Q3 2024 Investor Conference Call Transcript

Friday, November 8, 2024

TELUS Corporate Participants

Darren Entwistle - TELUS Corporation - President, CEO & Director

Doug French - TELUS Corporation - EVP & CFO

Jason Macdonnell – TELUS Digital Experience, Acting CEO and COO

Navin Arora - TELUS Corporation - EVP & President of TELUS Business Solutions

Robert Mitchell - TELUS Corporation - Head of IR

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

Analyst Participants

Aravinda Galappatthige - Canaccord Genuity

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Jerome Dubreuil - Desjardins Securities

Maher Yaghi - Scotiabank

Stephanie Price - CIBC

Vince Valentini - TD Securities

Presentation Transcript

Operator

Good day. Welcome to the TELUS 2024 Q3 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 third quarter 2024 results' news release, MD&A, financial statements, and detailed supplemental investor information were posted to our website earlier this morning. On our call today, we will begin with remarks by Darren and Doug. For the Q&A portion, we will be joined by Zainul, Navin, and Jason.

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 US, including our third quarter 2024 and annual 2023 MD&A. With that, over to you, Darren.

Darren Entwistle - President, CEO & Director

Thanks, Robert, and hello, everyone. In the third quarter, our team's dedication to operational excellence led to industry-leading financial results and customer growth, harnessing our premier asset portfolio, and focused commitment to cost efficiency and operating effectiveness.

Our results demonstrate our ability to deliver sustainable profitable growth, anchored by our strategic emphasis on margin-accretive customer expansion, globally leading broadband networks, and of course, our customer centric culture. This enabled industry-best total net additions of 347,000 customers.

Our team's passion for delivering customer service excellence once again contributed to industry-leading loyalty across our key product lines. Notably, postpaid mobile phone churn was once again below 1%. Furthermore, churn for TELUS-branded mobility and home bundled households nationally was also below 1%.

This showcases the consistent potency of our unmatched bundled product offerings across mobile and home and our industry-leading customer experience over our industry-best PureFibre and wireless broadband networks.

Looking at our financial results, we achieved solid and resilient third quarter TTech EBITDA growth of 5.6%. This reflects the progression of our ongoing transformational efficiency programs, which are clearly bearing fruit.

Let's turn now and take a look at our TTech mobile results. TELUS realized industry-leading third quarter customer growth of 289,000 net additions. This included robust mobile phone, net additions of 130,000, 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 busy and highly competitive final quarter of the year and into 2025.

By way of example, we strategically chose not to match dilutive offers that we saw in market during the back-to-school period. Our efforts will ensure our mobile customer growth drives sustainable EBITDA and cash flow accretion for our business and for our investors.

Mobile subscriber growth also included strong gains in connected devices with net additions of 159,000, reflecting ongoing momentum with respect to our 5G and IoT B2B solutions. Importantly, our team delivered another quarter of leading loyalty results, which continues to be, of course, a hallmark of our TELUS team.

Blended mobile phone churn of 1.09% was up slightly against the backdrop of continued elevated competitive activity, whilst we drove a meaningful improvement over the higher year-over-year increases seen in the first two quarters of the year. Although this is not a level of churn at which our team is content, it once again represents an industry-best result by a substantial margin versus our peer group.

Notably, postpaid mobile phone churn was 0.9% in the quarter as we progress 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 for our clients.

To close on mobile, third quarter ARPU was $58.85. This was down year-over-year with a flat rate of decline as compared to the second quarter, largely as a result of continued intense promotional market activity that we are familiar with. Our team remains focused on driving improved ARPU outcomes through multiple levers prospectively. These include enhancing our premium bundle offers across mobility and fixed to drive an accretive household economics.

These include optimizing our highly differentiated product portfolio and brand mix. These include driving unmatched product development, product differentiation, and product intensity. And these include maintaining a strategic focus on profitable growth and sustainable economics for our business.

Our flanker brands continue to offer strong customer value in key growth segments, including Public Mobile, with its 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 now at more than 3.2 products per household and growing increases both average revenue and average margin per home while simultaneously reducing churn.

Thus, we see sequential benefits as we bundle more fixed and mobility products on a national basis, significantly enhancing customer lifetime revenue and the associated economics. Notably, the team has driven 8% year-over-year growth in bundled mobile and home households on a national basis. These efforts will continue to be supported by our strategic focus on winning and retaining profitable customers whilst remaining highly disciplined in respect of device subsidies.

Moreover, we continue to expect connected devices and IoT to increasingly contribute to network revenue, ARPU and AMPU and seeing that growth at a level of materiality, prospectively. 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, specifically up to 46% in the third quarter.

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 third-quarter internet net additions of 34,000.

Importantly, consumers in Western Canada are choosing TELUS for our PureFibre superiority, coupled with our customer service excellence, which is sustaining strong growth on a year-over-year basis. By way of example, we drove 17% year-over-year growth in our 1 gigabit plus rate plans as well as compared to one year ago.

We're also continuing to drive healthy growth in our TV product line with industry-leading net additions of 21,000, up slightly on a year-over-year basis. Additionally, modest residential voice losses of 9,000 were relatively flat year over year and again represented an industry-best result compared to our national peers by a notably wide margin. Security net additions of 12,000 continue to reflect our successful multi-product penetration strategy, although down year-over-year, largely due to an emphasis on loading higher value customers ahead of the transition to our accretive proprietary platform.

