Q2 2016 investor conference call

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Darren Entwistle, President & CEO
Doug French, EVP & CFO

the future is still

friendly

TELUS

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Doug French, EVP and CFO

Conference Call Participants
Phillip Huang, Barclays Capital
Tim Casey, BMO Capital
Simon Flannery, Morgan Stanley
Drew McReynolds, RBC Capital
Vince Valentini, TD Securities
Batya Levi, UBS
Jeffrey Fan, Scotia Capital

PRESENTATION
Check against delivery

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2016 Q2 earnings conference call. I would like to introduce your speaker, Mr. Paul Carpino. Please go ahead.

Paul Carpino

Great. Thank you, Peter. Good morning, everyone, and thank you for joining us today. The Q2 2016 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 will provide opening comments, followed by a review of the second quarter operational and financial highlights by Doug French, our CFO. After our prepared remarks, we will conclude with a question and answer session.

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 are subject to risks and uncertainties and assumptions.

Accordingly, actual performance could differ materially from statements made today so do not place undue reliance on them. We also disclaim any obligation to update forward-looking statements except as required by law. I ask that you read our legal disclaimers and refer you to the risks and assumptions outlined in our public disclosures, in particular in section 10 of TELUS' annual MD&A and filings with securities commission in Canada and the United States. Let me now turn the call over to Darren, starting on slide 3.

Darren Entwistle

Thanks, Paul, and good morning, everyone.

TELUS delivered strong second-quarter results that reflect robust loading across key segments, including net new postpaid wireless, Internet and TELUS TV customer additions. Concurrently, the company once again realized industry-leading customer loyalty, solid ARPU growth and best-in-class lifetime revenue.

Impressively, TELUS' results in respect to subscriber, revenue and EBITDA growth in both our wireless and wireline businesses, are being delivered despite the continuing economic challenges in the province of Alberta. Clearly this performance reflects the efficacy of our company's industry-leading customer service and the robustness of our multi-tenet growth strategy implemented so effectively by our team.

Let me provide some highlights for you from the quarter. Cumulatively, our attractive asset mix delivered strong net additions in both wireless and wireline in the second quarter with net RGUs increasing 92,000 following the soft first quarter. In wireless we earned postpaid net additions of 61,000 up eight-fold from the first quarter reflecting strong performance across all regions and early signs of stability in Alberta.

We continue to earn the best customer loyalty amongst our national peers achieving a churn rate of 0.90% in the second quarter. TELUS has now delivered a postpaid churn result of less than 1% in eleven of the last twelve quarters, an unparalleled achievement amongst our global peer group.

Through our commitment to delivering an unrivaled customer experience, combined with thoughtful COR and COA investments, TELUS continued its leadership in lifetime revenue per customer. In this regard, at more than $5,600 our current lifetime revenue per sub is 18% and 42% higher than our two national peers. Blended ARPU in Q2 increased 1.4% to $64.38, the highest amongst our country's national telecoms. Notably one year ago we implemented yet another industry-leading first with our customer-friendly initiative to provide wireless clients with frequent real-time notifications as they reach the upper echelon of their monthly data plan.

In launching this program, we were cognizant of the short-term dampening effect this initiative would have on our ARPU growth over this period. However, we were certain of a longer-term positive impact on our customers and a concurrent reduction in our support costs. Notably we are not only granting our customers better control of their data plans but we're also realizing efficiency benefits by way of fewer inbound calls to our call centre operations.

Turning to wireline, TELUS delivered strong revenue and EBITDA growth this quarter. We continue to be one of the rare telecommunications companies globally to consistently report growth in wireline revenue, wireline EBITDA and wireline customer connections.

Concurrently, service revenue increased 1.2% in the second quarter. Importantly, data revenue grew 6.7% with high-speed Internet additions increasing by 18,000 and total TV net additions growing by 13,000 this past quarter.

Wireline EBITDA growth increased an impressive 5.5% on a year-over-year basis. This increase was driven by three factors. Firstly, higher wireline data revenues. Secondly, improvements in Internet, TV, and TELUS Health margins. And thirdly, benefits from our ongoing operational efficiency initiatives that we communicated with you previously.

This level of ongoing growth and profitability clearly supports our long-term strategy of consistent capital investments. Investments that enhance TELUS' high-speed broadband footprint, including fibre-to-the-premise and the strong pull through effect of Optic TV bundling.

The second quarter marked another milestone within our Optic TV offerings, with the launch of our ultra-high definition 4K television service in British Columbia and the province of Alberta. Consistent with TELUS' commitment, deleveraging innovation to deliver an unparalleled entertainment experience through Optic TV, we're the first carrier in Western Canada to offer 4K programming to consumers. Our 4K arrives just in time for the Rio Olympics that are of course starting today. Indeed ongoing innovations taking place across our wireline portfolio, such as our 4K launch, continue to offset losses in residential network access lines.

Our residential now losses were stable at 20,000 for the quarter. Moreover, combined TV and high-speed net additions exceeded our now losses by over 50%. As evidenced by our second-quarter results, our strong financial performance demonstrates TELUS' ability to fund simultaneously our strategic growth investments and the only transparent multi-year dividend growth and discretionary share purchase programs on the TSX and NYSE now running through 2019.

