



# Making a world of difference

Q1 2023 Investor Conference Call  
Transcript

**Thursday, May 4, 2023**

## **TELUS Corporate Participants**

Darren Entwistle - President & CEO

Doug French - EVP & CFO

Zainul Mawji - EVP & President, TELUS Consumer Solutions

Jeff Puritt - TELUS International President & CEO

John Raines - President of TELUS Agriculture and Consumer Goods

Robert Mitchell - Head of Investor Relations

## **Analyst Participants**

Jerome Dubreuil - Desjardins

Maher Yaghi - Scotiabank

Drew McReynolds - RBC Capital Markets

Vince Valentini - TD Securities

Simon Flannery - Morgan Stanley

Stephanie Price - CIBC World Markets

# **Presentation Transcript**

## **Operator**

Good day, and welcome to the TELUS 2023 Q1 earnings conference call. I would like to introduce your speaker, Mr. Robert Mitchell. Please go ahead.

## **Robert Mitchell - Head of Investor Relations**

Thanks Mihai.

Hello, everyone and thanks for joining us today. Our first quarter 2023 results release, MD&A, financial statements and detailed supplemental investor information were posted to our website earlier this morning at [telus.com/investors](https://telus.com/investors).

On our call today, we will begin with remarks by Darren, Zainul and Doug. For the Q&A session as we typically do, we will be joined by other senior leaders including Navin, Jim, Tony, Jeff, Sid and John. Today's remarks and answers to questions contain forward looking statements. Actual results could vary from these statements.

The assumptions on which they're based and the material risks that could cause them to differ are outlined in our public filings with the Securities Commission in Canada and the U.S. including our first quarter 2023 and annual 2022 MD&As. With that, over to you, Darren.

## **Darren Entwistle – President & CEO**

Thanks Robert, and hello everyone. In the first quarter, the TELUS team once again demonstrated our hallmark execution excellence, characterized by the potent combination of industry-leading customer growth and financial results. Our robust performance continues to be underpinned by our globally leading broadband networks and, of course, our customer-centric culture. This enabled our best first quarter on record, with total customer net additions of 163,000, up 10 per cent on a year-over-year basis.

Once again this quarter, our team's passion for delivering superior customer experiences contributed to strong client loyalty across all of our key product lines, including blended mobile phone, PureFibre internet, Optik TV, security and voice churn, all coming in at or below 1 per cent which reflects North American industry-leading performance.

In the first quarter, we delivered leading consolidated revenue and EBITDA growth of 16 per cent and 11 per cent, respectively, alongside industry best double-digit free cash flow growth of 29 per cent.

Let's turn now to have a look at our mobile operating results. TELUS achieved strong customer growth of 105,000 net additions in the first quarter. This included healthy mobile phone net additions of 47,000 up slightly over last year and our best first quarter result since 2010.

Notably, this strength was driven primarily by loading on our premium brand, reflecting our continued focus on high quality and profitable customer growth. It also included healthy connected device net additions of some 58,000 which were up 26 per cent on a year-over-year basis, indicative of positive momentum with respect to our 5G and IoT B2B solutions.

Importantly, our team delivered another quarter of industry best loyalty results, which continues to be the hallmark of the TELUS organization and our customers first culture put into action. Blended mobile phone churn was 0.88 per cent. Moreover, our industry-leading postpaid mobile phone churn of 0.70 per cent represents the ninth quarter out of the last 13 that we've earned a customer loyalty rate below 0.80 per cent. This distinguishes us from our competitors and indeed this is a result that is unsurpassed in North America with a churn rate that is amongst the lowest globally.

Our consistently strong performance is powered by our highly engaged team who passionately deliver superior service offerings and digital capabilities over our world leading broadband networks. Indeed, in this regard in March, TELUS was recognized as Canada's best major mobile carrier in the inaugural 2023 Reader's Choice Awards conducted by U.S. based PCMag whilst Public Mobile was named Canada's best digital mobile carrier.

In addition, TELUS was awarded Canada's best mobile carrier for Business and PCMag's Business Choice Awards. Furthermore, in February, TELUS earned the top spot in six categories in the mobile network experience report by global analytics company, OpenSignal, making TELUS Canada's most awarded network for the twelfth consecutive time.

The consistent recognition from a range of independent organizations reinforces the superiority of TELUS' world leading networks in terms of offering customers the fastest, most expansive and most reliable service in Canada.

To close on mobile, industry-leading first quarter ARPU growth of 3.8 per cent over last year was supported by roaming improvements as a result of increased international travel. It was also buttressed by strength in our premium brand and domestic monthly recurring revenue, as well as our industry best churn rate whereby we are retaining our highest value customers, in addition to continued growth in IoT and connected device revenues.

This drove North American leading mobile network revenue growth which is amongst the highest of developed markets globally. Notably, our leading mobile phone lifetime revenue continues to exceed our national peers by up to 62 per cent and is amongst the best in the world. This is reflective of the combination of our consistent focus on high quality customer growth and leading client loyalty delivered consistently as is the hallmark of the TELUS organization.

