Q4 2016 & 2017 targets investor conference call
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TELUS

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PRESENTATION
Check against delivery

Operator

Good morning, ladies and gentlemen, welcome to the TELUS 2016 Q4 earnings conference call. I would like to introduce your speaker, Mr. Paul Carpino, please go ahead.

Paul Carpino

Thanks, Mike. Good morning, everyone, and thank you for joining us today. The Q4 2016 news release and detailed supplemental investor information are posted on our website at telus.com/investors. On the call today will be President and CEO, Darren Entwistle, who will provide opening comments followed by a review of the fourth quarter operational and financial highlights; and our 2017 targets by Doug French, our CFO. After our prepared remarks we will conclude with a question-and-answer session. In consideration of your day, we will try and keep this call to under an hour.

Let me direct your attention to slide two. This presentation, answers to questions and statements about future events including 2017 annual targets and outlook and intentions for dividend growth and future share purchases include forward-looking statements that are subject to risks and uncertainties and are made based on certain assumptions. Accordingly, actual performance could differ materially from statements made today so do not place undue reliance on them. We also disclaim any obligation to update forward-looking statements except as required by law. I ask that you read our legal disclaimers and refer you to the risks and assumptions outlined in our public disclosures - in particular, our fourth quarter management's review of operations, as well as filings with securities commissions in Canada and the United States. The appendix of this presentation and section four of our fourth quarter management's review of operations, provide definitions and reconciliations of the non-GAAP measures that we use today.

Let me now turn the call over to Darren starting on slide three.

Darren Entwistle

Thank you, Paul, and good morning to everyone. As you have seen today, TELUS finished 2016 with strong Q4 results driven importantly by both our wireline and wireless businesses.

Consolidated revenue was up 2.7% and EBITDA was up 5.1%, reflecting strong absolute and relative performance versus our peers. In the fourth quarter we delivered strong loading across all key growth segments, with 127,000 net new postpaid wireless, Internet and TELUS TV customers, up 17% from last year.

In wireless we reported postpaid net additions of 87,000 in the fourth quarter, up 40% from one year ago. We also saw growth in network revenue and wireless EBITDA, which were up 5.4% and 5.1% respectively. Blended ARPU was also strong at $66.24 and up a solid 3.9% from 2016. Customer loyalty remains the best in our industry where we achieved a churn rate of 0.98%, a meaningful 37 and 47 basis points better than our two national peers. Impressively, TELUS has now delivered a postpaid churn rate below 1% for three consecutive years. With strong ARPU and a low churn rate, TELUS also continues to deliver the best lifetime revenue per subscriber at $5,300, a significant 27% and 36% higher than our two closest competitors.

Turning to wireline, our proven and diversified TELUS product portfolio delivered strong performance in respect of revenue, EBITDA, and subscriber growth. External wireline revenues increased 1.3% and adjusted EBITDA grew a strong 5.0% in the fourth quarter. Data revenue grew 6.1% and high-speed Internet and TV net additions were up a healthy 24,000 and 16,000, respectively. Importantly, TV and high-speed net additions exceeded our residential network access line losses by a factor of two times, further highlighting the effectiveness and the success of our capital investments in these growth sectors.

Our strong wireline results within this competitive environment reflect the benefits of a product portfolio that delivers a premium experience with broad choices for all of our customers, a clear differentiator for us in our chosen markets. Our consistent wireline results also reflect the benefits from our ongoing enhancements to TELUS' broadband footprint in both urban and rural communities, including fibre to the premise and the strong pull-through effect of Optik TV bundling. As our 2017 targets reflect, we continue to have confidence in our competitive positioning and our wireline markets.

Overall, Q4 and 2016 represented strong performance across our wireless and our wireline businesses. Through our consistent execution across both wireless and wireline operations, TELUS has been able to drive consistent customer loading and retention, underpinning our revenue and EBITDA growth. TELUS has been able to maintain a strong balance sheet and improving cash generation. We've been able to continue our successful long-term CapEx investment strategy and simultaneously reward shareholders with our long-term dividend growth programs.

Our 2017 targets announced this morning represent the TELUS team's confidence in continuing these strong growth trends, including consolidated revenue of up to 3.5% and EBITDA growth of up to 6% in 2017. Similar to 2016, both wireless and wireline results will contribute strongly to these targets, reflecting the quality of our dual-tenet growth engines at TELUS. Our consistent growth in revenue and EBITDA has buttressed the targeted generational investments TELUS continues to make in its core wireline and wireless broadband networks. In this regard, consolidated capital expenditures are targeted at approximately $2.9 billion in 2017, similar to the 2016 level. Clearly, our consistent, long-term approach to capital investments and the returns we exact in this regard has positioned TELUS well for today and for the future, and has allowed us to establish the best wireless and wireline networks on a global basis for our customers.

