TELUS 2017 Q3Call
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rising above

Corporate Participants

Darren Entwistle	President and CEO
Doug French	EVP and CFO
Paul Carpino	VP Investor Relations

Conference call participants

Drew McReynolds, RBC
Greg MacDonald, Macquarie Research
Jeffrey Fan, Scotiabank
Maher Yaghi, Desjardins Securities
Phillip Huang, Barclays
Richard Choe – JP Morgan
Simon Flannery, Morgan Stanley
Vince Valentini, TD Securities

Presentation
Check against delivery

Operator
Good day, ladies and gentlemen. Welcome to the TELUS 2017 Q3 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 Q3 2017 news release and detailed supplemental investor information are posted on our website, telus.com/investors.

On the call today will be President and CEO, Darren Entwistle, who'll provide opening comments; followed by a review of the third quarter operational and financial highlights by Doug French, our CFO. After our prepared remarks, we will conclude with a question-and-answer session. In consideration of your very busy day today, we are going to try to keep this call to under an hour.

Let me direct your attention to Slide 2. This presentation, answers to questions and statements about future events, including our 2017 guidance and outlook and 2018 targets and assumptions, as well as 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 the 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 third quarter management discussion and analysis and in our 2016 annual report's MD&A Sections 9 and 10, as well as filings with securities commissions in Canada and the United States. The appendix of this presentation and Section 11 of our third quarter MD&A 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 3.

Darren Entwistle
Thanks, Paul, and good morning, everyone. In the third quarter once TELUS again delivered strong financial and operational results. Despite a highly competitive environment, we realized strong loading, data revenue growth and positive financial performance across both our wireless and wireline operations. These results were underpinned by our unprecedented customer service excellence and loyalty

performance as well as our team's continued traction in efficiency and effectiveness initiatives.

Notably, our consolidated operating revenue and EBITDA were up 4% and 4.4%, respectively. These results reflect the continued success of our dual tenant growth strategy, the quality of our asset base and the proven and consistent execution by our team.

Specifically, on the wireless front, TELUS network revenue grew 6.8%, whilst our EBITDA increased 5.1%. Network revenue growth was driven by ongoing strength in high-quality customer loading as well as increased data demand from customers who continue to embrace our numerous data-friendly pricing plans. Our EBITDA growth continues to reflect our consistent and balanced long-term approach to COA and COR investments. It also reflects a significant uptick in year-over-year postpaid gross adds this quarter and high renewal volumes from the strong acquisition activity and industry-leading postpaid net loading that we generated 24 months ago.

Notably, our focus on high-quality smartphone loading and customer loyalty is contributing to our strong postpaid net additions, whilst continuing to drive industry-leading churn and lifetime revenue performance. Indeed, TELUS reported 115,000 high-quality postpaid net additions, which represents a 32% increase from the third quarter of 2016. Consistent with our quarter in, quarter out performance, our globally recognized client-centric culture is the key driver of the strong results that we are achieving. The TELUS team's unwavering commitment to customer service excellence has become the industry model with respect to earning client loyalty.

Encouragingly, our wireless postpaid churn rate was once again an industry-leading 0.86% in the third quarter of 2017. This is a full 8 basis point improvement on a year-over-year basis, and represents the 16th quarter of the last 17 where our churn rate has been below 1%. That's four years of churn below 1%, and this is unmatched by our peers on a global basis.

Our team is achieving leading customer loyalty and high-quality smartphone loading despite the dynamic nature of the wireless market, highlighting the differentiated customer experience we strive to provide our customers at TELUS. I congratulate our team for continuing to raise the bar with respect to customer service excellence, for living the values needed to drive this performance and for continually developing new approaches such that we are always improving for the benefit of our clients and shareholders.

Blended ARPU was higher by 3% to $68.67 and represents TELUS' 28th consecutive quarter of year-over-year growth in this regard. With our strong churn and strong ARPU results, TELUS drove record lifetime revenue of more than $6,500 per subscriber. This represents an increase of 16% as compared to a year ago. Moreover, this is a notable 24% and 51% higher than our two national competitors. These results further emphasize the economic value creation associated with our customer-centric focus and smart COR and COA investments.

Turning now to our wireline business. Our results reflect continued healthy growth in high-speed Internet and TV additions, buttressed by positive revenue and EBITDA growth. Revenues increased by 1%, whilst our EBITDA growth was up 3%. This represents the 18th consecutive quarter of positive EBITDA accretion. TELUS added 19,000 high-speed Internet subscribers, reflecting a 5,000 increase from one year ago. We also delivered strong TV loading with 12,000 new TELUS IPTV customers, excluding the de minimis satellite declines. The results reflect the quality and flexibility of our wireline product portfolio as well as the continued focus TELUS has maintained in delivering positive wireline loading in combination with positive strong wireline financial results.

We are also pleased with the success of our team in deploying our capital investment strategy. One year ago, we highlighted our capital intentions, including returning to free cash flow positive after dividends in 2018 while simultaneously and expeditiously advancing our wireless and wireline broadband networks. It is important to note that our commitment to targeted capital investments today is no different than what we demonstrated over the past 16 years. We have never strayed from our core strategy of building the most advanced networks in the world. In this regard, it's incredibly encouraging for our team that the peak of our capital investment from both a dollar value and a capex intensity level will culminate in 2017, and the majority of our broadband network build program with increasingly be behind us.

I think it's also important to understand that of our capital spending activities, almost 50% is success-based and affords us significant flexibility. Importantly, I believe that we've earned the right through our consistent operational and financial performance to invest this capital in our world-leading networks for the benefit of our customers and shareholders alike. By way of example, this is demonstrated in our Q3 wireline results, where we led the industry in revenue and EBITDA growth on an organic basis and delivered strong combined HSIA and IPTV loading, or over the longer term, where our wireline revenue, EBITDA and RGU growth profile have consistently been amongst the very best on a global basis.

