Q1 2016 investor conference call

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TELUS

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PRESENTATION
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Operator

Good morning, ladies and gentlemen, and welcome to the TELUS 2016 Q1 earnings conference call. I would now like to introduce your speaker, Mr. Paul Carpino. Please go ahead.

Paul Carpino

Great. Thank you, Mike. Good morning, everyone, and thank you for joining us today. The Q1 2016 news release and detailed supplemental investor information are posted on our website in the Investor section of TELUS.com.

On the call today, will be President and CEO, Darren Entwistle, who will provide opening comments, followed by a review of the first quarter operational and financial highlights by John Gossling, our CFO. We're also pleased to have Josh Blair, our Executive Vice President, TELUS Health and TELUS International, and President, Business Solutions West join us on the call today, who will provide comments on TELUS International's exciting corporate development news announced earlier today. After our prepared remarks, we will conclude with a question and answer session. In consideration of your day, we are going to try and keep this call under an hour.

Let me direct your attention to slide 2. This presentation, answers to questions, and statements about future events including 2016 annual targets and guidance, intentions for dividend growth and future share purchases, the proposed purchase of MTS by BCE and the transfer of a certain portion of MTS postpaid wireless subscribers and retail locations to TELUS, and the agreement between TELUS International and Baring Private Equity Asia, are subject to risk and uncertainties and assumptions.

Accordingly, actual performance could differ materially from the 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 in Section 10 of TELUS' Annual MD&A, and filings with securities commissions in Canada and the United States. Let me now turn the call over to Darren.

Darren Entwistle

Thanks, Paul, and good afternoon, everyone. Thanks for joining John Gossling, Josh Blair, Doug French and myself on the call. We hosted our AGM this morning in Vancouver at our corporate offices, here at TELUS Garden, where we highlighted the TELUS team's strong 2015 results, despite managing through the challenged Alberta market. Importantly, we also highlighted our community involvement and unique corporate culture, which are distinguishing characteristics of TELUS.

Let me briefly touch on our first quarter results, and other announcements made this past week. These are the proof points of the quality of our asset mix, the resiliency of our operations, and the continuation of our consistent strategy. In the first quarter, our consolidated operating revenue was up 2.6% and EBITDA was up 3.1%. We continued to deliver strong financial performance based on the quality of our asset base, and the benefits of successfully executing on our efficiency programs.

In wireless, network revenue grew 2.5%, EBITDA increased 2%, and postpaid wireless net additions were 8,000 in the first quarter. While the first quarter is seasonally slower, the net additions also reflect the dynamics of heightened competitive intensity, more expensive smartphones, and a weaker Alberta market.

In the first quarter, we continued to maintain our industry-leading performance, in respect to key wireless metrics. Our leadership in customer loyalty remains unmatched, with wireless postpaid churn at an impressive 0.97%. Additionally, our current lifetime revenue of more than $5,000 per subscriber puts TELUS at a notable 10% and 34% premium, relative to our two national competitors. Blended ARPU in Q1 is an industry-best at $63.08, reflecting the quality of our customer base.

Consistent with our strategy to reach even more Canadians, you saw our announcement earlier this week, whereby TELUS has entered into an agreement with Bell, that will see us triple our customer base in Manitoba, expand our addressable market across the province, and enhance our retail presence. Our expansion to this market will bolster our existing assets in the West, in support of our long-term growth strategy.

Moving to our wireline business, external wireline revenues increased a notable 3.7%, while EBITDA grew an impressive 5.1%. Net additions of high-speed internet subscribers were 12,000, and we added 14,000 net TELUS TV subscribers. Net RGU’s were breakeven in the quarter, reflecting residential NAL losses of 26,000. Notably both wireless and wireline subscriber loading are expected to improve through the remainder of 2016. And as noted today, we are reconfirming our industry-leading 2016 financial growth targets.

We made several announcements this week that highlight the resiliency of our business model, and our clear focus on delivering significant value for our shareholders. Today we announced the 11th dividend increase in our multi-year dividend growth program. Since 2011, this program has delivered 10% or higher annual dividend growth through this unique TELUS-specific initiative.

With today's increase, our annualized dividend now stands at $1.84 or 10% higher than the same period last year. Notably our 75% increase in the dividend since the program was first instituted five years ago at our 2011 AGM is double the growth rate of our next closest telco or cable peer. Additionally, there is one more dividend increase targeted for later this year under this initial program.

Today we also announced our three-year shareholder-friendly initiative. This new initiative is targeting an industry-best semi-annual dividend increase of circa 7% to 10% annually from 2017 through 2019. As we've done in the past, this will be complemented by a synergistic discretionary share purchase program of up to $250 million per year, again from 2017 through 2019.

None of our peers offer this level of transparency, this level of forecasting, nor this level of growth rate in respect of their capital return programs. Importantly, we've established the balance sheet to enable us to complete these shareholder-friendly programs, while simultaneously making significant growth-oriented capital investments to ensure our future. At other organizations, these initiatives are mutually exclusive. At TELUS today, these initiatives are mutually inclusive.

Another key growth in customer service contributor within the TELUS organization is TELUS International, which celebrated its 10th anniversary with a rather banner year. Today we've set the stage for its continued rapid growth, by welcoming Baring Private Equity Asia to the TELUS team. Baring's 35% equity stake in TELUS International values this business at an impressive $1.2 billion. Demonstrating the clear value creation that has occurred over the past decade, this transaction values the operation at a notable 12 times multiple to its 2015 EBITDA. This represents a significant 50% premium to our current wireless and wireline trading multiple at TELUS Corporation.

