TELUS®

Q2 2024 Investor Conference Call Transcript

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TELUS Corporate Participants

Darren Entwistle - TELUS Corporation - President, CEO & Director

Doug French - TELUS Corporation - EVP & CFO

Jeff Puritt - TELUS Digital Experience, President, CEO & Director

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

Robert Mitchell - TELUS Corporation - Head of IR

Analyst Participants

Drew McReynolds - RBC Capital Markets

Jerome Dubreuil - Desjardins Securities

Maher Yaghi - Scotiabank

Simon Flannery - Morgan Stanley

Stephanie Price - CIBC

Tim Casey - BMO Capital Markets

Vince Valentini - TD Securities

Presentation Transcript

Operator

Good day. Welcome to the TELUS 2024 Q2 Earnings Conference Call. I would like to introduce your speaker, Mr. Robert Mitchell. Please go ahead.

Robert Mitchell - Head of IR

Hello, everyone. Thank you for joining us today. Our second quarter 2024 results news release, MD&A and financial statements and detailed supplemental investor information were posted to our website earlier this morning. On our call today, we'll begin with remarks by Darren and Doug. For the Q&A portion, we'll be joined by other members of our leadership team.

Briefly, prepared remarks, slides and answers to questions contain forward-looking statements. Actual results could vary materially from these statements, the assumptions in which they are based and the material risks that could cause them to differ are outlined in our public filings with securities commissions in Canada and the U.S., including our second quarter 2024 and annual 2023 MD&A. With that, over to you, Darren.

Darren Entwistle - President, CEO & Director

Thank you, Robert, and hello, everyone. In the second quarter, our team built upon our track record of execution excellence to drive industry-leading customer growth and strong financial results, leveraging our premier portfolio of assets coupled with our relentless pursuit to drive cost efficiency and effectiveness.

Our results clearly demonstrate how we are delivering sustainable profitable growth underpinned by our consistent strategic focus on margin-accretive customer expansion, our globally-leading broadband networks and of course, our customer-centric culture. This enabled a record second quarter with total customer net additions of 332,000, up 13% on a year-over-year basis. This included healthy mobile phone net additions and record second quarter customer growth for both connected devices and total fixed net additions.

Our team's passion for delivering customer service excellence once again contributed to leading loyalty results across our key product lines. Notably, postpaid mobile phone churn was again below 1% alongside PureFibre churn of circa 1%. This showcases the consistent potency of our unmatched bundled product offerings across mobile and home and our leading customer experience over our industry-best PureFibre and wireless broadband networks.

For the second quarter, TELUS achieved resilient EBITDA growth of 5.6% and margin expansion of 170 basis points. These results reflect the progression of our ongoing transformational efficiency programs that are clearly bearing fruit.

Let's turn now and take a look at our TTech mobile results. TELUS realized second quarter customer growth of 262,000 net additions, our strongest second quarter on record. This included robust mobile phone net additions of 101,000, driven alongside our continued focus on profitable margin-accretive customer growth. Indeed, we are doubling down on our disciplined focus on profitability as we progress through the remainder of 2024 and beyond.

Our efforts will ensure our mobile customer growth drives sustainable EBITDA and cash flow accretion for our business and our investors. Mobile subscriber growth also included record second quarter connected device net additions of 161,000, which represents a 30% increase on a year-over-year basis. This reflects continued strong momentum with respect to our 5G and our IoT B2B solutions.

Importantly, our team delivered another quarter of leading loyalty results which, of course, continues to be a hallmark of our TELUS team. Blended mobile phone churn of 1.07% was up against the backdrop of elevated competitive activity relative to seasonal trends. Whilst this is not a level at which our team is content, it once again represented an industry-best result by a substantial margin versus our peer group.

Notably, postpaid mobile phone churn was 0.89% in the quarter as we progressed through our 11th consecutive year with a churn rate below 1%. This is an outstanding result on a global basis and reflective of the industry-best customer experience our TELUS team delivers time and time again.

To close on mobile, second quarter ARPU of $58.49 was down year-over-year. This was a result of continued intense promotional market activity and heightened competition. Notwithstanding the competitive pressures, our team is distinctly dissatisfied with our ARPU results, and we remain focused on driving a better outcome through multiple levers prospectively. These include enhancing our premium bundled offers across mobility and fixed and driving unmatched product development, differentiation and intensity, all while maintaining strategic focus on profitable growth and sustainable economics.

Our flanker brands offer strong customer value in key growth segments, some with lower associated ARPU but notably compelling AMPU attributes. Through digital transformation, we are meaningfully lowering our cost-to-serve across the board, inclusive of supporting an attractive AMPU for BYOD and flanker activity.

Furthermore, our growing product intensity increases both average revenue and average margin per home, whilst reducing churn. Thus, we see sequential benefits as we layer more fixed and mobility products significantly enhancing lifetime revenue and the associated economics. These efforts will continue to be supported by our team's passion for winning and retaining profitable customers, whilst remaining highly disciplined in respect of device subsidies.

Furthermore, we continue to expect connected devices and IoT to increasingly contribute to network revenue, network ARPU and AMPU and seeing that growth grow at a level of materiality prospectively. Importantly, our industry-leading customer loyalty and focus on profitable growth allow us to continue delivering industry-best mobile phone lifetime revenue, which consistently exceeds our national peers by a considerable margin of up to 38% in the second quarter alone.

Now, let's take a look at our TTech fixed operating results, where TELUS delivered another quarter of industry-best total wireline customer growth. Indeed, our team achieved robust and industry-leading second quarter internet net additions of 33,000, similar to the prior year and up slightly versus the first quarter of 2024. Importantly, consumers in the West are choosing TELUS for our PureFibre superiority, coupled with our customer service excellence, which is sustaining strong growth on a year-over-year basis.