Moreover, the TELUS wireless network epitomizes this elevated performance and continues to be cited for its speed and reliability excellence, highlighting the value of our capex investments and the positive outcomes that we are generating for our customers.

Last month, TELUS was ranked as having the fastest wireless network nationally by PCMag. On the heels of this recognition, our wireless network was once again measured as the fastest in Canada in the crowd-sourced Ookla speed test. Furthermore, these latest acknowledgments complement our wireless leadership recognition by two prominent third-party organizations that took place earlier this year. In June, TELUS received top marks in the J.D. Power Canadian wireless network quality study. Additionally, TELUS' 4G LTE wireless network was recognized by OpenSignal as the fastest and most responsive on a national basis. Impressively, with the addition of the recent PCMag and Ookla wins, we are now four for four in respect of network excellence recognition within our industry. These best-in-class network results, coupled with our team's dedication to providing exceptional customer experiences, are driving significant benefits for consumers across the country.

Moreover, these acknowledgments underscore an important differentiator for our organization, and for that matter, our industry and our country, regarding the value of consistent and strategic capex investments. Indeed, having the fastest wireless network in Canada is a critical competitive advantage for TELUS as we progress our wireless strategy in support of delivering extraordinary outcomes for our customers, our communities and our shareholders.

Additionally, as we stated one year ago, we will return to a positive free cash flow position after dividends for fiscal 2018 and beyond, excluding spectrum auctions. As a result of these successful investments and the TELUS team's strong and consistent performance, we continue to return capital to our shareholders in a meaningful fashion. As you saw this morning, we increased our quarterly dividend for the second time in 2017 to 50.5 cents per share. This represents the 14th time since 2011 that we have raised our dividend, reflecting a 92% increase over this period. This increase also reflects the continuation of our successful three-year annual dividend growth program, targeting between seven and 10% growth from 2017 through 2019.

Our track record of delivering on our industry-leading shareholder-friendly initiatives is unmatched and continues to generate significant value for our investors. Notably, while simultaneously building broadband networks that are amongst the most advanced in the world, TELUS has returned almost $15 billion to shareholders, including $9.6 billion in dividends, representing $25 per share since 2004. Backstopped by these strong results, we are approaching the remainder of 2017 and 2018 with confidence.

Impressively, TELUS is ending 2017 with the industry's best customer loyalty. We're ending 2017 with the best-performing network in the country. We're ending 2017 with the most transparent and rewarding shareholder-friendly capital allocation program in our global industry. And we're ending the year with a strong leadership position in respect to the implementation of our next-generation broadband and future 5G-enabled networks. I'd like to take this opportunity to congratulate the entire TELUS team for continually positioning this company for success and for consistently delivering on our commitments, our commitments to our shareholders, our commitments to our customers, and importantly, our commitments to the communities that we serve.

I'll now turn the call over to Doug to provide additional color in respect of our third quarter results.

Doug French
Thank you, Darren, and good morning, everyone. I'm on Slide 9. Our team's ongoing commitment to drive operational excellence, cost efficiencies and customer growth continued to be evident in our third quarter results. We notably continued our wireless momentum with network revenue growth of 6.8% for the quarter and year-to-date. We continue to benefit from strong postpaid subscriber growth and our 3% ARPU increase for the fifth consecutive quarter of 3% or greater. This was due to a large portion of higher-rate smartphone plans, including premium plus plans and continued data usage growth.

Adjusted EBITDA grew 5.1%, reflecting our strong network revenue growth, including some of the benefits from MTS subscriber acquisition. Postpaid gross additions increased 8% year-over-year, while our retention units increased 6.5%, driving higher handset subsidies and commission cost in the quarter. However, that will deliver strong revenue and EBITDA growth in the future. The retention volumes were normal course and were driven by our industry-leading loading in 2014 and 2015 that are now up for renewal.

Turning to wireline. External revenue growth increased $12 million or 0.8% as a result of higher Internet loading, average revenue per customer, increases in TELUS Health revenues from organic growth in professional services and higher TV service revenues. This growth was partially offset by ongoing declines in legacy data and voice portfolios. We generated adjusted wireline EBITDA growth of 3% from the revenue growth noted and cost savings from our ongoing efficiency and effective initiatives. Overall, year-over-year adjusted wireline margin expansion continued and was up 50 basis points to 28.3%.

On a consolidated basis, we generated 4% revenue growth, up from 3.9% in the second quarter, and 2.9% in the first quarter. Adjusted EBITDA rose 4.4%, reflecting strong wireless and wireline customer growth and revenue growth. We delivered lower costs from our efficiency and effective programs in the current year and in prior years, while making investments in high-quality postpaid additions and renewals. Basic EPS increased 5.1%, while adjusted earnings per share increased 1.5% to $0.66. The change reflected higher operating income offset by higher depreciation, amortization and financing costs. See the Appendix for a breakdown on EPS.

The recently passed provincial budget bill will result in a 1% increase in our corporate income tax rates from 11% to 12%, effective January 1, 2018. This will result in TELUS revaluing its deferred tax liability, which have an estimated unfavorable non-cash impact to EPS of five cents that will be recorded in the fourth quarter. Capex totaled $821 million in the third quarter. As a result we continue to invest in our broadband networks, including our small cell strategy that improves coverage, speed, capacity and reliability will position as well for more efficient and timely evolution to 5G. We now provide 1.33 million homes and businesses with an immediate access to our gigabyte-capable pure fibre network. This number was up approximately 400,000 from the same time this year. Our wireless network continues to be expanded and enhanced, and we now offer over 85% of Canadians to our LTE Advanced services.