Far more than just a financial transaction this represents another unique and global opportunity to drive growth in an area that complements our strategy. The shared goal of both TELUS and Baring is to double the size of this business over the next five years. Without a doubt, Baring is a partner that complements our leading team member engagement and customer service excellence philosophy, in respect of Baring's own worldwide experience, their global network of prospective clients that we can tap into, and as well their strong track record of investing successfully for long-term growth.

Importantly, equity and debt proceeds of approximately $600 million from this transaction will be put to work right here in Canada. These proceeds will fund TELUS' long-term strategy of advancing our broadband networks, to support our country's digital economy for generations to come. Clearly, through TELUS International, we do not just practice customer service excellence, we actually sell it as a capability to global brands.

As our announcements this week show, TELUS continues to demonstrate its ability to deliver financial growth and drive value creation. The TELUS team is confident, as we move forward in 2016, based on our track record for strong operational execution, and you can look to us to deliver that in the quarters ahead. We're confident, owing to our disciplined and consistent strategy, focused on long-term investments in our core wireless and wireline assets. We're supporting our quality asset mix that drives strong revenue and EBITDA growth, not just from one line of business, but from both wireless and wireline with key contributions coming from TI and TELUS Health along the way. And as well, we're confident in our ability to implement the most consistent and growth-oriented shareholder-friendly initiatives in our industry.

And lastly, and perhaps most importantly, because this is what drives both our customer outcomes and our financial and operational success, we're confident in the continuity of our exceptional corporate culture that truly does embrace and deliver customer service excellence. Now let me turn the call over to Josh, who will provide some additional colour on our TELUS International transaction, followed by John who will provide some additional financial details on the quarter. Josh, over to you.

Josh Blair

Thank you, Darren, and thank you for building that culture, that you spoke of over the past 16 years. We're all indebted to you in that regard.

With respect to TELUS International, more than a decade ago, we began our journey with an investment in a contact center in the Philippines. In the 11 years since, we've grown TELUS International into a leading provider of customer service, IT support and business process services with 22,000 team members located in Canada, the United States, Europe, Central America and Asia. Today, TELUS International not only represents an important element of TELUS' highly regarded customer service operations, but it has also earned the business and trust of more than 100 global customers, including some of the world's biggest and best brands.

With our announcement today, we have launched an exciting next chapter for our TELUS International growth story. As noted by Darren, the 35% stake acquired by Baring Asia values TI at $1.2 billion, and TELUS is pleased to have secured an outstanding long-term partner. Baring Asia is one of the largest and most established asset management firms based in Asia. As a proven operator in multiple industries, Baring currently has more than 35 portfolio companies with a total of 150,000 employees, and sales of approximately $40 billion. TELUS is well-positioned to leverage Baring's deep presence in Asian markets, their worldwide experience, and also tap into their global network of prospective clients, in order to further expand TELUS International operations over the coming years.

In addition to both companies having a long-term focus, and being fully aligned on quality, our organizations are aligned culturally as well, which is so important. Baring is a natural partner for TELUS, because of the importance, we both place on culture and on values. Similar to our promise to give where we live, environmental, social and governance considerations are all a key component of Baring's investment thesis. Notably Baring's Philanthropy Committee supports charitable organizations in their local communities, giving their team the opportunity to give back to the people and places where they live and work. Sure sounds familiar, right?

Well, it mirrors what we do, in terms of good global corporate citizenship out of TELUS International. This is reflected through our 11 TELUS Days of Giving, that Jeff Puritt, as President and his team have held over that many years, and our four, soon to be five TELUS International community boards, and numerous other corporate social responsibility activities we undertake.

Looking forward, executing on our ambitious growth plans as Darren laid out just a few minutes ago, begins with our outstanding TELUS International management team and our front-line team members. They have fostered a caring culture that extends beyond our walls, and offers our customers the latest customer service, IT, and business process innovations. With cultural alignment, combined with a global network of prospective clients, who can experience first-hand TELUS' leading customer service experience, Baring Asia and TELUS together are well-positioned to collectively drive the future growth of TELUS International, creating value over the long-term. With that, I'll now turn over the call to John, to take you through our first quarter financial results.

John Gossling

Thanks very much, Josh, and good afternoon, everyone. I'm on slide 10. Wireless results for the first quarter continued to reflect solid operational execution, in a competitive double cohort and challenging economic environment. Network revenue growth of 2.5% was driven by data revenue growth of 8.3%, which reflects subscriber growth, a larger proportion of higher rate two year plans in the mix, and a more favorable postpaid subscriber mix, as well as higher data usage.

This was partly offset by the impact of the economic slowdown particularly in Alberta, which continued to affect both subscriber growth and usage behavior, as well as the ongoing decline in voice revenue from increased adoption of unlimited nationwide voice plans.

When excluding restructuring and other costs, EBITDA for wireless increased by 2% based on higher network revenue, as well as cost savings from our ongoing operational efficiency initiatives, partly offset by $26 million of higher retention spend, as higher premium and subsidy costs were offset by lower retention volumes, and also increased labour volumes and expenses and distribution channel expenses.