Overall, our external fixed net additions of 58,000, again, represented an industry-leading third quarter result for the TELUS organization by again a notable margin. 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.

The magnitude of fixed results we are delivering, illustrates the return we are getting on transformational investments in our PureFibre network, which will continue to flow for decades to come, given the longitudinal characteristics of this highly valuable asset. This will be further enhanced by our continued significant innovation on our differentiated product road map, where we have multiple service bundling options available with our proven fibre strategy.

The foundation for this is the first device-agnostic SmartHome platform which TELUS has built leveraging new IoT services, in close partnership with AWS, as well as the development, skills and capacity of our TELUS Digital team. This platform enables our entry into new verticals as evidenced by the two new products we launched in the third quarter. Notably, our consumer energy management service, TELUS SmartEnergy, will save Canadians money, whilst reducing their environmental footprint.

We also launched TELUS HomeView, the next step in our Home Security automation, allowing customers to monitor their home on our TELUS app and maintain their safety and privacy, leveraging AI. Our platform will also enable the enhanced integration of existing capabilities such as health and wellness whilst at the same time, driving meaningful cost-to-serve improvements as well as licensing savings and revenues. Our product development, differentiated service portfolio, and product intensity, driven by leading data and AI capabilities, not only positions us for growth, but they also help Canadians save money in an affordability challenged environment.

Looking forward, this integrated product portfolio will further solidify our product intensity leadership and present new revenue sources that are highly differentiated from our competitive peer group. Indeed, our product road map is national in scope, unlocking new opportunities for bundled growth nationally, particularly alongside expanded fibre access, as well as international revenues via licensing agreements with worldwide telecommunications companies.

Let's turn now and look at TELUS Business Solutions, or TBS, which once again delivered a strong quarter of growth across all lines of business. Our team drove continued success in Private Wireless Networks, including a large multi-site deployment that went live in the third quarter, supporting advanced applications and operational effectiveness.

Our intense cross-sell program across TELUS Business, TELUS Health, TELUS Agriculture & Consumer Goods, and TELUS Digital, continues to resonate strongly as we increasingly bring the full power of TELUS to customers across the globe. Year to date, we've closed over $40 million in cross-functional sales with a robust and growing sales funnel of over $300 million in opportunities.

Importantly, we achieved a strong quarter within our IoT portfolio, delivering double-digit year-over-year growth in IoT revenue, driven by strong growth from our emerging Private Wireless Network, Connected Worker, and Intelligent Spaces Solutions.

Notably, reflective of our strong customers-first culture, our industry-leading networks, our digital capabilities, and AI leadership powered by TELUS Digital, our national business team achieved industry-best loyalty results in Q3, a lead which we have maintained for nine consecutive quarters now.

Looking to TELUS Health, our team drove revenue growth of 4% as strategic investments in our products, our sales, and distribution channels generate strong momentum across our health portfolio. Sales bookings across key TELUS Health growth portfolios are up meaningfully on a year-to-date basis, including being up by 32% in Employer Solutions, 84% in Payer and Provider Solutions, and almost two-fold within our Healthcare Digital Clinics.

This indeed does bode well for future revenue growth and expansion at a supernormal level. The growth in these areas not only drives global scale for us, but also represents some of our most profitable domestic lines of business.

Moreover, in the third quarter, our team achieved 50% EBITDA contribution growth within TELUS Health, supported by higher revenue and the realization of $331 million in combined annualized synergies since acquiring LifeWorks in 2022. This includes $277 million in cost synergies and $54 million and growing in cross-selling, as we work towards our overall objective of delivering $427 million in synergies by the end of 2025. Our strong performance at TELUS Health also includes driving a 9% year-over-year increase in global lives covered up to now 76 million.

The performance includes supporting health outcomes on nearly 162 million digital health transactions during the third quarter alone, up more than 7% over the same period a year ago. And the strong performance at telehealth includes increasing our virtual care membership to 6.5 million clients, up more than 18% over the prior year.

Similarly, with TELUS Agriculture & Consumer Goods, or TAC, we continue to see positive outcomes as we strengthen our market position. On the back of record sales performance over the past four quarters, the team delivered year-over-year revenue growth of more than 20% across our TELUS Agriculture & Consumer Goods business and bookings growth of 65% on a year-to-date basis.

Notably, this was alongside strong profitability and margin contribution, with TAC's EBITDA contribution being up over 100% relative to the same period a year ago. Our commitment to maximizing the full potential of our distinctive global businesses is underscored by leveraging the expertise, experience, and high-performance culture of our broader TELUS team.

Importantly, this includes capitalizing on significant and highly differentiated cross-selling opportunities across all of our B2B businesses, demonstrating the collective talent and effectiveness of our team in driving our combined success.

Turning to TELUS Digital, which also reported its third quarter results earlier today. The team delivered stable financial performance compared to the prior quarter, signifying a positive step on the recovery trajectory. We remain eager to drive further improvements as we advance our growth objectives.

Indeed, TELUS Digital's comprehensive and growing suite of leading AI solutions continues to demonstrate strong and encouraging momentum. This includes capturing new client engagements and broader recognition in the market, exemplifying our progress in next generation technology applications.

Moreover, the strength of TELUS Digital's transformational generative AI-powered solutions and tools created for all lines of business at TELUS, continues to enhance their go-to-market efforts with new and prospective clients.