Even as we execute our generational investments in broadband networks, our free cash flow before dividends more than doubled to $215 million year-over-year. This was driven by higher EBITDA and lower cash taxes. As described in our news release this morning, our cash tax income tax payments assumption has been revised downward to a range of $170 million to $230 million from our original assumption of $300 million to $360 million. For 2018, our preliminary review with our cash income taxes are expected to be in a similar range of 2017. However, our assumptions for 2018 will be finalized in our February release.

To reiterate what Darren said earlier, with a meaningful, efficient and effective progress our teams have made on our next generation broadband wireless and wireline networks, we are estimating our capital expenditures in 2018 to be approximately $2.85 billion, making us well positioned to achieve our free cash flow target of being positive and our dividend policy, while continuing to build our broadband momentum.

Now let me turn it back to Paul for questions.

Paul Carpino
Great. Thank you, Doug. Mike, can you please proceed with the Q&A sessions for Darren and Doug?

Question and Answers

Operator
The first question is from Phillip Huang from Barclays.

Phillip Huang
I was very pleasantly surprised to see sort of the preliminary 2018 capex guidance, especially with it beginning to come down with your fibre build crossing the 50% mark. I just want to confirm that I'm reading the message correctly. Is this the inflection point for capex? Is the peak investments, excluding spectrum, of course, now behind us, should we assume that capex is going to gradually normalize starting in 2018?

Darren Entwistle
That's correct. In terms of the culmination of 2017, we have peaked, and to be more specific, we have peaked in terms of both wireline capex intensity and we have peaked in terms of a nominal dollar spend, as per the comments that Doug just made.

Phillip Huang
That was very helpful. And then a quick follow-up on the wireless side. I understand from the prior quarter, there were still around 15,000 subscribers for MTS that have yet to be migrated. Are the remainder -- are they all migrated now as of the end of Q3? And to what extent was that sort of an increase to your cost on the wireless side in the quarter?

Darren Entwistle
Okay. So the migration is still taking place in terms of MTS. We are extremely pleased with what we see as an enhanced position within the province as it relates to improve network performance in coverage, enhanced distribution and as well as the progress that we've made in respect of the migrations. And complementing migrations, we're also seeing strong organic performance within the province of Manitoba. So it's nice to see the culmination of solid migrations continue to take place, but the basic organic performance is equally strong and aided and abetted by the network improvements that we've seen, the distribution improvements that we've seen and the investments that we've made in brand and reputation.

We're still targeting in the zone of 80,000 to 85,000 migrations to be achieved. We are very pleased with the metrics associated with the customers that we have migrated thus far. We're approaching 60,000 migrations as we speak and by pleased with the metrics, I'm principally talking about ARPU, in terms of the customers that have come across to us. We're, of course, continuing to have the support cost with Bell as we undertake this particular migration. It's important to note that if we fall short of the 85,000 target, this will be reflected in terms of the final tally as to the amount paid to the Bell organization. So we'll get compensated financially for any shortfall in that regard. So we're about 2/3 of the way through on the migrations, as I say, approaching about 60,000 thus far.

And it's important to note that TELUS, today in 2017 in Manitoba is fundamentally different than what we've experienced over the past many, many years. The network coverage, the network performance from a quality point of view is vastly superior. And I would note, the PCMag ranked us as the fastest network in Winnipeg. We have materially improved our distribution with the expansion of 15 dealers and 7 new corporate stores, our data offerings are doing exceedingly well. And of course, as can be expected, we've taken our philosophy of customer service excellence to Manitoba in the extreme, and I think that's winning us the hearts and minds of customers, both those who are coming across on a migration basis or how we're winning in the market in terms of our organic performance. So I think for us, the future is very bright and we'll bring the culmination of the migration to conclusion over the next few months and wrap up what's been a very successful investment on our part and thereafter build on a great organic base.

Operator
The next question comes from Jeff Fan from Scotiabank.

Jeffrey Fan
I wanted to just follow up on the capex question. Darren, if we can just kind of get your sense of -- this capex peaking in '17 going to '18, is this a function of efficiency? Is this -- because you still have about half the footprint to be rolled out. Is this efficiency? Is this because the pace or the number of homes or the number of premises that you're going to pass is going to slow? Or is this a reflection of the competitive environment that you're seeing out there? I know your cable competitor having been in the market with BlueSky for almost a year now. I just wanted to get a sense of the - what gives you the comfort that this is the right level of spend to compete effectively.

Darren Entwistle
So to put it simply, Jeff, it's really a function of math and passing the 50% build mark early in 2018, which has given us mathematically the confidence to say the culmination of 2017, as it relates to both capex intensity on wireline and the nominal dollars spend, represents the peak of our broadband build investment on the wireline side of our business. So we would expect in the first quarter of 2018 to pass the 50% build threshold across of our Optik footprint with our fibre deployment. And that's what's really driving this particular number holistically. You are quite correct that we are enjoying scale economies as it relates to our fibre deployment, and we have achieved some rather significant unit cost improvements as a result of those scale efficiencies. On the flip side of the economic equation, we are also seeing very superior performance coming out of our fibre footprint. It's doing very well from a penetration and win in the market perspective. The receptivity from clients has been excellent. The key economic characteristics of ARPU, churn and lifetime revenue are all distinctly superior to what we experienced on the copper front, and they're all growing. Our opex is dropping and our opex is dropping because of improved reliability, fewer truck rolls taking place, more clients self-provisioning, so on and so forth. And then lastly, we're enjoying economies of scope as we're increasingly supporting a multiplicity of services and RGUs over the fibre connection.