The recent OpenSignal Network report released in January this year noted that Canadian wireless carriers have established networks that already offer speeds more than 10 megabits per second faster than the average global LTE connection, and nearly twice that of a typical 4G connection in the United States. A particular note to TELUS customers and shareholders is the fact that the OpenSignal report highlighted that the TELUS network was recognized as the fastest overall wireless network in Canada. This report also went on to highlight that the TELUS network was number one in terms of low latency, an important factor as the demand for data services and applications continues to grow at an exponential rate.

In addition to the benefits seen from our wireless investments, our 2017 CapEx investments will also see us continue to build out our successful fibre optic network where we have now passed over 1 million homes and businesses. In addition to the notable benefits our capital investments delivered to our customers and, importantly, the communities that we serve, they also deliver meaningful benefits to our shareholders. Through the success of these investments we have shown our ability to consistently drive long-term revenue and EBITDA growth, to deliver ARPU expansion, to create AMPU enhancement opportunities, and to deliver greater free cash flow to support our shareholder-friendly initiatives.

Indeed we have established an enviable track record in this regard. Notably, we returned over $1.2 billion to shareholders in both dividends and share purchases in 2016. Furthermore, TELUS has now returned approximately $14 billion to shareholders including $8.7 billion in dividends and $5.2 billion in share purchases, representing $24 per share since 2004. In continuing with this key focus at TELUS, and in building upon our track record of six consecutive years of 10% annual dividend growth, we are targeting an additional 7% to 10% dividend increase in 2017, as was previously announced.

2016 was a strong year for TELUS, and indeed our 2017 targets reflect our team's commitment to continue this level of performance. I want to take this opportunity to thank the TELUS team for their ability to consistently deliver on our strategy, regardless of the competitive environment or economic challenges that we face along the way. I am fortunate that I get to work with this team day in and day out and I'm always impressed with what our organization achieves as a team and how this translates into strong results for our customers, our investors, and the communities that we work in.

Let me now turn the call over to Doug to provide additional details on our results.

Doug French

Thank you, Darren, and good morning. I'm on slide eight. Fourth quarter wireless results showed a strong network revenue growth and improving margins as a result of solid operational execution in a competitive market. Network revenue grew 5.4% reflecting 3.9% increase in ARPU, driven by data and continued high value postpaid subscriber growth. While reported EBITDA was down 4.7% due to the immediately vesting transformative compensation expense recorded in the fourth quarter. Adjusted EBITDA increased by 4%. When excluding the non-recurring real estate gain in the fourth quarter of 2015, adjusted wireless EBITDA increased by 5.1% from higher network revenue, cost savings through our execution of our operational efficiency and effectiveness initiatives. Adjusted EBITDA margins were up 20 basis points as revenue growth and expense control offset an increase in combined COA and COR costs as a result of the competitive environment. Capital expenditures increased year-over-year by 19% reflecting the continued LTE enhancements, spectrum deployments, and increased investments to support our small cell and 5G strategy.

Moving on to wireline on slide nine. In wireline, revenue increased 1.3% year-over-year making it 24 consecutive quarters now with wireline revenue increases. The growth was driven by $60 million increase in data revenue reflecting continued high-speed and TV subscriber growth and higher revenue per Internet and TV subscriber, as well as strong growth from TELUS International. Offset was a decline in voice and other revenue. Reported EBITDA declined as a result of the transformative compensation expense. Adjusted wireline EBITDA increased by 1.7% with a margin of 28.5% and, when excluding the non-recurring real estate gain in the fourth quarter of 2015, adjusted wireline EBITDA growth was 5% for the fourth quarter reflecting the benefits of our cost efficiency programs and improving margins in data services. CapEx increased 22% due to continued generational investments in our broadband infrastructure. This included connecting more homes and businesses directly to our fibre optic network. The TELUS Pure Fibre footprint now covers more than 1 million homes and businesses, or over 38% of the targeted footprint and growing.

On a consolidated basis, as shown on slide 10, TELUS had revenue growth of 2.7% and adjusted EBITDA growth of 3.1%. Adjusted EBITDA was up 5.1% when excluding that non-recurring real estate gain. Adjusted earnings per share were down $0.01 to $0.53 as EBITDA growth was offset by increased depreciation and amortization costs as well as financing costs. For a full set of the drivers, please see the appendix. As noted earlier, CapEx increased by 21%. Free cash flow was negative $191 million, largely due to a higher CapEx as well as the transformative compensation payments. These components are also shown on a slide in our appendix.

Turning to slide 11. For 2017 we are targeting consolidated revenue growth of 2.5% to 3.5%. Consolidated EBITDA, excluding restructuring and other costs, is targeted at 3% to 6%. Although we're not presenting segmented targets for the year, similar to 2016, both for our 2017 wireless and wireline EBITDA, we're expected to be aligned with our consolidated target range reflecting the diversity of our combined strength of our two segments. EPS is targeted to increase 2% to 8%. We're targeting to invest approximately $2.9 billion in capital expenditures, which represents a capital intensity of approximately 22% as we continue to enhance and expand our TELUS fibre footprint, future-proofing our network, and supporting the continued high speed Internet and Optik TV subscriber growth.

