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TELUS

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PRESENTATION

Check against delivery

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2016 Q3 earnings conference call. I would like to introduce your speaker, Mr. Paul Carpino, please go ahead.

Paul Carpino

Thank you Peter. Good morning everyone, and thank you for joining us today. The third quarter 2016 news release and 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 third quarter by Doug French. After our prepared remarks we will conclude with a question and answer session. In consideration of your day, we are going to try to keep this call to under an hour. Let me direct your attention to slide two. This presentation, answers to questions and statements about future events, including 2016 annual targets and guidance, intentions for dividend growth, and future share purchases are subject to certain 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's annual MD&A, and filings with the Securities Commissions in Canada and the United States. Let me now turn the call over to Darren starting on slide three.

Darren Entwistle

Thanks Paul. Good morning everyone. TELUS delivered strong third quarter results, which continue to highlight the quality of the company's asset base, and the TELUS team's ability to consistently execute on our multifaceted disciplined growth strategy, underpinned by excellence in customer service. TELUS once again maintained industry-leading results in wireless, customer loyalty, ARPU growth, and lifetime revenue. In addition we expanded margins and delivered very strong consolidated and segmented revenue and EBITDA growth. Importantly, through these consistent results, TELUS continues to deliver on an industry-best capital return program to our investors.

Let me now provide with you some highlights of the quarter. Despite a highly competitive environment and ongoing economic challenges in Alberta, TELUS earned strong net additions in both of our wireless and wireline segments, with an increase of 115,000 net new customer additions in postpaid wireless, Internet, and TELUS TV. In wireless network revenue grew 4.9%, and EBITDA grew 6.1%, a solid increase compared to the same period last year. Moreover, we earned strong postpaid net additions of 87,000, up 26% from the third quarter of 2015.

TELUS also continues to earn the best customer loyalty amongst our North American peers, achieving a postpaid churn rate of 0.94% in the quarter. TELUS has now delivered a postpaid churn result of less than 1% in 12 of the last 13 quarters. This continues to be an achievement that is unmatched by our global peer group. Importantly blended ARPU increased by an industry-leading 3.8% to $66.67. Our team's commitment to delivering an unparalleled customer experience is the essence of our strong ARPU and industry-leading churn, which in turn continues to drive TELUS' leadership in lifetime revenue per customer. In this regard at more than $5,600, our current lifetime revenue per subscriber is 18%, and 48% higher than our two national peers.

Turning to wireline, TELUS once again delivered strong revenue and EBITDA growth this quarter. We continue to be one of the unique telecommunications companies globally to consistently report growth in wireline revenue, wireline EBITDA, and wireline customer connections. In this regard, wireline service revenue increased 2.5% in the third quarter. Notably, data revenue grew 7.9%, with high speed Internet additions increasing by 14,000, and total TV net additions growing by 14,000 as well. Wireline EBITDA growth increased an industry-leading 5.8% on a year-over-year basis. This increase was driven primarily by growth in data service margin, and from TELUS ongoing operational efficiency initiatives, and the traction that they are realizing.

We are particularly pleased with our results of delivering both positive RGUs and strong financial performance, despite the economic challenges in Alberta, and a more recent aggressive pricing environment in western Canada. Our residential NAL losses of 25,000 were unchanged for the quarter. With consistent and continued strong financial performance in the third quarter, we continued to demonstrate TELUS' ability to return capital to shareholders, while simultaneously funding our strategic growth initiatives.

Today our Board announced its 12th dividend increase in the past six years, as part of our multi-year 10% per annum dividend growth program, which was launched in May of 2011. With this increase, TELUS has successfully delivered on its second consecutive three-year commitment to annual double-digit dividend growth. Uniquely, there are not many corporations in the world in any industry that can invest ardently for the future, and simultaneously return significant amounts of cash to shareholders. This is particularly unprecedented in our industry during this near-term period of elevated higher capital investments in technology, network infrastructure, and spectrum for our wireless business.

At most companies, the combination of deploying significant capital investments for future growth and returning significant amounts of capital to investors are mutually exclusive. But at TELUS, it's mutually inclusive. As we stated in the past, our steadfastness in delivering shareholder-friendly initiatives is a direct result of our long-term strategy, focused on consistent and disciplined CapEx investments, mostly organic that are in our core business. This strategy has directly translated into TELUS providing the industry's most robust shareholder-friendly initiatives, reflected in TELUS having returned $13.6 billion, or an impressive $23 per share to shareholders between 2004 and October of 2016. This includes $8.4 billion in dividends, and $5.2 billion in share purchases. Furthermore, this 12-year track record, combined with continued strong operational results and our successful investment strategy, buttresses our next three-year capital return program commencing in 2017 and running through 2019. Notably these double-digit increases in dividend growth over the past six years have been accomplished against a back drop of competitive challenges, significant economic volatility, occasional periods of high regulatory uncertainty, and elevated levels of capital investment in our core business.