As we continue progressing our own digital transformation journey, it offers a unique opportunity for TELUS Digital to leverage TELUS as an innovation lab which they in turn can exploit as a meaningful reference case for the productization of solutions with their external clients. Our confidence in TELUS Digital's fundamental drivers of value creation remain strong, particularly given the company's leadership in key areas, including trust and safety, including the digitization of its own and its clients' customer experience operations, including TELUS, and our unique set of tech-focused growth assets. And it includes the broader evolution of its business towards a technology-centric model with the attendant value creation opportunities.

Importantly, we see TELUS Digital under the capable leadership of Jason and Tobias, creating positive momentum for its medium and long-term growth aspirations. In a moment, Doug will provide further commentary on both TTech and TELUS Digital's results.

In closing, the industry-leading customer growth we continue to report is underpinned by our dedicated team who passionately deliver superior service offerings, and digital capabilities, over our world-leading wireless and fibre networks. The significant broadband network investments we have made are enabling our resilient EBITDA growth. They're enabling the ongoing monetization of PureFibre and 5G. They're enabling the financial and strategic benefits of copper decommissioning. They're enabling an intense strategic focus on efficiency enhancements. And notably, they're delivering revenue and profit progression in TELUS Health and TELUS Agriculture & Consumer Goods.

They also underpin the long-term sustainability of our industry-leading dividend growth program. The 7% year-over-year dividend increase announced today represents the 27th increase since we initiated our multi-year dividend growth program in 2011, now in its 14th year. Since 2004, TELUS has returned more than $26 billion to shareholders, including over $21 billion in dividends, representing approximately $18 per share. 14 years since 2011 and counting.

The TELUS team is intensely focused on what's next, including evolving our product road map on a national basis, with innovative, customer-centric offerings in the months and quarters ahead. This will drive further significant differentiation and meaningful revenue growth opportunities, and importantly, buttress the continued advancement of our financial and operational performance and the continuation of our robust dividend growth model prospectively.

Finally, demonstrating our organization's long-standing belief in the symbiotic relationship between doing well in business and doing good in the global communities where our team members live, work, and serve. Last month, we celebrated the one-year anniversary of the TELUS Student Bursary. Through the TELUS Student Bursary, we are creating the circumstances necessary to empower young people in Canada to realize their full potential.

In addition to being the largest bursary fund in the country, the TELUS Student Bursary is also unique because of its focus on future leaders who are volunteering in their communities and driving essential social innovation. Since the inception of the bursary program, the TELUS Friendly Future Foundation has provided over $4 million to nearly 1,000 students. 1,000 students, the talent of the future for community-centric organizations like TELUS. Now that's investing for future growth.

Myself and our entire leadership team remain exceedingly grateful for our team's passionate efforts to support our global communities as we strive to deliver outstanding results for all of our stakeholders.

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

Doug French – EVP & CFO

Thank you, Darren. And hello everyone.

Mobile network revenue growth of 0.7% was driven by mobile phone and connected device subscriber additions, partially offset by lower mobile phone. ARPU, which declined by 3.4%, consistent with the second quarter. Lower ARPU is a result of ongoing impact from the competitive pricing environment, including lower roaming from the adoption of unlimited roaming plans. This is partially offset by higher IoT revenue growth.

Our strategy continues to focus on strong subscriber economics and profitable growth. Our ongoing focus on cost efficiency, as demonstrated by the increase in our restructuring assumption to approximately $450 million, will help offset industry pricing pressures and allow us to reinvest into the growth of our business and product development.

These investments will support sustainable EBITDA growth, margin expansion, and cash flow generation in the quarters and years ahead. Fixed data service revenue grew by 1.9% year over year, improving sequentially quarter over quarter. This growth was driven by strong customer net additions of 67,000 across our superior product portfolio of PureFibre Internet, TV, security, and home automation as well as B2B growth.

This was partially offset by lower TV revenue per customer, as customers continue to evolve their entertainment packages along with technology substitution, including the strong adoption of our national Stream+ offering. At a segment level, TTech Operating revenues were up 1.9%, driven by mobile network, mobile equipment, fixed data services, as well as Health and Agriculture services revenue.

Notably, Other Income of $54 million in the quarter increased by $36 million year-over-year, largely due to gains from the active real estate projects that we have in front of us, resulting from our PureFibre and associated copper decommissioning program.

We anticipate these gains to continue in the quarters ahead as we execute against our multi-year real estate development strategy and decommissioning programs as we move more and more of our customers to fibre. TTech Adjusted EBITDA increased by 5.6%, and Adjusted EBITDA margin expanded by 110 basis points to 39% as a result of our focus on profitable loading, customer service and product intensity, and our cost efficiency programs.

TELUS Digital segment continued to see some challenges in the macroeconomic environment and associated pricing pressures but led to declining revenues of about 4.4% year-over-year. However, this result reflects TELUS Digital's ability to partially offset these pressures with growth from services provided to our existing customers and new clients added over the past 12 months. When including the intersegment revenue with TELUS, operating revenue is up almost 1%, demonstrating our strong and unique relationship with TELUS Digital, which is creating mutual beneficial opportunities and underscores their crucial role in driving our customer leadership and digital transformation.

This includes the implementation of our GenAI applications across all levels of our organization, driving further efficiencies and growth opportunities. TELUS Digital Adjusted EBITDA was down 30%, driven by customer margin pressure with higher investments in the commercial sales team, operational effectiveness programs as well as investments in Fuel iX product development.