We are also continuing to drive healthy growth in our TV product line with industry-leading net additions of 25,000, up 47% on a year-over-year basis. Additionally, modest residential voice losses of 8,000 were flat over last year and again represented an industry-best result compared to our national peers by a notably wide margin. Strong and leading security net additions of 20,000 were up 33% and reflect our successful multi-product penetration strategy as well as the distinctive performance on premium versus our peers.

Overall, our industry-leading external fixed net additions of 70,000 again represented a record second quarter result for the TELUS organization. This demonstrates the strength of our unique and highly attractive bundled offers across our unmatched portfolio of products and services in combination with our superior customer experience over our ever-expanding PureFibre network.

It's terrific to be able to deliver that magnitude of net fixed results for this organization in terms of getting an ROI on the billions of dollars that we've invested in PureFibre connectivity. These particular strengths will be further enhanced by continued significant innovation on our differentiated product road map where we will be delivering a series of new products in the months and quarters to come.

In this regard, TELUS has built the first device-agnostic SmartHome platform, leveraging new IoT services in close partnership with AWS as well as the development, talent and capacity of our TELUS Digital Experience team, formerly TELUS International. This platform will enable us to enter many new verticals such as energy management, which we launched earlier this week. Furthermore, that will enable the enhanced integration of existing capabilities, such as health and wellness, whilst at the same time, driving cost-to-serve improvements at a material level and driving as well licensing savings within our core business operations. It’s really the embodiment of what we did on AMPU on the wireless front being driven into the wireline side of our business.

Our product development, differentiated service portfolio and product intensity driven by leading data and AI capabilities not only positions us for growth, but helps Canadians save money in an affordability challenged environment. Looking forward, this integrated product platform will deliver a multitude of innovative products, which will further solidify our product intensity leadership and present new revenue sources in the quarters to come that are completely differentiated from our competitive peer group.

Let's turn now and look at TELUS Business Solutions, or TBS, which once again delivered a robust quarter of growth across all areas of the business. Our focus in B2B continues to be on accelerating profitable growth. And in this regard, notably, in the second quarter, TBS achieved strong cash flow growth of 8% on a year-over-year basis, reflective of our strong customers-first culture, global best networks, digital capabilities and, of course, focused execution. TELUS Business drove industry-leading loyalty results in Q2, a lead we've maintained now for nine consecutive quarters.

Our Business Solutions team continued securing significant wins and strategic renewals in the commercial and public sector space. This included an eight-figure deal to deploy TELUS' leading next-generation video security services for a high-profile client with a road map to expand with our video analytics, IoT, and automation solutions. We also secured a new strategic partnership that will see TELUS supporting thousands of Canadian vehicles with our industry-leading IoT services. This win builds on our multi-year collaboration with GM to provide connected-car technology for its Canadian customers.

In TELUS Health, we are pleased with the solid performance, returning to positive top line growth of 4% as investments in our products, sales capacity and distribution channels deliver strong momentum across multiple lines of service. This includes MyCare, pharmacy management systems, virtual pharmacy, retirement benefit solutions, health benefits management, our precision health and our employee assistance programs. The performance at TELUS Health has been strong across all of our products and business lines. And notably, we expect this positive momentum to continue in the quarters ahead.

Furthermore, our TELUS Health team delivered over 33% adjusted EBITDA contribution growth in the second quarter of 2024 and this was supported by accelerated revenue growth alongside the continued progression of our synergy program at TELUS Health. Notably, on the synergy front, we achieved $297 million in combined annualized synergies since acquiring LifeWorks back in 2022, including an increase of $46 million in the past quarter alone. Since the acquisition, we've driven $248 million in cost synergies along with $49 million in cross-selling as we work towards our overall objective of $427 million by the end of 2025. This means we've got about $130 million synergies left to go and about $80 million are going to come from the cost side and $50 million as it relates to cross-selling. Moreover, in the second quarter, we saw a 10% year-over-year increase in our global lives covered by TELUS Health to now stand at more than 75 million.

Similarly, within TELUS Agriculture & Consumer Goods, or TAC, we are yielding positive outcomes as we strengthen our market position, delivering strong second quarter revenue growth of more than 15%. This reflects some inorganic growth from tuck-in acquisitions and as well improving organic revenue performance in our consumer goods, precision agronomy and animal agriculture businesses.

Furthermore, it comes on the heels of continuing strong sales performance quarter to quarter to quarter where we have now realized, in terms of our performance, we've more than doubled our year-to-date sales bookings versus this time last year. Nice to see that doubling of our year-to-date sales bookings in terms of our performance in 2024 versus 2023. And as a result of all of these factors, we expect positive organic growth in TAC in the quarters ahead.

Our commitment to amplifying the substantial growth potential of our distinctive global health and agriculture businesses includes capitalizing on significant cross-selling opportunities throughout all of our businesses, showcasing the collective talent and effectiveness of our team in propelling our success. Watch for more in that space in the quarters to come.

Turning to TELUS International, which will formally complete its rebranding to TELUS Digital Experience in the third quarter. TELUS Digital's second quarter results reflect a macroeconomic and operating environment that remains distinctly challenged. Whilst we are obviously not pleased with this performance, our confidence in the business and assets remains steadfast, and our team is committed to proving this throughout strong execution and exceptional service delivery starting in the second half of 2024 and building momentum for a much more successful 2025 and beyond.

This is going to be achieved by reinvesting TELUS Digital's strong cash flow generation back into the business to support the reacceleration of top line profitable growth, along with the ongoing and extensive focus on cost efficiencies and digital transformation initiatives that will improve not just our cost base, but the operational tempo of this organization.

In that regard, TELUS Digital's promising capabilities in data and AI services, as well as their early success with Fuel iX, is capturing customer demand as demonstrated by the double-digit revenue growth within its AI Data Solutions line of service in the first half of this year. And that growth is indeed encouraging.