Today our Board of Directors declared a quarterly dividend of $0.46 per share; 10% higher than this time one year ago. Our consistent track record in returning capital to shareholders is indeed unequivocal. As indicated by TELUS having returned $13.3 billion to shareholders including $8.2 billion in dividends and $5.2 billion in share purchases representing over $22 per share between 2004 and July of 2016.

Impressively, our share purchase program has produced strong returns generating an internal rate of return in excess of 14%. Clearly TELUS' steadfast and transparent growth strategy and the quality of our asset base not only benefit our customers, but also deliver the industry's most robust and most consistent shareholder friendly initiatives.

I'd like to extend my appreciation to the entire TELUS team for their unwavering execution of this strategy and for their continuing ability to deliver on the commitments that we made to customers and shareholders alike. Let me now turn the call over to Doug. Doug, over to you.

Doug French

Thank you, Darren, and good morning, everyone. I'm on slide 9.

Second-quarter wireless results showed a notable improvement in margins and solid operational execution in a competitive and challenging economic environment. Network revenue grew 2.6% reflecting the continued postpaid subscriber growth and higher ARPU driven by data. This was particularly -- this was partially offset by the moderating yet meaningful impact of the economic slowdown in Alberta, which continued to affect both subscriber growth and usage patterns. Adjusted EBITDA increased 3.6% from higher network revenue and cost savings through the execution of our operational efficiency and effective -- and effectiveness initiatives.

Adjusted EBITDA margins were up 130 basis points as expenses were flat or down in most of our expense categories, offsetting a $20 million increase in our combined COA and COR costs. Capital expenditures increased year over year by 14%, reflecting the continued LTE enhancements and increased investments in our small cell technology.

Moving to wireline on slide 10. In wireline revenue increased year over year by 1%. Wireline revenue has now increased year over year for 22 consecutive quarters. The growth this quarter was driven by an increase in data revenue, reflecting strong growth from TELUS International, continued high-speed Internet growth, higher Internet revenue per customer, as well as higher TELUS TV customer base. Offsetting this was a decline in lower margin equipment revenue, as well as lower voice and other revenue, which were impacted by an economic slowdown in Alberta, notably in business.

Reported wireline EBITDA increased 10%. When excluding restructuring costs and a real estate gain, adjusted wireline increased by 5.5% with a margin of 28.2, up a solid 120 basis points year over year. The EBITDA growth reflects improving margins in Internet, TV, and business process outsourcing services. As well as cost savings from our ongoing operational and efficiency programs.

Capital expenditures increased 17% due to our continued generational investments in our broadband network infrastructure.

As noted on slide 11, consolidated revenue was up 1.5% with reported EBITDA up 10%, adjusted EBITDA increased 4.3%. The wildfires in Fort McMurray and the surrounding area had a financial impact of $5 million in the second quarter, including forgone revenue and additional costs predominately in the wireline segment. This impact is expected to be reversed in the future as TELUS will continue to support the recovery efforts in Fort McMurray.

EPS at $0.70 was up 25% year over year, 6.1% on an adjusted basis. The EPS drivers are available in our appendix. Free cash flow of $126 million decreased 58% due to higher CapEx and higher income tax payments as previously guided.

Overall, a very strong quarter of customer and EBITDA growth showing the results of our cost efficiency and effectiveness initiatives. Our momentum positions us well to achieve our revised targets for 2016. We made revisions to our guidance today. They reflect the improved performance in our wireline and wireless businesses and an increase in CapEx as a result of ongoing positive environment for our generational capital investments.

Let me pass the call back to Paul for question and answer.

Paul Carpino

Thank you, Doug.

Peter can you please proceed with questions from the queue for Darren and Doug?

QUESTIONS and ANSWERS

Phillip Huang

Thank you good morning. Great quarter. I wanted to ask you a little bit about the postpaid market. In hindsight the wireless market was certainly surprisingly strong in Q2 and the three national players added I think in total almost 200,000 postpaid subs. I mean it can't all be driven by population growth so I was interested in your perspective on why the postpaid market has seen such a growth acceleration? And is it mainly driven by acceleration in prepaid subs converting postpaid? Just wondering where are the postpaid subs coming from? Thanks.

Darren Entwistle

Thanks Phil. I cannot speak entirely for the industry in terms of where the loading is coming from but I can speak for the TELUS organization. In terms of just a level set, I think it's nice to see the strong performance overall for the industry. I would say that's a positive signal for investors comprehensively. So good to see when you see that healthy performance for the industry in totality but in terms of the drivers of that ubiquitously across our peer group, I think that's better question posed to them.

In terms of what's going on at the TELUS organization, I think it would be fair to say that we continue on our consistent thesis of preferring value over volume and we continue to stay on that track earning 31% of postpaid net adds in the quarter - I think is a pretty good result overall particularly in the face of softness within the province of Alberta. So I'm pleased with that and to deliver a solid result on wireless operationally but to deliver solid result both financially and operationally on wireless. And then to mirror that on the wireline side of the business, I think speaks to the quality and the diversity of our asset mix overall.