Capital expenditures decreased year-over-year by 27%, representing capital intensity of 10% which reflects lower spending on the deployment of spectrum, compared to the same period a year ago.

Moving on to slide 11 in wireline, revenues increased year-over-year by a healthy $50 million or 3.7%. Notably, wireline revenue has now increased year-over-year for 21 consecutive quarters. Solid growth this quarter was driven by an increase in data revenue of 10%, reflecting strong growth in business outsourcing revenues from TELUS International, continued high speed Internet subscriber growth, and higher revenue per customer, and a higher TELUS TV subscriber base, as well as an increase in TELUS Health revenues.

Reported wireline EBITDA decreased by 1.9% primarily due to a $28 million increase in restructuring and other costs. But when you exclude these costs from both periods, wireline EBITDA increased by 5.1%, with a margin of 29.1%. That's up 30 basis points year-over-year. This underlying EBITDA growth reflected improving margin in data services, including Internet, TELUS TV, TELUS Health and Business Process Outsourcing Services as well as cost savings from our ongoing operational efficiency initiatives.

Capital expenditures in wireline increased 13% over the same period last year, due to continued investments in broadband and network infrastructure, and this included connecting more homes and businesses directly to our fibre optic broadband network.

As noted on slide 12, consolidated revenue was up 2.6%, while EBITDA excluding restructuring and other costs increased by 3.1%. Excluding restructuring and other costs, EPS of $0.70 was unchanged year-over-year. The EPS drivers are available in the appendix to the slide.

Free cash flow of $108 million decreased by 60%. That was primarily due to higher income tax payments in the first quarter, mainly reflecting a higher final income tax payment for the 2015 income tax year, an increase in interest paid, and higher restructuring disbursements, partially offset by lower share-based compensation in the quarter. At this point, let me pass the call back to Paul, to begin the question and answer portion of today.

Paul Carpino

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

QUESTIONS and ANSWER

Phillip Huang

Hi, thanks, good afternoon. Got a quick question on the wireless ARPU. The acceleration in the ARPU growth despite the tough year-over-year comps, was certainly a nice surprise this quarter. I was wondering if you could provide some colour behind that strong growth acceleration? I understand the industry had put through price increases in January, but I would have expected that to probably show up more in Q2, and on the back of the strong start in Q1. Do you expect this momentum to continue into Q2?

Darren Entwistle

I will take that question. So yes, there is a modest contribution from the price increase that we effected over the course of Q1. Other factors, are factors that we've actually discussed previously. So as you know as a result of our real-time rating engine, in addition to that particular piece of functionality, we've also introduced services in terms of in-month data top ups, or recurring data step-ups to larger data plans for our customers. And we're starting to see the traction take place as it relates to those new services that are making an incremental contribution to the ARPU of our organization.

Also we continue to see slow but modestly discernible increases in terms of the contribution coming from roaming, both global out-roaming as well as in-roaming, as the rest of the world makes the move to our HSPA LTE technology. And that again, is making a modest contribution in that regard. The other thing that is helping, is the penetration of LTE. So as we have an LTE network right now within our territory, and as we are moving to LTE-Advanced, and we drive our penetration devices, of devices that access that LTE capability, then that's helpful for us in terms of increased data usage, which makes a contribution to the overall ARPU result of the organization.

And then we're seeing some incremental contributions coming from our value based brand as well, on the Koodo front. All told, those things are helping our ARPU against what is a pretty challenging environment for the TELUS organization, given what's going on within Alberta. In terms of the impact of Alberta, we are seeing an ARPU degradation of circa 8%, hitting the B2B side of the wireless business. Indeed, if I actually normalize our ARPU result for the impact in Alberta, and looked at the rest of the Canada, ARPU would actually be up 2.5%. And I think that speaks to the overall resiliency of the TELUS organization.

And then lastly, as we talk about ARPU contributing factors, whether it is roaming, whether it's increase in our penetration of LTE devices, from about 68% now to near ubiquity in the future, whether it's new functions and features like our data top up and data step up plans and the like, or Koodo's contribution. When you've got that backdrop on the Alberta front, I think it's incumbent upon the management team to be responsible in taking cost out of the business, and also focus on the AMPU line, average margin per unit. And so, we've been working hard, in terms of improving the efficiency measures of this organization as well. And interestingly enough, what we just announced with TELUS International, that's one of the key levers that we have used to help improve the overall cost efficiency, of both of our wireless and wireline operations.

Phillip Huang

That's very helpful. Just a quick follow-up on the in-month top up feature that you mentioned. Is that now fully offsetting the previous impact from the usage alert system that reduced the out of bucket revenues?

Darren Entwistle

I would say, not quite yet actually. On a cumulative or on a point instance, we are now starting to eat into it, but I would not say that on a net basis, we're yet accretive. And so, we've still got room for improvement in that particular space.

Phillip Huang

Great. Thanks very much.

Paul Carpino

Great Thanks, John. Next question, Mike?

Greg MacDonald

Thanks. Good afternoon, guys. Darren, I'd like to talk a little bit more about the rationale for selling minority interest in TI. And specifically, I wonder if you might share with us what the EBITDA or free cash flow is for that business? Or if you're not comfortable doing that, maybe talk a little bit about valuation metrics? I'm going to assume that it was a fairly attractive valuation.