Let's turn now and take a look at our fixed operating results where TELUS delivered industry-leading first quarter wireline customer growth. Our team achieved leading internet net additions of 35,000 in the quarter, up 17 per cent on a year-over-year basis. We continue to drive leading growth in our TV product line with net additions of 9,000, which was relatively flat over the prior year.

Furthermore, residential voice losses were again an industry low at 8,000 which represents a 20 per cent improvement over this time last year. Notably, this leading performance reflects our continued momentum with respect to multi-product intensity and the inherent churn benefits that have been so consistently successful for the TELUS team.

Strong and industry-best security net additions of 22,000 in the first quarter contributed to the important milestone of achieving one million total security customers. Like the progress on the security front, over the last five years, a lot of guiding promises that we'd hit the million sub mark and we've now done that and we're still growing significantly both individually within the security product line, but as also as part of the bundle on both the consumer and the B2B front.

Notably, this one million sub achievement comes on the heels of our security team being named BrandSpark's Most Trusted Home Security Service in Canada for the second year in a row. Overall, thanks to our team, our robust and industry-leading external fixed net additions of 58,000 represented our best first quarter on record.

This performance reflects the strength of our unique and highly attractive bundle offerings across our truly unmatched portfolio of products and services. Products and services that are buttressed by our ever expanding, leading PureFibre and 5G networks. Our products being supported by our leading customer centric culture that delivers global best customer outcomes.

And finally, and critically, our success is supported by our highly differentiated social capitalism attributes that underpin the strength of the TELUS brand in action and the way that it resonates with customers when they think about who they're going to give their patronage to and which company does the most for their community.

Notably in April, our TELUS PureFibre network was recognized by OpenSignal as the best fixed broadband network in Western Canada in their inaugural Fixed Broadband Experience Report.

Indeed, the accolades on both of our fixed and mobile networks underscore the tremendous value of the generational investments that we have made in global best network technologies, which will continue to drive extensive socioeconomic benefits for Canadians for decades and decades to come. This certainly highlights the efficacy of the facilities based competition regulatory model.

TELUS' broadband leadership is owing to our unique innovation centric culture and as well the determination and skill of our team as we built out and rapidly aggressively expanded our PureFibre network over the past 10 years which is one of the most advanced fibre deployments in the entire world.

This generational investment is the cornerstone of our leading customer growth and the significant ongoing market share gains that we have driven over many years and will do so going forward.

Moreover, TELUS PureFibre has truly and fundamentally transformed the way we do business. It's not just about the glass, but the etiology in terms of the business transformation of our organization and this includes enabling meaningful simplification and enhanced efficiency and effectiveness. It includes supporting our social purpose and environmental sustainability promises. And finally, it positions us in terms of what we have done so diligently over the last 10 years in terms of our PureFibre investments for decades of robust free cash flow generation.

In the same way our organization reaps a century of attractive returns from copper as we continue our world-leading copper decommissioning and recycling program. In a moment, Zainul is going to have the opportunity to provide additional colour on our consumer mobile and fixed businesses.

Looking at TELUS Business Solutions and what a story this is turning out to be for our organization. Our team continues to accelerate profitable growth and make meaningful contributions to our success, achieving strong growth in revenue, EBITDA contribution and cash flow in the first quarter across our B2B product lines. Our Business Solutions team secured a number of significant wins and strategic renewals in the Commercial and Public sector space including a nine-figure deal to deploy TELUS cloud collaboration services that will modernize communications for one of our high profile clients.

Now let's take a look at our TELUS Health business. Significant growth in the first quarter in terms of our revenues coming out at \$423 million reflects the significantly enhanced scale of our health operations driven by our acquisition of LifeWorks which is enabling us to make meaningful progress in respect of our goal to be the most trusted well-being company in the world.

The expanding scale of our healthcare programs within our integrated TELUS Health organization includes covering 67 million lives, an increase of more than 45 million over last year. In addition, digital health transactions were up 7 per cent to 149 million in the quarter. Furthermore, we welcomed close to two million new virtual care members in the last 12 months alone, increasing our membership to 5.2 million, up nearly 60 per cent over the prior year.

We anticipate continued strong growth in TELUS Health, buttressed by the integration of our product suite that enables us to not only meet but exceed the diverse and evolving needs of our customers with a differentiated and comprehensive range of innovative healthcare solutions. This will be supported by our ongoing and intense focus on crystallizing meaningful synergies with respect to the integration of LifeWorks. Looking at over \$200 million in total synergies that we initially identified inclusive of revenues and cost reductions, indeed, we've now achieved over \$70 million in near term cost savings or more than the \$50 million we initially indicated as our objective when we announced the acquisition last June.

Indeed, since that time, we've identified additional annual cost efficiencies approaching \$70 million for a total of \$120 million in cost synergies by 2025. Moreover, our combined organizations are now fully ramped and delivering on revenue synergies with in-market efforts pursuing value creation by means of organic growth throughout the remainder of 2023 and beyond to allow us to achieve our goal of hitting total synergies now at a quarter of a billion dollars.