As Doug indicated in his comments in terms of the source of our postpaid net loading the quality was very high with premium loading at the high-end of the smartphone continuum. Which I think is why you've seen a tidy contribution being reflected in the ARPU growth of our organization. And we're very pleased with our quality and I think it bodes well in terms of continued operational performance for the organization through the second half. And the financial contribution that quality loading is going to make for this organization.

The other thing that is worth pivoting to of course as well, as we carry on as it relates to the quality loading with not just value over volume, but value and client service excellence over volume. And I think you see that reflected in our client loyalty, our churn results at 0.90, which is a market degree of differentiation versus our peer group. And then looking at the flow through of the ARPU performance on the back of the loading and the client stickiness that we've enjoyed, a pretty strong result when it comes to lifetime revenue for client at over $5,600. And again, that's a nice level of differentiation versus our peer group.

And then when it comes to pursuing that quality loading, I think TELUS, whilst always remaining competitively intense responding to the competitive paradigm that is out there, we remain judicious and disciplined in that regard. And when you start looking at our COA for lifetime revenue again, I think speaks well to our view of wanting to compete but on a disciplined basis to pursue loading. But to have a concentration on securing quality loading so it makes a tidy economic contribution to the P&L and balance sheet of this organization.

And then also to take a broad view on loading to do well not just in terms of wireless RGUs but wireline RGUs. And I think one of the things that's most telling about us is that if you look at the net RGUs across postpaid wireless, HSIA and TV we've developed quite a distinct industry leadership position in that regard. So overall quite pleased as to the source of our loading and the quality that we are seeing in terms of the higher-end of the ARPU continuum and the smartphone base.

Phillip Huang

That's very helpful. Maybe just a quick follow up on the cost side. Obviously there's a very strong quarter on cost savings. Have we seen the full run rate of the savings this quarter from the initiatives implemented late last year, earlier this year? Thanks.

Darren Entwistle

No not yet. That I think will be fully reflected in 2017. So we've processed just over $70 million on the workforce restructuring front at the half year point in 2016 on the way to spending about $175 million or maybe a little bit more in totality over 2016. So I think that reflects the fact that we'll hit that overall run rate in terms of savings being realized on a fully annualized basis within the 2017 year.

In terms of where we're going with that I always think it's a pretty good indicator in terms of a one-to-one ratio that if you're spending a dollar of restructuring you want to get a dollar cost savings out of it. And in terms of the full impact of this particular program in 2017, I would look to see $117 million of restructuring investments to getting $175 million of cost efficiency on a fully annualized basis.

And of course and for us we need to habitualize the mentality within our organization as we've done in the past. The cost efficiency isn't an ad hoc event, but rather a recurring responsibility of the leadership team. The same way we evolve technology, the same way that we invest in products and people, we have to invest continuously in driving cost efficiencies for two key reasons. Number one, to fund future growth because most future growth that I'm aware of within the telecom industry has J-curve characteristics so if you want to fund that J-curve I think you need to be responsible and do it at a cost efficiency. And secondly to buttress your profitability results. When you set expectations with the Street, as we have in terms of leading the way, as our targets indicate in terms of topline revenue growth and EBITDA growth for the industry. Well if you're going to deliver against that both profitable revenue growth, flow through to EBITDA, and EBITDA buttressed by operating cost efficiencies is the way to get that done overall. So I would look for $175 million in 2017. And we've not concluded our efforts in that regard. I think we're just going to have to keep doubling down because we have pretty significant growth expectations at TELUS that we want to fund.

It's nice to see the parameters of the cost efficiency program that not a lot of people talk about overall beyond staff level reductions, but we've derived a significant efficiency improvements in areas such as reliability, which is a four point game. Because when you invest in reliability not only do you get a better customer outcome but you spend less money because it actually costs money to get service wrong for the client overall.

We have a fantastic captive BPO operation that supports off shore initiatives. So many growth things that we do in Canada would not be economically plausible without being able to leverage the asset that TELUS International represents. The employees at TELUS are doing a fantastic job. Productivity is up materially within this organization. We've raised our expectations in terms of the supply chain at TELUS and supplier economics overall.

The network operations team has improved the overall network cost performance of TELUS. We are doing a terrific job decommissioning old technology, older products, older services and the like that costs money and complicate our operations.

And I would say thanks to what we've done on client service excellence our inbound call volumes are down materially over the last 24 months. Our repeat calls are down materially over the last 24 months and our call transfers are down materially over the last 24 months. So it says to me that we are getting something right on both the cost front and the customer service excellence side of things.

Phillip Huang

Thanks very much.

Paul Carpino

Thanks Phil. Next question, Peter.

Tim Casey

Thanks. Darren could you talk a little bit about how your go to market strategy on the wireline side is evolving given that Shaw has re-priced and reconfigured their data offering and they're going to be in market presumably with an IP service on the video side soon. I'm just wondering how you're thinking about block-by-block tactical marketing initiatives and things like that. Thanks.

Darren Entwistle

Okay. Thanks Tim. Hard for me on this forum to discuss that degree of granularity. I'm not going to discuss our pricing or marketing responses to their pricing and marketing activities overall.