In wireless, we continue to deploy spectrum and investing in our 4G LTE expansion and upgrades, our small cell technology, fibre connectivity to prepare for more efficient and timely evolution to 5G. Our key assumptions for 2017 include restructuring of approximately $125 million, income taxes at a statutory rate of 26.4% to 26.9% and income tax payments of approximately $300 million to $360 million. The defined benefit plan expense of $83 million, which is in EBITDA, and $5 million in interest for financing costs. Cash contributions are expected to be approximately $65 million. For the list of assumptions and support for our 2017 outlook, please see section 1.7 of our fourth quarter management review of operations.

Let me put the call back to Paul now for questions and answers.

Paul Carpino

Thank you, Doug. Mike, can you please proceed with questions from the queue for Darren and Doug?

QUESTIONS and ANSWERS

Simon Flannery

Great. Thank you. This one for Doug. Doug, could you just talk about the balance sheet, and the leverage targets? I think you're just a shade above your 2 to 2.5 target? How do you think about wanting to get back in that range, versus balancing that versus buybacks? I guess, a question for both of you, in terms of the 7% to 10% how should we think about what's driving that? Is the low end of guidance a 7% dividend, and the high-end of guidance a 10%, or what other factors go into that? Thanks.

Doug French

Okay. So for the balance sheet, as we previously discussed on our last call, we expect to be back to, within the range in 2018 to our leverage metrics. You can also see in our appendix for free cash flow, that even after dividends as we lead out into 2017 and 2018, that we will be free cash flow after dividends during that time frame. So that is our expectations on our leverage, and Darren, do you want to add comments on the second one?

Darren Entwistle

Simon, you're right, the low end of the guidance is 7%, and the high end of the guidance is 10%. And the way to think about it is, it's driven by the EBITDA performance of the organization, of flowing through to the bottom line, and the improving cash picture of the organization, per the guidance that I gave on the last call, and where we want to be by 2018.

Simon Flannery

Great. Thank you.

Paul Carpino

Great. Thanks, Simon. Next question, Mike?

Phillip Huang

Yes, thanks, good morning. A question on the fixed line side of the business. Was wondering if you could, I think on the back of Shaw's strong broadband subscribers, it was easy to assume that Shaw had taken some gross share away from TELUS, given their WideOpen plans, but clearly that does not appear to be the case this quarter. Was wondering, if you could give us an update on the overall market, including the pricing environment?

Darren Entwistle

Okay. So as it relates to developments on Shaw 150 -- I've got a bit of an echo on the line.

Paul Carpino

I think it's gone now.

Darren Entwistle

It's gone now, okay. Good. So as it relates to the market developments on the competitive front, with both Shaw 150 and the BlueSky program with Xfinity, I think the first point for investors to note, is that TELUS -- and I would suspect Shaw as well, would prefer robust competition over regulation that would be onerous, or government intervention any day of the week. I think it's also healthy in terms of the market, when we see the developing competition being based on product innovation and value for money, rather than purely price discounting. I think that's superior over the longer term for the sustainability of the competitive intensity. It's superior over the longer term for customers, and superior over the longer term for investors, when you're competing on product-based innovation and value for money, rather than price discounting.

When we look at the market, and our positioning within the market, and the tale of the tape, we would believe at TELUS of the Optik ecosystem versus Xfinity, is favorable to our organization. And we think it's favorable in respect of functionality, features, the road map that we have for the Optik ecosystem, and cost economics.

The other thing that I think is important to reflect upon is that the Optik ecosystem at TELUS is buttressed by the combination of Optik with our wide band fibre deployment, that supports the performance and functionality of Optik, but also drives our HSIA offering and features like speed symmetry that's quite unique on the uplink, as well as the downlink, and all sorts of future for all home services, that I think will be quite exciting in the years ahead, that present the opportunity for us to earn our way to establishing new RGU connections with the home, and the revenue, and the margins that flow from that.

The other thing in terms of thinking about the markets, is that we don't really, and kind of consistent with the consolidated guidance we gave today, we don't think of the market on a hard segmented wireline, wireless basis. We think about it as services that are available over broadband, whether that's fixed or wireless for customers, whether they're sedentary or whether they're on the move. And when you think about the power that we have, with the investments that we've made and continue to make in our wireless network, it's quite the advantage.

So I like the ability to take our Optik ecosystem mobile with a ubiquitous LTE, LTE-advanced and in the future a 5G wireless network, that has decidedly superior performance characteristics in terms of speed, coverage, and latency, which is so important in a world of data applications, whether it is gaming or face-timing along the way.