Turning to TELUS Agriculture & Consumer Goods. First quarter revenues of \$84 million were essentially flat on a year-over-year basis, reflecting trends in headwinds including one-time sales last year and some softness related to macroeconomic challenges as our team continues to integrate and grow this compelling global business where there is no shortage of demand. We expect ongoing strong progress including driving double digit revenue growth in 2023, reflective of the significant long term value we are creating as a globally leading provider of agriculture and consumer goods technology solutions around the world. Thanks to the efforts of our team we continue to advance the sector's efficiency and its effectiveness, including quality food production, material waste reduction, better food and retail execution and significantly seize the material opportunities as it relates to trade promotion

optimization within our consumer goods business, doing it through data analytics, yielding dynamic insights that allows our customers to realize better go to market outcomes.

Now let's take a look at TELUS International. Despite the challenging global macroeconomic environment, earlier today our TI team once again announced strong double digit revenue growth and solid profitability for the first quarter. TI's resilient results and outlook reflect the important relationship with TELUS as an anchor customer enabling TELUS' customer service excellence and powering our critical digitization strategy with attendant AI benefits. This is a unique and symbiotic relationship that significantly benefits both organizations and differentiate both organizations from our peer groups.

TI's ongoing focus on smart, profitable growth powered by attractive end-to-end digital capabilities continues to strongly position it as a trusted advisor for premier digital customer experiences and IT services for its over 650 clients. Doug is going to have an opportunity to provide further commentary on both TTech and TELUS International's first quarter results in just a moment.

In closing, our ongoing broadband network investments further enable the continued advancement of our operational and financial performance. Strengthening our confidence in the robust outlook for our business and the long term affordability and sustainability of our dividend growth program, which of course leads the industry on a global basis.

The nearly 7.5 per cent year-over-year dividend increase we announced today represents the twenty-fourth increase since we initiated our multi-year dividend growth program way back in 2011. This program is now in its 13th year and of course we've extended that through 2025.

Since 2004, TELUS has returned more than \$23 billion to shareholders, including over \$18 billion in dividends, representing some \$16 per share supporting our global industry-leading total shareholder return achievements, another consistent hallmark of this organization.

Importantly, future dividend growth and affordability is going to be supported by strong EBITDA and free cash flow growth, supported by significant value creation across TI, Health and Agriculture & Consumer Good businesses. It is also going to be supported by the significant reduction in annual capital expenditures beginning this year, resulting in one of the lowest capital intensity ratios in the industry globally. Talk about a transition to a software based organization. Talk about an organization that's leading on digital transformation. Talk about an organization that is leveraging the attributes of TELUS International. And of course, these things in combination will drive meaningful and sustainable free cash flow expansion.

Finally, I'd like to take this opportunity to always recognize our team, our customers and our partners for helping us create stronger and healthier communities. This is rooted in the etiology of our organization, and is at the nexus of our strategy. Notably since its inception in 2018, TELUS' Friendly Future Foundation has granted \$38 million in cash donations to charities in our communities making a positive impact on the lives of 14 million young people. This includes \$2.1 million in grants so far in 2023 alone to ensure even more youths have the opportunity because they deserve it to realize their full potential. Myself and the leadership team of TELUS and our Board remain exceedingly grateful for the TELUS team's passionate efforts to support our communities across the globe as we strive to deliver outstanding results for all of our stakeholders. Further exemplifying our world leadership in social capitalism.

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

## **Zainul Mawji - EVP & President, TELUS Consumer Solutions**

Thank you, Darren. We continue to demonstrate consistently strong results, backed by the power of our superior networks, differentiated products, unparalleled assets and of course our winning team who passionately provide the best service and support in our industry-leading with social capitalism. PureFibre is the backbone of our award winning 5G network. It continues to receive accolades, a hallmark of the predictable facilities based regulatory environment to-date.

By any measure, PureFibre exceeds DOCSIS and will endure to deliver exceptional reliability and symmetrical speed advantages to our customers as investments in DOCSIS aim to catch up. For 10 years, we've made generational investments in PureFibre and 5G at a lower cost of capital, which have accelerated premium loading and upsell. One gigabit per second and higher plans now comprise the largest segment of our internet base and 32 per cent of our mobility base is now on 5G.

Meanwhile, PureFibre continues to bear vastly superior subscriber economics. Margin per home and profitability compared to copper, migrating to PureFibre drives more than 15 per cent higher ARPU close to 25 per cent lower churn and approximately 25 per cent lower overall cost to serve. Our world leading copper decommissioning program is well underway, realizing cost savings from real estate to the benefits of copper recycling and additional fixed cost efficiencies.

As well as being Canada's most sustainable internet with 85 per cent energy savings compared to copper, PureFibre also enables effective mobile and home bundling. In fact, we see 30 per cent higher product intensity in PureFibre households. This is evidenced by the strong organic growth of our customer base including security with organic loading accounting for nearly half of the one million customers we proudly serve today and our security customers represent amongst the highest adoption of our consumer health services.

The fact is that TELUS has the most comprehensive suite of products in our industry. Over many years, we have leveraged this for a proven track record of product intensity, providing customers with more value and lowering churn. The continued excellence in our wireless churn is parallel performance in PureFibre, which includes a robust 13 consecutive quarters of sub-one per cent internet churn.