But something that you said is quite pressing that it is going to be a block by block type progress move from us as it relates to the expansion of our fibre footprint on a modular and on a sustained basis. The fibre program at TELUS has been particularly successful for us. Customers have responded extremely positively. We've been able to establish a multi-product relationship with both household and businesses alike.

It's bringing a tremendous amount of innovation, new services and capacity for our clients. And importantly back to the previous comments it is allowing us to take cost out of our business. Our repair rate on our fibre infrastructure by way of example is 1/15 of what we traditionally experienced on the copper front.

So, I'm thinking that particular program as we expand and start trending towards 1 million households being covered with our fibre footprint, hitting levels of penetration at the 30% level across that million household's footprint that's going to be the key path for us. And it's important to think about this particular program over the longer term because we are making a generational investment in gigabyte enabling not just our wireline business, but our wireless business along the way.

The economies of scope in terms of what we're doing on fibre and the synergy that they have with the fibre that we need to deploy in preparation for the advent of 5G on the wireless front are quite considerable to say the least. So when we think about making this investment in the very low cost of capital environment and leveraging deployment efficiencies along the way, we think about scope economies across residential and business, scope economies across wireline and wireless. And scope economies in terms of what fibre can do for higher Internet speeds and 4K TV but also how it underpins the future in terms of next generation data services including the Internet of Things and home automation and the like to me is a tremendously exciting and consistent tenet to our response from competitive action that's taken place either in western Canada or within our ILEC territory in eastern Quebec.

The other thing that I think is important is to think about the bundle overall. Customers typically don't just buy Internet. They are looking for an Internet solution and they're also interested in our thoughtfully constructed, highly differentiated premium TV experience. That is an indeed an attractive component of the overall bundled offering where we have OTT solutions that are actually part of our Optik TV composite, including Netflix.

Which is important to have Netflix within our Optik TV ecosystem where OTT is actually our friend not our foe. And when we think about what Netflix is going to do in terms of the development of 4K content and our ability to deliver that to clients on a differentiated basis, I think that's pretty smart positioning for our organization overall.

The other thing that we don't talk about enough is we talk about bandwidth on a segmented basis. Like customers have some sort of regulated differentiation in terms of their perspective between wireline and wireless, but frankly that's just not the case. So when we think of marketing bundles with bandwidth we think about the combination of high-speed Internet access with our premium LTE enabled smartphone package.

And we think about a cumulative bandwidth that we offer to our customers along the way. And some of the integrated services that are tremendously exciting like watching the Olympics with Optik on the Go.

So when you've got a powerful LTE network, you've got great premium smartphone devices, when you're evolving that LTE network to LTE advanced and to 5G and you're combining your wireless bandwidth with your wireline bandwidth, to me I think that's the cool thing about the overall experience that we can offer. Drawing from the strengths of both our fibre investment on wireline, our broadband investment in wireless and the way that we leverage the synergy between the two.

And then finally I think about what's going on in terms of competitive intensity. If I look back over the last 16 years I would say give me competitive intensity any day of the week over onerous regulation. I know how to respond to competitive intensity. We know how to compete, we know how to market, we know how to make smart investments, so that we can win on a consistent basis. Regulation is a different kettle of fish in that regard and I'm pleased with the transparent and the consistent regulatory environment that we're currently enjoying right now in Western Canada.

Then lastly in terms of competing, there was a comment made about diversity of sources previously. The TELUS organization has a lot of diversity sources to draw upon and that speaks to the strength of our asset composite. And less than 50% of our business overall nationally overlaps with the Shaw organization where it's about 95% for Shaw.

When it comes to resilience that comes out of that diversity of strength, that quality of the sources of revenue and EBITDA along the way it gives us a competitive posture that I would say that is pretty darn robust. Those are some of the thoughts that we have. But we're going to continue to progress our fibre program, which has been very richly successful for us from a performance point of view. And that's assessed by the client and it's the client voice that matters.

Tim Casey

Thank you.

Paul Carpino

Thanks Tim. Next question, Peter.

Simon Flannery

Thank you very much. If I could come back to the dividend growth model, Darren. You've obviously got -- you've moved to this 7% to 10% range, in the prior years we've had a pretty sort of specific target but now it's 7% to 10%. Can you give us a little bit more colour about what's going to determine whether it's the 7% or it's the 10% or somewhere in between. Is that EPS payout, is that free cash flow, is that leverage, or all of the above as you think about sort of next quarter?

And then any comments any more detail you could give us about specifically what the extra $200 million of CapEx is going on? Thanks.

Darren Entwistle

So you actually Simon, answered the question for me quite eloquently. So it is indeed all of the above. It's looking at things like our net income, it's looking at our free cash flow, it's looking at our net debt to EBITDA. And it's looking at those things both currently, retrospectively, and importantly prospectively in terms of how we would expect to do on a go forward basis.

I think 7% to 10% is pretty good specificity, particularly given our track record on delivering against our dividend growth expectations over an extremely long protracted period of time right now. And the fact that we're pretty darn unique on a global basis in terms of postulating that level of dividend growth all the way out to 2019 and here we are having a conversation at the midpoint of 2016.