Furthermore, our relationship with TELUS Digital offers a unique competitive advantage as the strength of the Gen AI-fueled solutions created for and tested at TELUS fortify their go-to-market efforts with other external clients. Whilst we are encouraged by these positive indicators of longer-term significant growth potential, the challenges TELUS Digital is facing impact the expected levels of revenue and profit for 2024, as seen in the revised outlook for the full year.

It's clear that TELUS Digital must execute on its strategy to deliver the financial results that our investors expect and that we know that we can achieve given the quality of the asset base. In a moment, Doug will provide further commentary on both TTech and TELUS Digital's results.

In closing, the record customer growth we continue to report is underpinned by our dedicated team who are indeed passionate about delivering superior service offerings and digital capabilities over a world-leading wireless and broadband fibre networks. The significant broadband network investments we have made are enabling our resilient EBITDA growth, ongoing monetization of PureFibre and 5G, the financial and strategic benefits of copper decommissioning, intense strategic focus on efficiency enhancement and notable revenue and profit progression in TELUS Health and TELUS Agriculture & Consumer Goods.

That's quite the combination. Together, this combination of factors solidly positions TELUS to focus on what's next and you will see this organization doubling down in these areas and evolving our product road map and customer-centric offerings in the weeks and months ahead in a way that will drive further significant differentiation and profitable and material revenue growth opportunities.

That will be exemplified in terms of cross-selling and improved multiproduct penetration or what we call product intensity. This supports the continued advancement of our financial and operational performance, which is the bedrock of the long-term sustainability of our industry-leading dividend growth program.

Finally, I'd like to take a moment to acknowledge the wildfires that devastated the beautiful community of Jasper last week. The thoughts of our entire TELUS team are with all those impacted by the fire. To support the community through this extremely challenging time, TELUS has committed over $100,000 and growing to assist with the vital rebuilding efforts. Moreover, our team members worked around the clock to support evacuees and local authorities and first responders, leveraging our technology to keep everyone connected when it mattered most.

In addition, we provided care kits and a free 50 gigabit data top-up for those tragically displaced from their homes as a result of the wildfires. As a further demonstration of our support, we activated a free community crisis hotline through TELUS Health, offering professional emotional support to anyone affected.

I am, and the entire team is, sincerely grateful to the countless team members who continue to demonstrate that when things are at their worst, our TELUS team is at their very best. Indeed, I can think of no better exemplification of putting our customers first, than by putting our citizens in need first, such as the symbiotic relationship between customers and communities.

And before handing off to Doug, I'd like to take this opportunity to express my immense gratitude and appreciation to Jeff Puritt for his innumerable and important contributions to

TELUS Digital over the past two decades and almost a quarter of a century as a TELUS team member. Jeff will retire as President and CEO of TELUS Digital, effective on the third of September, and he will assume his new role as Executive Vice Chair of TELUS Digital and join the Board of Directors at that same time.

As you know, Jeff has played a pivotal role in leading and shaping our TELUS Digital business since its inception from a single delivery center in the Philippines with fewer than 2,000 team members back in 2005 to an integrated global provider of AI, digital and customer experience services with over 75,000 employees now serving more than 650 clients from 32 countries around the world.

Supported by robust senior leadership talent succession and in alignment with the company's strategy of bringing the best of technology to enable excellence in customer service, we are extremely pleased to welcome Jason Macdonnell as acting CEO of TELUS Digital and President of TELUS Digital customer experience. Jason is a 20-year tenured member of our TELUS senior leadership team with a proven track record of bringing the capabilities that TELUS has developed to lead in its industry and client care, leading in loyalty, leading cost efficiency and leading in digital transformation excellence, bringing these capabilities to all the business verticals that TELUS Digital addresses with external clients.

In addition, Tobias Dengel, Founder and President of WillowTree, will take on the elevated role of President of Digital Solutions at TELUS Digital Solutions. Tobias has both the industry-leading expertise. He's got the experience, he's got the credentials and he's got the entrepreneurial acumen and drive needed to ensure we continuously deliver best-in-class solutions across our digital, Gen AI and AI modeling businesses.

Both Jason and Tobias will work with me closely and report directly to the TELUS Digital Board of Directors and we are eager to see the significant leadership contribution and impact that they are going to have and make in returning TELUS Digital to material profitable growth.

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

Doug French - EVP & CFO

Thank you, Darren, and hello everyone. Mobile phone and connected device subscriber additions drove network revenue growth of 0.9%, partially offset by lower mobile phone ARPU, which declined by 3.4%. The ARPU reflects the ongoing impact from the competitive pricing environment, with customers optimizing the rate plans, as well as declining contribution from overage and roaming. This was partially offset by higher IoT revenue. As we progress through the back half of the year, we expect the highly competitive environment to continue.

Importantly, we continue our intense focus on AMPU and bundling to drive the right economic outcomes. This is supported by our continued focus to drive lower cost-to-serve as well as leverage our significant digital capabilities. This is further bolstered by TELUS Digital, a key enabler to our customer experience leadership. Our significant and ongoing focus on cost efficiency is helping us offset the top line competitive pricing pressures, allowing us to invest in new product development that will support sustainable EBITDA growth and margin accretion.

Fixed data services revenue grew by 1% year-over-year, driven by strong customer net additions of 78,000 across internet, security and TV, as well as B2B growth, including cybersecurity and cloud services. Despite the competitive landscape, this solid growth demonstrates our superiority of our PureFibre network and growing product intensity.

Internet ARPU in the quarter was stable due to our successful base management while our TV revenue per household was lower as customers continue to evolve their entertainment packages, along with technological substitution. This includes positive growth from the continued strong adoption of our Stream+ offering featuring a bundle of leading OTT content made available nationally through TELUS and Koodo.