Clearly, there is an undeniable correlation between our ability to deliver on our shareholder friendly initiatives, and the consistent and transparent strategy which has guided our actions for the past decade and a half. I would like to thank the TELUS team for their passionate commitment to putting customers first and making a difference, and to thank them for their effective execution of our growth and our efficiency initiatives day in and day out. It is because of our team's efforts that our organization is delivering on our industry-leading growth targets, and our commitments to customers and our commitments to shareholders alike.

Now let me turn the call over to Doug.

Doug French

Thank you Darren. Good morning. I am on slide eight. Third quarter wireless results showed strong network revenue growth and improving margins as a result of solid operational execution in a competitive market. Network revenue grew 4.9% reflecting higher ARPU driven by data, and continued high value postpaid subscriber growth. Adjusted EBITDA increased by 6.1% from higher network revenue and cost savings through the execution of our operational efficiency and effectiveness initiatives. Adjusted EBITDA margins were up 130 basis points, as revenue growth and expense control offset a $26 million increase in combined COA and COR costs. Capital expenditures increased year-over-year by 41%, reflecting continued LTE enhancements, spectrum deployments, and increased investments in support of our small cell technology, and 5G strategy.

Moving to wireline on slide nine. In wireline, revenue increased 2.3% year-over-year, wireline revenue has now increased year-over-year for 23 consecutive quarters. The growth was driven by an increase in data revenue of 7.9% reflecting strong growth from TELUS international, continued high speed Internet and TV subscriber growth, higher revenue per Internet and TV subscriber, offsetting this was a decline in voice and other revenue. Reported wireline EBITDA increased 5%. When excluding restructuring costs a net real estate gain, our adjusted wireline EBITDA increased 4.2%, with a margin of 27.8% up 50 basis points year-over-year. Included in the results was an accrual for the remaining ownership of TELUS international operations in Europe. Wireline EBITDA growth was 5.8% excluding this item. EBITDA margin growth reflects execution of our cost efficiency programs, and improving margins in Internet, business process outsourcing services, TV, and health services.

CapEx increased 19% due to continued generational investments in broadband network infrastructure. This included connecting more homes and businesses directly to our fibre optic network. Our TELUS PureFibre footprint is now in approximately 1 million homes and businesses. Putting it all together, consolidated revenue was up 2.6%, with reported EBITDA up nearly 6% as noted on slide ten. Adjusted EBITDA increased 5.5%. EPS of $0.59 was down 3% year-over-year, or 1.5% on an adjusted basis. The EPS drivers are available in the appendix. Free cash flow of $98 million decreased by 68%, primarily due to higher CapEx and higher income tax payments this quarter. This was expected and previously guided. Overall, a very strong quarter of customer and EBITDA growth showing the results of our focused growth strategy, our customer first initiatives, and our cost efficiency and effectiveness programs.

Let me conclude on slide 11. As we head into the final quarter of the year, we are reiterating our 2016 guidance, excluding the effects of compensation changes. In the third quarter we announced a tentative agreement with our principal labor union for a five year agreement subject to positive ratification later this month. Terms of the agreement include lump sum payments in lieu of general salary increases for July 2016, 2017, and 2018, and compensation in consideration for collective agreement concessions that underpin future productivity improvements. This one-time lump sum payments to the union team members will occur in December 2016 if ratified. We also decided to align the same approach for compensation of our management employees, where in lieu of salary increases for 2017 and 2018, team members will receive a lump sum payment. A portion of the lump sum payments will be paid with common shares purchased in the market. The combined one-time payments for these changes is expected to be approximately $300 million, and will be paid and expensed in the fourth quarter. This amount is excluded from our 2016 guidance confirmation.

Let me now pass it back to Paul for the question and answer period.

Paul Carpino

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

QUESTIONS and ANSWERS

Operator

Thank you our first question comes from Phillip Huang, please go ahead.