Darren Entwistle

Okay. Let's talk about the efficacy of bringing in a partner. We thought it was the right time to consider looking at a partner, given the growth trajectory of this particular business. Secondly, as it relates to a partner, I'd stress and I will continue to stress, this is a strategic deal, not a financial deal. We wanted to find a partner that would indeed help us double the size of TELUS International over the next five years, and we think that we have found that partner in Baring Private Equity Asia. Given the worldwide experience that they can bring to bear to complement TI's topology, given their prospective client list that we can tap into. And also the talent contribution that we're looking for them to make to the TELUS International leadership team, I think they are going to support accelerating the growth of TELUS International, and that was the prime reason behind the deal.

The other thing that we're looking for strategically, is to make sure that we had a good cultural orientation. Because as you know, one of the key ingredients to the success factor at TELUS is our mentality in terms of putting customers first. That is not just the ethos at TELUS, that's the key differentiating factor for TELUS International, just a damn better quality of service overall. And it's reflected, actually in the economic results at TI, and their ability to generate a premium, because of the way that they focus on customer service excellence, and likelihood to recommend as well. And so, that was really the thought process behind it.

The other thing, in terms of timing that we thought was interesting, is right now, we're going through some major broadband expansion programs. So on the wireless front, I've talked about the LTE deployment, now LTEAdvanced, and trying to take that to near ubiquity. And it's not going to be long before we're moving to 5G. And of course, we're complementing that on a HetNet basis with a small cell topology as well. Then simultaneously, we've got the appetite on TELUS fibre. We've got 63 communities covered now, but we've got an ambition to go north of 3 million homes into the future, and that takes a lot of resources along the way.

And of course, that fibre is key, not just for what we want to do within the consumer, business and public sector markets, but that fibre ubiquity is also key to the success, and the performance of our 5G wireless network, if you want to think about that particular technology. So leveraging a funding source like TELUS International, where we can have a monetization event that values TI at $1.2 billion, where the value -- working off of the 2015 EBITDA number, hint, hint, hint -- it's 12 times multiple on the EBITDA level, which is 50% greater -- greater than 50% versus TELUS Corp's multiple, we thought now was a good time to do that.

And we can repatriate, if you look at the proceeds, both equity and debt, $600 million that we can recycle into our broadband growth initiatives on a domestic basis. Now there is an international and domestic strategy that's extremely synergistic along the way. And so, for me that's tremendously exciting, as we look to that particular timing. To capitalize on the value of the $1.2 billion, the EBITDA multiple of 12 times versus where we are trading, and to be able put the money to work in the heartland of our strategy, as we're going through generational investments, particularly as we speak about fibre, I think that, that's an extremely smart thing for this organization to do.

And two other things, I think you might find interesting. One, to give you a sense, as to the complexion of TELUS International, just to ensure that you are not misled, only 25% of the employee base at TELUS International supports

TELUS. The other 75% supports some pretty well-known global brands, including Google. And TI, if you want to wonder, wow, what does this do for the TELUS organization? Well, thanks to the work of the TELUS International team, TI has seen TELUS invest $178 million in building this business over the past decade, $178 million has gone into TI. We just crystallized the value of $1.2 billion. And if that is not enough, the cumulative cost savings to TELUS, in terms of leveraging this particular asset is $2 billion. Now that's quite a sales pitch to our fellow corporations, in terms of leveraging this particular asset, in terms of customer service excellence, but the money it can save people, particularly when we are in a challenging economic environment. For TELUS, TI has saved us cumulatively over the past 10 years, $2 million.

Greg MacDonald

Okay. That makes a lot of sense. Thanks for that clarification, Darren. One follow-on if I might. I'm thinking of other assets within the organization that you might want to take advantage of, either partnering with someone else to add value, or surfacing value. And the one that always pops up is TELUS Health. Would you think of that in a different way? Because you made a pretty strong point, that this was a deal that was cut for the partner capability to grow it, rather than the financial engineering?

Darren Entwistle

So I do think about TELUS Health in a different way today, and over the medium term. Over the longer term, we'll see. TELUS Health is going to exhibit, I think extremely exciting growth. But right now, it is really inculcated in the fold of our TELUS operations, and let me explain why.

TI wasn't about financial engineering. It was about helping to drive a strategy to double the value of that business. Well, if you think about what's going to make TELUS Health extremely successful in the years ahead, take one facet of that particular operation, which would be what we do for the primary health care ecosystem. So this is consumers, this is doctors and clinics. This is pharmacies.

Well, the key pieces of our strategy is that we want to be the networker, connecting that topology within the healthcare continuum, connecting people electronically with doctors and clinics, connecting doctors and clinics with pharmacies, connecting consumers with pharmacies. We want to be the network provider of that ecosystem on a broadband basis. Then we want to build the platforms on top of it, personal health records for consumers, electronic medical records for doctors, pharmacy systems for pharmacists, so that we can empower them with a greater latitude, in terms of caring for people along the way.

Then we want to put another layer on top of that, which is how you access all that health information being networked, that's leveraging the platforms that I've just talked about. Well, you leverage it off of our devices, whether it's smart phones, tablets, or computers in people's homes that have a TELUS high-speed internet access connection. And then lastly, the final layer is applications, particularly as it relates to things like home health monitoring and the like. We're going to be the ones, not just gathering and moving and storing that information. We're going to be the people generating that health information.