Additionally, the year-over-year comparison reflects an increase in share-based compensation primarily due to the timing of award grants, higher expenses from the awards granted in relation to previous acquisitions. Overall, stabilization in TELUS Digital's results compared to the prior quarter show they are on target to achieve their full-year outlook as provided in August.

On a consolidated basis, TELUS overall operating revenues increased by 1% year-over-year and Adjusted EBITDA increased by 1.3%. Adjusted EBITDA margin was 36% and was stable as strong TTech margin was partially offset with TELUS Digital. Net consolidated income increased by 80% year-over-year while basic EPS was higher by 111%. On an Adjusted basis, Net income and EPS were higher by 11% and 12%, respectively.

The strong growth was driven by higher Adjusted EBITDA and declining depreciation and amortization, partially offset by higher financing costs. In the quarter, financing costs were higher from the impact of the non-cash unrealized changes to the forward element of our virtual purchase power agreements, as well as increased long-term debt and higher interest rates.

Free cash flow of $561 million was higher by $206 million, or 58%, driven by lower restructuring disbursements and lower CapEx. Consolidated CapEx declined by $101 million or 13%, primarily driven by our planned CapEx reductions. Consolidated capital intensity was 13%, down 200 basis points over Q3 last year.

Today, we updated our TTech financial target for operating revenue, which we now expect to be slightly below the lower end of our original target range. We're remaining above the current average of analyst consensus estimates. This updated outlook reflects both the competitive market conditions and our team's focus on operational execution.

Importantly, our TTech Adjusted EBITDA, along with our consolidated targets for capital expenditures and free cash flow, remain unchanged as previously communicated in our Q2 results in August. Overall, we remain confident in our ability to continue generating strong and growing cash flow for the years ahead, driven by ongoing EBITDA growth and moderating CapEx intensity.

This will support our strong balance sheet to provide us ample flexibility to support our growth ambitions and shareholder returns. At the end of the third quarter, we had approximately $3.2 billion of available liquidity. Our average cost of long-term debt was approximately 4.4% and the term to maturity of long-term debt was 10.6 years, and our net debt to EBITDA ratio was 3.83 times. As a reminder, the acquisition of wireless spectrum licenses in the recent years has increased that ratio by 0.56x.

As we progress into future years, we anticipate our leverage ratio to improve as we work towards our target ratio through continued EBITDA growth, declining capital intensity, asset monetization including real estate and copper, and operating free cash flow expansion, as we continue to support our capital allocation priorities including long term sustainability of our dividend and cash flow growth.

Robert, back to you.

Robert Mitchell - Head of IR

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

Operator

The first question is from Drew McReynolds from RBC.

Drew McReynolds - RBC Capital Markets

Thanks very much, and good afternoon or good morning. I'm going to keep my question to just a big picture one. 2024, obviously, has been a tough year for the industry and the tide has kind of gone out a little bit here. If you step back and, Darren, kind of watch the evolution of TELUS on fibre bundling, product intensity, AMPU, Public Mobile, digitization, customer experience, I think everyone can agree you've been ahead of the curve here. So when you describe what's next, it's kind of interesting to see what that playbook looks like.

So my question is, and it's a question that all investors are asking right now, is just what is really the revenue growth potential here for the industry? So I'm just wondering from TELUS' perspective, what that outlook looks like? And if you could kind of cut it into two buckets. One would be the outlook for the traditional core telecom business of, let's say, just core wireline and wireless. And then, can you give us a sense of then the second bucket, which is all of the new revenue streams and initiatives you've put in place? Thank you.

Darren Entwistle - President, CEO & Director

Okay. Thank you for that fastball down the middle of the plate, Drew, to get things kicked off here. I'll do my best.

Firstly, in terms of investing and getting returns from investing, we really are focused on a pecking order trifecta of harvesting the fruits of our labor to improve our balance sheet prospectively. We think that's a super smart thing to do because the attendant economics aren't just good for debt holders, they'll also be good for equity holders.

Secondly, for us, we think there are still very attractive areas to invest in our business, and I'll speak about those in just a moment and I think they will hit your question head on. And then thirdly, as has been a long term hallmark of our organization, when we execute on our investments and we derive our returns, we make sure that our investors participate in those returns. And so returning the fruits of our labor to our shareholders via the continuation of our dividend growth model is something that is near and dear to our hearts.

In terms of growth across the two buckets that you've articulated, we still see significant opportunities with what we're doing on fibre and 5G at both the revenue growth level but also at the cost efficiency level as well. We have a ton of opportunity in terms of revenue growth just on product intensity and cross-selling alone. I frequently chide the team at TELUS that we should be able to grow EBITDA 5% without bringing on a single new customer, such as the opportunity for cross-product pollination within our existing customer base. So that opportunity is material, if not voluminous.

I think one of the things that massively differentiates our organization is what we're doing on new product and platform development, creating new RGUs for the organization. I think when you're spending billions and billions of dollars on fibre and 5G, you have a fiduciary responsibility to exact economies of scope from those infrastructure investments and the significant new product and platform developments that are taking place on a B2C and B2B basis are huge for this organization.