Our deliberate focus on high value customers across wireless and fixed has also yielded consistent and healthy network revenue growth. This quarter was our eighth straight quarter of wireless network revenue growth and our best result since 2014. Industry-leading mobility ARPU growth has been bolstered by strength on premium loading which will continue as we enhance our wireless value proposition with unique add-ons leveraging our diverse offers like Stream+, TELUS Online Security and TELUS MyCare roaming for Health.

Residential internet revenue grew 12 per cent year-over-year and industry-leading results with upside as customers lean further into gigabit plus plans. Across our multiple brands and products, we are advancing innovation in our value prop to maximize cost efficiency and flow through from our ARPU strength.

Leveraging TELUS' array of diversified assets, we're able to drive incremental value to our customers. Through TELUS International, we are accelerating our digitization efforts, further evolving our platforms, simplifying our products and support experiences and leaning into digital first to radically reduce our cost structure. A clear example is our new video platform an industry first that we launched in Q1, which offers customers more flexibility while also driving higher premium loading and reducing costs by as much as 30 per cent supporting enhanced profitability and cash flow.

Crucially, social capitalism is at the core of our go-to-market value proposition and continues to be our most meaningful and sustainable competitive advantage. It is a principle that customers value. We have passionately supported our communities for years, including being the first to launch Connecting

for Good programs, offering the most sustainable internet and the most sustainable devices with certified pre-owned. What's more is that we are executing on our mission to improve access to healthcare for every Canadian through virtual care and pharmacy and as we continue to embed social purpose into our products and services, we will further enhance loyalty now and into the future. We are confident that our strategy, our unique capabilities, our commitment to our customers and communities and our consistent execution track record will enable us to win continuously into the future.

Now I'll hand it over to Doug.

## **Doug French - EVP & CFO**

Thank you, Zainul, and hello everyone. Let's begin by reviewing results within our TTech segment. Mobile network revenue increased by an industry-leading 7.6 per cent year-over-year, driven by our best Q1 on record for mobile and connected device net additions of 105,000 and higher mobile phone ARPU. ARPU growth of 3.8 per cent in Q1 reflects the significant turnaround in roaming revenue, before we begin lapping the recovery beginning in Q2.

Beyond roaming, we remain focused on driving sustainable ARPU growth, and in Q1, we delivered year-over-year growth in domestic ARPU and we anticipate maintaining positive trajectory as we progress through the year, targeting growth of above two per cent for the full year of 2023. The positive trajectory is a result of our consistent focus on high quality loading, executing on our 5G monetization strategy, including IoT, step ups and excellent base management, diligent cash management on handsets, as well as leveraging our industry-leading churn profile. The ARPU increase with our combined leading churn has more than a 50 per cent premium on lifetime revenue as compared to our peers.

Fixed data services revenue grew 6.7 per cent year-over-year, driven primarily by strong customer growth across internet, TV and security along with higher revenue per internet subscriber. Within fixed data, residential internet revenue grew by 12 per cent year-over-year as we continue to drive more market share gains alongside modest ARPU growth. Importantly, our customers are continuing to move up to our higher speed tiers recognizing the highest superior customer experience on our PureFibre network, the compelling value of symmetrical speeds, and the value and reliability of our leading portfolio of bundled offerings.

Health services revenue increased by \$283 million over Q1 last year, primarily reflecting the contribution from LifeWorks, as well as continued organic growth.

Agriculture services revenue was essentially flat as growth within consumer goods and animal health was offset by the lapping of one-time sales and some softness related to transient macroeconomic challenges. Despite the flat Q1 result, we anticipate an acceleration of revenues later in the year for deals that are largely already booked, supporting our efforts to deliver double digit agriculture services revenue growth for the year.

Overall, TTech operating revenues were up 15 per cent over last year and Adjusted EBITDA grew by 11 per cent.

In DLCX, operating revenues from external customers were up 17 per cent year-over-year, driven by additional services provided to existing customers and new clients, including those from the acquisition of WillowTree.



DLCX revenue also benefited from the year-over-year strengthening of the U.S. to Canadian dollar foreign exchange. DLCX Adjusted EBITDA was up 8.1 per cent as revenue growth was partially offset by higher employee benefits costs primarily in Europe, and higher share based compensation expense.

As a reminder, the reporting differences between TI and DLCX as we previously disclosed.

These solid results were delivered against the backdrop of challenging economic environment that is resulting in an elongated sales cycle and top line softness most notably within the Technology sector. TELUS International remains firmly focused on managing through these near-term headwinds, with a keen eye on efficiency and effectiveness, in order to support their leading margin profile and cash flow generation. Importantly, TI reaffirmed its guidance today, targeting another strong year of double digit growth while maintaining an attractive margin profile.

Overall, consolidated operating revenue increased by 16 per cent year-over-year and Adjusted EBITDA grew by 11 per cent. Consolidated net income and basic EPS were down 45 per cent and 46 per cent, respectively. These results reflect the impact inclusion of LifeWorks, and from our generational investments that we have made in our world-leading PureFibre and 5G networks. These significant investments have led to higher Depreciation and Amortization expenses, including a \$52 million write-off of leasehold improvements on the real estate decommissioned as part of the LifeWorks integration, and an increase to financing costs due to higher debt outstanding which has enabled us to drive the success of our growth strategy.

