS, leveraging assets from TELUS Digital, TELUS Business Solutions and TELUS Health, we are bringing end-to-end solutions for our clients, validating our integrated approach in this regard. Altogether, our AI-enabling capabilities delivered strong double-digit revenue growth of 22% in the first quarter of 2026. This result demonstrates the continued momentum of our AI-driven strategy as we progress towards our revenue target of circa \$2 billion in 2028 across TELUS Digital and TELUS Business Solutions, including contributions from our Sovereign AI factories.

TELUS' well-developed world-class networks, data-centric growth assets and customer experience leadership positions TELUS to execute on our strategic priorities including moderating capital expenditures and generating strong free cash flow of approximately \$2.45 billion in 2026.

An important component supporting this execution is the welcome stabilization in competitive dynamics with a gradual retrenchment from the relentless pricing aggression that has certainly characterized recent years in our industry. This is complemented by an ongoing emphasis on cost efficiency as a way of life, leveraging digitization and further integration of AI across all areas of our business stewarded by TELUS Digital. This is further supported by our team's unwavering commitment to customer service excellence positioning TELUS to deliver sustainable, value-accretive growth for years to come.

As we move through 2026 and beyond, TELUS will progress its balance sheet strength as compared to our Canadian peers still further, with an industry-leading net debt to EBITDA leverage ratio. This position reflects the most resilient financial and operational profile in the Canadian telecommunications industry, particularly since 2022, a period marked by significant competitive regulatory and macroeconomic headwinds.

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

Our comprehensive de-leveraging strategy is moving ahead of plan and expected to reach circa 3.3x or lower by the end of 2026, and 3.0x or better by the end of 2027, years ahead of our peers. In 2026, our team is advancing monetization opportunities including the accelerated monetization of real estate and copper assets. This monetization program is being enabled by our PureFibre build, which, at the same time, is making our real estate, including our central offices, redundant. Indeed, and importantly, 77% of our PureFibre build will be self-funded by the real estate and copper assets that we are monetizing.

Notably, our copper to fibre transition is generating substantial real estate opportunities with a portfolio of 70 sites representing some \$4 billion in total value, including \$600 million from commercial assets. These 70 sites, which represent nearly 10,000 homes, will drive future customer growth through exclusive TELUS products and services, while positioning us as the first telco globally to scale real estate value from owned network assets addressing housing needs in our communities.

These efforts will be buttressed by operational growth including EBITDA and robust free cash flow expansion supported by moderating capital expenditures and an industry leading CapEx intensity ratio trending from 12% towards circa 10%, which, of course, would represent an industry best.

TELUS is already at where others strive to be given our early start and proficient fibre build and preemptive OpEx improvement from sequential staff level reduction programs implemented presciently a couple of years ago. Notably, we are achieving this industry low CapEx intensity whilst maintaining world-leading broadband connectivity and continuing to invest meaningfully in Canada's digital infrastructure, demonstrating the operational efficiency of our network strategy in action.

As part of our capital allocation framework, we continued to maintain our dividend at the current level. Additionally, in the first quarter, we reduced our DRIP discount to 1.75% from 2%. Further reductions are planned through 2026 and into 2027 with the full removal taking effect by the end of 2027, if not better, given our monetization programs. Importantly, in this regard, we continue to assess both an accelerated de-leveraging and an expedited DDRIP step down in conjunction with the execution of our monetization program targeting \$7 billion of assets inclusive of the near-term TELUS Health monetization opportunity.

Myself and the leadership team remain confident that the TELUS organization prospectively will provide clarity in respect of TELUS' capital allocation priorities based on what is best for TELUS and our shareholders, including our employees who collectively represent our third largest shareholder group. One way or the other, I'm sure TELUS' future will be underpinned by the strong operational and financial execution TELUS has long been known for and the lucrative capital allocation associated with such.

Reflecting on our team's longstanding belief in the synergistic relationship between doing well in business and doing good in our global communities, since 2000, TELUS has contributed \$1.85 billion, including 2.5 million days of volunteerism, more than any other company in the world. This is supported by our annual TELUS Days of Giving events in 35 countries around the globe. For 20 years, our annual Days of Giving events have been a powerful and authentic demonstration of our team's unparalleled legacy of giving being put into action.