And they also give us a level of diversification from certain core areas where we've seen price commoditization and marching compression from the competitive intensity. We like the thought of developing products that our competitors don't have. And there is a long, long road map of opportunities from SmartHome automation to 5G commercialization and productization. We still think there's a significant opportunity for us on the national expansion front and international as it relates to some of the SaaS services that we're now selling and penetration opportunities in a number of key markets from consumer to small and medium business.

We're very excited about our emerging growth businesses at TELUS Health and TELUS Agriculture & Consumer Goods. And I think what you've seen in terms of our third quarter performance within Health and Agriculture & Consumer Goods bodes well for what you can expect into the future as it relates to sales growth, being translated into revenue growth, being translated into EBITDA growth, being translated into cash flow generation. And when you couple that with an improving trajectory in terms of the recovery path for TELUS Digital, who's also aiding and abetting what TELUS is doing in its own digital transformation, there's a lot of opportunity there. And of course, that opportunity is on a global basis.

So yes, domestic, but these are big, big markets on a global basis for us to pursue. And I like the way that we're positioned in those industries, in terms of the asset collection that we have and where we're positioned at the key pivot points.

Although it doesn't get talked about a lot, we're also investing on the cost efficiency side. So we want to see the bias of EBITDA accretion coming from revenue generation. But we always want to see EBITDA also benefiting from constant improvements in cost efficiency. And we still have lots of room for improvement in terms of the efficiency of our operations with leveraging our digital and leading and growing AI capabilities that are very exciting for us on both CX and on a go-to-market basis.

We're also investing in monetization opportunities. What we're talking about and Doug alluded to this, but on real estate monetization and copper mining, recycling, and monetization, those are opportunities that are not just recurring. Those are longitudinal opportunities over the longer term for this organization. And we like to say that they're the byproduct of the gift that just keeps on giving, which is our fibre infrastructure and our expanding footprint.

And of course, as it relates to the emerging businesses that I've just talked about, we've got prospective monetization opportunities in terms of growing Health and Agriculture & Consumer Goods on either a partnership path into the future as it relates to monetizations, or prospectively successful IPOs, or a combination of both. And one of the things that, I think, is missing when you look at all of those areas for revenue accretion on a robust basis, a sustained basis, and on a quality of revenue and earnings basis, there's one other thing that gets missed is that TELUS is an organization that's undergoing the most significant transformation in its history. The digital transformation of TELUS, the cloudification of TELUS, and the evolution of our product portfolio to be one of a SaaS construct, in combination with the pervasiveness of our wideband fibre infrastructure, is allowing us to drive down our capital intensity to the 10% zone.

And I think when you take those two buckets, in answering your question, in terms of profitable revenue growth and combine them with the factors that are getting us down to capital intensity of circa 10%, I think we're going to be earning our way to an elevation in our valuation multiple.

Operator

The next question is form Vince Valentini at TD Securities.

Vince Valentini - TD Securities

Hey. Thanks very much. I have a different question but given everything you just said there, Darren, can I wrap that up with one final point? If you have so much opportunity in front of you and you're getting CapEx down to 10%, is there any reason you shouldn't keep growing your dividend 7%? I mean you grew it for 7% for years, when you were spending a lot more CapEx than that and had to borrow a bit. So if you can level set us on that final piece of the puzzle you just said?

And then more technical question for Doug, if I could. The $36 million for real estate, can you just remind us exactly how that works? This is just you've sold some of the initial chunks of real estate. And every time you do a sale, it's going to count as revenue. Is that 100% flowing to EBITDA? Is there any cost associated with that? That would be great. Thanks.

Darren Entwistle - President, CEO & Director

So, a direct answer to your question, Vince, no reason. Doug, over to you.

Doug French – EVP & CFO

Yeah, on the real estate side, what you're seeing is really 50% of the gain of those properties. So we are moving them into partnerships where our partner is bringing in cash, so we're in essence selling 50% of the property up front. And then once developed and put into commercial, we would recognize the other 50% of the gain and then any income that comes from it concurrently. So you're building an asset of consequence. And it's accumulating across the board as we speak. So strong building of a portfolio. It would be no incremental cash to us to develop it and to complete that cycle. And we continue to see the benefits of this for many years to come.

Darren Entwistle - President, CEO & Director

Long-term recurring, with another shoe to fall on a positive basis.

Doug French – EVP & CFO

Absolutely.

Vince Valentini - TD Securities

Sorry, Doug. But so when you booked the 50% sale as revenue, is there any cost associated with it?

Doug French – EVP & CFO

Whatever the cost base of the land was at the time, most of the land we've owned for many, many years. So the cost base is relatively low.

Operator

The next question is from Stephanie Price from CIBC.

Stephanie Price - CIBC Capital Markets

Hi. Good morning. Peers have been engaging in divestitures and some structured transactions as they take a look at their balance sheet. Is divestiture something TELUS is thinking about? Or how do you think about non-core assets here?

Doug French – EVP & CFO

So we've obviously looked at non-core assets from the perspective of the gift that keeps on giving with real estate and copper, as Darren highlighted. We've also done small divestitures of business lines that aren't in our long-term strategic view. And with our fiduciary responsibility, we'll continue to look at other monetization opportunities as we delever over time. But in addition to just the cash flow generation and CapEx reductions, all of those will contribute to a stronger balance sheet and we'll continue to monitor what is best for our organization moving forward.