In Q1, net income and EPS were also impacted by higher restructuring and other costs, including lump sum amounts of \$67 million from the ratification of the new collective agreement between the TWU and TELUS, along with LifeWorks integration costs and TI efficiency and effectiveness initiatives. The TWU lump sum payments were fully paid in April.

Free cash flow of \$535 million increased by an industry-leading 29 per cent, driven primarily by higher EBITDA and lower capital expenditures. We are the only organization that showed free cash flow growth in the quarter from our peers.

For 2023, we're reiterating our Consolidated financial guidance, targeting operating revenue growth of 11 to 14 per cent and Adjusted EBITDA growth of 9.5 to 11 per cent and free cash flow of approximately \$2 billion.

As we progress through 2023, we anticipate the profile of our capital expenditures to be greater in the first half of the year, as we position our team to take advantage of better seasonal weather as well as drive incremental in-year operational and financial benefits. Our capital profile will decelerate in the back half of 2023, in line with our annual target of approximately \$2.6 billion.

During the first quarter, our team advanced our leadership position in sustainability, issuing our fourth sustainability-linked bond (SLB), linking our financing to the achievement of our ambitious environmental targets. Our latest SLB offering reaffirms TELUS as having the largest SLB program in the Canadian fixed income market, and reinforces our sustainability commitments as a global leader in executing on our long-standing ESG strategy.

At the end of the quarter, our average cost of long term debt remains at 4.18 per cent while the average term to maturity of long term debt is just under 12 years. Our leading growth profile and robust balance sheet position us to support our well positioned and well established leading dividend program.

Our ability to deliver on the program reflects our confidence in continuing to execute our successful global growth expansion, our ability to drive meaningful free cash flow and our sustainment of our EBITDA growth and low capital intensity.

This will be supported by our intense focus on identifying and implementing cost efficiency and effectiveness opportunities, including the ongoing investments in digitization and the retirement of our copper network, along with the new and targeted cost reduction initiatives to rationalize our cost structure on a permanent basis.

With that, Robert, back to you.

### **Robert Mitchell - Head of Investor Relations**

Thanks Doug. Mihai, we're ready for questions.

## **Question and Answer Period**

### **Operator**

First question comes from Jerome Dubreuil from Desjardins.

### **Jerome Dubreuil - Desjardins**

Yes, thank you for taking my questions. First on the ARPU, congrats on the great results there. I think you did mention that you expect growth in ARPU for the remainder of the year. I'd like to know what's the assumption in terms of competition behind that assumption. And then second question is on the spectrum policy announcement from yesterday, you published a white paper on spectrum last year. Were you surprised by the announcement of ISED, especially maybe with regards to the millimeter wave announcement and non-competitive bidding there? Thank you.

### **Darren Entwistle – President & CEO**

Why don't you go ahead, Doug, and Zainul can top up if you want.

### **Doug French - EVP & CFO**

On ARPU, we still expect to see more roaming ARPU continue throughout the year. There continues to be more and more travelers as we look forward. And in addition to our quality loading, we've continued to focus substantially on premium economic loading and not chase lows or migrations that are uneconomic. And with that, you get an ARPU growth through your base and your base will continue to generate those returns and will not be influenced overnight by short-term marketing initiatives.

We've assumed, and Zainul can top up, that we'll continue with very, call it intense marketing initiatives that we've seen year after year in Canada. And I would say that we'll expect that to continue.

### **Zainul Mawji - EVP & President, TELUS Consumer Solutions**

Yes. So thanks, Doug. Maybe to top up a couple of things. We have seen really good strength in our premium loading and that is highlighted by our differentiated offerings, our bundled capabilities and we've seen strength in our net porting as well.

We continue to believe and see that we will have some improvements from roaming but also strong domestic ARPU growth and there's an upside related to that. I think the other thing to say is that we have ensured that our premium capabilities are bundled with differentiated offerings. I highlighted some of them in my remarks in terms of TELUS Online Security, Stream+, and other capabilities. And we'll also continue to bundle our health offerings such as MyCare Health roaming with our premium offers and ensure that we use that to drive the premium loading and domestic ARPU.

## **Operator**

The next question comes from Maher Yaghi from Scotiabank.

## **Maher Yaghi - Scotiabank**

Thank you for taking my questions. Very strong numbers on the telecom side and thank you for all the granularity. And I mean your bundling ability and your bundling history is one of the best in Canada. So your peers are trying to catch up to you. But my question today is actually on healthcare. In the quarter, you noted that LifeWorks had a loss of \$53 million. How much of that is related to real estate rationalization versus some restructuring cost within the \$141 million that you took in TTech.

And the second question I have as well on healthcare is that in Q4, LifeWorks generated \$350 million of revenue, while it generated \$269 million in the first quarter, so a drop of close to \$100 million. That business, in my view, I don't remember seeing that much seasonality in the business. So can you maybe help us understand what is the base of the revenue that we should look for when we look at LifeWorks going forward within the revenue synergies that Darren you talked about? Thank you.