At the segment level, TTech operating revenues were up 0.5%, driven by mobile network and fixed data services as well as positive Health and Ag services revenue growth, as Darren highlighted. This was partially offset by lower equipment revenue. Other revenue includes real estate and copper gains driven by our leading PureFibre deployment, which is enabling our copper decommissioning program and monetizing of targeted central offices for redevelopment.

To date, we have completed copper retirement initiatives in 18 targeted central offices and sites, which is aligned to our real estate development opportunities. We expect these opportunities to grow and continue for years to come as we develop a diversified mix of real estate assets and continue monetizing copper from the active decommissioning program while also realizing the operational benefits of fibre.

TTech adjusted EBITDA growth increased by 5.1% and adjusted EBITDA margin expanded 150 basis points over 38%. The strong growth reflects a 9.2% decline in employee benefits expense driven by our cost efficiency programs. This reflects a net reduction of $87 million after annual increases as the cost savings from the programs we announced in last August have reached full run rate which will continue and while we continue to invest in incremental efficiency and effectiveness opportunities, including digitization. We have increased our outlook for restructuring from $300 million to $400 million for 2024 accordingly.

In TELUS Digital Experience, external operating revenues declined by 7.9% year-over-year. This was primarily driven by unfavorable year-over-year revenue comparison from a leading social media client. Although we are seeing signs of stabilization in that regard, along with the broader impact from challenging macroeconomic environment and competitive industry conditions. This was partially offset in volumes and expansion of services providing from existing customers including Google, in particular, driven by the continued momentum of digital AI services, new clients over the last 12 months and some favorable foreign exchange.

When including the intersegment revenue from TELUS, external operating revenues were essentially flat. The growing contribution from TELUS to TELUS Digital showcases our strong and unique partnership, which is creating mutual benefit opportunities and underscores the critical role in driving our customer experience and digital transformation. This includes the implementation of Gen AI applications across levels of organization, driving further efficiencies and effectiveness opportunities.

TELUS Digital adjusted EBITDA was up 18%, or down 11% when excluding $43 million earn-out in the adjusted number from WillowTree. Other income associated with others was lapping share-based compensation from the prior year. As discussed earlier today, TELUS Digital revised 2024 targets. Importantly, the updated outlook implies stable to slightly improving revenue in the second half of the year relative to the first half and stable margins aligned with the second quarter, while normalizing for the WillowTree earn-out.

Overall, TELUS consolidated operating revenues decreased by 0.7% year-over-year, while adjusted EBITDA increased by 5.6%, improving from the 4.3% in the first quarter. EBITDA margins expanded by 170 basis points year-over-year, driven by a 6.1% decline in employee benefits expense. Consolidated net income increased by 13% year-over-year, while basic EPS was higher by 7.1%.

On an adjusted basis, net income and EPS were higher by 34% and 32%, respectively. This growth -- this strong growth was driven by higher EBITDA and the flow-through from our cost efficiency programs in addition to stable depreciation and amortization.

Free cash flow of $478 million was higher by $199 million, driven by lower capital expenditures and higher EBITDA. CapEx declined by $116 million or 14%, driven by our planned capital reductions. Consolidated capital intensity was 13%, down 300 basis points over Q2 last year.

Looking ahead, we are confirming our TTech revenue and EBITDA guidance, however, trending to the lower end of our 2024 targets. We remain confident in our commitment to driving strong, sustainable and margin-accretive growth while maintaining focus on lowering our cost-to-serve with profitable customer loading. Our consolidated free cash flow has been updated to approximately $2.1 billion due entirely to the flow through of TELUS Digital's revised EBITDA outlook as announced today. The $100 million of incremental restructuring investments is being offset by lower taxes and handset investments. Our annual target for consolidated capital expenditures remains unchanged at $2.6 billion.

Overall, we remain confident in our ability to continue generating strong and growing cash flows for years ahead, driven by our ongoing strong EBITDA growth and moderating capital intensity towards 10% level. This will remain -- that this will support maintaining a strong balance sheet to provide us with ample flexibility to support growth, our growth ambitions and shareholder returns.

As we enter the back half, our financial position remains strong. At the end of the second quarter, we have approximately $2.5 billion of available liquidity. Our cost -- our average cost of long-term debt is 4.42%, and our average term to maturity is over 11 years with our debt -- net debt to EBITDA of 3.85x. The acquisition of wireless licenses in the recent years has increased that ratio by 0.56x. This includes payments of our 3800 MHz spectrum auction and obtaining the use of AWS-4 spectrum in the second quarter alone.

As we progress through 2024 into future years, we anticipate our leverage ratio to improve as we work towards our target ratio through continued EBITDA growth, declining capital intensity and ongoing free cash flow expansion. Robert, over to you.

Robert Mitchell - Head of IR

Thanks, Doug. Karl, we're ready for questions, please.

Operator

Certainly. The first question is from Vince Valentini from TD Securities.

Vince Valentini - TD Securities

Yes. Thanks very much. I'm going to try to sneak in two. One, you talked about record sub adds and it just isn't translating into much revenue growth. In fact, your fixed data revenue was lower in the second quarter than the first quarter by $1 million despite net subs being up 70,000. So I wonder if you can talk a little bit about are you happy with this? Does there need to be a bit more of a balance between pricing and volume in your mind? Are you looking to try to take advantage of higher pricing in any areas in the next few months to try to get that revenue growth up?

And second, I'm sure you'll get this from others in a different way, but given what we've seen at TELUS International or TELUS Digital today, does this make it more likely that you need to consider privatizing that company? Or is that on your radar as the share price and valuation gets lower, given that you still see positive on the long-term outlook, Darren? Thanks.

Darren Entwistle - President, CEO & Director

Okay. I'll let Zainul kick off the first part of the question, Vince, and let Doug maybe provide any editorializing that he would like to do on that, and then I'll answer the second part. Zainul, over to you.