So when you look at the OpenSignal report, and you think, okay, that's wireless. But think about the implications that it has, as we take our Optik capability mobile, with our clients, and really live in a converged wireless and wireline world. And I think that's the way investors have to start looking at the market, as integrated wireless and wireline, broadband supporting the delivery of applications that are critical for consumers, for business customers, and for key sectors that we're looking to address on a differentiated basis like healthcare, and the primary care ecosystem.

The other thing that, when we're looking at the market, I think is important is, yes, you can talk about wide band capabilities. You can talk about product innovation, features, and functionality, but if you don't back it up with the best customer service going, you're not going to be successful. Or you're not going to make the margins that you would like to make on a sustainable basis.

I think the fact that since 2008, we have had the mentality of client service excellence and putting customers first, allows us to drive a solution set in the marketplace that will be superior to all of our peers, in terms of the quality of service that we afford our customers. So when you can complement technology capabilities with product innovation, and a best-in-class customer experience, I think that particular continuum from a differentiation and a winning market proposition point of view, is going to be unassailable.

And then, when I look at the market going forward, I think the confidence that we have, which is considered and bridled, is reflected in the guidance that we have set out for 2017, which I think a strong guidance both absolutely and on a relative basis. And it's great that that guidance is not based on one tenet, but reflects a near parity of contribution from both the wireless and the wireline sides of our business.

And when we look at the market, on the wireline front, one of the things that I always like to remind people is that we have the benefit of diversification. Diversity is indeed a beautiful thing. And to reflect on the fact that what we do on wireline in an ILEC market like Alberta and BC, is just one component of our business. We've got about a 57% overlap with our cable competitor. They've got about a 92% overlap with TELUS, such as the diversification of our national revenue and EBITDA sources across the business market and wireless and wireline. So I think all of those factors come into play in the market front, but I'm bullish in terms of what we can achieve on a go-forward basis. But we're going to try to be a bit conservative in terms of our expectations.

Phillip Huang

Yes, thanks for that, Darren. I think you've been pretty constant with your CapEx plans over the next several years. But I thought I would ask you to give us an update on your thoughts for plans in 2017, should we assume CapEx will remain around the $2.9 billion level? Thanks.

Darren Entwistle

I think, we actually shifted from transparent to detailed and prescriptive, when it comes to our CapEx guidance coming forward. So just to go around the houses on this one more time. One of the hallmarks of TELUS and the avoidance of write-offs at our organization, is that the CapEx which has been mostly organic over the years, has always been focused on our core business, core technology, mostly on the broadband front. Very data-centric, because that's where we saw the growth coming from on both wireless and wireline, and effectively very much, national focused versus pursuing any type of international strategy of significance, when it comes to CapEx investments.

I think the other thing that's been helpful for investors is the strategy that we are pursuing today in 2017, is identical to the one that we communicated to the street back in 2000. And I think that consistency, when it comes to investing is a powerful thing, particularly when the strategy has been backed up by excellent operational and financial execution along the way.

And so, when you look at TELUS for 2017, and I tried to choose my words carefully in my opening remarks. The view that we're giving, in terms of circa $2.9 billion in 2017, and commenting that it's at parity with what we did in 2016, is really indicative of what you can expect of TELUS over the next four to five years, in terms of our spend rate.

And as I said previously, we really do believe that the time is right for this particular investment. We've got advantageous positioning, in terms of cost of capital. We've got a favorable regulatory environment, in terms of the investments that we're making. We have got beautiful synergies across wireless and wireline, as it relates to the wireline broadband build. That it's not just a build to support TV and HSIA, but it's going to be the fronthaul and the backhaul for our 5G wireless network into the future.

It's a fibre investment that's not just for consumers, but for businesses, for public sector, and for the important thrust that we've got on primary care health. I think we're earning our way to this investment. It's an important hallmark at TELUS. If we were looking to invest at this rate, but we weren't backing it up with our financial performance, and weren't backing it up with our operational performance, and weren't backing it up with our capital return program, that would be a different thing. But the fact of the matter is, we've earned the investment.

We are generating, not just good financial and operational results, but when you look at the financial results, whether it's revenue and EBITDA growth in 2016. Or what we're postulating prospectively, in terms of revenue and EBITDA growth in 2017, it's best-in-class. And I think we have shown through that track record, and as well, spent money on investments, but also carried on with capital returns in terms of our dividend program, we earned the right to make that particular investment. We've got a strong balance sheet. I think Doug's comments were prescient. We are inching closer to that 2 to 2.5 times net debt to EBITDA range. And as I said previously, I think we will get there in the near-term, in terms of that particular leverage ratio. And I think that's a positive thing for this organization.

The other thing that I think you want from us is, you don't want us to pop in here, and talk about nonrecurring events that supported a singular strong quarter. You want an organization that's going to be able to come forward, and say, strong 2017, strong 2018, strong 2019, strong 2020. And our ability to deliver those strong financial operational and capital return programs over the three to five year period, is contingent upon the investments that we're making today, and the returns that we exact from them, in a responsible fashion.