And the thesis here, is generating better health information, moving it across the healthcare continuum to drive better health outcomes for Canadians, for less money spent along the way. And not just think about it from a remediation perspective, but from a promotion of wellness point of view, or the deferral of disease. So that's why it's such a strategic fit with our broadband operations, and that's why it's going to remain inculcated within the TELUS fold for the foreseeable future. But over the longer term, is there an opportunity to perhaps crystallize value, where the multiple is a quantum difference than our value? Maybe. But I would hope that maybe at that time, the TELUS Corp value has a higher multiple than what it has today. But we will see. Anything's possible.

Greg MacDonald

All right. That all makes sense. Thanks very much, Darren.

Paul Carpino

Thanks, Greg. Mike, next question, please?

Simon Flannery

Great. Thanks very much. So John, I wonder if you just could help us with the leverage. You've got a few things. You've got the TI deal, you've got the MTS deal, you've got the capital return policy. You're a little bit above the top end of the range, your target leverage. So how does this play together over the next couple of years? Should you be getting back into that range with the $600 million, and continued growth in the business? So anything you could give us on that, would be great.

John Gossling

Sure, thanks, Simon. I think the starting point is, you are probably looking at Q1 leverage just over 2.7 times. And that's a result of really, the cash taxes that I spoke of in my prepared remarks, in terms of affecting the free cash flow. So Q1 tends to be a little heavier for that reason. Also things like spectrum license payments, and other items that tend to hit working capital in the first quarter. So yes, we are at what is the high watermark for the year.

I think, though all these transactions are potentially impacting leverage as you say, but in a very, very small way. I think, as Darren's mentioned, the TI funds coming up into TELUS are around $600 million, and that will certainly help. Now some of that is debt, so it will be debt replacing debt in that case. But there's certainly an impact there, but of course, we do have a very aggressive capital program that we're running, on the fibre side in particular. So that's a slight impact as you mentioned. And then, on the MTS subscribers, I think that is still a ways away, in terms of timing. So there's not a lot to say about that right now, and the expectation on that is a little bit difficult to predict.

Simon Flannery

Okay. So your goal is to get back into the range in the next year or two or?

John Gossling

It is. I think that hasn't changed. We've said medium-term on that, and we're quite comfortable with that. And obviously, as we've looked at the capital return program that we announced today, that was a consideration. Obviously, we're looking at what our growth profile looks like, what our investment profile looks like.

We're looking at payout ratios in terms of our EPS targets and, of course leverage. So yes, all of those factors play into it, and yes, we would expect to be back into the range, over what we say the medium-term. Now, I think it's important to note, another thing that we look at, when we're contemplating all of these things is, where's the optimal place for our cost of capital? And that really hasn't changed. I think we've talked about this before, where the range for us, for optimal cost of capital is actually 2.25 to 2.75 times on leverage. Our range is obviously set slightly below that, but that also is a factor that we look at when we're doing these various initiatives.

Simon Flannery

Thank you.

Paul Carpino

Thanks, Simon. Next question, Mike?

Vince Valentini

Yes, thanks very much. Two questions if I may, one on TELUS International, now that we know you have this higher value business with higher growth prospects, and thank you for the five year doubling target that we can factor in. Will we be getting segmented disclosure of that business now, so we can keep track of both the minority interest, as well as maybe value it separately at the higher multiple?

Darren Entwistle

Not on a regular basis, but on an ad hoc basis, I'll give you peeks and insights into the development of that business, as I've done previously with both TELUS Health and TELUS International.

Vince Valentini

Okay, thank you. Second question. Probably more for John. The depreciation and amortization expense over the past 12 months is $1.95 billion, and your CapEx guidance obviously for this year is $2.65 billion, so pretty big gap there. So can you articulate, like what's going to happen over the next few years? Will that elevated CapEx flow through, so that depreciation and amortization is ultimately $2.5 billion or $2.6 billon? Or are there some other timing differences or puts and takes that'll -- the gap will never close entirely?

John Gossling

So Vince, I don't have a depreciation model for multiple years in front of me, but you're seeing it increase, obviously as you mentioned the capital program has expanded. I think you have to keep in mind we are investing in very long-term assets, in particular fibre. So that has a longer amortization period on it. We look at the useful lives of the assets all the time, and certainly fibre, the history of fibre has been that the useful life has continued to expand.

So yes, with the elevated capital program, we're going to see higher depreciation and amortization. I just don't have a multi-year view that I can talk to you, but it will increase. I think, that's just the way the math is going to work on it, but keep in mind what we are investing in, right? These generational investments have very long lives.

Vince Valentini

Great. Thank you.

Paul Carpino

Thanks, Vince. Next question, please?

Richard Choe

Great, thank you. In the prepared remarks you said the gross loadings on wireless and wireline were going to increase through the rest of the year. Can you give us any colour on what is going to happen? Are you going to market more? Is the kind of environment falling down or the economic environment going to get better to help drive that? Thank you.

Darren Entwistle

So I think, when I look at both wireless and wireline for Q1, you see certain factors that have impacted our performance. I think if you look at wireless by way of example, and you say, okay, what has the impact of Alberta been, as it relates to our loading? We were down almost 11,000 on a year-over-year basis, within the province of Alberta alone, to give you a flavour as to the magnitude of the impact, with the current economic duress.