Stephanie Price - CIBC Capital Markets

And then just on the restructuring, it looks like you've brought the cost up a little bit. I think the restructure is supposed to be completed this quarter. Just curious how we should think about the margin cadence for the remainder of the year? And if you see any additional opportunities for efficiency?

Doug French – EVP & CFO

The restructuring, overall, I'd argue in Darren's points on digitization and opportunities to continue to rationalize our cost structure probably won't be over for a very long time. So what we've identified is more opportunity that as we found more digital, found more automation, we're continuing to reduce our cost structure concurrently. And so I would say that's what we're seeing. The cash from that is primarily going to hit us next year on an outlay very little within year. And the benefits from that will most likely be Q1 is where you'll see them start.

Darren Entwistle - President, CEO & Director

I think it's notable how proactive and preemptive we've been with our cost efficiency programs at TELUS dating back to 2023 and seeing those, Stephanie, continue into 2024. So that we're trying to get ahead of market conditions on an anticipatory basis, which is why we've taken our workforce restructuring charge up to about $450 million for the 2024 year.

We are continuing to be aggressive and leveraging our digital transformation leadership, which is a real hallmark of our success. And we've got a market leadership there so we need to lean into it. And TELUS Digital has been a huge asset for us and a unique asset. This is not something that our peers have. And the skills and development capabilities that they are bringing to support the digital transformation of TELUS and the AI tool set that we're using to improve the efficiency of our CX and go-to-market operations is material in nature.

And then you can see these activities, to give you some examples, in terms of what's happening within the guts of our organization. We talk about fibre and 3.2 plus products per fibre household and that's great. And we talk about it in terms of bandwidth differentiation and symmetry differentiation. But one of the most important aspects of our pervasive fibre network is that the unit cost-to-serve is 30% lower than what it was under copper.

And so to get the economics of copper decommissioning and then get an exposure to a 30% unit cost to serve improvement with fibre, is a pretty potent combination. Look at what we're doing now at the AMPU level with our digital pure-play offering with Public Mobile. I think it's indicative of the orientation of our cost efficiency.

It doesn't get talked about a lot because it's very much focused, back to Drew's question, on revenue and growth. But the platforms that we're building at TELUS, on a proprietary basis, give us substantial improvements in our cost structure. So when you think about what we're doing on our proprietary TV platform, a significant improvement in our cost structure; what we're doing on smart home security on our platform, significant improvement in our cost structure; what we're doing with Amazon on smart home automation, significant improvement in our cost structure.

And then finally, back to the comments I made earlier, the evolution to more of a SaaS product construct provides not just significant profit efficiencies in terms of cost but cash efficiencies because of the lower capital rent associated with them and also our ability not just to deploy them domestically but to export them internationally on a licensing basis. And I could go deeper on the cost story, but hopefully, that's indicative for you.

Operator

The next question is from Maher Yaghi from Scotiabank.

Maher Yaghi - Scotiabank

Great. Thank you for taking my question. Listening to your prepared remarks, Darren, we get a clear sign that you still see or expect top line and bottom-line growth in your telecom business into the future. But how are you approaching your asset portfolio as a whole? Do you see a need to change your capital allocation or amplify investments in any of your non-telecom businesses to offset pressures on your telecom business?

And second question, I was hoping you can provide some visibility on your wireless loading. We have seen a significant increase in prepaid loading at your peers. Was it also as visible in your operations this quarter? And how do you approach this trend from a long-term lifetime customer value or lifetime customer profitability point of view? Thank you.

Darren Entwistle - President, CEO & Director

Okay. Why don't we just to take a break from me droning on, I'll answer the first part of your question. Last, Zainul, why don't I give you an opportunity here to lean in on the prepaid front, and then I'll close off with capital allocation within our non-telecom businesses, although I would call them telecom extension businesses. But I'll get back to that in a second. Zainul, all over to you.

Zainul Mawji – EVP & President of TELUS Consumer Solutions

Thanks for the question. I would say that we have seen a pretty significant shift across our peer group, as you mentioned, from a prepaid mix perspective. What I wanted to highlight though is that our mix has been really consistent quarter over quarter and into 2024. So we don't disclose the exact mix, but I can tell you that in Q3, it was quite consistent.

I think the other thing, as we've highlighted, is that we have seen really great AMPU characteristics with respect to our Public Mobile platform and continue to see that as a great lever with respect to the managing the new dynamics in the industry. And then, I think it's also important to highlight that the opportunity is to really focus on the life cycle management of the customer from a pre to post perspective. And that's something that you can see in our retention behavior and continue to see in terms of why we're continuing to gain share in those prepaid segments of the market.

And I think that fundamentally what we are going to be focused on is the absolute and most optimal mix from both a revenue growth perspective as well as an AMPU and household ARPA perspective. So that, I think, is relatively consistent with respect to our execution in terms of what you've seen on bundling, what you've seen on retention, and what you've seen on the overall EBITDA performance of the organization.

Darren Entwistle - President, CEO & Director

Okay. Let me try and go from general to specific here. I think, again, it's important to highlight the trifecta pecking order in terms of capital allocation to specifically address the question. That pecking order is to use proceeds to bolster the balance sheet. We really do think that, that would be synergistic for both debt and equity holders and position us well prospectively.

You've heard me talk about the next step in the pecking order, which we are continuing to be excited by the investment opportunities in the business, both telecom and non-telecom. And thirdly, we remain committed to returning the money that we achieved through the successful execution of our investments via the sustainability materiality of our dividend growth model.