And then lastly, and I've highlighted, and I'll do it again, that we expect to be free cash flow accretive in 2018, materially so, and then growing thereafter. Of course, normalizing for singular events like a spectrum auction along the way. And so, I think the time is right to break the back of some generational investments, particularly as it relates to fibre-to-the-home. Because at the end of the day, you have an opportunity to build in a sustainable level of competitive differentiation, versus your peers on the technology front, in a data-centric world, economy, and society, I think that's a pretty smart thing to do for investors over the longer term.

Phillip Huang

That's very helpful. Thanks, Darren.

Paul Carpino

Great. Thanks, Phil. Mike, next question, please?

Aravinda Galappatthige

Thanks for taking my question. On the wireless side, Darren, I mean, obviously, you're seeing some very strong ARPU growth. And I know there's been a bit of discussion recently around data overages. Given some of the (inaudible) that you had in the past, is that going to factor in terms of driving ARPU at a point? And can you just touch generally, on the industry strength that we've been seeing, both in wireless ARPU and also postpaid net adds, just what's been your take over the last three quarters, which has surprised the street to the upside?

Darren Entwistle

Okay. Let me take the last part of your question first. In terms of contribution to industry subscriber growth, I think it's important to highlight, number one, it's nice to see. So at the end of the day, to see a strong performance for the industry, I think is a good thing for investors, and I'll recognize the results at our peers.

In terms of some of the factors that are underpinning it, I'll highlight a few for you. Clearly, we're seeing the population of Canada grow from immigration. I think that's a development that is having an impact along the way.

Secondly, and importantly, we're seeing an expansion, and particularly in certain demographics of our society related to our digital economy, and digital society. And where we got multiple RGUs per human being, I think would be a good way to describe it. And that can be reflected in many areas, whether it's mundane where people have one device for business, and one device on the personal front. Or whether they have got a multiplicity of devices that relate to things like healthcare connectivity, by the way of one particular example.

The next thing that I think people need to think about is that, it's just not smartphone connections. One of the things that's been left out is that we're seeing more and more, obviously tablet connections to go along with the smartphone connections, both on a sedentary and on a mobile basis.

The other aspect that I don't think has been discussed as much, and this has been de minimis for TELUS, so this is not reflected in our loading, but I think increasingly, we're seeing wireless loading that's related to wireless home phones, that's showing up in subscriber numbers. It's not a factor, it's not a factor in 87,000 that TELUS did. But I do think it is a factor for the industry, and probably as it relates to some of our peers.

The other thing that's helped us along the way at TELUS is that the dilution from Alberta has gone from dilution that we were experiencing in 2015, to a very modest net accretion in loading in 2016 when you look across both business and consumer. So the avoidance of the dilution from the economic downturn that we experienced in 2015, and seen very modest accretion in 2016, but a nice delta of 2016 versus 2015, I think that factor has been helpful along the way. So that's a thumbnail sketch of some of the things that are important.

In terms of your question on data overages, that's not a factor for TELUS, and that's not through happenstance. That's purposeful, because as I think that you may be aware, at the midpoint of 2015, we launched our real-time rating and notification program with clients, so that they could better manage their consumption within their established data packages. And we did this, despite the fact that it had a J curve with it. It was near-term dilutive, longer-term accretive, because we thought it was the right thing to do, if we were going to put our money where our mouth was, in terms of putting customers first, and focusing on client service excellence. Because the number one dissatisfier for our customers was overage, and frequently those angry customers would call into our call center, generating OpEx for TELUS. And in many situations, we would do what we should have done in the first place, and undertake a rerate.

And so, giving them the information on a real-time basis, delivered right to their fingertips if you will, to better manage their different usage within their established data packages, we thought was a smart thing to do, better client satisfaction, better loyalty and retention along the way, better client satisfaction, fewer calls into our call centers, better OpEx management along the way.

And then, also thinking about, okay, let's also feature that particular capability. So that if they are hitting the upper echelons of their data package usage, then let's offer them an opportunity, to either permanently move to a larger data package, or top up just for the month. Which would be a nice economic opportunity for them, in terms of it's a nice price, and they're in control of the decision, versus what we've seen historically as it relates to overage. And we get a nice ARPU bump, whether it's on a nonrecurring basis because it is an in-month top up, or on a recurring basis, because they stepped up to a higher data plan on a more permanent basis.

When I look at our growth overall, the 3.9% in terms of ARPU, I think some factors here are interesting. Number one, and these would be true for 2016, but also prospective in terms of what we would expect to continue to develop for 2017.

Firstly, something that doesn't get chatted about very frequently, when you talk about ARPU robustness. But I'm going to go to churn, because if you have better churn on your higher ARPU customers, you've got a better base to build upon, and you've got less ARPU dilution. And TELUS, if you look at the churn delta between us and our peers, and in particular how well we do on loyalty and retention with our higher ARPU customers, that's a big factor to our ARPU resiliency on a go-forward basis.