## **Darren Entwistle - President & CEO**

So, Maher, I think it would be better to take this offline. We're not entirely clear on the questions that the normalization of the underlying LifeWorks results and the like. So we can speak with you separately on that to make sure that we have a clarity of understanding.

What I can tell you is that the synergies related to the integration have grown markedly. So when we announced the deal, we were looking at total synergies both soft and hard, or revenue and cost in the circa \$150 million over a prospective 36-month period.

We then elevated that goal based on our due diligence of the opportunities at both the cost level and the revenue level, principally related to cross-selling opportunities that are quite significant, which is not surprising when you think about TELUS Health pre-LifeWorks, pursuing EAP opportunities from our virtual care platform, or LifeWorks, pre the deal, pursuing virtual care opportunities off their EAP platform - there's a very synergistic fit between the two. And then, when you add into what the wider TELUS organization brings to bear either on a B2B basis or B2B2C, in terms of employer-based healthcare solutions, it's extremely attractive. What we have also communicated is that our original view on the cost synergy component was underestimated at \$50 million of near-term cost synergies. We think the more accurate view of near-term cost synergies now stands at around \$70 million.

And we've also elevated our total ambition as it relates to cost synergies up to \$120 million just because of the work that we've done on due diligence, finding significant cost efficiencies that we can leverage between the TELUS Health organization, the LifeWorks organization, and TELUS. And they are significant from customer service to processes, to digitization to shared services, and the like.

The other material synergy that has emerged on a cost front is TELUS International. And that one, we also understand in terms of just how big this opportunity was on the efficiency front. TI has stepped in during Q4 and Q1 and has taken over the preponderance of the LifeWorks customer service responsibilities and their digital progression roadmap, to a material degree.

And this is really leveraging what is a legacy TELUS strength in terms of what TI can do on the customer experience front, as well as what TI can do as a digital accelerator on the transformative front. And that has been an opportunity bigger than our original expectations.

And so, when you marry all those things up, as I said in my remarks today, what was \$150 million that went to \$200 million of total synergies is now at a quarter of a billion dollars and it's really underpinned by the cost synergy component amongst TELUS, TELUS Health, LifeWorks, TELUS International, and the material go-to-market opportunities on the revenue front.

And I would expect you to see those results reflected prominently in the performance of the combined business in the quarters and the years ahead. In terms of the specificity of your comments, Doug, do you want to add something to that now?

### **Doug French - EVP & CFO**

Yes, just on the revenue side, we have a mid-single-digit increase in LifeWorks revenue in the year, Maher, so we'll reconcile with you offline on where that differential may lie.

### **Darren Entwistle - President & CEO**

Okay. And we'll report against those synergies as well. So you'll get full transparency on that and the delineation between what we're securing on cost efficiency versus what we're getting on the cross-sell revenue upfront, so you can track our progress against that quarter of a billion dollars of value creation.

### **Maher Yaghi - Scotiabank**

Thank you.

### **Operator**

Next question comes from Drew McReynolds from RBC

### **Drew McReynolds – RBC**

Yes, thanks very much and good afternoon or good morning. Two from me, first maybe for you, Doug. Just on the working capital swings, we're seeing a pretty big one here in Q1 and I think for telecom investors in North America, it's a little bit more of a confusing item to track, given all the changes whether it's accounting or otherwise. So, could you just help us kind of think through how that plays out for the rest of the year?

And then secondly, on the bundling, just to the comment earlier, TELUS has been doing this very successfully for many, many years. I'm trying to better understand what awareness is among households to bundle wireless and wireline together. And how has that evolved, let's say, over the last two or three years? And really the crux of the question is, is there a lot of incentives that have to be

thrown a household way in order to lock it down with the product intensity or are there other kind of ways this is being done at least from a TELUS perspective? Thank you.

**Doug French - Executive VP & CFO**

So on free cash flow, a couple of things - first quarter does have more payments on performance bonus as well as maintenance fees and license fees that happened in the first quarter. That being said, if you take our EBITDA minus capex and the investment in handsets with circa \$50 million, that substantially gets us to our free cash flow, and everything else is kind of noise. So, the simple count would really be EBITDA minus Capex and handsets of \$50 million, and you get to our \$535 million directionally.

**Drew McReynolds – RBC**

Okay.

**Darren Entwistle - President & CEO**

Zainul?

**Zainul Mawji - EVP & President, TELUS Consumer Solutions**

Sure. Maybe what I'll say on the bundling front is that we have several value propositions in the market across several brands. And we use those to ensure that we create opportunities for our customers to buy into the value prop that is aligned to their goals from a value perspective. We try to take more of a more-for-more approach. And because we have more products in our bundle than anyone else, we get to see some efficiencies in terms of how we deploy our marketing strategies and our execution of those strategies. So I think that what we've been able to do is really drive increased intensity because of the differentiation of our value prop across security, health, online security, video products, and other capabilities, and not look at pure discounting.

**Operator**

Next question comes from Vince Valentini from TD Securities.