Second point here is the telecom non-telecom delineation is an erroneous way to look at portfolio management at TELUS. What we're doing in TELUS Health and TELUS Agriculture & Consumer Goods, indeed even TELUS Digital, these are all data strategies. The strategy for our telecom business prospectively is a data strategy from data analytics to data insights to data monetization, aided and abetted by voluminous data coming off the back of our wideband fibre and 5G networks.

Our Health play is a data play. Our Agriculture play is a data play. Our Consumer Goods play is a data play. It's the extensibility of that orientation from telecom in terms of where we're taking data across that analytics, insights, and monetization continuum into areas that we think are exciting for growth on Health, Agriculture & Consumer Goods.

And if you look at the intersection point, it goes beyond data. You can see intersection points on network and connectivity. These are areas on Health, Agriculture & Consumer Goods that we think are ripe for digital transformation and the profits attendant with that.

They've got global scale and we're excited by that. Small market share gains have huge nominal economics associated with them. They have not benefited from customer service excellence.

You know, how much of my prepared remarks today were all about customer service excellence, loyalty, and retention. We want to bring our game plan on customer service excellence to Health, Agriculture & Consumer Goods. Look at the number of intersection points between Health, Ag, Consumer Goods, and the traditional telecommunications business, whether it's at the data layer, at the device layer, at the broadband connectivity layer, at the workforce productivity layer, if you think about B2B applications. And lastly, they fit well culturally with us in terms of the social purpose thesis.

And then as it relates to capital allocation, specifically. Let me try and put this in a simple and clear way. As it relates to capital allocation prospectively for Health, Agriculture & Consumer Goods, the path is prologue. So what you've seen us doing through 2023 and 2024 is indicative of what you can expect in terms of capital allocation prospectively for the business.

Secondly, you can see these businesses getting stronger and stronger. We talked about it in terms of sales generation. That's now manifesting itself in terms of revenue growth. And we're seeing the wash through to the EBITDA level. And that organic foundation is key because anything that we do on an M&A basis, we want to earn that through strong organic growth. If we've got strong organic growth, we'll make better M&A decisions and we'll do better at post-acquisition integration.

And these M&A moves, by and large, back to the past being prologue, are more tuck-in acquisitions to fill product gaps or geo coverage gaps to complete the overall jigsaw puzzle for the organization and in creating the asset composite that we think we need to win along the way. This amount of capital allocation still fits within the overall capital intensity envelope at a portfolio level.

So investing to support the growth in Health and Ag & Consumer Goods is not going to defray or be diluted to getting our CapEx intensity down into that 10%, 11% zone. They are mutually inclusive in that regard. And I think we're excited by that.

And the, prospectively, getting that right combination of organic execution and smart precision shopping and ingestion of M&A activities, we want to again earn the way to bring in a partnership, maybe following the model that we did previously with TELUS Digital or IPO. And the efficacy of the IPO back to capital allocation is that it gives us a transaction currency to consider moves on an addressable market basis that are more ambitious prospectively than what we have been historically within the confines of our own balance sheet.

And so I would hope that would give you all the parameters that you would be looking for on that question.

Operator

The next question is from Jerome Dubreuil from Desjardins.

Jerome Dubreuil - Desjardins Securities

Hi. Thanks for taking my questions. Just a clarification, Darren, on your answer to Drew's question. Maybe I didn't understand right but I think you said you think the business should be able to generate EBITDA growth of 5% before having a single new customer on board. I think we can all agree that you are going to have additional customers in the future. So are you guiding for more than 5% EBITDA growth in the future annually?

Darren Entwistle - President, CEO & Director

So we can watch for that when we go live in February. That's number one. Number two, the specifics of what I said is I frequently chide the team that we should be able to generate 5% EBITDA growth just cross-selling our products, what I call cross-product pollination, within our existing client base; such is the materiality or magnitude of that opportunity on the consumer basis and on B2B as well. And I think the entire team would say there is a hell of a lot of opportunity here for profitable revenue growth in that regard. That is not indeed to not go out and get new customers. We will be looking to do both.

I'm just making a point that the opportunity on the product intensity front is salivating. And as a responsible management team, we should go out and do that. And the reason why I push hard on that is that I think our first responsibility is to sweat the assets on the money that we've already spent, which is why I made the comment about getting better economies of scope on fibre and 5G. Sweat those assets.

We've already deployed the infrastructure. We already have the customer relationship. It's a warm relationship. It's easier to sell a new product to an existing customer than a new product to a new customer. And so let's leverage those more attractive economics along the way. And then, not only do we get more revenue from that customer, but the relationship gets stickier. So it lowers the churn, which improves the overall lifetime value. But we are going to do that, and yet at the same time, go out and hunt for new relationships that can embellish the client portfolio that we already have. So it's the duality of both and you can stay tuned for what the future holds when we give our 2025 guidance, when the time comes. But thanks for the question.

Operator

The question is from Aravinda Galappatthige from Canaccord Genuity.

Aravinda Galappatthige - Canaccord Genuity

Thanks for squeezing me in. Two from me. First of all, on wireline, obviously, starting to see a little bit of a rebound there in the fixed data services number growing up to 2%. And obviously, the broadband sub-loading has been positive as well. How should we think about this line item going forward, particularly in the backdrop of competitive conditions in the West and maybe just an update on those conditions and those pricing promotions there?