Secondly, there was a common factor, again speaking to wireless. That was I think fairly ubiquitous across the industry, in terms of more expensive handset prices which dampened demand, or concentrated demand towards more seasonal selling activity. And that was a bit challenging for us overall.

And then thirdly, we were less aggressive in Q1 2016 on the tablet front, versus Q1 of 2015. We're bit more mindful in terms of value creation on the tablet front, as we see certain customers that toggle off the macro wireless network onto Wi-Fi, and where we want to invest our money.

But the fourth thing I would say, on wireless that is common to both wireless and wireline, I thought we had a soft performance. I think we had substandard execution, and I think overall we can do better. And so that's kind of what I'm forecasting for the remaining quarters of the year. I'm not looking for an economic pick up or miracle in Alberta, or anything of that note. I think, given the existing conditions, the existing market competitiveness, and as well the economic circumstances that we find ourselves in, I think we as an organization can just execute better, across both the TELUS brand and as well the Koodo brand on the wireless front. And I think we can execute better on both TV and HSIA. And that's why I made the comments that I have.

I would note overall, if you look at total client connections on a wireless wireline combined basis, normalizing out prepaid. If you combine postpaid wireless with TV, HSIA and then deduct network access line losses, we are the only organization that's actually in the black. The rest of our peers are in the red. And I think that speaks well to the strength and resiliency of the TELUS team, in terms of our strategy and our asset quality, given the disproportionate exposure that we have to the softness in Alberta.

On the wireline front, in terms of doing better. As I said, it is a similar story to wireless, and the extent to which we are experiencing pressure out of the province of Alberta. Not just on TV and HSIA, but also as it relates to network access lines, so fixed wireless substitution, cord shaving and the like, given the duress in that particular province. But we can also do better in terms of execution. I thought our performance there was soft. And I think we can do better at both levels. I think we can do better in terms of gross adds, but I think we can do a lot better in terms of managing the retention, particularly as it relates to high speed Internet access, where we experienced some pressure on retention, after we introduced the usage base billing So I'm looking for some improvement in that particular space, in terms of the wireline business.

The other thing that I'm looking forward to, is the continued strength of our fibre build. We're experiencing very strong results where we are building our fibre, very good penetration rates. And in communities where we've introduced our fibre, we're effectively doubling our market share within those communities. So that's going to continue to be a good thrust for TELUS, key thrust for the future, and building on the success that we have realized thus far.

And then when you look at RGU’s, on just a wireline basis alone, factoring in all considerations, we were around -3 on the RGU front, which is not a typical territory for TELUS, hence my comments about a soft performance. Typically, we are in the black on that front, and typically our HSIA and TV loading is at a rate of 2 times our net losses. So it kind of sets out what we're going to be focused on going forward, do better on quality net adds, and do better in terms of loyalty and retention. But I would point out if you look at our minus 3,000 on the wireline RGU front, that is vastly superior to the minus 20,000 to minus 40,000 amongst our immediate peer group. So soft performance, but still positively distinguished, when you do the tail to tape with our peers.

And then lastly, if you look at the financial performance on wireline, I think it was exceedingly strong. And you've got to remember, it is not flattered at the EBITDA level by the lower year-over-year loading on wireline, because most of that is capitalized. And to deliver a 5% EBITDA growth rate for Q1, I think bodes well for the remainder of the year, in terms of the financial contribution from wireline. And that would be a best-in-class result amongst global telcos, as it relates to their wireline business. And I think you can expect the performance of wireline to pushing that, up to 6% EBITDA guidance, that we've provided in terms of the full year that we reconfirmed actually at the AGM. And I think wireline is going to be pushing on that 6%, in terms of what we wanted to deliver over the course of 2016, in terms of the financial contribution.

Paul Carpino

Thank you, Richard. Next question, please?

Maher Yaghi

Yes, thank you for taking my question. I wanted to maybe go back on TELUS International, just quickly. In terms of the growth, this is a business that, as you mentioned in your annual report that grew 35% on revenues, and EBITDA close to 39% on revenues I think. I mean, this is a very high growth business. 12 times definitely is a nice multiple you're getting, compared to your stock price. But strategically, taking money out of that business, and putting it in a business like let's say, wireless in Manitoba with not much going on, compared to that growth is a much slower growth curve. And I know Darren, you tend to like investing in high-growth assets.

So strategically, this is what I was trying to figure out, why take money out of a very high-growth company, putting it in a lower growth environment? And just to make sure I understand the financials there, the $600 million you're getting, how much of that is debt prepayment, and how much is straight equity? Because the $1.2 billion -- easy valuation, how do you split it between debt and equity?

Darren Entwistle

Okay, a few things. I don't actually correlate TELUS International with MTS. So we've been on this path, in terms of TELUS International, exploring this partnership opportunity, long before the opportunistic situation transpired, as it relates to picking up some subs at MTS. So the TELUS International repatriation, which is both equity and debt, that money is earmarked for broadband wireline and broadband wireless.

The MTS deal, whether it closes in 6 months, 9 months or 12 months, that's a financing consideration down the line, and there's still a lot of bridges to be crossed, to take that particular probability of closure from where it's at right now to 100%. The money at TI is going into our broadband infrastructure, and we are at the zenith of that particular investment over the course of 2016, 2017 and 2018. So we think that that the timing is indeed appropriate.