In closing, I would like to express my gratitude to our global team for their efforts and expertise in executing on our winning strategy to meet our commitments to all stakeholders. Your dedication to operational execution and customer service excellence and community impact continues to set TELUS apart and positions us for sustained success.

Before I conclude my remarks, I would like to extend my sincere gratitude to Doug French, Uncle Doug as he's known here, who and, as you would now have well heard, is retiring at the end of June. Doug has had, without a doubt, a truly extraordinary career at TELUS and I'm a huge admirer. I feel exceedingly fortunate to have had the opportunity to work alongside him for 26 years of his 30 years at TELUS.

As the people on this call know very well, Doug is one of North America's most respected and experienced CFOs. Throughout his storied tenure, Doug has demonstrated an outstanding ability to support TELUS in generating leading results, excellence in balance sheet and cash management alongside world best shareholder value creation. Doug is also the living embodiment of our social purpose thesis in action in terms of the way he gives back to our communities and makes such a meaningful difference. Doug leaves behind him an extremely impressive legacy of success. He is undoubtedly, truly one of a kind, both as a professional and as a human being.

I'd also like to congratulate Gopi Chande on being named TELUS' new CFO, which will take effect on the 1st of July. Gopi has considerable CFO experience with TELUS Digital, as well as nearly three decades of strategic financial leadership and should be a great partner for Victor and ensuring that both Victor and our entire leadership team have a strong continuity of financial leadership and the financial excellence and the business results which that drives.

So, to my phenomenal partner, the best partner that I've ever had the opportunity to work with, I'll hand over one last time and just, again, express my gratitude that I had the opportunity to take our 78 years of combined telecommunications experience between the two of us and put it to work fruitfully for investors, for customers, for team members and our communities. Over to you Uncle Doug.

Doug French - EVP & CFO

Thank you, Darren. It's been an amazing journey. I'm incredibly proud of our results that we've built together. I have confidence in the leadership team to take our organization into the future. It's been a real honor.

Darren, I'd also like to thank you for everything you've done for our customers, our team, our communities and our investors over the past 26 years. You evolved TELUS from a regional telco to a national telecom company and a global powerhouse spanning health, agricultural, digital, and will benefit our stakeholders around the world for many years to come. Here you are, 104 IR calls later, you've certainly created an amazing legacy. On behalf of the TELUS team, congratulations on your well-deserved retirement. I hope the next call we make together will be whether to use a 7-iron or an 8-iron as we've done the hole-in-one.

Now, turning to the results. First quarter results illustrate our team's discipline with focus on operational execution and vigorous cost management. On a consolidated basis, service revenue increased by 1% year-over-year and adjusted EBITDA was stable. These results were supported by continued strong performance of TELUS Health and consistent execution of TTech and TELUS Digital, demonstrating the resilience of our diversified business portfolio in a dynamic and ever changing telecom market.

During the first quarter, our response to competitive dynamics continued to focus on preserving our premium TELUS brand. Our consistent strategy and discipline are evident in our financial results delivering on continued positive network revenue growth of 1%, while ARPU demonstrated continued sequential improvement. Our strategy is built on a proven thesis of bundling mobile and home, driving lower churn, higher revenue per household through internet and wireless, and further differentiated service offerings. As we progressed through the year, our team will continue to execute maintaining a strategy that differentiates us from our competitors and protects long-term wireless industry health.

In fixed, you will note our disclosure, we are no longer reporting on TV, security and automation, and residential subscribers, and have removed them from the reported subscriber base. This change underscores our focus on product intensity, reflecting our core business thesis of mobility and internet, complemented by a suite of additional products and services that will add value to our customers. Overall, this update reinforces our focus on economically accretive growth, supporting our efforts to drive profitability and cash flow.

Fixed data service revenue for the first quarter increased 1% driven by continued residential internet subscriber base and revenue per customer growth within fixed. In business, fixed data continued to reflect revenue variability with customer contract changes partially offset by continued growth in small and medium business.

Overall, TTech adjusted EBITDA was stable while adjusted EBITDA margin expanded 80 basis points to 44.4%. This is a reflection of our cost efficiency programs, synergies achieved from privatization of TELUS Digital along with our AI enablement.