Overall what I think is very interesting about the TELUS organization in terms of being distinct from an investment opportunity point of view, is that we can do two things that are typically mutually exclusive at most organizations. Those two things are continue to return material cash to shareholders through our dividend growth model and our subordinated NCIB programs and simultaneously make thoughtful investments for the future. And you saw us elevating our CapEx investment for 2016 to support what we want to do on the wireless front, on broadband and what we are continuing to do on the fibre front.

And that's a pretty unique story overall, that's buttressed by a very strong balance sheet at the TELUS organization. And the reason why it's so important in my view to make these investments is because I'm not concerned with concluding the dividend growth model in 2019. I'm concerned with elongating the dividend growth model post 2019. And our ability to do that is contingent upon the investments that we make today in what is effectively successful broadband technologies on the wireless and the wireline front.

So I would guide you to say you can expect us to be within that particular range because I think we've got a pretty darn good track record in delivering against our commitments. And the better that we do in driving profitable revenue growth, EBITDA expansion from quality loading within this particular organization and having those strengths of financial results manifest themselves on the P&L and on the balance sheet. You'll see us closer to the high end of the range than the midpoint or the lower end of the range.

I think that's really the task for the management team of this organization. We've got great growth opportunities available for us on both wireless and wireline if we can continue to have that quality harvesting of volume that drives the positive economic impact for this company across the breadth of our asset base. I think you can expect us to deliver dividend growth in the future that from a magnitude perspective looks a lot like the dividend growth percentages that we've driven in the past.

Simon Flannery

Great. And on the CapEx? Any specifics on the increase and is it coming out of 2017 or is this just accelerating the overall build.

Darren Entwistle

I would say it's a mixture of both Simon. So importantly I guess the best empirical evidence to substantiate the comments that I just made is that the increased CapEx in 2016 is not coming at the cost of our capital return policy. So they are indeed mutually inclusive and we're driving on with those. We continue to have that ability to invest for the future and returning cash to you that we've committed to along the way.

It's really related to two components. Number one is wireless and this would be more the incremental components rather than a pull forward from 2017. We made the call in terms of our radio asset network in Quebec to do a vendor swap out to improve the network performance on the wireless front within the province of Quebec in terms of speed, capacity, and importantly to deliver enhanced reliability in terms of things like access failure rates or drop call rates.

And we think that swap out in terms of our radio access network infrastructure in the province and undertaking that major upgrade will be a positive thing for us to do. Because the performance factors that I've just articulated and to try and drive some that performance differentiation versus our competitors sphere in that particular province. The other areas on the wireless are a little bit more pull forward if you will or acceleration for lack of a better descriptor.

So we continue to feed the expansion of LTE and our LTE advanced network technology infrastructure. As I said in my comments earlier we are continuing to push fibre into the access network not just for wireline purposes but to support our small cell topology. And to prepare for the eventual evolution to 5G. And I think that's a smart economy of scope for this particular organization to pursue.

And then the second area is really related to wireline. That is very much pull forward from 2017. And pull forward is not doing anything unnatural, it's just pull forward because the performance of our fibre deployment program continues to be particularly strong. It's pull forward driven by positive customer responses, to the innovation this enables, to the real estate price elevation that this enables, the new services and quality and efficiency that this enables. This is really a customer driven pull forward aspect of why we are making this CapEx elevation today. And I think rewarding programs to tell us where we've seen strong overall performance and giving them more CapEx investment because they've earned it, I think is a smart attribute of our culture. And I talked about the fact that there's great economies of scope on the fibre investments.

We've got a transparent and consistent regulatory environment that hasn't happened that frequently over the last 16 years. So I think leveraging that is a smart thing. And I think making capital investments that are for the greater long-term good of this organization on the core business in broadband technology, is also a smart way to seize upon the low cost of capital environment that we're in right now.

Simon Flannery

Great. Good colour. Thank you.

Paul Carpino

Thanks Simon. Next question, Peter.

Drew McReynolds

Thanks very much. Two questions from me. First with respect to wireline margins, just Darren or Doug just wondering if you just flush out qualitatively the dynamics you are seeing specifically within TV Health and International. Are you kind of at scale with respect to these businesses? Is some of the margin improvement sustainable going forward?

I think that would be helpful. And then secondly, Darren for you just back to 5G, when we look at the pace of your fibre-to-the-home deployment in the economies of scope with a small cell deployment on top of that. Just wondering is this something that TELUS can get a head of in terms of the benefits of 5G? Or is it really a shotgun for the broader industry in terms of being able to generate some real traction with that technology. Thanks.

Doug French

It's Doug I will take the first part. So on the wireline margin there's definitely room in there; we are definitely planning for continued margin enhancement and improvements. I think the two items that you would've seen is we were the only significant revenue growth and RGU growth in the RGU and wireline framework. So we continue to grow revenue. And our revenue growth was limited a little bit by that infrastructure spending by some of our customers which is generally low margin equipment sales was actually down year over year. So our core fundamental Internet, Health, TI type revenue was even stronger than what was on the page that you saw in front of you.

We also continue then to have our cost initiatives as Darren pointed out. TI being one of those opportunities where we continue to drive value of our own organization by the use of TI services. And also the internal cost efficiencies that Darren referred to in the efficiency and effectiveness around reliability. And the enhancement programs that we put in over the past year. So I would expect to see margins on wireline continue for both those fronts.