Secondly, you would recognize there is a ratio, that is risk and return. And as it relates to TELUS International, you will have noticed that we retained 65% ownership in the business. And we thought, looking at global markets that go up and down, along the way, we built a ton of value over the last 10 years. And we thought to ourselves, okay, there's lots of growth left. But you never know what's going to happen within the global economy. The world is not a secure place as what it used to be. And we thought this is the appropriate time to take a slice of money off the table, and recycle it, as we're going through the peak period of a generational investment, particularly as it relates to our fibre build.

Secondly, the topology of TI is quite considerable. So we're in Romania, we're in Bulgaria, Guatemala, El Salvador, the Philippines, so on and so forth. You want to continue expanding that topology, I think it is a pretty smart idea to look at a partner that's got a strong global orientation, that can bring that particular global experience to bear, that can bring a global client list to bear to help grow the company, that can bring global talent to bear.

Because I got to tell you right now, finding great talent to support a business like TELUS International is not a simplistic undertaking. So we thought that this was a smart thing to do. It was a risk management consideration. We were right at a call it, a nexus point in terms of value creation at TI, and need for funds within TELUS Corporation as it relates to the long-term growth of our broadband technology.

And then, lastly let's say, the growth keeps on going at TI, as we expect that's going to be the case. And let's say we do, as per our aspiration, double the size of that business in five years time. Well, the discussion point at that juncture is going to be, what is the next monetization event? Is it initial public offering? Is it some other transaction? Again, where maybe we can take some money off the table at that juncture, harvest the value that's been created over the next five years, and recycle that into the balance sheet, and the investment thesis of the TELUS organization, all the while maintaining control over that particular asset, because it supports our client experience. And that's the number one corporate priority at TELUS.

And then lastly, about your comments on MTS, I see the genesis as to where you may be coming from, as it relates to those particular comments, and that rather mature market, so to speak in Manitoba. I have to tell you, I don't look at it that way. I have an opportunity to take what is a 70,000 base now, and triple it to 210,000, without having to think about employees or post acquisition integration considerations, and other facets of that particular business. And the job at TELUS is to leverage the scale economies of bringing 140,000 wireless customers onto our existing wireless operational infrastructure.

I would think when we've got operational infrastructure today that supports well over 8 million wireless clients, we can bolt-on 140,000 wireless clients in Manitoba, and achieve very, very, very attractive economies of scale, along the way. And I think that is a smart thing to do, and it's not diluted by more heavy lifting post acquisition integration considerations. And so, I don't have a negative economic view of this at all. I think it is a nice bolt-on play to make. If it does come to fruition, as I say there's a lot that could happen between now and then.

It takes our market share in the province up to 25%, and it gives us a platform for future competition. And isn't that a smart thing to do, when the wireless penetration is starting to near 100%? And now what can we do? While that's happening, maybe it's another opportunity to start driving some of our Wave 3 solutions into that area with machine-to-machine, within the IoT theme, or maybe it's an opportunity to springboard TELUS in, and TELUS Health into that particular market, leveraging the scale that we now have on the wireless front. So I've got a more sanguine view of that, I think in terms of the economic upside, and what I think should be very attractive scale of economies, given our existing wireless infrastructure that we can leverage.

Maher Yaghi

And just on the split, on the equity and debt, and on TI, please?

John Gossling

Sure, Maher. It's John. I think there might be a little bit of confusion. We talked about a $425 million credit facility in TI, but don't assume that that's all going to be drawn. That's the size of the overall facility. So I think it is fair to say, the split is 50/50 equity proceeds, debt proceeds. There is a little bit of tax on the way up as well, but that's probably a good way to look at it.

Maher Yaghi

Okay. That's helpful. Thank you very much.

Paul Carpino

Thank you, Maher. Next question, please?

Jeff Fan

Thanks, good afternoon. This is a question for Darren. Relating to your comments about Manitoba. I have to say, it doesn't sound like you're as confident about the probability of this transaction going through, as I would've thought, given your comments about the probability of closing, et cetera. So I just want to get your view on that process, and whether, how likely is TELUS going to be able to take advantage of so many assets that you are picking up in Manitoba?

Darren Entwistle

So that's not the correct view, quite the reverse. I think there's a good likelihood that this particular deal is going to close, and both the Bell MTS deal and the TELUS Bell deal. What I'm highlighting is, I can't make statements about integration of assets with certainty, while there's a regulatory process that's unfolding at both the new Industry Canada, the Competition Bureau, and within the province of Manitoba.

Two, I think Jeff, if we look back over the last 16 years, to think that a regulatory process is a sure thing, I don't think is particularly smarter or sanguine. So I am highlighting that, not because it is unlikely to close, I'm highlighting it as a caveat, almost a knock on wood caveat out if you will. I don't want to be overly confident, and overly certain, only to see it not come to fruition. In looking at the parameters at play, both the MTS disposition process, the way Bell was looking at the process -- and we're judging this from a third-party point of view, and the related remedy deal between Bell and TELUS, I think the piece parts are all there, to get the necessary regulatory approvals.

But to be certain about that, or not to have an element of caution, I just don't think that is characteristic of the TELUS organization. So we're hopeful that it does close, but I'm damn not going to state that, as a matter of certainty. I do think it needs to happen for MTS. When you look at smaller telcos, the telecom industry is increasingly challenging. You need scale economies to be successful within telecommunications in country and on a global basis.