In Health, operating revenue and adjusted EBITDA each grew 11%. The growth captures benefits from global business acquisitions, notably WPO in May of last year, and organic growth in payer and provider solutions. At the same time, profitability in Health reflects our realization of integration synergies as the migration of customers of the Workplace Options Platform continues.

For TELUS Digital, I'll remind you that our results reflect the updated segment reporting to align with the operational realignment of TELUS Digital following TELUS' privatization of the business. TELUS Digital segment's operating revenues were lower to start the year reflecting an overall unfavorable foreign exchange impact and lower volumes from certain tech clients. However, in US dollars and including the inter-segment revenue, TELUS Digital's revenue grew by 3%. We are seeing increases in service revenues from clients across our digital solutions and customer experience management service lines. At the same time, TELUS Digital segment's adjusted EBITDA increased 2% year-over-year with the margin expanding by 20 basis points to 10% reflecting operational expense efficiencies.

The team will continue to drive further efficiencies through business simplification and AI enablement as we progress through the year with the expectation of both revenue and EBITDA improving in the second half.

Our net debt to EBITDA ratio as of March 31st was 3.5x as compared to 3.9x at the same time last year. TELUS leverage remains the lowest of our national peers. We remain highly confident in delivering on our leverage goals of 3.3x or lower by the end of 2026, and 3.0x or better by the end of 2027 supporting these efforts of strong free cash flow generation.

In the first quarter, we delivered cash from operations of more than \$1 billion and industry-leading free cash flow on a comparative basis of \$583 million, increasing 19% year-over-year. This underscores our solid financial foundation as we look to achieve our objectives established with our investors. Importantly, we are delivering on all our commitments we've set out. This includes de-leveraging, moderating CapEx intensity, stepping down on the discount on the DDRIP, and executing on our asset monetization program.

Regarding our targets, we are striving to be within the mid to lower end of our consolidated service revenue and adjusted EBITDA range. As economic and market conditions improve, we anticipate seeing more accretive growth supplemented by efficiency and effectiveness in the second half.

As we navigate through the competitive environment, our focus remains on generating free cash flow affirming our target of \$2.45 billion for 2026, supported by EBITDA growth, CapEx intensity, moderation, and ongoing efficiency and synergy realization. With our free cash flow growth target of minimum 10% compounded annual growth through 2028, combined with our portfolio of asset monetization opportunities, we are on solid footing to support our capital allocation plan and deleveraging targets.

Ian, back to you.

Ian McMillan - Head of IR

Thank you, Doug. Karl, please proceed with questions.

Operator

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

Jerome Dubreuil - Desjardins Securities

Hi, everyone. Thanks for taking my question. First of all, congrats, again, Darren, on the career and Doug, too, congrats on this. I always appreciated our discussions, so all the best.

First one is on CapEx where we're seeing it being up 11% in the quarter. Wondering if there's potential for lower CapEx down the road. I think you said in the prepared remarks that you're already where others want to be. I'm just double checking if that refers to whether there's potential for further CapEx reduction down the road. Thank you.

Darren Entwistle - President & CEO

Yes, there is. The explicit comment that we made in terms of being at where others are striving to get to is the 12% CapEx intensity zone reflective also of how we exited 2025. And the view, prospectively, is to take that down still further towards the 10% CapEx intensity zone, which would be reflective of a leading metric certainly within the global telecom industry.

I think what is enabling that is many of the heavy lifts to the organization are more behind us than ahead of us with that fibre build or spectrum auctions that were particularly challenging given the rules associated with them. But it's also reflective that the organization is changing fundamentally in the leveraging of AI and the developing of our asset portfolio where the CapEx intensity within that asset portfolio, by way of example, looking at TELUS Health in the 8% CapEx intensity zone, TELUS Digital in the 3.5% to 4% CapEx intensity zone, the mix of the organization is also evolving as we become more and more an AI services organization on that front. So, that should give you a view as to where we would like to take it to.

And, of course, that expansion in going from 12% to 10%, we also want to complement that with an improving EBITDA profile, hopefully within a more economically sanguine Canadian telecom market. But we think the combination of the lower CapEx intensity and the improving EBITDA profile sets up a very strong free cash flow story of this organization on a chronic basis, and that's attractive for us from hygiene reasons like de-leveraging to, obviously, value creation.