**Vince Valentini – TD**

Yes, thanks very much. Wanted to clarify a couple of things, I'm sorry if I missed it, but Jerome's question on the new auction framework turning non-competitive being proposed, did you answer that or did you say you need to review it before you can answer?

**Darren Entwistle - President & CEO**

I think that the best thing for us to do is take that away. We'd like to review that, Vince.

**Vince Valentini – TD**

Okay. I wasn't sure if that's what you said. I just missed it. Second clarification, probably for Doug, just roaming, have you - did I miss an actual figure in your opening comment like what the percentage increase was or where you're at now versus pre-pandemic?

**Doug French - Executive VP & CFO**

I did not disclose it, but say it's circa 145%.

**Vince Valentini – TD**

That's great. And when you're saying domestic roaming, you're expecting to get better as the year goes on? I just want to make sure I understand what you mean by that. You mean inbound roaming from people traveling into Canada?

**Darren Entwistle - President & CEO**

No, domestic performance of our business contributing to the ARPU on the MRC front, it was an important differentiator, because people would assume that 100 per cent plus of our ARPU was buttressed by the international roaming improvement and that doesn't fully capture the case, because we're seeing a strong domestic contribution on the ARPU upfront from improving MRC and you can see that in our leading network revenue. And the other thing, of course, that's making an increasing contribution there is IoT.

**Vince Valentini – TD**

That makes a lot of sense, Darren, thank you. I wasn't sure how to reconcile the roaming that I thought I heard. And the last one, just to clarify, great on LifeWorks targets and how optimistic you are about how it's going, but I'm not sure I understand what's going on in the numbers for this quarter. See the revenue pretty clearly up 4 per cent versus what LifeWorks reported in their prior life last year in Q1?

But in terms of EBITDA, they did \$48 million in Q1 last year. If I add in the synergies even a small amount of what you're talking about, I just don't see that amount in your consolidated numbers. Is this all coming in the future? And for now there's integration costs or some other holdbacks to the EBITDA?

**Darren Entwistle - President & CEO**

I think the simplest way to put it is that value creation the preponderance of that is forward-looking kicking in Q2 and beyond.

**Operator**

Next question comes from Simon Flannery from Morgan Stanley

## **Simon Flannery - Morgan Stanley**

Great, thank you very much. Thanks for the question. On macro, you mentioned tough macro a couple of times notably on TELUS International. Just if you could just give us a little bit more detail on where you're seeing that and particularly anything going on in consumer and payment patterns or anything like that and how you see that evolving?

And then, I know it's only been a month since Rogers/Shaw deal closed, but just wondering if you've seen anything on the ground in the Shaw footprint, I think they've stopped marketing Shaw Mobile, and how do you expect that competitive environment to evolve over the next few months?

## **Darren Entwistle - President & CEO**

Okay. I'll let Zainul speak to that, but I think in terms of on ground post-merger, it's early days. We don't have enough data points to draw inferences from. But Zainul will talk about how well-positioned we are as an organization.

Secondly, Simon, when we talk about the macroeconomic environment or headwinds and the like, it's important to point out that the performance of TTech has been nothing short of exemplary and really does reflect the countercyclical strength of our core telecom operations.

If you look across every parameter from revenue to EBITDA, to every single one of our loading goals, and the results that we achieved on wireless and on wireline, I think you'll find that we performed very favourably across the board against Street expectations and very favourably relative to our competitors exhaustively in that regard.

And that speaks to the resilience of our business. The strength of our strategy and how well-positioned we are in the marketplace. And I'd really encourage you to take a look at the results at revenue and at the operational loading level versus Street expectations and on a relative basis across our Canadian industry.

As it relates to the comments on TI, I'll hand it over to Jeff to make some comments there where the impact of the macroeconomic environment has been material, but being weathered well within TI, but still nevertheless reflecting the pressures of some of what is transpiring, particularly with sector implications amongst the hyperscalers. Jeff, over to you.

## **Jeff Puritt – TELUS International President & CEO**

Thanks, Darren thanks for the questions. Indeed, from a macro perspective, the primary consideration for us over the past months has been continued uncertainty influencing elongated decision-making cycles for many of our enterprise clients, particularly amongst the hyperscalers and tech community more broadly.

Obviously, with continued interest rate inflation, continued uncertainty with respect to what's happening in Ukraine, given our exposure in our European delivery footprint in particular and inflation more broadly. We're still seeing longer decision-making cycles and a pause in connection with moving forward on meaningful digital transformation initiatives amongst our incumbent customer base.

Given that we have meaningful exposure to the tech and game sector more broadly, that uncertainty and slower decision making is obviously creating some headwinds for us, but thankfully given both the counter-cyclical nature of the relationship with TELUS, both TELUS Communications, TELUS Health,

specifically as an anchor customer for TI that you saw us report early this morning hopefully 15 per cent consolidated growth year-over-year for the quarter, 16 per cent on a constant currency basis.

And we continue to be quite bullish on the opportunity to deliver against the guidance we established in February -- double digits starting with the two consolidated growth for the year and double digits starting with a one on an organic basis as we continue to expect stability and a return to a more appropriate and normal decision-making cycle in the back half of the year.