So for us, it's very much about the same strategy that we we're talking about back in 2000: data services delivered over a fibre medium or a wireless medium. And at the end of the day, I think it's important to note the other comment that I made in talking about our capex, 50% of our capex is success-based, and it's always been on strategy. And essentially, it's been dedicated to broadband, whether it's on the wireless front and what we've been doing with LTE, LTE-Advanced and the preparations for 5G or the major lift that we've had in terms of fibre, where we kicked off that program in late 2013. But we've now gotten to a point where we're approaching 1.4 million homes and businesses covered. What's different about TELUS is that we said that we were going to do this within a five-year time period. And we thought that, that was the smart thing to do. We wanted to leverage our balance sheet strength. We liked the competitive dynamic in the market because we could deliver technology and product-based differentiation rather than price discounting. The cost of capital was attractive. We thought the regulatory window of opportunity was attractive. So we said, let's break the back of this challenge sooner rather than later. And so it has been really that 5-year ideology, and we're passing the 50% mark. And so as it stands today, we're basically almost at 45% of our Optik footprint. And as I say, we'll cross the 50% threshold early in 2018 and then push through the program over 2018, 2019 and 2020.

And not only are we very pleased, Jeff, with the performance results of the fibre program. But it's interesting to note that as much of a milestone, 50% is in terms of the build program in early 2018, there's another milestone that I've got my eye on because I think you guys want to invest in forward-looking organizations, and that's getting to the 2/3 build mark by the end of 2019. And that's not just about the math of hitting a milestone. That's about leveraging the synergistic relationship that exists between fibre and supporting our 5G deployment within that particular timeframe, and I think that's a smart thing to do for this particular organization. And then lastly, I would argue, and I've argued it before, I think we've earned the right to invest. We're not a one-tenet growth company, we're a two-tenet growth company, and we have consistently delivered strong results both financially and operationally across our wireline business, whether it's RGU loading on HSIA and TV and moderating NAL losses, or now talking about 18 consecutive quarters of EBITDA growth. And so I think we are earning the investments along the way. But at the end of the day, getting to that 2/3 mark by 2019 puts us in a very good position to leverage the convergence between wireless and wireline technologies and all that, that's going to do for our digital economy and digital society within Canada.

Operator
The next question comes from Choe Richard from JPMorgan.

Richard Choe
I just wanted to follow up on that a little bit. In terms of the capex guidance for next year, should we expect a similar level of build-out on the fibre side? I think you kind of implied that. But how are you queuing that at the lower capex level? Is it easier builds? Or is it just going to be more measured on the success-based part?

Darren Entwistle
No, I would say, the build in 2018 will not be dissimilar to the fibre build in 2017. Two things to note. One is the scale economies and what that means on a unit cost level, as per my previous response. Secondly, finding capex efficiencies in other areas of our business to accommodate more the fibre investment that we're making. But we're not moderating the build, as I've said. It's a situation where we're crossing the 50% threshold, and increasingly more of the build is going to be in a rear-view mirror versus prospective.

Richard Choe
And I think it's implied in the numbers and you've talked about it a little bit, but it seems like you've gotten to a scale where the impact on the NALs side is moderating and the video side is kind of gaining momentum on seasonality. Is that the right way to look at the wireline results?

Darren Entwistle
Well, I think at the end of the day, if you look at what we did on the loading front, we did 19,000 Internet loads, which represents a 35% year-over-year improvement. We did 12,000 in terms of IPTV loads. I think that's a solid performance for our organization. And Richard, really what we're trying to do is just, say, on the wireline front, let's just stay consistent, right? We don't have to get super aggressive. We don't have to do anything irrational because we've got a long list of positive technology and product-based differentiators versus our competitor. So let's leverage that and deliver solid loading that doesn't need to be exceptional in that regard and provoke all sorts of irrational responses. And let's make sure that we honor the duality of our responsibility to complement operational loading with revenue and EBITDA accretion because for us, the duality is critical to say, we're delivering operationally and financially because at the end of the day, if we're going to ask investors for their money to be deployed to support our fibre build, I think we've got to earn our way by delivering both operational and financial results. So for us, it's just about solid loading. Let's keep at it. Let's try and improve or ameliorate what we're losing on the NALs front because those NALs come with very, very, very high margins attached to them. So if we can do better there on the retention front, solid on Internet, solid on TV, that's a smart thing to do. And if on the fibre front we can get a nice voice pull-through on the back of our HSIA and TV connection, then that's gravy for us along the way.

And then what we think about in terms of the home is okay, what can we do on economies of scope? So is there an opportunity to add a health RGU on the back of that? Is there an opportunity to add a security RGU on the back of that? Is there an opportunity to add a home automation RGU on the back of that so we can put more and more and more services over that fibre connection and leverage the economies of scope and generate a better return for our shareholders overall? So solid operational, solid financial, earn our way, keep layering additional services on the back of that high-tech connection. And the last thing I would say is, look how long we've earned a return from copper. If we can return -- earn a return on fibre, even half as long as what we've done on the copper front, that's going to generate a lot of returns for many, many, many years for the investment community in TELUS.

Operator
The next question comes from Simon Flannery from Morgan Stanley.

Simon Flannery - Landon Park
This is Landon Park on for Simon. I just wanted to touch base on the margins for both segments. Maybe if you can just provide some color on how you're thinking about 2018 and beyond about the ability to return to a growth trajectory on the wireless market side and what the ultimate goal is on the wireline side once the fibre build continues.

Darren Entwistle
I'm not going to give specific margin guidance for 2018. I think we've done pretty well with free cash flow general guidance for '18 and beyond. We've been quite specific on both the capex number and where capex will be trending. And of course, we've given and capital return forecast of 7% to 10% through 2019. So what I can tell you is we're pretty pleased in terms of our solid loading and financial performance across both wireless and wireline, with the 5% EBITDA growth on wireless, 5.1% to be precise, and 3% EBITDA growth on the wireline front. And I would note that if you look at our EBITDA margins on a consolidated basis, they're actually up 10 bps on a year-over-year basis. And I think that speaks to the dual tenet of our growth strategy.