Jerome Dubreuil - Desjardins Securities

Great. Thank you.

Ian McMillan - Head of IR

Thank you, Jerome. Karl, next question, please.

Operator

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

Drew McReynolds - RBC Capital Markets

Yeah. Thanks very much. Good afternoon. Good morning. Congrats, Doug. Wish you all the best and absolutely fabulous working with you.

Doug French - EVP and CFO

Thank you.

Drew McReynolds - RBC Capital Markets

Two for me. I guess back to you, Doug, we're not letting you off the hook yet. On the TTech margins, obviously, a very good lift, again, in Q1 here. You alluded to AI and TELUS Digital synergies, overall efficiencies, are we still in the gradual margin expansion looking out over the next kind of two years, three years, four years as that revenue mix even within TTech could evolve with potentially the data center piece coming in with a little bit more force? Or do you see potential for maybe a little bit more of a step up at some point?

And then second, I guess, back to you as well, on the real estate monetization roadmap, Darren, thanks for the additional granularity there. Just wondering, kind of, of that \$4 billion, just how that kind of feeds into your pocket over time? What's the timeframe looking like on that front? Thank you.

Doug French - EVP and CFO

So, on that – maybe I'll start with the second one first. So, the real estate one will feed in over time. We have the commercial one that Darren referred to and a few of the residential ones will be more short term and then probably the remaining portfolio would be between the next two years to five years over that timeframe. So, it's going to be a smooth line, but there's definitely some upfront opportunities that will be more lump sum on that end.

On the margin side, some of the advantages we do have with our data center rollout is we own the end-to-end. We not only are owning the real estate, the chips, the operations, so our margins on that end, yes, will contribute and will be a benefit tailwind to where we're headed in the longer term. And I think when you think through or look at our restructuring in the first quarter, as we continue to shut down copper areas, as we shut down 3G networks, as we integrate from some of the older platforms, to more digital and AI, yes, there is an opportunity to continue on margin expansion, especially as we realize the final benefits even through that real estate portfolio that we talked about on shutting down COs and no longer having to keep those open for a small portion of our customer base. So, I would expect that to continue. And we also have done significant items you'll see on pricing for and quality of loading, which I'm sure we'll continue to have our other leaders talk to.

Darren Entwistle - President & CEO

If you look at the long term view, Drew, we're postulating prospectively into the future, inclusive of what we do with PureFibre nationally of a cumulative circa \$10 billion spend on fibre. And when you examine the real estate portfolio component of the \$4 billion and then say, okay, with the development of that real estate portfolio, we've got a captive market for our telecom services with those customers that reside within that real estate portfolio that we have developed. And so, we think that's roughly about \$5.5 billion right there, fairly precise, actually, another \$1 billion as it relates to copper recycling activities. So, that takes you up to kind of the mid-6s and then looking at certain commercial real estate monetization opportunities and things that we can do on subsidies like the broadband fund, that's about another \$1 billion in vitality. So, that gets you to just over \$7.5 billion on a cumulative \$10 billion spend. So, three quarters of it is self-funded. And I think the discipline of doing that, but also a point that Doug has made that the give of fibre never stops giving. It's not just the new 100-year return on investment asset to replace copper, the byproduct components of it, whether it's fibre supporting our wireless business or it's fibre freeing up real estate, the economics are tremendously attractive.

And they have done these over TELUS because within my remarks and I would encourage you to go out and benchmark us, but I don't think you'll find a fibre operator globally that post the type of pen rate that we do that has the 3.4x product, the intensity that has the unit cost to serve the average revenue per account or per home or a lower churn rate. I think you'll find that globally we're leaning in across all of those parameters. So, we just like the holistic aspects of this business.

And the other thing we thought was interesting probably brought on by our frustration with the stock price, but we thought it would be an interesting thing to just take a US fibre multiple looking at transaction and trading comps and apply it to TELUS' fibre business, and you get a \$20 billion result. And that doesn't reflect our superior operating attributes in that regard. So, from a sum of the parts point of view, I think that's quite potent, even if you just took that and added our spectrum value to it along the way.

Drew McReynolds - RBC Capital Markets

Thank you.