**Simon Flannery - Morgan Stanley**

Thank you.

**Darren Entwistle - President & CEO**

On the West?

**Zainul Mawji - EVP & President, TELUS Customer Solutions**

Yes. So I think we just want to answer your question on the bad debt and the macroeconomic impacts that we see in the domestic business, particularly consumers. We'd say that we haven't seen an increase. We're relatively flat. I think what we are seeing certainly is customers wanting to change the composition of the value prop of their bundles and we're well positioned for that.

We've talked a lot about our bundling strategy, our product intensity, and the relative churn economics. And what I would say though is that, across other parameters as well, we're very well positioned. And the way I think we would characterize it is that we're ahead of the curve but with an upside.

So when you think about our broadband investments, we're ahead of that curve. We've made a number of significant investments and we'll continue to see the value of the efficiencies that we can gain and the ability to take cost out of our business. We're ahead of the curve on our customer-first and customer experience journey. We're ahead of the curve on our digitization with a significant upside.

And we're ahead of the curve in terms of offering new product capabilities and new platforms, and this again is where we've been leveraging the skills of TI and are continually excited to work with WillowTree and other aspects of our TI partnership and assets to advance the journeys of customer simplification and the customer engagement in our products and services.

And so I think that what we've demonstrated is a consistent track record when you look back, but we've also demonstrated the capability to weather different kinds of regulatory changes, to weather macroeconomic changes, to be ahead of our peer group in circumstances like COVID, and to be ahead of our peers when we have competitive challenges.

So we feel very confident in our strategy. We feel that our diversified asset portfolio will continue to serve in the future and we're excited about the new product capabilities that we're going to bring into the market.

**Robert Mitchell – Head of Investor Relations**

Thanks, Simon. We have time for one more question please.



## **Operator**

Last question comes from Stephanie Price from CIBC.

## **Stephanie Price – CIBC**

Hi, thanks for fitting me in. I just want to touch on Agriculture & Consumer Goods. Growth in the market was flat this quarter. It sounds like you're expecting an improvement through the year. Just curious if you could speak about some of the puts and takes in the division in the quarter and going forward.

## **Darren Entwistle - President & CEO**

Yes. Thanks, Stephanie. I would say we're disappointed in the Q1 performance given the market opportunity that we have. And to the point that you're making the comments that I made in my opening remarks, we are looking for an improvement in Q2 and beyond to deliver a better result on a growth basis for 2023 that I think investors would be impressed with.

Back to the macroeconomic comment that we just discussed, there's been some headwind pressure there within our TAC business. That's been punitive in nature as well as some transient impacts on a year-over-year basis.

In terms of specificity of where I'm looking for improvement on this front, it is in the area of product development and commercialization, bringing to market some fantastic capabilities that we have on the technology and data analytics front, both within Agribusiness as well as our Consumer Goods operations. We've got some platform capabilities that are terrific and differentiated, getting those operationalized, getting those commercialized, and then scaling those on a go-to-market basis is something that you should look for going forward to support the improved results that we're all expecting.

Secondly, we need to improve the distribution strength of this organization, and that speaks to everything from our marketing and sales strategy to our channel strategy. To the extent to which you develop great products and platforms, but don't have the go-to-market capacity to put them usefully in the hands of customers because you are weak or subscale on distribution. That's not going to give you the desired revenue, EBITDA, and cash flow outcome.

And then the third area after scaling distributions and channel strength is finishing off our integration activities. I still think there's work to be done in driving better integration to become one cohesive Ag & Consumer Goods business.

For sure, I think there are still efficiency costs and effectiveness benefits to be harvested from that integration strategy and really seeing a stronger adoption of the customers-first mentality that's been so successful at TELUS, which has been consistently fueled by our world-leading levels of employee engagement.

At the end of the day, if you wonder why we're so strong on customers first, it is because we're so strong on employee engagement and those two things are symbiotic, and that's the third area where I'm looking to see improvement. John, you want to top up on anything?

### **John Raines – President of TELUS Agriculture and Consumer Goods**

Yes. Darren, I think you summed it up well, but I do want to top up on the fact that we expect very strong growth in 2023, delivering double-digit year-over-year growth through our consumer goods business from renewed food and beverage contracts on trade promotions, as well as new logos and really strong acceleration in our data analytics work with our animal health division.

And as Darren pointed out, we're in a very unique position. We have doubled down on our investments related to our global cloud-based multi-tenant trade promotions platform in both North America and in Europe and Asia. And we see this as a significant differentiator as we move ahead in this \$1 billion trade promotions market and really fueling significant growth as we move forward.

### **Darren Entwistle - President & CEO**

I should say, Stephanie, we don't have a demand issue in this business. So it's down to management to go out and realize the potential.

### **Stephanie Price – CIBC**

Thanks for the colour.

### **Robert Mitchell - Head of Investor Relations**

Thank you, Stephanie, and thank you everyone for joining us today. Please feel free to reach out to the IR team with any follow-ups you may have. Have a great day.

### **Operator**

This concludes the TELUS 2023 Q1 earnings conference call. Thank you for your participation. Have a nice day.