Second thing, relating again to your question on data. We are getting increasingly larger proportions of our customer base on higher rate share plans, and that's being reflected on the ARPU front. We are seeing an adoption of larger data buckets, and participation in data upsell programs, such as the ones that I just articulated, such as the insatiable appetite that people have for data applications, when we're giving them increasing swathes of bandwidth to use with the smartphone devices and tablets. Koodo is making a tidy contribution to growth in terms of our ARPU. We're always deploying new technology. The more and more LTE, LTE-advanced devices that we get out there, we see a direct correlation with higher data growth, and the data ARPU that flows from it. And then lastly, we're seeing improved data roaming.

There are other factors that I think are worth chatting about, beyond data as it relates to ARPU robustness. We are seeing a shift to higher value clients, whether it's prepaid to postpaid, or lower tier postpaid to higher tier postpaid within our client base. And I think it is overall, important to point out that, when it comes to sub expansion at TELUS, line expansion at TELUS, which we would expect to continue obviously in 2017. We're not so focused on pure operational loading growth, but the quality of that loading growth, and the contribution that it makes to sustainable ARPU and EBITDA along the way.

The next factor that's important for us, of course, is we've launched our new Premium Plus program that's becoming an increasing portion of our postpaid client base. And that's a program where with Premium Plus, we're driving higher ARPU, to offset the higher subsidy that we're absorbing within the rate plan.

The other thing that we talked about for years, I'll tell you, I wish it would be going faster, but it's incrementally improving each step of the way, is international roaming. And at the mid-point last year, we expanded Easy Roam to 127 countries, and I would expect that to make a growing contribution into the future.

And then, the last thing to watch for, it's modest now, but it will be increasing in the future is Wave 3 applications, particularly as it relates to the data vernacular. IoT and machine-to-machine within the wireless world is going to be a long-term growth tenet for this organization, consistent with the data focus that we've had every step of the way, consistent with wireless, wireline integrated offerings, consistent with the ubiquity of our wireless network.

And when you look at the attributes that we have of speed, coverage, reliability, the management of latency, we're well-positioned to develop a significant, positive economic market share position on machine-to-machine applications, across both business, consumer and wholesale.

Aravinda Galappatthige

Great. Thank you.

Paul Carpino

Thanks, Aravinda. Our next question, Mike?

Vince Valentini

Yes, thanks very much. A question on wireless and your sub adds. So postpaid adds were obviously very strong for you guys. I think you said, up 40% year-over-year, but still you were number three in market share for the fourth quarter in a row.

Are you just satisfied that your numbers are really strong, and the market share ranking doesn't really matter? Or could we potentially see you take a little bit more of an aggressive stance with pricing and promotions, to try to get up to number two or number one on market share? And just one clarification as part of that, the Public Mobile offer in the quarter for $40, would those subs have been counted as prepaid or postpaid? Thanks.

Darren Entwistle

So let me canter through then the questions, Vince. I would say, in terms of Q4, we are satisfied with our performance, and comfortable with our positioning. Don't take that to be, that we're not competitive, when it comes to the loading, or that we don't have a continuous improvement mentality, where we're always looking to do better. But I'm pleased with the quarter, and I'm comfortable with our positioning.

I get the, authenticity that comment is reflected in the fact that my previous answer, I articulated that for us, it's about profitable revenue growth, rather than where we rank on the loading league table in any particular quarter. Sure, we'll strive to do better. And I think if you look back over the last five to six years, there have been periods where we have led on the loading front. There's been periods where we've taken a disproportionate market share in the loading front. But I think the consistent thesis for us, is the quality of loading, and the economic value on a sustained basis that we can generate from that.

Secondly, as a result of our churn rate, we can be pretty discriminating when it comes to our choices, because we don't need to generate the investment at the growth level, to deliver a very good net adds result. When you are 37 and 47 bps better on churn than your peers as it relates to postpaid, that gives you a lot of economic latitude that's quite positive.

And when I talk about value, and putting the metrics to the test, and I talk about churn and its importance, I think it's important to have a look at, what the combination of ARPU and churn does for us, when you look to lifetime revenue per client. To be in a position where we are $1,100 better than one competitor, and $1,400 better than another competitor on lifetime revenue per client, I think that's a pretty smart position to be in, particularly in a world where COA and COR is chronically more expensive than what it used to be.

So that's very much the focus for us. Now I wouldn't want to see the gap widen if you will, and you got our representation that we'll do our best to compete ardently. And maybe the league table will shift from one quarter to the next. But I'm going to tell you right now, don't expect that we're going to do something silly, uneconomic, foolishly irrational, as it relates to pulling certain discount price levers. Or going even more crazy than what we already are on device subsidy, just because I want to close a notch on a league table ranking, that's not really the strategic thesis of the TELUS organization. And in terms of Public Mobile, it's prepaid.

Vince Valentini

Thank you.

Darren Entwistle

Thanks.