Ian McMillan - Head of IR

Thank you, Drew. Karl, next question, please.

Operator

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

Stephanie Price - CIBC World Markets

Hi. Good morning. Just wanted to circle back on AI a little bit, and just regarding TELUS Digital and how it's enabling TELUS' AI strategy. Can you help us understand kind of the interplay between the different businesses at TELUS and what the opportunity is there with TELUS Digital?

Darren Entwistle - President & CEO

Sure. Maybe what I'll do, given the question, Stephanie, is I'll let Tobias kick it off and he can provide the overview and then Navin can speak with specificity on the business unit front and as well, Zainul. So, why don't we do that? Go ahead, Tobias.

Tobias Dengel - President of TELUS Digital Solutions

Yeah. Thanks, Darren. And thanks, Doug. And congratulations, Doug, as well.

Stephanie, thanks for the question. I would think about the relationship in a couple of different ways. So, one is TELUS Digital is an operational efficiency machine for TELUS and for all our clients, frankly. That is universal with everyone that we serve. And we do that in two primary ways. One is a global optimization of the team and then two is deployment of AI, right? And those things go hand in hand, they're not separate things. Every piece of work that we do for TELUS is supported now by AI. You can think of the contact center as a prime example where, as Darren mentioned, we are super focused on being the differentiated global player in CX AI.

Every contact with a customer is supported by AI, telling our agents what is the best-in-class response, what is the best response that we've done over the years in this type of situation, right? And I think when you think about the evolution of AI, it's going to be supporting humans is going to be the primary use case for us. And it allows our humans to work on much more difficult problems and it allows our new team members to get up the learning curve much more quickly.

So, when we think about how we do that with TELUS, right, we're improving on first call resolution, save rates, product intensity, that's our living lab. Then when we roll that out to clients, we're getting results, like for a US telco, 25% reductions in AHT, 800-basis-point improvement in customer NPS with a tech hyperscaler, a 600-basis-point improvement in quality, 23% improvement in CSAT. And we're using our agent trainer to get our 30-day production performance for new agents and improvement by 920 basis points. So, these are step functions. I think there was a previous question to Doug on is this a step function or linear. It becomes more and more a step function over time as we get smarter and smarter.

So, by doing that and doing that with TELUS first, we're able to roll that out to clients. But it's not just supporting the cost efficiency of all of the TELUS enterprises. It's also going to market together. And so, we are super tightly aligned with Navin's team and TELUS Health for example, bringing our solutions together, for example, to Alberta Health where we're working on an agent digital front door together to support 5 million citizens in Alberta. So, there's a revenue synergy as well as a cost synergy.

And I'll hand it back to Darren.

Darren Entwistle - President & CEO

Navin, why don't you make a quick example and maybe Zainul, you can wrap it up quickly, thereafter.

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

Yeah, thanks, Darren. As Darren said, on the pure Sovereign AI factory side, we're partnering with Tobias and our CI organization and the Rimouski factory is now sold out. And so, we are excited to see that but are anxious now to continue to build out our KIDC, or Kamloops Internet Data Center. And that data center has a very strong funnel of opportunity ahead of us. And that funnel cuts across multiple segments. So, there's customers in our enterprise space or public sector space, mid-market and many small start-up organizations that are keen to take advantage of our Sovereign AI factory capabilities.

And as Tobias said, in the B2B space, whether it's Health, Agriculture or TELUS Business Solutions, really strong alignment with Tobias on the go-to-market side, around our professional services and digital transformation capabilities that we can offer our customers.

And then just lastly, internally, in the B2B side, we are working with the TELUS Digital team around our own AI and agentic implementations that are going to really help with an improved customer experience as well as margin expansion going forward.

Darren Entwistle - President & CEO

Thanks, Navin. Zainul, any top up?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Yeah. Maybe a couple of things. Thanks for the question, Stephanie. I just wanted to highlight how these efforts and synergies have been realized in our results. So, it's not the first quarter but for the last 24 months, as we've seen margin compression, particularly in the consumer side of the business that we've been delivering 5% and 10%, 5% and 10% quarter-after-quarter on cost efficiency quarter-over-quarter. And so, the CX and AI relationship with TELUS Digital has been a material driver of that. As Tobias mentioned, there isn't really even one area of our business that we're not using AI at this stage.