Phillip Huang

Hi. Thanks good morning it's certainly great to see all of the wireless metrics perform so well at the same time, I'm more accustomed to see a compromise in margins, in order to get such strong subscribers in this industry. Just looking, when you look across the major markets, is there any specific region that stands out as a bigger driver of your subscriber growth--?

Darren Entwistle

Our performance has been strong pervasively on a national basis. The one thing I would highlight, of course, is the economic duress that we have been working through within the province of Alberta. It was encouraging for us in Q3 to see some moderation on the wireless side in this regard. We saw improving stabilization, in terms of our wireless results on both the consumer side of our business and on the B2B component. And so that was encouraging for us as it relates to wireless. But in terms of the overall results holistically, I think it's a strong performance across the board, in terms of all of the geographies and the markets that we seek to address.

Phillip Huang

That's very helpful. And just looking ahead to Q4, obviously iPhone 7 is certainly top of mind for many consumers. Has the supply eased a bit now, just given the pre-order supply, our understanding seemed like it was pretty tight in the industry. And do you expect it to be a bigger driver of subsidies and upgrades into Q4 versus Q3? And also, do you see overall iPhone sales, do you see that as a bigger driver of upgrades into Q4, and do you see a strong growth momentum extending into the fourth quarter? Thanks, Darren.

Darren Entwistle

Okay. I'll try and answer those questions sequentially here. I think you just have to look at our COR on a nominal basis to see the rate impact of the iPhone, in terms of the economics of our business. We believe it will continue and increase, in terms of being a factor within Q4, particularly right now given the competitive juxtaposition of the iPhone versus Samsung within our product lineup. So in terms of our forecast, we're expecting continued strong growth in wireless through the seasonal loading period of Q4 where we have seminal events, including Black Friday and Cyber Monday, and of course, the Christmas selling period. So the strengths that you saw in Q3 in terms of our overall loading, we would expect that to continue into Q4. And of course, there is a cost factor for us there on the iPhone front. That's going to get reflected within our COR and COA results.

On the flip side, I guess one of the things I would highlight for you is that the ARPU result on the iPhone front and the churn result on the iPhone front, and the combination of that in terms of lifetime revenue on the iPhone front is extremely attractive. So the return that we get on that incremental COR and COA investment remains attractive for this organization because of the ARPU churn and lifetime revenue characteristics that I have just described.

Phillip Huang

That's very helpful, Darren. And maybe if I can squeeze in one for Doug on cost savings. I was wondering if you could give us an update on what run rate savings we've been able to achieve at the end of the quarter? Thanks.

Doug French

I think you would have seen our cost increases being very moderate in the quarter-over-quarter and year-over-year. And you would have seen also our programs last year, we had FTA reductions of approximately 1,500 FTEs, so that run rate is making its way through. We continue to implement that with other efficiency opportunities, which would include reliability metrics and other line items beyond just FTEs. So I think without actually quoting that number, I think that you will see continued improvement in the cost line, you can see our revenues growing faster than our OpEx on that perspective, and you should expect that to continue.

Phillip Huang

Thanks very much.

Paul Carpino

Thanks, Phil. Next question, Peter.

Operator

Thank you. Next question comes from Richard Choe. Please go ahead.

Richard Choe

Thank you. Wireline had a very strong revenue quarter, especially with the tough comp from last year. Thinking about the three buckets of growth, consumer, Internet, enterprise, and then video, is there one that's doing better than the others in driving growth, or are they all kind of contributing equally?

Darren Entwistle

So I think there's certainly a bias within that particular dichotomy on the wireline front. We're seeing strong growth coming from data services, which is skewed towards Internet on the consumer front, and video on the consumer front. Holistically for us, the enterprise business has been a little bit soft because of the Alberta impact. So if you look at wireline in general, the growth is coming from data and consumer. The second area that is buttressing that is that we've been, I think, quite prescient in driving our cost efficiency programs within the TELUS organization, across both wireline and wireless, and the thesis behind these cost efficiency programs that we've been running now for almost a year and a half, has been to buttress the overall financial results of the organization. And you see that in the 5.8% EBITDA growth rate on the wireline side.

Number two, it provides us with the resiliency to participate in competitive skirmishes and weather competitive intensity, and make the necessary growth and retention investments within a competitive environment on both wireline and wireless. And lastly, the cost efficiency programs are underpinning longer term growth initiatives including our fibre to the premise program, which continues to be extremely successful and is one of the things underpinning the longer term growth initiatives, and the data growth rate that I just articulated that we're experiencing within our consumer business.