If you look at the cost of infrastructure, the cost of spectrum, the cost of devices, the cost of content. And the pace of change in terms of technology rollover, where technology these days has a half-life of less than 18 months, you need to have a certain size and strength of balance sheet to support your competitiveness within this particular industry. So for me, I think the deal at MTS that is looking to do, is actually a very smart deal, and I think it's a deal borne out of necessity. So it's a deal that I hope does close, because I do think it will be for the betterment of consumers and business customers, and the public sector within Manitoba for sure.

I also think that the resulting competitive dynamic is going to be superior to what exists today, and I think that's going to bring more value to people in Manitoba. It's going to bring more customer service differentiation to the people in Manitoba. And it's going to bring importantly, more innovation to the people of Manitoba, and I think that's the good byproduct of a competitive intensity. And for TELUS, we're desirous of seeing this happen, because we want to bring our world-class technology and infrastructure to support those customers.

We want to bring our world-leading customer service, not just to support the customers that we would bring on board, but grow our customer base in that particular province. And lastly, I would like to harvest those economies of scale, because when you've got a cost base that they're constructed to support more than 8 million wireless customers, you've got some scale economy to harvest, if you bring on an incremental 140,000. The attractiveness, the economics on the margin, are sufficiently superior to those on the base. So that's what I would like to see happen. But I'm just trying to be cautious, because I have been burned before.

Jeff Fan

Thanks, Darren. That makes total sense.

Paul Carpino

Thanks, Jeff. We have time for one more question.

Aravinda Galappatthige

Thanks for taking my questions. Darren, you can you talk to the level of competitive intensity in wireline, particularly on the broadband front? One thing we are starting to see, perhaps early signs of in central Canada, is that the cablecos are starting to claw back a little bit of the share on the net adds front. I just wanted to get your sense of how things are on the West?

Darren Entwistle

Well, I think, firstly, if I look at the economic model in the West, I think there's enough room for competition. And I would rather have strong and vibrant competition, than onerous regulatory intervention any day of the week. I know how to compete on the former. The latter is decidedly more problematic. I think if you look at how we've been doing on market share capture, on both TV and HSIA, I think we have done extremely well.

In terms of the competitive intensity in Q1, yes, I saw it pick up a bit, a little bit between ourselves and Shaw. That was discernible for us, and that's great, and there will be ebbs and flows as it relates to that competitive intensity for the years to come. But I think we've got a sustainable market structure within the West, where we can have great competitive intensity, create great value for customers along the way, and create great value for investors. And I remain confident in terms of the long-term prospects.

The other thing that is probably, something that's important to keep our eye on, equal to and frequently greater than the impact of competitive intensity, is the impact of technology substitution. So whether it's fixed wireless, which impacts not just TELUS, but impacts the Shaw organization as well, with Shaw digital phone is very much a reality, maybe sometimes is exacerbated by people wanting to save money in a province like Alberta that is going through some economic challenges.

And then, of course, what we would've experience in central Canada as well, elements of cord shaving, as it relates to how people consume their entertainment package. And that's just the reality of the market. So we've got to come up with new products, new services, that differentiate ourselves. We've got to take costs out of the organization along the way. AMPU is not just a thesis for wireless, it's the same thesis for wireline as well.

But I'm really excited that when I think about the fibre program, and see what it does for us in terms of our competitiveness, what it does for us in terms of market share gain, and also what it does for us on both the revenue front and on the cost front. When we leave a community where we've driven fibre, typically we're seeing about an 80% increase in terms of revenue per line. What is perhaps of equal importance to that, the repair costs on a fibre connection are 1/15th the repair costs on a copper connection. So again as it relates to the fibre push, we're exceeding our expectations on penetration. We're exceeding our penetrations in terms of the ARPU that we are generating off the back of it.

And the AMPU, because it's a more efficient technology to support, is equally benefiting from that as well, because we're seeing OpEx reductions flowing from that. And you can see it overall within our wireline EBITDA results, that the organization has been generating now for quite some time. So I feel pretty good overall about the competitive picture, but there's going to be ebbs and flows, and we're going to respond with differentiation. Whether it is fibre driven, whether it's excellence in customer service, where we want to put a lot of white space between us and the competition.

Or whether it is new services, where we're bundling wireless and wireline together, as it relates to services like the automated home, the connected car, home security and the like. Or other services that fibre supports into the household like home health monitoring. We just struck a very prescient deal with the government of British Columbia, to go out and roll out home health monitoring for people with chronic diseases in British Columbia. And that's a pretty big demographic. We have now got more Canadians over the age of 65, than under the age of 15. And the Canadians that over the age of 65, and they typically have one or more chronic diseases. And so, we are rolling out key devices and applications that monitor vital signs, to support things like blood pressure cuffs, pulse oximeters, electronic weight scales, glucometers for people with Type 2 diabetes and the like.

All of that data is being gathered and moved through our fibre network across the primary care health ecosystem. And that's a beautiful differentiator for us, and when you think about average revenue and average margin per household, that is a very, very tiny contribution that we can grow long, long into the future. And we can drive great economies of both scale and scope across wireless and wireline in that regard. So I think that's the mentality for us, in terms of how we're going to compete, rather than just trying to commoditize ourselves, by pulling the price lever all the time.

Aravinda Galappatthige

Thank you.

Paul Carpino

Thanks everyone for joining our call today. If there is any follow-up, please feel to reach out to the Investor Relations team. Thank you.