And then I would also say that we have leveraged TELUS Digital significantly on our own development activities. So, we've had adjacent businesses that have been pressurized from cash flow like video where we've had to pay licensing costs and we've completely transformed those businesses into cash flow generating businesses. And with greater flexibility to support our customers on across their portfolio of content needs, as one example, and doing the same thing on the automation and security front now. So, all of that we would not have been able to do at scale and at speed without the support of TELUS Digital and the significant resource and scalable AI capacity that they provide.

Darren Entwistle - President & CEO

And Stephanie, I think maybe one thing not as well-understood as it should be, and this is my follow-up as it relates to TELUS Digital. But given the massive size of the customer care market globally, looking at TELUS Digital's end-to-end AI capabilities, both how comprehensive they are and how technologically advanced they are, and the fact that they've already got 700 clients on this front, many of them blue-chip clients, without a shadow of a doubt TELUS Digital is the hyperscaler in the CX AI space.

Stephanie Price - CIBC World Markets

That's great colour. Thank you. Doug, maybe one for you and just to confirm, I think I heard you say that you're striving to be within the mid to lower end of consolidated service revenue and adjusted EBITDA range. Did I hear that correctly? And if so, can you elaborate on that comment a little bit?

Doug French - EVP and CFO

Just when we see some of the market pressures that we have experienced out of the gate is kept us closer to the middle, to the bottom end of the range so far. We hope we can mitigate and see market opportunities to take it back up, but that's where we're currently trending.

Stephanie Price - CIBC World Markets

Okay, thank you so much. And Darren and Doug, congratulations on a phenomenal run at TELUS and all the best going forward.

Darren Entwistle - President & CEO

Thank you.

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

Yeah. Thanks very much. Couple of things. First on CapEx, as your peers strive to catch up with you as you pointed out, they're giving a few data points. Bell yesterday said their wireless capital intensity is only 7% of revenue. Given the network sharing deal, is there any reason to think that TELUS shouldn't be able to operate in that same zip code?

Doug French - EVP and CFO

We should be in the same zip code. I don't have the exact number at my fingertips but we would not be far off.

Vince Valentini - TD Securities

So, when you're saying 10 overall, I mean wireless is pretty much your biggest business still, you're really still spending quite a bit in other areas. And I assume the fibre-to-the-home part of the business requires minimal maintenance CapEx given how efficient and new that network is?

Doug French - EVP and CFO

Yes. And customer loading has a higher capital investment on the wireline side, so there is a definite higher portion of capital going towards that.

Vince Valentini - TD Securities

Okay. And separately on wireline data, I mean, quite frankly, there's a lot of talk here about how great things are going and all these capabilities and your wireline data revenue growth is less than 1% this quarter. It remains quite disappointing. I assume you would agree. Can you give us a little more unpacking here of what the – how big this enterprise repricing was to offset the data center that's fully sold out and all of the good things going on in consumer broadband, those are all totally wiped out by one enterprise contract that's repricing to be. Maybe you can just unpack it a bit more for us because I assume there's a better picture underneath the surface a little.

Doug French - EVP and CFO

Yeah. So, the data center revenue in Q1 is actually quite low. We have sold that out. So, the run rate going forward, you'll see more of an impact in that line. But from the ramp up in getting to being where we are today, Q1 had minimal contribution.

Second, would be the business side has been improving from that negative trajectory that you highlighted that we've talked about for a few quarters now. And there is a little bit of, call it, pressure on the consumer side. But all of those we're looking to enhance with what we're looking at on bundling and continue to take it in the right direction. So, I would expect that we can continue to show improvements in that area. I think this one, this quarter, though, was not influenced by the data center and TBS is on its way too positive contribution on that front in the back half of the year.

Vince Valentini - TD Securities

Okay. Can I just have one last? You mentioned something about a press release or some sort of announcement on Monday related to data centers. I mean, if you're going to float it here on this call, can you maybe just level set? Is this some sort of massive new facility or contract that could be coming? Or are you talking about just some sort of government partnership or customer wins within existing facilities you've already announced?

Darren Entwistle - President & CEO

It's significant. It's developmental. And it's in collaboration with a public entity. And I think I'll leave it there, Vince. It's not that long that you have to wait.