Richard Choe

And has the competitive environment changed at all, the wireline side or wireless side since the end of the quarter?

Darren Entwistle

The wireline side of the business was more aggressive on a year-over-year basis in western Canada, and I think you can see that reflected in TELUS' results overall. It was not a significant factor in terms of growth. There was very good competitive positioning there. But it had an impact in terms of churn, because of the intensity that we're seeing in that market overall in terms of TELUS' competitive posture versus our cable competitor. I think the response from

TELUS has been excellent. You can see that reflected within our financials where the 5.8% EBITDA that I have just articulated compares very favorably with any incumbent wireline company on the planet.

If you look at the strength of our holistic RGUs, they are positive, and you can't say that for very many of our competitors who have negative RGUs. We led our industry nationally on TV nets, and we led the west on HSIA net additions. So I would say we are weathering this particular environment quite well. In terms of the impact on churn that I've talked about, I think our response in the future to our competitors is going to be one where we are proportionate to the extent to which we experience a competitive aggression reflected in any facet, including pricing, we will respond on a proportionate basis. I was particularly encouraged in looking at our Q3 results as to the strength of our performance in September as we exited the third quarter and we deployed our response measures to the competitive intensity with excellent affect in the marketplace.

The other thing that I think you can look for from TELUS over the near medium and longer term, is an organization that's going to focus on quality and product based differentiation through product based innovation. And you can see that with our premium TV and Internet products. We are the only entity in western Canada that's offering 4K right now on our Optik TV platform, and in the month of October we just now launched 4K on Netflix, and that's going to be, I think, particularly powerful for our organization, and leverage our product and our distribution advantages.

The other thing that I think is interesting is that our fibre to the premise program on both consumer and business just goes from strength to strength, and it's particularly resilient to the competitive skirmishes that I've just been articulating. And we are in terms of our fibre program and the reciprocal speeds that the technology supports, I would note that we're the only Canadian company offering 150 meg reciprocal, and the uplink speed on the 150 meg reciprocal or symmetrical, if you will, is ten times faster than our cable competitor.

And then when you think about the competitive posture of our organization, I would note that our cable competitor has a 90% business overlap with TELUS, but TELUS has only a 58% overlap with our cable competitor across our product lines, across the markets that we address, and across our geographies, and I think those variances and that diversification is an important consideration when you address any localized competitive intensity.

And then the comment that I made earlier, we started taking costs out of this business ardently, effectively, and with precision, so that we did not dilute our customer service excellence well over 15 months ago, and that program has enjoyed a lot of traction. And that helps us weather competitive intensity. It gives us the money to fund our competitive responses. It gives us strong financial results that are world leading. And importantly, it gives us the cash to invest in programs like fibre to the homes.

So when I think about how well TELUS is doing, you go back over the last five years, this company has consistently outperformed on TV, and on the Internet, and overall in terms of RGU growth on the wireline side of the business. And on top of that while outperforming on TV, Internet, and holistic RGUs, we've now delivered 16 consecutive quarters of EBITDA growth on the wireline side of our business. I think that is pretty unique within our industry.

Richard Choe

Great. Thank you.

Paul Carpino

Thanks, Richard. Next question, Peter.

Operator

Thank you. Next question comes from Greg MacDonald. Please go ahead.

Greg MacDonald

Thanks, good morning guys. Darren, you made comments on some of the growth factors in wireline, which indeed is a pretty good result. A couple of areas that you haven't commented on, and largely because they're not big in size but they are big in disproportionate growth are TELUS International and TELUS Health. I was wondering if you might give us an update on performance there and to the extent you're comfortable talk about sustainability into 2017? Thanks.

Darren Entwistle

Okay. In terms of TELUS health, the performance has been modest and satisfactory, but I think could be a lot better. So in terms of TELUS going forward, Josh Blair and I are looking for heightened performance out of our TELUS health business, as it executes its strategy particularly within the primary care health ecosystem over 2017, 2018, and 2019.

So when I looked at Q3, it was okay. I would say it's a modest performance. Might be categorized as satisfactory. For me, I'm a bit disappointed to be transparent on the TELUS Health front. There's so much potential and growth opportunity within TELUS Health, in terms of quality top line revenue growth, great opportunity for profit expansion, significant opportunity in terms of developing new RGUs, particularly with our focus on the primary care health ecosystem, which is people, homes, docs, clinics and pharmacies, so I think we can do a heck of a lot better. And that is what the business is going to be tasked with achieving in 2017, 2018, and 2019. In terms of materiality and our overall wireline results, I wouldn't describe it as consequential.