Darren Entwistle

In terms of 5G, although it's clearly still formative and at the development stages, I think it will be a very exciting development for a number of reasons. Firstly, I think as everyone would recognize the continued data consumption continues to be extremely aggressive within our industry in terms of satiating consumer demand or business demand in that regard.

So having technology solutions in terms of broadband infrastructure that can meet or provide incremental capacity to answer the data-driven volumes from our diverse client base I think is a smart thing to do. And those data volumes into the future are going to grow.

The other thing that we think about a lot when it comes to answering the demand for data is to think about it not asymmetrically, but symmetrically. A lot of people talk about data speeds on the down link, but increasingly upload speeds are important as it relates to data. Whether that's for business customers or whether it relates to the gaming environment, having a symmetrical network topology infrastructure and technology to support two-way data volumes is a key strategic thrust across both wireline and wireless overall.

Secondly in terms of thinking about 5G wireless, the opportunity for us to take this concept from formative or developmental through our living lab environment our 5G living lab in Vancouver, to trial deployments, to test. What effectively in terms of best way of describing 5G is to think about it as a layered mesh network with distributed topologies that leverage a centralized or cloud-based RAN environment. Underpinned by fibre that provides both the back haul and the front haul again back to symmetry to support movements of data on that 5G network. That's exactly where we're going with our network architecture and design.

The other thing about 5G is that it’s tremendously synergistic with wireline. So when you think about consumers moving seamlessly from their living room or their computer to their device of choice when they're on the move and not having any type of information entertainment, interaction and disruption along the way, to be able to do that seamlessly, smoothly.
And have the necessary bandwidth to support what they are trying to process on the entertainment or the interaction or the information front is going to be a key differentiating factor for this organization. So those wireless and wireline synergies I think become even more acute. When you think about the network design and architecture on the 5G wireless front and how it dovetails with what we're doing in terms of fibre deployment on the wireline front overall.

You saw us make some announcements last year in two major urban environments both Edmonton and Vancouver in terms of fibre deployment. And I think a lot of people at that particular time thought okay, it's fibre deployment to support consumers and businesses. Yes it's about Internet speed. Yes it's about things like 4K TV and the like. Maybe even about certain cool things like supporting health solutions within the home and the like. But not a lot of people actually look beyond and say wow that particular fibre investment is also going to precede what TELUS needs to do in those urban markets on the 5G front. But that's actually the case and that's why I keep talking about economies of scope that are so critically important overall.

Last thing when you think about what we can do on the speed front, on the capacity front, on the upload/download symmetry front, there's one other attribute again that doesn't get enough airtime lately, which is of course our network sharing agreement.

So when we think about the evolution to 5G and thinking about it on a national basis being able to leverage the network sharing agreement with our partner in terms of everything from the composition of our radio access network. Right through to considerations like fibre back haul or the optimization for the benefit of clients in terms of spectrum utilization. Those things are going to be absolutely critical to ensuring that our client experience the best coverage, the best reliability, and the best speeds, and the best integration overall with their wireline experience. And so that's where we're going with that layered, meshed, distributed, 5G network and that cloud-based RAN topology. And the wireline infrastructure in terms of wide-band fibre that underpins it.

Drew McReynolds

Thanks. Darren that's helpful.

Paul Carpino

Thank you Drew. Peter next question.

Vince Valentini

Yes thanks very much. Maybe just a clarification first and then a question. The $145 million for spectrum purchases this quarter that is not included in the CapEx this quarter or in the revised guidance is that correct?

Darren Entwistle

That's correct.

Vince Valentini

Okay great. I'm just trying to understand the numbers behind the fibre to home a little bit more. So you said you went from 750,000 homes up to 830,000 homes this quarter. So 80,000 we'll think about $1,000 per home that would be about $80 million of direct investment. But the wireline CapEx in total is $511 million.

So I suggest those numbers are misleading you must be spending a ton of money on the sort of backbone infrastructure and you're getting closer to homes and this 80,000 increase doesn't really show the power of what you're investing. Is that fair? Because if it is and 80,000 a quarter will take you 6.5 years to finish everywhere. So if you can give any colour on that it would be great.

Darren Entwistle

Vince you want maybe for us to call you afterwards because I think the breakdown of the numbers, not with tremendous specificity but directionally might be helpful for you. Because our wireline CapEx is broader than just the fibre-to-the-home component. As you know we're deploying wireline CapEx for diverse purposes such as what we're doing with the Government of Ontario. What we're currently doing with the Government of Canada along the way. So large complex deals on a national basis. We have data activities that are transpiring on wireline that are not specific. We've got set-top box considerations. I think it might be helpful just to have a layered conversation so we can give you some directional understanding in terms of the wireline CapEx segmentation.

Doug French

Right in addition there is a lot of pre-work that is leading to future homes that will be passed have not yet been covered let's say in our number of 830,000. So a significant portion of that as well.

Vince Valentini

I would love to have that more detailed discussion. But for everybody's purposes then it's not fair to say 80,000 a quarter take 6.5 years to finish this, you should be able to finish the fibre-to-the-home much quicker than that, is that fair?