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Thank you, Darren. Thanks, Vince, for the question. I think to be clear, in terms of suggesting are we satisfied with this performance, the clear answer to that would be no. We are not satisfied with the level of performance we've seen in this very competitive environment.

I think one of the things that is very clear to us, though, is that we have and will always be focused on economic and profitable loading at the household level. You can see that in terms of many characteristics of our performance. Our mobile and home additions have increased significantly year-over-year. Our product intensity on a per household basis for fibre households is over 3.2x now which is significant. And we are consistently driving cost reduction in a very competitively intense environment. So we've seen about a 6% year-over-year cost-to-serve improvement just in the consumer business.

That said, we're leaning into our product road map. Darren highlighted a number of elements of our product road map to continue driving intensity to drive new revenue streams that our competitors are differentiated from. And we are going to continue to find levers to improve our AMPU performance and continue driving better overall retention outcomes in doing so.

We're a company that has always been focused on ensuring that we support the retention of our customers and drive overall customer lifetime value at the household level. This competitive dynamic is not one that we created, and it is one that we are going to continue to persevere through with those levers as stated.

Doug French - EVP & CFO

I think maybe just a quick top up. I think our internet ARPU, as I highlighted, was flat quarter-over-quarter. So again, managing the value prop that that brings. And with the EBITDA growth of 5.1%, I think it reinforces Zainul's comment on our focus on AMPU and generating economic value.

Darren Entwistle - President, CEO & Director

On the second part of the question, Vince, whilst we obviously have a fiduciary obligation to keep all of our options open, explicitly, it is not our intention to privatize TELUS Digital. We still believe in the assets that we have and the potential, in terms of the value that they can generate going forward and how well they are positioned to leverage developments that are taking place in the industry at the data, data analytics and AI from legacy to Gen AI basis.

I think you can draw inference from the structure that we have put in place. This is not going to be the long-term structure for TELUS Digital, but it is the right structure for right now. And I think this structure is going to be excellent in driving the recovery and growth program over the next 18 months, and you can expect tremendous consistency in that regard.

The other attribute of the structure that I think is good for investors to focus on is that it provides an explicit focus and accountability on the two major components of our business, which, of course, is driving the considerable potential as it relates to digital AI, for which we are very well positioned and Tobias has that remit. And then, of course, the other area is driving remediation, growth and digital transformation in the CX part of our business and leveraging the TELUS case study in that regard along the way.

And Jason's credentials to do that, given what he's delivered at the TELUS organization, are second to none. Both Tobias and Jason know each other very well. So I would expect this to be a very strong partnership between the two, and both of them are smack dab in their areas of expertise where they've got a proven track record, credentials and experience to deliver on the objectives that we have here and drive that recovery and growth program extremely successfully. And I've got a lot of confidence that we're going to do exactly that.

Operator

The next question is from Drew McReynolds from RBC.

Drew McReynolds - RBC Capital Markets

I'll try and squeeze in two myself. First, a clarification. Just to make sure I'm looking at it the right way with wireless ARPU and I will get in my second one to network revenue with growth, which is kind of the more important KPI. But on wireless ARPU, you're down 3.4%, but you've restated last year's and if you were to kind of do an apples-to-apples comparison with Rogers or BCE, they'd be down kind of 1.5% to maybe 3%, respectively. I just want to confirm, I guess, with you, Doug, that that's the right way to look at it in terms of how you're reporting.

Doug French - EVP & CFO

Absolutely, that's the right way to look at it.

Drew McReynolds - RBC Capital Markets

Okay. And then just shifting more important to network revenue growth. In the prepared remarks, your commentary on IoT and that kind of bucket of revenues beginning or continuing to build. Just can you help us just understand the relative size or contribution of that bucket? I think everybody's assumption here is on the B2C side within wireless, still continue to be some kind of pressure for commoditization.

So just wondering how that mix kind of flows through looking into next year and the extent to which you can kind of rebuild the 1% network revenue growth that you're currently generating? Thank you.

Doug French - EVP & CFO

And I think maybe we'll hand that to Zainul again on some of the ARPU initiatives. Maybe one thing leading to the ARPU trajectory and the profitability that we talked about on the 5.1%. If you think through confirming the bottom end of our guidance, what that means to our growth rates as well in the back half of the year is our growth rates will continue to accelerate above 6% for the next six months. And again, that is leveraging all the tools that Zainul was talking about in addition to our efficiency effectiveness and our growth engines that of Health and Ag, as Darren highlighted in his presentation. So leveraging all the tools in our toolkit.

Darren Entwistle - President, CEO & Director

Zainul, you want to top up?

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Yes. Sure. I mean I think, fundamentally, there are a number of ARPU initiatives that we're going to continue to drive. And you've seen us create premium capabilities and bundled capabilities across our brands. We have a differentiated suite of brands that we are leaning into more effectively that help us compete in underpenetrated segments in some areas and help us drive premium capabilities in other segments, and we've really led on that.

We're leaning into our entertainment and our SmartHome and other differentiation to continue driving that premium opportunity. And of course, there's a general block and tackle in terms of the level at which we have to drive improved ARPU performance and drive that relationship between customer renewal and churn performance along with managing the very challenging device and promotional subsidies in our market. So we're going to continue to lean into the brand differentiation and the product differentiation that we have.

I think the other thing to highlight is that we've always been focused on economic loading and on household ARPU, and we've talked about the fact that we should transition to household ARPU over time as the most meaningful metric. And we're going to focus on economics and profitable growth across our brands. I think you've seen strong performance from an EBITDA perspective, and we're going to continue to drive that performance over time.

Drew McReynolds - RBC Capital Markets

Thank you very much.

Operator

The next question is from Jerome Dubreuil from Desjardins.