Yes, our wireless margins were down modestly in Q3, but as I'm going to hand it over to Doug to talk about, I think the wireless margins were down for the right reasons. And let's just do a quick level sets. If you look at 2017 year-to-date, our wireless margins are only down 20 bps. So when I talk about our wireless margins being down in Q3 for the right reasons, the margins are impacted by future good growth initiatives, good growth factors, and these include our postpaid gross adds. We're up 8% year-over-year. Our retention volumes were up 6.5%. And I think the added color that Doug is going to provide in a second reflects the disproportionate market activity that TELUS enjoyed 2 years ago and what it means in terms of renewal volumes today and how that differentiates us versus our peers in terms of the COR investment.

Our wireless margins, also as it relates to COA and COR, and this is tremendously important, when wireless loading includes tablets or wireless home phone, I'd like to point out that the quality of our loading on the wireless front in Q3 was excellent, and we enjoyed a higher mix of high-quality smartphones in the loading, and of course, experienced the increased device cost that come with that. And then the other thing in terms of burden to the margin that will get ameliorated prospectively is the customer support costs that are not far away from $10 million related to the MTS subscribers that we are acquiring as a result of the migration program with Bell. So I think for us, the margin pressure is for the right long-term -- medium to long-term reasons in terms of economic value creation. And I'll just hand it over to Doug to give you some additional color on that. And then I'll make a comment about wireline, which is up 50 basis points in the quarter.

Doug French
So on the wireless component, our gross loading was up year-over-year. And so taking into consideration the investment and the lifetime revenue and we have a very favorable churn ratio, it's going to have a very, very significant payback. On the retention side, in 2014 and 2015, we led the industry with over 600,000 net loads during those two years, all of which are renewing over this time frame. So going back to leading the industry of that growth profile and having the lower churn, they're going to come through a natural renewal type platform. We did not get any kind of incremental. It was the normal renewal platform that we had for that time frame. And when we do renew those, we generally get an uptick on ARPU concurrently, so it is also an investment for the future. So if you look back to the significant growth and leadership we had back then, and then you look at the normal course to renew those customers, which is very beneficial to us for the long run.

Darren Entwistle
And I'd note, Simon, our wireline margins are up 50 bps in the quarter, they're up 70 bps on a year-to-date basis. And I think it's driven by positive notable factors. The margin accretion is in part related to

data services, in particular growth on HSIA and TV, so that's a good thing. We're seeing a nice margin contribution from our TELUS Health business. And I think importantly, for investors in terms of returns at both the EBITDA and the capex investment point of view, we're continuing to harvest significant cost efficiencies on the wireline side of our business. Our workforce restructuring charge will be about $125 million in 2017, and you can look for us to be in that particular vicinity again in 2018 because we've habitualized the need to drive cost efficiencies the same way we focus on new product and technology deployment. So we're on a march to get to 30% margins on wireline or better. We experienced some seasonal volatility quarter-to-quarter, but that's the goal for us. And I think we've got a strong track record that we can build upon. I think we show that we can weather exogenous events, whatever they may be, and still deliver good results. And we love the rhythm of good loading and good financials.

Operator
Next question comes from Vince Valentini from TD Securities.

Vince Valentini
You've been selling the iPhone X for about a week now, so I'm wondering if you can give us any update on both demand and supply, and if you see any big impact from that on your financials in Q4. And then a bigger picture one, if you don't mind. You made three acquisitions year-to-date in TELUS International. Clearly, it's an area that's going well for you, and you're trying to grow it. Can you give us any update there on how big is this now, how it trends? And maybe most importantly for me, can we see this business disclosed as a separate segment in 2018?

Darren Entwistle
Okay. Let me stop at that particular point. Just to the dichotomy between Apple and TI. Firstly, as it relates to Apple and the iPhone X, specifically, as per your question, Vince, I think it would be fair to say that demand currently exceeds supply, which at the end of the day, is a good thing for our organization. I think its early days with respect to the new iPhones, 8 through X, and some of the tuck-in iPhones on 6 and 7, that always sell in the back of these promotional periods extremely well. It's been, again, a situation where the iPhone has been extremely popular as it always is. And TELUS views the iPhone very positively because of two key characteristics. One is the premium ARPU that tends to go with it because of the data usage, and the great loyalty and retention that we enjoy, which gives us a very good lifetime revenue outcome.

It's interesting going into the seasonal selling periods in Q4 as we go through Black Friday and Cyber Monday and the holiday period, we've never, in my time with the organization, obviously, enjoyed a broader iPhone device lineup than we have right now in iPhone 6 right through the X, which I think positions us well as an industry for the seasonal selling periods that are going to come to fruition in Q4, and over the medium to longer term, to leverage to positive characteristics in terms of ARPU and retention. We've got a strong relationship with Apple. In addition to what I said within my opening comments on the recognition that we have received from Ookla and OpenSignal and PCMag and J.D. Powers, we were also recognized by Apple as having the best network for the iPhone in Canada. And I think that's indicative as to the quality of our relationship. And we look forward to bringing the Apple Watch to market during the holiday season in December. So I'll give you that color right now, but I've got a positive disposition in terms of what we can achieve on that front and as it relates to the Galaxy as well as we focus on prudent economic behavior in the selling seasons coming up for this organization.