The TELUS International business is performing extremely strongly. Just to give you a little bit of empirical perspective, we're not going to get into continuous disclosure on TI, but to give you an empirical prove point to that particular supposition in terms of the strength of the growth, EBITDA growth on TELUS International was 30% in Q3 on a year-over-year basis. I like the markets they're addressing the opportunity to move from voice based BPO business process outsourcing, to data business process outsourcing, to focus on the IT market, in terms of outsourcing solutions, significant growth. I like the quality of the revenue and the EBITDA at TI, in terms of how the business is developing, the type of client base that we have. There are a lot of blue chip brand names within our client base, and that client base continues to expand.

I love the fact that the topology of TI is performing so effectively. The business is performing well in Central America, its performing well in Eastern Europe, and it's performing well in the Philippines. So the diversity of the performance, the pervasiveness of the quality of the performance across TI is tremendously exciting. The team there has done a great job. They're extremely dedicated. And the opportunities on the data BPO front and IT outsourcing front are tremendously exciting. And then lastly because of TI's thesis, which is not about labor arbitrage, but it's about excellence in customer service, which mimics the same strategy that TELUS is pursuing, TELUS International has been a terrific supplier to TELUS. And giving us material efficiencies, and we would not be able to generate the economics that we are experiencing on major J-curve investments like TV, like high speed Internet, like the investments that we're making in fibre to the home, without the buttressing that we're getting, in terms of the overall economics on the support of TELUS International, alongside the excellent work of our TELUS team members domestically.

So I look for very strong things from TI in 2017, 2018, and 2019. And I think the partnership that we've got going with Barings right now is absolutely excellent. They're bringing a lot of value to the table. They're helping the organic growth of the business by bringing us client opportunities that can expand our client base, and they're also bringing us interesting opportunities in terms of corporate development, because the growth pieces at TI is an excellent combination of organic growth and very selective and opportune acquisitions. And if you look at our acquisition track record in TI, we have done very, very well in making smart selections, where we harvested a lot of economic growth from those acquisitions. So I think the future is very bright over the medium, longer term, and right now as it relates to TI.

Greg MacDonald

Quick follow-on on that, if I go back to TELUS health, to move your opinion from modest to very happy with that opportunity, the remedies there, are they completely in control, in TELUS' control, or are there still issues that have to happen in government for you to be able to hit those targets?

Darren Entwistle

I think some of the exogenous factors that you have articulated would be complementary. They would be the icing on the cake. But in terms of improving TELUS health, I think it's entirely within our control. It is down to us. The soft performance is management's responsibility. It is my responsibility. I've got to take accountability for that.

And what I'm talking about in terms of growth is basic blocking and tackling, so that we grow our personal health record business. We grow our home health monitoring business. We grow our electronic medical records business within docs and clinics. We grow our pharmacy management systems. We've got great products, and it's down to us to grow those product bases, those client relationships, the revenue that we derive and the margin that we derive from those products, on a future basis at a level, at a cadence that's over and above what we're delivering right now. And I think the opportunity is there. We've got to go out and seize it. So I think it's entirely within our own control. Yes, could some exogenous factors improve that, absolutely. But the accountability is down to this management team.

Greg MacDonald

So it sounds like 2017 is an execution period. Are we going to be able to see possibly results in 2017, or would that be more 2018, 2019?

Darren Entwistle

No. I'd be looking for results in 2017. And the last 16 years have been an execution period. But for us there's just too much opportunity on the health side. When you look at the percentage that health is of the overall GDP of our country, the amount of money that's being spent there, and the necessity within a digital world for healthcare transformation where we want to deliver better health outcomes for less money spent from an efficiency perspective, technology can do that absolutely. It's in fact the key driver to making that happen. So we don't just have an economic responsibility to our shareholders. We have a responsibility to society to help drive this transformation that technology enables. But even more than that in terms of efficiency and better health outcomes, the technology that we have within the TELUS health business, can actually drive a shift from the remediation of illness to the promotion of wellness. So it's down to us to go out particularly with that focus in the primary care health topology, and take our solutions to market, and grow profitable revenue from that on a very sustainable basis, so I am looking and expecting great things from TELUS health in 2017 and well beyond.

Greg MacDonald

Thanks for your answers, Darren.

Paul Carpino

Thanks, Greg. Peter, next question, please.