Jerome Dubreuil - Desjardins Securities

Hi. Thanks for taking my questions. First one, the release from TELUS Digital is saying that the company is pivoting its focus to revenue growth. That's what a lot of spec investors are after. But historically, telecom investors have talked maybe more about free cash flow growth. Obviously, you're still getting a lot of free cash flow growth in both revenue and free cash flow are good to see. But I'm trying to reconcile if the telecom and tech objectives are aligned at this point.

Darren Entwistle - President, CEO & Director

Jeff, do you want to take that question and talk about both what we want to achieve prospectively on EBITDA growth driven by top line revenue? And where you see the major opportunities prospectively in that regard as we overcome the challenges? And then maybe speak to the free cash flow potency of the business and the consistency on that front with a very low level of CapEx intensity.

Jeff Puritt - TELUS Digital Experience, President, CEO & Director

Certainly, Darren. Thank you, Jerome. We absolutely believe that the revenue growth potential of TELUS Digital is just at early days. We have not executed as well as we should have or could have, and you will have seen and heard from me and the team earlier today, a more detailed discussion on the efforts underway to try and get back to achieving that level of growth that we believe is possible. Given the asset mix that we enjoy today, particularly around not just the legacy of customer experience excellence, but particularly around technology-enabled GenAI-enabled capabilities.

The upside opportunity for this business, we believe, is significant. And we just need to do a better job of marshaling these resources and leveraging these assets to achieve high single-digit revenue growth potential. Along the way, the legacy pedigree heritage of the TELUS family in focusing on profitable growth has informed our approach to the market and I think a few years ago, we were able to enjoy outsized margin yield because of our superior and differentiated service level performance.

The appetite for customer changing to more and better for less has really forced us to revisit that profile only in the near-term. And we absolutely expect that that will improve in the months, years ahead as we continue to demonstrate the capabilities of helping our customers themselves to do more and better with less, leveraging our support. Along the way, you will have seen that the focus on cash flow yield at 15% year-over-year, year-to-date has, I think, continued to distinguish us, and that has enabled us to continue to reinvest in the business to ensure that we can get back to that level of growth and the profitability that we've enjoyed historically.

Operator

The next question is from Stephanie Price from CIBC.

Stephanie Price - CIBC Capital Markets

Congratulations on the revenue and EBITDA growth at TELUS Health in the quarter. I just wanted to focus in on the growth businesses. I'm curious if you still envision a monetization event for TELUS Health in kind of the near to mid-term. And how are you thinking about the growth businesses? Or if you're thinking about the growth business, has it changed given what we've seen with TELUS Digital?

Darren Entwistle - President, CEO & Director

All right. I'll take this one. The short answer to your question is, yes, we still do envisage a monetization opportunity that relates to our emerging businesses where, I would say, TELUS Health is in the leading position in that regard. I would be more medium-term than near-term in terms of its orientation. The manifestation of that monetization may be something that is synonymous with what we did historically back in 2016 and thereafter on the IPO front, with TELUS Digital. So it's not just looking at going public, but also looking at partnership opportunities along the way.

But we are very clear in terms of things like a pre-IPO checklist that we have to earn our way to that monetization event through the organic performance of the business because we have to have that strong organic performance delivered on a consistent basis to support the premium valuation because it's not about the repatriation of money, but it's a monetization event to establish a transaction currency. So that we can expand the addressable market of inorganic opportunities to complement what we're earning in terms of the organic performance of that business.

I think it's encouraging to see this quarter the improved performance of TELUS Health. We've experienced some macroeconomic impacts within that business. But clearly, the business is on the right track with the return to mid-single-digit revenue growth and an EBITDA contribution of north of 30%, which has been the case now for well over a year on a quarter-to-quarter-to-quarter basis.

And the quality of contribution within TELUS Health, I think, is indicative. Within my remarks, I made the comment that the performance is not coming from a single product or agency within TELUS Health, but across the totality of the business asset mix that we have. Like our agriculture business, we're seeing a strong accretion within the sales funnel at TELUS Health, which bodes well for continued strong organic performance of the business.

I think we're a little bit over $300 million in total contract value improvements on a year-over-year basis in terms of year-to-date sales strength within the TELUS Health organization. And I think that is an attractive attribute.

We made a commitment to you when we bought LifeWorks a couple of years ago, in terms of synergy realization. And I think we have made strong progress in that regard, bumping up against $300 million at this juncture of synergies being realized, the preponderance of which has come from efficiency measures on the cost synergy side. We’ve got about $130 million of synergies left to go to meet the expectation that we set with you to be realized by the end of 2025. And as I indicated earlier, the split on the $130 million is around $80 million on the cost front and $50 million on the revenue synergy front. And I would be hopeful that we could materially beat that $50 million revenue synergy given the considerable cross-sell opportunity that exists within the business.

I've stated it strongly internally within TELUS that within the TTech business, we should be able to grow EBITDA at 5% and never bring in a new logo, but just selling new products to existing customers, such as the cross-sell opportunity. Fortunately, we're not restricted by that. We can do both, but it is illustrative of the major opportunity there. And in particular, for TELUS Health, the synergistic combination of our B2B base within TELUS Business Solutions and TELUS Health is extremely strong, and every one of our clients right now wants to talk to us about employer productivity including the health profile of their employees. And so I'm excited by that particular dynamic.

And then lastly, on the health front, as you all know for us, the expansion in emerging markets is all about the data play. It's where we started back in 2000, and we're still on that particular page today, leveraging data, data analytics, legacy AI, Gen AI to couple that with network connectivity, to couple that with premium services to be able to leverage the attributes of our business, including our sales channels and our customer base. And the digital and AI opportunity within TELUS Health is absolutely huge. And TELUS Health can feed off of the digital AI progression at TELUS and feed off of the digital AI capability set at TELUS Digital or formerly TELUS International.