In terms of TI, let me kind of give you some color. Yes, we have made some -- what I would say, our significant acquisitions for TI with the acquisitions of both Xavient and Voxpro of late. If you're drawing inference from that in concluding that we are going to replicate that type of behavior in 2018, that's not likely to be the case. 2018 is going to be all about post acquisition integration, and that's very much the focus of TI, plus generating strong organic growth prospectively. 2017, interestingly enough, to give you some ad hoc disclosure, was not a great year for TI. We got hit by three exogenous events that were problematic for the progress of the organization. One was the foreign exchange movements for U.S. dollar-denominated business, and then we got hit with two clients that experienced challenges within the markets that they serve that caused them to restrict their business footprint, and by extension, their BPO activities, which hurt the P&L of TI. And so very much for us, we're focused on two things. Let's get back

to selling and growing the business organically and bringing new clients, new logos onboard, if you want to use TI's nomenclature, and go out there and leverage the acquisitions that we've just secured by having an excellent post-acquisition integration mentality and to bring great things to fruition given the quality of the assets that we've been able to procure.
Xavient is interesting for us because it represents an important step in the evolution of TI's strategy. It really is a step-up the value chain in terms of our proposition, and I expect it to deliver positive benefits prospectively as it relates to the valuation multiple of the TI business as we go from a more classic BPO organization to an ITO organization, an IT solutions outsourcing organization, where we can demand a higher premium. Xavient and Voxpro also bring us excellent business diversity. On the Xavient front, because of the ITO characteristics, it brings us access to higher-margin value propositions, greater value add with our clients that we can drive within our existing base and better stickiness characteristics in terms of client retention. Both Xavient and Voxpro also help us with geo-diversity through multi-site redundancy. And when you're managing the risk management profile of TI and you think about geopolitical events, climate-based events and the like, a management team that's got its eye on the ball are always focused on risk management, then geo-diversity and multi-site redundancy are nontrivial considerations for us. On the Xavient front, we're also going to be focusing on high-value IT services, not just that we're going to sell within the external market, but what we're going to do internally within the TELUS organization. So we're going to eat our own gourmet cooking, I think, would be a good way to describe it. And we're very excited within that part of our business to leverage Xavient's capability set, their ITO solutions as it relates to quality assurance, applications development and maintenance and the like. And I think that's a great thing.

The other thing that I'm looking at, well, can Xavient help us with those quality value props that can give us great solutions and deliver cost efficiencies that are so necessary for our business, whether it's helping wireline or improving AMPU on the wireless front. But interestingly, in addition to those cost efficiencies and great services, Xavient has been focused as an organization on the telco vertical externally. So it's a multiplayer opportunity to say what they do for TELUS. Great for TELUS in terms of the reasons that I've just articulated, but we can then turn around and pivot and leverage their distribution channels to sell those services on the external market and turn a two-point game into a four-point game. And I think that's a smart thing for our organization.

And then, you look at what the corp. dev team has done at TELUS and what they're doing in conjunction with TELUS International. Let me just give you a bit of a flavor on Xavient as one case in point. We've made a 65% investment, and we've done it for about $130 million on the U.S. dollar-denominated front. How are we paying for that $130 million, 65% acquisition of Xavient? Well, $75 million of it is in TI nonrecourse debt, and TI's growth allows them to ratchet back their net debt to EBITDA ratio very, very quickly. $15 million comes from TI equity and $40 million comes from both TELUS and Baring in terms of our capital equity contribution. So for TELUS proper, the cash dollars that we're spending to get this acquisition done is $26 million. Now I think that's a smart way to leverage the TI structure that we've put in place. We bought an asset where we don't disclose -- they don't disclose their financials, but I think it's been widely reported that their revenue was within the $100 million range, and that's pretty accurate.

And in terms of what you can count on, Vince, prospectively, as it relates to disclosure, I will commit to you not to regular disclosure like what we do for TELUS proper, but ad hoc disclosure from time to time, including in 2018, to give you further color, further transparency, further insights into the revenue and the EBITDA growth of TI and what they achieved on an external basis and what it also means to the cost efficiency of the TELUS organization. And so when we talk over the course of 2018 with our quarterly disclosure, I'll commit to you and the Street, to give you those greater insights and transparency.

Operator
Our next question comes from Greg MacDonald from Macquarie.

Greg MacDonald
Darren, I'm going to ask about the 7% to 10% dividend growth profile. Thanks for the greater capex clarity that I think that helps a lot for this stock, in particular. So far, we've seen growth at the low end of that range. And I wanted to ask, under what scenario could prompt growth at the higher end of that range? I'm

going to make the assumption that the capex profile has kind of ended up being what you originally thought it would be. Is it mostly a question of getting past the spectrum auction and knowing what that price tag is? Or are there other things that affect the decision on low end versus high end of that range?

Darren Entwistle
Okay. A few things on this, Greg. We're still committed to camping out over the medium to longer term in terms of our dividend policy on the net income percentage front in the 65% to 75% zone. In terms of 7% to 10% and what could move us towards the higher end of that range, I'd say a few things. Leveraging the fact that we're going to go chronic free cash flow positive in 2018 and thereafter, normalizing for spectrum options along the way; getting our net debt-to-EBITDA ratio below the high end of our policy range, so sub-2.5%, would be a nice box to tick along the way. And then on the free cash flow front, really looking at some key factors. So what are we doing in terms of continued EBITDA growth and accretion? What more can we do on a position of materiality as it relates to critical cost reductions across both our wireline and our wireless businesses? Our moderating capital appetite, post '19, I see our capital appetite moderating still further. In fact, that's going to become a more material moderation in 2020 and thereafter. So that's going to support or buttress our fee cash flow our position. As you rightly say, I would like to get the spectrum auction under our belt. It's a bit of an unknown quantity in terms of what that expenditure is going to represent.