Darren Entwistle

I think 6.5 years would be a long-tail in terms of this particular deployment. Our expectations in terms of concluding this would be much more truncated than that Vince, but it's not going to be something that concludes in 2017. So I think five years is a pretty good target overall in terms of where we want to get too. And I already made the comment that by the end of 2016 will be turning towards a million homes covered by our fibre footprint. And I gave you some indication that we would expect to be in the overall 30% penetration environment in that regard.

Vince Valentini

Thanks.

Paul Carpino

Great. Thank you Vince. Next question.

Batya Levi

Great thank you. Two questions. First on Alberta, can you just talk about if the weakness in that region is getting worse or it's similar to trend? And as you anniversary the pressure when that started a year ago in 3Q, can we see some acceleration in a couple of the metrics that were hurt by it, like ARPU growth in wireless or some business trends in wireline?

And then second, maybe a little bit more strategic we did talk about the over-the-top product as it evolves and takes more share, what are your thoughts of potentially going outside of your wireline footprint and bundle the product with wireless? And as you do that versus your peers do think it matters if you own content assets are not? Thank you.

Darren Entwistle

Okay. Let me take this in reverse. I think content is really important. I think the manifestation of that belief doesn't have to get reflected in content ownership. So I think content partnerships, content procurement, and content commercial relationships are a better path for the TELUS organization to follow.

If you're looking for a corollary in terms of content investments, TELUS has gone down a differentiated path in terms of what we're doing on the TELUS Health environment. And we think the economic returns and the social returns as well from that particular investment will significantly exceed anything that we could have realized out of a content investment at the end of the day.

And we think it's much more synergistic with the type of broadband technology that we are deploying for both consumers and businesses overall. In terms of OTT outside of our ILEC infrastructure. We have no intentions of the present point to pursue that particular strategy. Not that there's anything wrong with that strategy. I think we've got enough growth opportunity facing us currently within our western Canadian and eastern Quebec footprint.

And I think our disciplined responsibility to shareholders is to harvest that particular growth to operationalize that growth. And the important thing at the end of the day is if investors are going to allow us to spend their money in terms of the CapEx investment to drive things like fibre infrastructure, then I think it's our responsibility to investors to get a return on that investment.

And so that's very much our focus right now to say okay, we're on a modular deployment program on the fibre front within our ILEC territory to support all those growth opportunities that I've articulated. And I think it's our premium responsibility, our first responsibility to exact an economic return from that investment. What the future may hold over a longer term any one can guess in an industry as unpredictable as telecommunications overall.

The first question was Alberta. Yes just reflecting on your comments on Alberta. Alberta remains a challenging environment. We haven't seen it worsening so to speak, but it remains a very challenging environment. And that's what makes me particularly proud of the results that this organization delivered in Q2. And the fact that we have a positive view for the remainder of 2016 and into 2017, not just on an operational front in terms of loading, but on a financial front and we put our money where our mouth is. We raised the bottom end of our guidance range. And if I look at our financial targeting from revenue to EBITDA, I think it's a leading goal on a consolidated basis amongst our peer group. And that's in the face of the softness that we have within Alberta.

I do think that the Q2 results reflect the quality, the cyclical or countercyclical resiliency of telecommunications type services, and the diversity of our operations in the face of those economic challenges. And pleased to see that we had such a comprehensively strong quarter across our operations, wireless and wireline, and across our financial results wireless and wireline.

We’re going to continue to work our way through the Alberta challenge. And I have to say looking at what we've been in able to achieve on the cost efficiencies front, nice to see the magnitude of margin expansion that we realized on both wireline and wireless over effectively 100 bps of margin expansion on both wireline and wireless. I think it speaks to the traction that we been able to deliver as it relates to both profitable growth, but as well the cost efficiencies that we've driven within this organization, despite the dilutive affect of Alberta overall.

In terms of lapping Alberta let me just give you some specificity on that, that might be helpful. If you look at our wireline consumer services in particular TV, HSIA and home phone, our performance in Alberta has been pretty solid overall. And we're pleased with that. Our wireless loading has been impacted on a year over year basis upwards of 10,000 loads impacted because of the economic duress that Alberta has been going through.

Our ARPU on the consumer side has been a fairly resilient. And the explanation on that front is the comment that I made earlier - it's the resiliency of our industry and the counter cyclicality of our services, including smartphones and HSIA. So we've seen good robustness on that side of things.

On the business ARPU front we continue to be challenged as people deal with the cost paradigm of the economic duress. And our ARPU's down about 8% on the business side of things. And of course we had a solid market share position in Alberta so that's a material number for us overall. And on B2B wireline that's a challenge as well, same as the business ARPU. But I said to the team and the team's responded let's go out and see if we can leverage this crisis. Because one of the things our technology should be able to deliver for business customers is greater business efficiency and workforce productivity. So let's see what we can do to generate a silver lining on this particular challenge overall.

And then lastly, as Doug so rightly pointed out Fort Mac presented an impact to us financially and Doug gave you colour on that. It did have an operational impact overall on our wireline RGUs. That diluted our overall results, but I think as responsible citizens we have to step back and say yes we have the diluted impact financially from Fort Mac and operationally from Fort Mac, but that pales into insignificance compared to what the people of Fort McMurray went through. And I think that's what should front of mind for this organization. I'm so proud of the way that the team responded during that crisis and the challenge that carries on. I can tell you wholeheartedly that the TELUS organization will put our hearts, our hands, and our technology into the recovery process of Fort McMurray because we see that as a major responsibility for our company.