Paul Carpino

Thanks, Vince. Next question, Mike?

Richard Choe

Great. Thank you. Just wanted to go back to guidance, revenue guidance is a little bit higher than last year. Is this mostly driven by wireless, and with wireline flattening out, with especially the data revenue, are we expecting to see an acceleration in wireless, or could wireline rebound? Thank you.

Doug French

We're seeing growth in both wireline and wireless. There will be a prominence in revenue growth of wireless over wireline though. So it will be more skewed to the higher end for wireless so, but we will definitely see growth on both of our products sets of wireline and wireless.

Richard Choe

And in terms of the fibre footprint, can you give us an idea on what market share is like within the footprint for older markets versus new ones, and versus out of footprint? And where could that footprint go over time?

Darren Entwistle

I think we'll leave it that we're doing very well, without giving specificity on the market share front per community that we cover. That's a bit competitively sensitive to us, including postulating as to where that might go, in terms of share in the fullness of time.

I guess, what I would guide you towards is that our performance has been strong, in terms of loading. The performance of our fibre connectivity is better than the average. So when you look at our loadings, that is our holistic loading, the performance of our fibre-to-the-home solution is even better than what you see in the overall reported loading. I don't think we need to get into where we can take that to, but you can do some existing share calculations, TELUS versus our competition. And I don't think we need to prime the pump anymore aggressively. I think the current course and trajectory is prudent for TELUS. I don't think we need to span into the aggressive zone. And I go back to our thesis, we're going to focus on product innovation, and we're going to focus on client service excellence, and we're going to focus on getting you an economic return on the CapEx that we're investing, to support the fibre program.

Richard Choe

Great. Thank you.

Paul Carpino

Great. Thanks, Richard. Next question, please?

Maher Yaghi

Yes, thank you for taking my question. Many of my questions were asked, but I wanted to ask you on margins, we saw an improvement in margins in 2016, for both segments versus 2015. And you're expecting margins per your targets for 2017 to improve as well. Can you talk about where those margins are coming from, wireless versus wireline?

Darren Entwistle

So they're coming from both. So the same way we've been delivering, and are look to -- looking to deliver again in 2017 best-in-class EBITDA growth. We did it from the industry leadership position in 2016, and we're going to strive to do it again in 2017.

A key factor underpinning that, on both wireless and wireline has been our cost efficiency programs. And you can expect to see us continue to make investments in that regard over 2017, 2018 and 2019, with $125 million being initiated in 2017 across that three-year period. And I think we've got a pretty good track record in that regard.

I think it's important to note that you'll see us balancing our cost efficiency initiatives, with our top priority of putting customers first, ensuring that we can have customer service excellence, and drive strong operational loading. And simultaneously improve the OpEx and CapEx profile of this organization, and the margins that are inherent from those particular activities. If you look at the margin expansion in 2016, it's reflective of the execution of our cost efficiency programs. And we've seen margin expansion take place across the board, so margin improvements in wireless, but also margin improvements in wireline data, including TV, HSIA and Health along the way.

And yes, before you ask the question, we're still on a march to get to 30% margins on the wireline side of the business. We have not forsaken that particular target. The same way that on the wireless side of the business, we talk a lot about ARPU. But when we get into the management meetings at TELUS, I think you would be comforted, to see that we talk even more about AMPU, reflecting the fact, that you can't guarantee that ARPU is going to carry on, from the growth perspective unabated forever after. And the AMPU focus on wireless has been key for us.

In terms of the genesis that's supporting our efficiency measures, let me talk about it in three tiers. Firstly, in terms of what's going to take place in 2017, 2018 and 2019, you got to go back to the operational efficiency program that we initiated in the late 2015 period, and the early 2016 period, where we reduced some 1,500 full-time positions, that yielded annualized savings of $125 million-plus.

Building on top of that, and you would have seen us invest $174 million in workforce restructuring in 2016. And we are very circumspect, in making sure that not only is that NPV positive, obviously we treat it just like a product or technology investment, but that the discount payback period is less than three years. So we invested another $174 million in 2016, and we're postulating $125 million in terms of efficiency initiatives that are earmarked for 2017. And so, it's really the cumulative effect of that trio of investment activities, and these annualized savings that it's generating, that's helping out this organization for sure.

And then, as we talked about previously, the lump sums that we have paid out to our team members are driving important workforce productivity improvements, that were basically galvanized within the new collective agreement with our unionized team members. And those productivity improvements relate to everything, from the operational performance of the organization, most particularly the customer service orientation of the organization, and the customer -- and the financial results that flow from the improvements that they support, both operationally and from a client perspective. And then, the combined effect that, that has on our financial results.

I think it is also important to note that there was a significant portion of the lump sum payments that were paid out in TELUS stock. And I think that for us, reflect both our culture in action, but it also reflects the voice of the investor. Because the better alignment that we have between our team members, and the strategy of this organization, the better the execution of our strategy. The better the execution of our strategy, the better the operational customer and economic outcomes for investors. And I think that's a smart thing to do.