And then more particularly, on the back of expanding free cash flow and putting to bed some of the components that I've just articulated, it's getting this organization to prospectively deliver an EBITDA growth rate at a net income expansion rate that supports the 7% to 10% zone robustly and begins to creep up in terms of elevated performance on EBITDA and net income expansion, so we can get closer to that double-digit number in terms of year-over-year dividend improvement for this organization. So the classic way we want to deliver this particular outcome, in addition to all the other factors that I've just articulated, is to drive that EBITDA growth. And I think the best way to do it is good operational results, good financial outcomes, do it across wireline and wireless. And let's see what we can do to deliver strong guidance in '18, better guidance in '19. And the stronger that EBITDA growth rate, the more likely that the dividend accretion is going to be closer to 10% than 7%, and I think that's really the responsibility of this management team.

And, Greg, we do have a good track record. I mean, it's not for the faint of heart to talk about a 92% increase in the dividends since 2011. And to carry on in terms of the dividend performance as is, while we've digested the free cash flow challenges as it relates to the material investments that we've been making in things like broadband, wireless and wireline, there's not very many organizations that can step up to the duality of investing for the future for the longer term and still deliver, on a chronic basis, meaningful returns to investors along the way. But I am hopeful that the EBITDA accretion over the medium to longer term is going to significantly reflect the major investments, including fibre that we've made over the years between 2014 and 2018, and the great economic characteristics that we're enjoying as a result of the product outcomes underpinned by that fibre technology and underpinned by what we can do in terms of 5G wireless.

Operator
Next question comes from Drew McReynolds from RBC.

Drew McReynolds
Yes. Darren, just wondering if you can just give us a quick update on the competitive environment, just how it evolved in Q3 from your perspective and any kind of real notable changes in Q4? And then second, just a bigger-picture question. Just around 5G, you've been ahead of the curve in a number of ways than some successful pilots trialing it in Vancouver. Just can you give us an update just from your perspective, just any milestones on 5G that you're looking for, maybe in 2018 and '19?

Darren Entwistle
We're on a good path on the 5G front. I think you may have noted in the press release that we had earlier in the year on the 5G trial that we ran out at Vancouver, where we delivered a world-leading speed of 30 gigabits per second in terms of the 5G trial that we ran in conjunction with Huawei. In terms of key

markers, I would look for the availability of network equipment and devices and to synchronize the aspect of devices that leverage the network technology within our industry. It's frequently being the case historically where the network capability comes sometimes a year in advance to the device capability, but I think those two markers will be very interesting things to look for. I would look for the commercialization on 5G to begin in 2019 and then ramp up thereafter. I think it's going to be pretty meaningful to the country in terms of digital economy, supporting diversity, digital society and also what it can do within the consumer lifestyles front. But I see it as a real game changer as it relates to key verticals, what it can do within -to the transportation industry, financial services, agri-tech, oil and gas, health care, tremendously exciting in that regard and going to be very potent for the performance of Canada's economy prospectively.

And I think it's important that we get the right outcomes in the spectrum auctions that are coming up so that we can deploy a 5G technology, leveraging spectrum at the 3.5 GB level, leveraging spectrum at the 600 level and leveraging millimeter wave spectrum at 28 GB, 40 GB and in the 60 GB to 70 GB zones. And I think it's going to be very important to supporting all of those propositions. And it's going to be really exciting on the consumer front, back to the consumer lifestyles and supporting the automated in-home experience, supporting the management of your assets, logistics within your home, supporting the way that you manage your consumption of consumables from food inventories to energy along the way or what you're doing in terms of your relationship with your vehicle, even if its autonomous in that nature. So I think those are the type of things that we're looking for, and I'm hopeful that the value creation from those services is going to deliver the return on the investment that we're going to be making in both 5G network technology, the subsidization of devices and the procurement of the spectrum that we're going to need along the way.

In terms of color on the industry, let's maybe start with wireless. I think it was a competitively intense period, which I think is what you would expect within Q3 and the back-to-school period. So nothing unique in that regard. In terms of what's going on in the Freedom front, that's also par for the course for us because when you're looking out your window, at your competitors, there's Rogers, there's Fido, there's Chatter, there's Bell, there's Virgin. And Freedom is just another name on the list. And now Freedom doesn't just have to compete with TELUS, but they have to compete with all those other names on the list, and it's a pretty crowded industry. Some people seem to miss it, but it is a very crowded industry. But at the end of the day, if you ask anyone at TELUS, we would prefer a competitive environment to onerous regulation any day of the week. Shaw is a good competitor for us. I think their wireless results were solid, but we're a good competitor as well. And I think that's a healthy dynamic within the market, and we've got a great arsenal to deploy, whether it's at the TELUS level, whether it's at the Koodo level or whether it's at the Public Mobile level. And we've got some pretty nice attributes that talked a lot about our network leadership as it relates to speed and quality, and you got to remember, our LTE network covers over 99% of the population, and we're going from LTE to LTE Advanced to what we just talked about in respect to 5G. We've got excellent and pervasive distribution. We've got a bundling proposition that I would say when your wireless network and distribution is superior and you enjoy superior product attributes on the optic front and you're deploying a fibre network to help underpin that, I think that that's a pretty powerful, pretty potent combination along the way. And as I've already talked about, fibre has done very well with great penetration and economic characteristics associated with it.

And then when it comes to customer service excellence, the experience of the team at TELUS is excellent. And when you're talking about a churn rate that's sub-1% in 16 to the last 17 quarters, we're going to be a pretty tough competitor in a market that's already pretty, pretty deeply penetrated. So it's a tall challenge ahead. And the wireless industry is not for the faint of heart. When you think about it, what's the half-life of a technology rollover? It's about 12 to 15 months. That's a stretch on your balance sheet. You've got spectrum auctions coming up that represent significant investments. You've got to be pretty gutsy to be making ecosystem that's within the wireless technology and frequency era. Because at the end of the day, Canada doesn't have the economies of scale to support independent ecosystems. We have to make the right bet on global ecosystems as it relates to wireless technology and frequencies. You can't be faint of heart when it comes to the cost of devices. I've got asked about the question of the iPhone X. Look at the iPhone X and the subsidies associated with it and what it means in a COA, COR basis.