And what I like about it right now is with this performance trajectory, that bodes so well for the future and is so encouraging, I don't think the business is firing on all cylinders. If I gave it an operational grade on a score to 10, I would probably give it a five or a six out of 10 right now, such as the upside opportunity. We have more that we can do on cost efficiency. We have more than we can do in automating and digitizing the business. We can be a lot better on the customer service front, taking a page out of the TELUS book, we can do a lot better on operational execution. And I've got great expectations in terms of the new leadership team that we put in place at TELUS Health. And we've got a long way to go on sales and marketing. The opportunity to elevate our distribution strength that TELUS Health is considerable. We've got a ton of products and capabilities that are sitting on a shelf and waiting for our channels to market and our distribution competencies to get properly activated. So I like the upside opportunity there.

And the path that TELUS Health goes, I think, blazes the trail for what's to follow on TELUS Agriculture & Consumer Goods. And at a smaller level because it's 1/5 the size of TELUS Health, but at a smaller level, TELUS Agriculture & Consumer Goods is also making excellent steps in that direction. So, we are still extremely committed to these components of our business.

And the last thing I'll say about them is these activities come with very low CapEx intensity. Our solutions on the product front, our SaaS-based solutions. So our ability to take revenue to EBITDA to cash generation is extremely strong. And of course, we're not looking at just the domestic market. This is a global opportunity for us. So the scale opportunity is something that we've never enjoyed before looking at the telecoms business historically. So it's quite the upside.

Operator

The next question is from Tim Casey from BMO.

Tim Casey - **BMO Capital Markets**

A couple for me. One, Doug, can you just clarify Darren's comments with respect to an EBITDA contribution of 30% from TELUS Health? Is that an EBITDA margin we're talking about? Or is that a contribution to growth?

And then second one is on the fixed data line metric. It was a little under 3% in the first quarter down to 1% in the second quarter. How should we think about that in the back half of the year? Just wondering if there's any price increases we should think about? Or is -- is it more going to be in the 1% area for the back half of the year? Thank you.

Darren Entwistle - President, CEO & Director

I'll answer the question and clarify my own comments, and then Doug can clarify my clarification if he wants. No. It's not a margin number. It's a growth number. I referenced it in my opening remarks, at 33%, I rounded it to 30% in the Q&A that just took place. That's an EBITDA contribution number, and it reflects year-over-year growth in terms of TELUS Health profitability.

The other element of it that I alluded to, but to give you greater specificity. From the 11% EBITDA contribution that we achieved in Q2 of 2023 on a year-over-year basis, since that particular juncture in every quarter that has followed right through to now Q2 of 2024, we've been in the 11% to 20% to now 30% EBITDA contribution coming on the TELUS Health side. The preponderance of that, obviously given my synergy comment, is coming from the cost synergies that we're realizing. But now in Q2 of 2024, we're starting to see the increased contribution at the EBITDA level coming from profitable revenue growth.

Doug French - EVP & CFO

And maybe just a quick top up. Health margins, we've talked about from EBITDA margin is still below 20% with the opportunity that we desire to get them well above 20%, as Darren highlighted with some of the staff services cost reductions and complementary bundling. So there's still room to go significantly our margin enhancement on that end.

And on fixed data, we haven't given forward-looking on the component side. That being said, obviously, there's been some give and takes within that number, but focusing on margins, is really what matters. So within that item, I highlighted that TV revenue was actually down yet the margin on TV, we would be managing through the different programs we're operating including the national, call it, light program that Zainul referred to.

And so I think there's a lot of give and take in there, highlighted our ARPU on the internet remains flat. So the growth coming from that would be obviously positive growth. And biz is also included in that number as their business component. So I'll just say our objective is we are to take it back up and continue the growth on well above the 1%. But I think there'll be some give and takes along the way depending on product set and however, focusing on margin and improve.

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Maybe just to top up the story. I wanted to highlight where we're going to -- we've shown and demonstrated that we lean into product superiority and differentiation. So you would have seen us drive the five gig program for internet in the last week. We’ve seen actually, to Doug's point on the ARPU front, we've seen even in a very competitive and highly pressurized environment, both with respect to competition and Canadians driving their desire to reduce costs and lean into affordability, that our step-ups on internet have been very strong as well.

And there are some downgrades, of course, but at the same time, we have a healthy volume of step-up opportunity. And we also have some areas where we are quite underpenetrated than where we would like to be in our fibre footprint. And, we've demonstrated success and strength in driving growth and subscriber growth in those areas. So we're going to continue to lean into that in terms of ensuring that our fixed data continues positive momentum.

Robert Mitchell - Head of IR

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

Operator

The next question is from Maher Yaghi from Scotiabank.

Maher Yaghi - Scotiabank

Great. Thank you for taking my question. I wanted to just -- I'm sorry because I have to ask this question. I mean when we look at the fixed data, you have a very low video component in there compared to cable companies in Canada. And the growth rate, I would have thought, given that split, you would show higher growth than other cable companies. And obviously we're seeing repricing in your base. You also talk about in your MD&A that you're seeing repricing in your securities business -- security business. Can you discuss how much of the repricing we've seen already and how much is left before we reprice the base on the security, on some of the video components and maybe the broadband side? I'm just trying to figure out how much more pressure should we expect before we see the growth again?

And the second question I had is on wireless. Public Mobile offering 5G, is that a -- when you think about the value and the benefit on subscriber loading on Public Mobile, is there an opportunity maybe to price 5G services at a premium than 4G rather than continuing to offer it as is right now?

Darren Entwistle - President, CEO & Director

That's a great question. Really like that one. Zainul, why don't you take a shot at answering that. I really like that question.

Zainul Mawji - EVP & President of TELUS Consumer Solutions

Yes. I know you do. So the answer on the Public side is, yes. I think the key thing is that we haven't been satisfied with the road map of capabilities we have on Public. It's got a digital-first capability. We like the customer base that it's attracting and we like the positioning of the improvement in ARPU relative to where that brand had sat before. But there is absolute upside in differentiation and we're going to drive that with some unique channel and road map strategy. So still to come on that, not satisfied.