And then, having general wage freezes over 2017 and 2018, and the indefinite avoidance of the compounding effect on salaries that, that engenders for this organization, not only does that give us hard cost economics to our benefit, it also gives us a good window of opportunity to make the generational investments that we need to make, in things like our fibre-to-the-home, fibre-to-the-business, fibre-to-the-clinic programs. And so, we think it is a smart thing for us to do.

So that particular program is going to be very valuable for this organization. But just to give you a sense of its magnitude, it is well less than 1 percentage point impact on the guidance that this organization espoused. So when you look at something like up to 6% EBITDA guidance in 2017, the impact of this particular program is well less than 1% of that overall 6% growth. Many of the benefits reflected here are longer-term in their orientation.

Maher Yaghi

Thank you, Darren. And just one last house-cleaning question. The free cash flow on slide 15 of your presentation, expecting nice growth year-on-year on free cash flow before tax payments, but also after-tax payments that decline in 2017, how much of that is a one-time in nature versus something that could be recurrent?

Doug French

The tax, there is a tax decline, which would be permanent. There was a -- in 2016, we had a double payment of installments and tax amounts. So the $300 million to $360 million is more of an ongoing run rate, so you'll see that be more typical going forward. And so, I would say, from that perspective, you should include that in your modeling.

Maher Yaghi

Thank you.

Paul Carpino

Thanks, Maher. Mike, we have time for one more question?

Jeff Fan

Thanks, good morning. I do want to touch on the, just to clarify the transformative compensation arrangement, maybe to Darren's comment about the benefits being more back-end-loaded. Can you just help us understand how that works, because maybe I'm thinking this a little bit too simply? But if you're paying out $300 million in lieu of pay raises, is that a straight-line benefit, but it doesn't sound like it is? So can you just help us understand how this builds in to the benefit over 2017 and 2018 -- I guess, part of it was in 2016 as well?

And then, just a little bit on the mechanics on the shares that you're issuing. Are you buying that in the market, are you issuing that through treasury, just wondering if you can help us with that? And then, as we look out after the end of this arrangement, I know it's a few years out, but for two years without pay increases, when you look out to 2019, does then three years of increases come kind of come through in 2019 salaries? How does that going to work, when we look out, in our modeling two years out? Thanks.

Darren Entwistle

So again, we did this across the union management, for the purposes of our culture, and solidarity between both sides. We did the lump sum to buy the concessions that we were looking for within our collective agreement, and let me give you a flavour of what we have done.

The concessions that we've bought that are reflected in these lump sums, are concessions, where we have moved from double-time for over-time to time-and-a-half. And when you've got a program like what we are doing on the TV and the HSIA front, with that particular generational investment, having more affordable over-time, when it's more of fact of life for the organization given competitive market condition, is a necessity. So that's a productivity release for us that is hardwired. We made the difficult decision to remove Sunday premiums, within our client customer call center operations. And we did that, because our business customers want to transact with us seven days a week, and don't recognize differentiation between the days.

In fact, for some families where you've got to make people working within the home, Saturday's and Sunday's are more convenient days to transact with the TELUS organization, or have someone over to install our Optik TV service. We removed a day of holiday time within our bargaining unit, because during this particular period of competitive intensity, the economic downturn in Alberta, and the generational investments that we made in fibre, we need all hands on deck. And that's just a necessity for the business. And the best job security that anyone can ever look for, is having a successful company on a sustainable basis, and that's what we're trying to achieve.

And every single one of those changes that we made, was made with the customer in mind, what's better for the customer? What does the customer want, how can we serve the customer better along the way? So we bought out those changes, but the productivity we'll enjoy in perpetuity. The cost of buying out the changes is reflected in our Q4 results, and it's now behind us. But all of the productivity upside is ahead of us.

Second question that you have, in terms of the shares, we bought the shares in the market. So no, we didn't issue them out of treasury. We felt that was slightly incongruous with what we've done historically on the NCIB program.

And then, in terms of the continuing contribution, I think Jeff, you can do the math on that. It is somewhat of an accreting improvement, because as you go from 2017 to 2018, and then into 2019, the impact of the salary freezes, from the CEO to all of our unionized team members grows in terms of its magnitude, and its contribution at the EBITDA level.

Also I would note Jeff, as it relates to the NPV or economic return program, it is a significant benefit to the investors and TELUS, because the avoidance of compounding is enjoyed in perpetuity. And I think that's something you do to reflect upon, in terms of the economic benefits. But the EBITDA improvement contribution starts in 2017, grows in 2018, and grows in 2019. And there is not cumulative catch-up, if you may be thinking that was a possibility, that's not the case.

Jeff Fan

Okay. Thanks, Darren.

Paul Carpino

Great. Thanks, Jeff. And thanks for joining us on the call. If there's any questions, please feel free to call the IR team. Thank you.

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