Batya Levi

Great. Thank you so much for the colour.

Paul Carpino

Great. Thank you Batya. Peter, we have time for one more question.

Jeffrey Fan

Thanks and good morning. Just a couple of clarifications if I may. Darren, you talked about the five-year on the fibre build being a good target and you also talked about one-time pull forward of some of these investments. Is this one time pull forward -- I guess is this pull forward a one-time thing? Or are you actually shortening the investment horizon from some number of years to that five years? Maybe just to close the loop on that one.

And then a couple of other ones, 30% penetration that you talked about, that sounds kind of low from -- maybe that's just a short-term goal maybe the long-term goal is a lot higher. Because your fibre-to-the-home penetration is already well above 30%, I would suspect the fibre-to-the-home penetration goal would be much higher than that.

Then lastly, on some of your comments around 5G and just to clarify, you're talking about mobile 5G that you are investing in and not the fixed wireless last mile 5G vis-a-vis what Verizon is doing? Maybe just a quick clarification on that would be great. Thanks.

Darren Entwistle

Okay. So let's go in reverse on that. As it relates to 5G I'm actually talking about enabling both. So my comments that I made previously were more related to the former. But we would have the opportunity to leverage point to multi-point fixed wireless over 28 GHz by way of example as a solution that could be complementary for us.

One of the things that we've not communicated, but TELUS has been pretty good at innovating on the wireless front to use it for last mile productivity. It would be about now six years ago we first deployed HSIA over HSPA in eastern Quebec in some of the rural areas. We're now doing the same in western Canada in some of the non-urban areas where leveraging wireless as an access medium is a much more economic solution than doing something on the wireline front in terms of CapEx efficiency.

So we actually have a heritage of doing it. We did it out of economic necessity in eastern Quebec with a lot of leadership deploying HSIA over HSPA. And now naturally HSIA over LTE in both Quebec and western Canada, as an access mechanism because of the superior economics in some challenging non-urban territories.

So that would be a complementary mechanism that yes indeed we would look at case-by-case incidences where we could deploy that. But most of my comments previously were related to a more traditional concept of the 5G deployment overall. Next, as it relates to the pen rate a few things, 30% is a snapshot in time. The build is always ahead of the penetration level.

So it's a snowplow if you will and then the penetration catches up with it. I don't think it's appropriate to say where we're going to end up in terms of penetration on our fibre-based footprint. But I do think that the most appropriate thing to say rather than giving penetration targets or what we can expect to achieve. I would say the economic return responsibility from that fibre investment is the commitment that I will make intellectually to shareholders and be held accountable for.

The other thing that we don't always talk about, but we should, is within that 30% it's not just 30% homes passing connected. Because if fibre enables you to have a greater multiplicity of products on a per home basis that really does amplify the penetration overall. And I've not seen people talk or think about that as strategically as what they should. Because theoretically and you can hold us accountable for this because that's what the teams going to deliver here, when we've got fibre connectivity, it's not just the penetration on a home path in connection basis, but what it enables within the home.

And if we can go from two sources of revenue in the home to five sources of revenue in the home because of that fibre connection across wireline, wireless, health, home automation, and the like then man oh man I'm getting a greater bang for my buck on every 100 bps of penetration gain. Because I'm unlocking new sources of revenue on a per home by per home by per home basis.

The other thing that we forget about is we look at this purely as a consumer undertaking. But when you look at the res/biz overlap on the geo map in the areas that we're building we get a 40% to 50% res/biz overlap. And I would certainly hope that the small to medium-sized business economy of Canada gets competitively enabled, leveraging the economies of scope of passing homes by connecting more businesses along the way.

That particular number is not in the macro penetration rate either. And also, the same thing if we can go from having two or three products per business relationship to five to six products per business relationship because of the innovation that fibre enables. That's going to be an unbelievably powerful undertaking for us. And I think that is very much our responsibility overall.

Lastly, there's a bit of a logic point I think we need to subscribe to. If you are pulling forward your CapEx theoretically, you're shortening your deployment profile otherwise you are not really pulling forward your CapEx. So I would say in terms of pulling it forward and shortening the profile, I would say modestly so. Still a modular program, still medium to longer term in its orientation overall, so very modest acceleration.

And maybe on the flip side of that coin maybe because of the economy that we're getting in fibre, may be the size of our footprint now is a little bit bigger than what we intended when we first launched because of the success of the program. If we can hit certain performance thresholds, including multi-product penetrations, I think that supports a more ambitious eventual fibre coverage footprint that we would want to achieve.

Jeffrey Fan

Great. Thanks Darren.

Paul Carpino

Great. Thanks Jeff. On behalf of Darren and Doug, thank you for taking the time out to join us today. If you have any follow-ups, please contact the investor relations team. Thank you.

Operator

Ladies and gentlemen this concludes the TELUS 2016 Q2 earnings conference call. Thank you for your participation and have a nice day.