Vince Valentini - TD Securities

Fair enough. Thanks, guys.

Ian McMillan - Head of IR

Thanks, Vince. Karl, we have time for two more questions, please.

Operator

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

Maher Yaghi - Scotiabank

Great. Thank you for taking my question. First, I would like to wish both of you, Darren and Doug, a great retirement, and it was an honor to have interacted with you all these years.

My first question is on your guidance. So, you are looking to deliver 2% to 4% growth on EBITDA, \$2.5 billion, \$2.45 billion in free cash flow. In Q1, you delivered flat growth on EBITDA and \$600 million on free cash flow. I would love to hear from you, what are the key inflection points you're monitoring in your three business segments that gives you the confidence in achieving the middle, let's say, of your guidance range and where do you see the most execution risk or market sensitivities that could drive outcomes towards the lower end of the guidance?

Doug French - EVP and CFO

Yeah. If you look at all of the business lines, I would say, they're all at an inflection point. We just talked about business data and the business side showing more progression into the back half of the year. We saw organic health being a little bit lower and gaining momentum to the back half of the year. We talked the data centers on where that is going and that there was minimal impact of that in Q1. And I would say you then have TELUS Digital, which also has got more opportunity on the AI growth trajectory as we go throughout the year. So, I think all the areas have contributions that I would say will continue to evolve as the year progresses.

I think the highest level of risk is probably the obvious one of above the line market intensity in wireless. And I think that would be, probably, the most influential for the rest of the year should it take a negative turn.

Darren Entwistle - President & CEO

Zainul, would you want to top up on that and maybe Navin if you want to add something as well, but Zainul, why don't you lean in on this?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Yeah. Sure. So, maybe I'll talk about a couple of the inflection points with a little bit more colour, Vince. So, I would say maybe the first one I'll talk about is that on the wireless side, as Doug highlighted, really we're focused all about the base. So, trying to drive premium value to the base. And I think you see that trajectory in our ARPU and in our network revenue.

We had to forsake nets through the last half of March, as you've seen. The churn performance is not indicative of anything this organization has ever delivered. And we lost some share at the lower end of the market but we continue to build at our premium level and not let that get diluted. So, where the market pressure would impact those results is if you had to put in subsidy in the flanker side at a premium level and bring the premium down. And that is the one trend that we have to really avoid overall.

And so, in the wireline side, I think we don't talk as much about some of the similar pricing pressure and commoditization that has occurred. And even though we have a premium asset, I think we haven't played it to be a premium asset as much as we could. And you'll see that change in terms of the way that we differentiate our internet product going forward with the way that we deliver customer-friendly value propositions on service, on pricing certainty, and in terms of video and automation capabilities that we can integrate into the product. So, those are the things that we will push to drive a premium outcome and we have more market to grow into. And so, our base and our bundle will be the drivers of those points of inflection.

Maher Yaghi - Scotiabank

Thank you. And just to follow up, on slide 15 of your deck and in your prepared remarks, Darren, you reiterated the sustainability of your dividend and the de-leveraging roadmap that you have set in motion. I wanted to ask you – I'm not going to ask you what the new management and the Board might do on dividend policy in the coming months – but I wanted to ask you what would you be monitoring or what could change, what changes could take place that would derail achieving those free cash flow targets and the sustainability of the dividends?

Darren Entwistle - President & CEO

Okay. Maher, I think it's important that I'm specific on the correction of what was in my prepared remarks. It wasn't related to the sustainability of the dividend, it was related to the pause on the dividend while we address our deleveraging activities. So, I wasn't making a foreshadowing on that particular front. It was related to pausing the dividend for a number of reasons, but most particularly so that we could focus stridently on addressing our immediate de-leveraging goals. Also, at the end of the day, when you're looking at the dividend yield, I think addressing that as we address the future stock price improvement is the synchronous way to tackle that.