And secondly, maybe a little bit more of a specific question on wireless ARPU. When you think about the ARPU pressure, we obviously focus on the single ARPU number. But there's naturally a number of cohorts there. There could be a chunk of customers at $70, $80, $90. When you think about the degradation in ARPU, what's the construct of that? Is it maybe the cohort that's below the average going even lower? Or are you seeing chunks of the upper tiers perhaps also revising? I realize that's a bit of a specific question. And so maybe just a general answer, that would help. Thank you.

Darren Entwistle - President, CEO & Director

Okay. I think what I'll do on this one is, Zainul, I'll ask you to speak to fixed data growth and what we're doing there prospectively at the revenue and profitability line as well as on the wireless ARPU front. But Navin, I would like you, because it frequently gets forgotten, to supplement Zainul's answer on both questions with the B2B view, including within the SMB area. Zainul, over to you.

Zainul Mawji – EVP & President of TELUS Consumer Solutions

Thanks, Darren. Thanks for the question. I think you've definitely seen from us overall a level of consistency. So you've seen consistency with respect to our growth on subscribers on the wireline side. You've seen consistency with respect to our revenue growth and our goal is to continue driving that consistency as well as continuing to drive growth.

Darren talked a lot thought about our product intensity thesis and some of the new exciting product capabilities that we're bringing to market. To answer your question specifically on the competitive side, we're absolutely continuing to see the competitive pressure. It was more intense and bleeding from wireless into wireline and we continue to see that. But we've seen our retention capabilities stay strong and our product intensity continue to grow.

And I think we've also seen pretty strong uptake both in our mobile and home subscriber growth, as Darren highlighted, but as well in our ability to drive step-ups and get customers higher speeds and higher capabilities, and of course, that superiority that is very unique to us.

Maybe the final point I'll make though on the wireline side is that with the opportunity to drive scale economics, with the continuation of growth in our fibre footprint and growth in our fibre loading, and with our product intensity, there's also a significant AMPU economic thesis there that we're continuing to pursue. I think that customers are looking really for more simplification and a more seamless experience in terms of how they interact with us and other providers. And we want to be on the leading edge of providing those capabilities from a digitization and customer-first experience perspective. And so I think there's some material growth opportunity ahead on both that cost thesis, but on a customer experience improvement thesis.

With respect to your question on ARPU, it's definitely a very dynamic environment and we continue to see different dynamics emerge quarter over quarter. I think, based on the results that we have all communicated in the last couple of weeks, you definitely see the aggression and where the ARPU dilution is coming from. And you've seen us really focus on quality versus dilutive loading and you've seen us focus on driving the right optimal mix, the right bundling and the right retention outcomes. So that thesis applies greatly to our postpaid customers and to ensuring that we continue to drive their perspective of value in what they're getting from a higher-tier capability suite across both mobile and home.

I would say that there's a limited dilution at the lower end of the market at the lowest end of the market as you've highlighted. But there's more offers where premium offerings continue to be offered to that lower end of the market. And so we need to ensure that we continue to pursue the right balance of value propositions to the customer based on the cost of those services and based on what customers want to acquire in terms of multi-product capabilities and multi-line capabilities.

We're heading into the most aggressive quarter of the year. So it's hard to say exactly how things will progress. But I think that you've seen a lot of consistency with respect to how we behave in the market and how we're going to continue driving our product intensity and our retention focus thesis going forward.

Over to you, Navin.

Navin Arora - EVP & President of TELUS Business Solutions

Yeah. Thanks, Zainul. I think a number of things that you said on the consumer side apply on the business side. So a few top-ups. I think just to hit the wireline revenue and profitability improvements, we're actually quite happy with the steady progress we're making on the B2B side in this regard. I think a couple of points to be made there.

First and foremost, we have a volume play. We have a market share play that allows us to outrun some of the pricing challenges in the market that we're taking advantage of, and in the process, driving good revenue, good cash growth as a result. I think, secondly, on the cost side, as you've heard a couple of times on this call, we continue to push extremely hard in terms of our digital automation and Gen AI investments, a lot of that driven by our TELUS Digital Experience team. So not only are we growing revenue through a good market share expansion but doing that with good cost structure and good cost reductions as a result.

I think, on the fixed base, as you asked specifically, when you think about the cross-sell opportunity within Canada and the linkage across all of our B2B assets, that bodes really well. And we know that, for example, every business in Canada needs employer-based healthcare services and to be able to link the two is a big part of our cross-sell opportunity. And on a global basis, we're seeing that cross-sell funnel grow significantly.

And we've got over $300 million in that funnel right now. So I think that also is an important part of how we're going to grow revenue, how we're going to improve product intensity, and as a result, improve ARPU and AMPU.

And the last thing I'll say is just back to your point around wireless ARPU, one of the other components, as you said, the different constructs of ARPU, we're seeing good IoT and industry solutions growth in that number, Private Wireless Network implementations, IoT industry solutions, and just core connectivity as that continues to grow, that's helpful on the wireless ARPU side. So I'll pause there.

Robert Mitchell - Head of IR

Thank you, Aravinda, and thank you, everyone, for joining us today. Please feel free to reach out to the IR team with any follow ups.

And with that, Operator, back to you.

Operator

Everyone, this concludes the TELUS 2024 Q3 earnings conference call. Thank you for your participation and have a nice day.