And lastly, you got to be able to manage what is effectively on a device basis as to duopoly supply chain. And in terms of network providers, it's an oligopoly. And that's not an easy supply chain to work your way through. And lastly, you better be focused on taking costs out of your business because if you're going to be able to invest in all those J-curve investments, you can't always be on the back of investors. You've got to earn the right yourself by recycling your efficiencies and all the way.

On the wireline front, pretty solid, very competitively intense, extremely intense competition, which is why I was so pleased with how we did on the Internet front, the NAL amelioration and solid TV growth at the 12,000 level. Very pleased with the EBITDA growth there to complement what we did operationally. As I said, we've had 18 consecutive quarters now of wireline EBITDA growth, and that really is best in class. And I think that EBITDA growth compares favorably, given you asked about the competitive dynamic with the EBITDA situation at our closest competitor on wireline. If you look at what TELUS has done on quality RGUs, I really think the math is worth doing here. Look at what TELUS has done on wireless postpaid net adds, plus TV, plus HSIA, deduct network access line losses and go back over the last 4 years, I think we have a track record in that regard, second to none, in terms of what we do in building revenue-generating assets that prospectively are going to make a very tardy contribution to this organization.

And then maybe just to seal it off, our fibre program continues to do very well, and I would look to see us leveraging technology and product attributes prospectively as it relates to winning within the competitive dynamic rather than doing things bullish on price that are inconsistent with generating the return on the capex investments that we're making to support our Wireline business in the first place. And I also like the diversity of our organization. The overlap with Shaw is only about 60% for us, just slightly less than 60%. So we've got other sources of revenue and income from other areas that we can leverage along the way, and I think it's smart to have a diversified portfolio. And the Western market is a good market. The Alberta forecast is increasingly positive, and there's more than enough market opportunity to support success at TELUS and Shaw alike, down to us to go leverage it in ways that are meaningful to our customers.

Operator
Last question comes from Yaghi Maher from Desjardins.

Maher Yaghi
Yes. It's Maher. I wanted to ask you, Darren, a question about your fibre investment. Now that you've reached this important milestone of 50%, how are we going to judge the returns on that investment? Can you help us find what kind of metrics we need to monitor to judge the return on that investment, especially now that the lines or the line of separation between wireless and wireline are getting blurred year after year? Is it EBITDA growth on a consolidated basis that you're working to achieve a certain level? Is it ROIC? Is it- maybe just some metrics we- to help us understand the returns on those investments that you've made.

Darren Entwistle
So why don't we just look and finish it up quickly with the stratification. So first thing you can do is look at the quality of revenue-generating assets that we're securing. So are we getting the right products on HSIA and TV and NAL amelioration? And do those products, do those services have the right metric associated with them when it comes to ARPU and stickiness? I can tell you that the ARPU performance and the stickiness performance, particularly within our fibre footprint, is very encouraging. So I'd say how are we doing in terms of quality operational loading and the metric, the economic metrics associated with that?

Secondly, do we turn 18 consecutive quarters of wireline EBITDA growth into 19, into 20, into 30 over the longer term? So look at the P&L performance as it relates to the wireline segment.

Third area that I would look at is the one that we've been discussing. It's one thing to turn free cash flow positive. I guess the second question that should come thereafter is, is your fee cash flow growing? And to me, I think that would be a good marker for you guys to look at, normalizing for events like spectrum auctions or acquisitions and what's the wireline contribution to that expanding free cash flow. And I think that's a very kind of classic NPV component to it. Fourth, back to economies of scope is to say, "All right.

You guys now have the fibre in place. How innovative are you as an organization at getting new services over your established access infrastructure on the fibre front?" So I would be holding this accountable to say, "Okay. You guys have been dining out on HSIA and TV for a long time. What's next? Is it going to be Home Health RGUs?" That again have a nice economic metrics. Is there something that you can do on the home on the security solutions front? And by the way, not just security solutions for the high end, but the same way we have smartphone tiers from high to mid to lower from a greater affordability perspective to do the same thing on the security front. What can we do in terms of home automation and again management of assets in the home? What can we do in terms of identity management? Why does the home have to be viewed as a singular instance? Why can't we, through market segmentation and identity management, start looking at the home according to its constituencies, whether it's the demographic within the home from the buying preferences and needs of the parents to what's going on with the kids? I think there's a better way to expand our wallet share within the home. And a good example of that is what we've been doing on the SharePlus front as it relates to our wireless business. So how many more RGUs are we getting on the back of that multi-billion dollar fibre investment?

And then yes, if you want, we can have sub-comments in terms of micro disclosures on things like return on capital employed that we always measure. What's the payback period? Or when we are crashing through the Y-access intersection in terms of value accretion? We can do that. But I think those are the basic measures for you that should stand the test of time in terms of the discussions that we can have in 2018, 2019 and 2020 along the way.

The only other area that I think doesn't get the value that it deserves is the convergence opportunity and say, "What return are we getting on the fibre investment related to 5G enablement?" And fibre is so critical to 5G in a symmetrical world, where the front-haul delivery is as important as the backhaul distribution. I think that's another area where we can really look at the ROI and the fibre investment as a great enabling factor to the 5G services. Because as most people seem to miss, the performance of a wireless network is predominantly determined by the underlying wireline network that does the front-haul delivery and the backhaul redistribution of that wireless traffic.

Paul Carpino
Thanks, everyone, for joining us today. Please feel free to reach out to the IR team if you have any follow-on questions. Thanks.

Operator
Ladies and gentlemen, this concludes the TELUS 2017 Q3 Earnings Conference Call. Thank you for your participation, and have a nice day.