To answer your question specifically in terms of parameters, number one, I would continue to track how well the company does on de-leveraging, first and foremost. I think and I hope it's not just AI or statistical analytics where the past can be a leading indicator of the future. But when you're looking to make a determination on how well we'll do on de-leveraging prospectively, I think it's good to draw inference from what we've achieved thus far on the de-leveraging front. I think we've made excellent progress whether it's the junior subordinated debt or whether it's the creation of Terrion. We've got good momentum on that front and we are ahead of our plan as it relates net debt to EBITDA. And I think the trend line towards 3.3x and 3.0x is exceedingly strong. So, I think you should draw some confidence to that effect.

And the thing that I think is important also to point out is the comparative aspect of – I would argue that we have the best balance sheet in the industry when you look at our net debt to EBITDA position versus our peer group. I would be hopeful that the holistic debt load on the industry would drive more sanguine pricing behavior and a more disciplined approach to overall economics, which would help everyone on the de-leveraging side of it as well because net debt to EBITDA is a quotient, it's not a singular parameter related to the debt itself. And I think the quicker people get seized of that reality, the better we will all do within Canadian telecom.

The second thing I would look at is we have been pretty good at giving forward-looking guidance and I would say we've been pretty good delivering against forward-looking guidance. And so, following discussion with a number of investors and discussions including you, Maher, on this particular front. We listened to the investor advice and we came forward with a forward-looking view on free cash flow. That was not something that originated within TELUS. It originated with feedback from both the buy side and the sell side on that front. And so, that's why we did it in terms of 10% compounded free cash flow growth through 2028, and we intend to deliver against that. Again, I think in terms of figuring out what we're going to do on capital allocation, FCF is a good leading indicator and I'm pleased that we've got 2026 off to a good start with a 19% pure free cash flow growth rate. And it's a nice positive corollary to my frustration that we're not aiding and abetting it by EBITDA expansion. I would have liked to have seen that as well within Q1, but market conditions right now have been a bit challenging. So, I would expect continuity in that regard. And I think, again, that's indicative of what will come on capital allocation.

Third thing would be our monetization strategy. So, we've got \$7 billion to look at. That's inclusive of Terrion. So, Terrion is within that number, the almost \$1.3 billion that we did there. But if we continue to make good progress on monetizing assets and we're in the midst right now of distributing a confidential information memorandum as it relates to a particular line of business on the TELUS Health front where we have no shortage of interested parties, I think that speaks well for latitude on capital allocation prospectively.

And when TELUS puts its mind to execution, I think we execute pretty well and the Corporate Development team will do exactly that on the TELUS Health monetization. But we have a plethora of additional monetization opportunities over and above that along the way.

Next thing I would look at is business performance. Everything that we're talking about here, de-leveraging, FCF growth, monetization, and capital allocation, they're all just byproducts as to how well is the business doing. Are we generating revenue? Are we making a profit? Are the business operations stable? Are we generating good quality of earnings along the way? So, the health of the business, wireline, wireless, looking for performance on the emerging growth side, I would say, that overall health of the business is also a leading indicator.

And then finally, there's no one that wants to give the street clarity on capital allocation more than I do. But I'm part of TELUS' past. I'm not part of its future. And my zeal on clarity has a pecking order. But let's just say whether to stay the course or make an adjustment, I would like clarity. One way or the other, I think that would be a very, very, very healthy thing for the organization. So, make a call, stay the course, or make the call and do a cut. Either way, I think that's good for the company.

I have a personal view as to what I would do if that was something I was participating in, but I won't be here. We've got a talented administration coming in. We've got an experienced administration coming in. They're familiar with our business, from opportunities through challenges. I know in their head and in their heart, the incoming administration and the Board wants to do the right thing for this organization on a sustainable basis. So, we're going to need to give them the time to do that. And I'm sure, in a not too distant future, you'll get the adjudication that you're desirous of.

Maher Yaghi - Scotiabank

Thank you, Darren. And congratulations to both of you on your retirement.

Darren Entwistle - President & CEO

Thanks.

Doug French - EVP & CFO

Thank you.

Darren Entwistle - President & CEO

That means a lot. And that last answer came from both the head and the heart. So, there you go.

Ian McMillan - Head of IR

Thank you, Maher. Karl, we're through the hour, so we'll end it there. Thank you for everyone for joining the call today. Please reach out to the IR team with any follow-ups that you may have. Thank you.

Operator

Ladies and gentlemen, this concludes the TELUS 2026 Q1 earnings conference call. Thank you for your participation and have a nice day.