I think on the fixed side, what I would say is that I can't -- we can't predict the competitive environment. We're going to take a long-term view, as I highlighted in terms of household economics and household customer lifetime value. But where we're going to lean in both on the two areas that you highlighted with respect to entertainment and security is counter the cord-shaving behavior that we're seeing from our customer base with differentiated products and services. So as customers are continuing to cord-shave some of their linear products and services on the entertainment side, we're continuing to lean into OTT and becoming a real leader in our integration of OTT and linear and giving customers different kinds of video and value bundles, which we can only do because we've built our own platform to do so.

So we're going to continue to drive the outcomes based on differentiating value in a way that's meaningful to customers. And I would say that we're just on the cusp in both entertainment and security of being able to realize that upside, but we can't control sort of what the competitive dynamic will bring. We want to be immune to it.

Darren Entwistle - President, CEO & Director

I think also importantly, just to take people up to the top floor again, as it relates to absorbing re-rate on fixed and mobile, we're postulating H2 in terms of our guidance that sees us at 6% profitability at an EBITDA level or better, absorbing the re-rate along the way. And so as that re-rate moderates and that pressure reduces, the profitability upside for our organization is extremely attractive. And it's also complemented by something else that keeps getting left off the discussion. A CapEx intensity measure that is 13% today, drifting to the low end on the double-digit side of things on the 10% zone.

So in terms of both absorption of re-rate working our way through that challenges. Leveraging in the future the profitable asset mix that we have aided and embedded by new products coming online that shouldn't experience the same degree of profit, or price rather commoditization because they are completely differentiated from the product portfolio of our competitors. And to complement that with a lower level of CapEx intensity, that seems to bode well for a sustainable free cash flow story.

Operator

The last question is from Simon Flannery from Morgan Stanley.

Simon Flannery - Morgan Stanley

Doug, I wonder if you could expand a little bit on the copper retirement opportunity. I sense, I think you mentioned 18 markets. But what sort of percentage are we through this? And I don't know if you can put some parameters around the financial benefits that from that, you talked about freeing up real estate. But what are your latest findings in terms of OpEx savings, maintenance savings and the overall impact on the business?

Darren Entwistle - President, CEO & Director

Maybe I'll kick it off, Simon, I'll hand it over to Doug. In terms of the program, as we're decommissioning a quarter of a million copper lines on the rump, we would expect to have by the end of this year, so over the next few months, 36 central offices that have been decommissioned, which I think would put us in a global leadership position in that regard.

In terms of the economics of it, we -- on the copper front, we see the gross opportunity here of being upwards of $1 billion and at a net level somewhere between $400 million and $500 million on that front. The real estate opportunity that accompanies it, that Doug can speak to, in terms of our long-term recurring strategy and the opportunity there.

In terms of the performance of our business, as we go from a heterogeneous network environment with fibre and copper to a pure-play fibre, maybe complemented by fixed wireless access, the opportunity on this front is huge. We see cost reductions in the range of 25% to 30% on cost-to-serve, and these are now hard numbers, they're not speculations because we've been at this for well over a decade.

We see churn improvement in the zone of 20% to 25%. We see the average revenue per household going up by roughly 15%. We see the product per household or product intensity, banging away right now at 3.3, up from what was the low 2s historically on the copper front, which is extremely attractive.

It allows us to be much more efficient with our field force. When you've got a level of two-thirds reductions in truck rolls, you've got quite the story from cost efficiency to reducing your environmental footprint. And those will be huge benefits for us in terms of positioning us for the future, economically, allowing us to do everything from on the hygiene front, absorb rerate from competitive activity, but the cost of launching new products when you've got fibre ubiquity on top of all the comments that I've just made, everything going forward is now soft provisioning. So you can soft provision a customer from an installed basis, you can change their products and their value proposition on a virtual basis, or you can let the customer do it themselves along the way.

And then lastly, the economies of scope given the limitless bandwidth opportunities on fibre is second to none, which improves the economics on an accretive basis for every new product that you bring to market along the way. And so I think it's a very attractive composition of benefits and maybe Doug can top up on that and then maybe make a specific comment in terms of monetizing the real estate opportunity.

Doug French - EVP & CFO

Yes. So the exciting part about this, as you're well aware, is that it's the gift the keeps on giving. So you know where we built an asset with over 60-year life. So monetizing it isn't for the short term, and it's a superior asset to our competitors' offerings. And you heard all the operational benefits that Darren highlighted. On copper decommissioning specifically, of the 100% that Darren referred to at the $1 billion level on gross, we're low single digits by the end of 2024. So well below 5% monetized. So there's significant upside over the next two to five years.

We then started moving into land monetization, where we're putting the land into partnerships with development opportunities where we put in the land and the developer would put in cash to get the projects off the ground. And so you're seeing land opportunities now moving into permitting and development. And as Darren highlighted, we're up to the -- well over 30 now of those that have been decommissioned and opportunities.

We were building on, collectively, three to four as we speak and 15 are in permitting. And so we expect to have by 2026, over 250 homes available for rental through Nanaimo and Sechelt. We'll have over 1,500 in the next three to five years. And we have a commercial building that's launching in the fall of 2024. So to the development opportunity, there's multiple layers and these aren't one time. So you're going to see these kind of benefits coming through from us for the years to come and continuing then to build on that momentum.

Robert Mitchell - Head of IR

Thanks, Simon. And thank you, everyone, for joining us today. And please feel free to reach out to the IR team if you have any follow-ups or questions.

Operator

This concludes the TELUS 2024 Q2 Earnings Conference Call. Thank you for your participation, and have a nice day.