Operator

Thank you. Next question comes from Maher Yaghi, please go ahead.

Maher Yaghi

Yes good morning. Thank you for taking my question. Nice results guys, I just have a more big picture question. I'll try to be concise. At the end of 2010, TELUS's leverage was around 1.8 times. Since then, the Company has made significant stock repurchases and bought valuable spectrum, but is also making major investment in FTTH, leverage is now sitting at about 2.6 times and free cash flow distribution is above 100%. I think the question on investors minds is when this FTTH investment cycle comes to pass, where should we expect leverage to peak?

Darren Entwistle

Okay. So Maher, and for everyone on the call, with our efficiency mind-set on, let's see if I can help with this answer to end this recurring dialogue, and put this particular conversation to rest. So firstly, in terms of where we were back in 2010 and where we are right now, I don't think 2.6 is a million miles from 1.8 when we have made the generational investments that we've made in fibre to the premise and spectrum. But in terms of giving you a crystal ball as to where this organization is going, I will try now to be as precise as I can.

So firstly in terms of what you can expect, we will continue to invest at this pace for the next five years. Why? Because it's the right thing to do. And we're going to do this in terms of both magnitude and time frame, because that's the magnitude and time frame required to support the roll out of our broadband infrastructure across the markets that we want to address on both wireline and wireless. Secondly, it's the right environment for the fibre deployment. The cost of capital has never been more attractive, and in terms of current projections within Canada, the cost of capital is expected to remain low. If you look at our recent debt financing in the US, I like the characteristics of our ability to raise money at very attractive levels.

Secondly, and this is not something that I've been able to say very frequently over the last 16 years, the regulatory environment is favorable for us in western Canada to make this investment. So when you've got both the cost of capital window of opportunity and a regulatory environment, in terms of the window of opportunity, I think there is a responsibility of the organization to step through in terms of the generational investment.

Thirdly, the wireline/wireless synergies have never been more attractive. Increasingly, we are in a world of convergence and fixed mobile integration. But when you think about fibre now, it's not just for 4K TV, or faster symmetrical Internet, it's also laying the foundational access infrastructure for wireless 5G. In fact, fibre will provide not just the back haul for wireless, it will provide the front haul, because we are going to live in an increasingly symmetrical world in terms of data traffic.

In terms of economy of scope, the opportunity is not just in the consumer market. It's also in the business market. It's in the public sector market. Greg just asked me about the healthcare opportunity, and I talked about our growth focused on the primary care health topology, homes, people, docs, clinics and pharmacies. Well, they're all within the footprint of our fibre deployment. And enabling that broadband infrastructure is going to allow us to move health data around that topology in a more effective and a more efficient fashion.

Next, because this program is an organic program, we can toggle the investment according to the performance. And I like that particular quotient, and I would tell you right now the performance, the consistent performance of our fibre program warrants the investment that we're making. We are investing into the momentum that we are experiencing in this particular program that's coming through in terms of net additions, it's coming through in terms of the revenue per client, and it's coming through in terms of client loyalty and retention, and a better lifetime revenue per relationship as a result. And so it's earning its way to this particular investment.

The profit growth that we are delivering and the strength of our balance sheet, enables our ability to afford this investment and still deliver on our multiyear dividend growth model, and so you think, okay, 6.1% performance on wireless in terms of EBITDA growth, 5.8% EBITDA growth on wireline, we're generating a strength and performance in combination with the quality of our balance sheet, and I think Moody's pronouncement was very interesting in that regard, allows us to make this investment and still deliver on our multiyear dividend growth model.

And so one of the things I would say to you is given this strong performance, isn't it hard to answer the question why would I stop investing? And to me, I think the best analogy would be TELUS not participating in the spectrum auction. That would be the best analogy to say why would we cease and desist from a very successful fibre program that's so supportive to the future of the organization.

The other thing about this particular program, as I said, it's organic. And if you look at the history of investments within the telecoms industry, the most successful investments typically come from organic investments, rather than acquisitions. The other benefit in terms of investing into success is that we in the future in organic investment can moderate it. So if we're not as successful, we can dial it down. If we're more successful, we can dial it up. You can't do that with an acquisition. After you make the investment in an acquisition, you've shot your bolt, and you have got to wear the accountability forever after.

In terms of organic investments, you can toggle it according to the earned performance of the program that you're supporting. Next, in terms of what you can expect from us over the 2017, 2018, and 2019 within the vein of precision, I would say the type of EBITDA growth that we have generated in Q3, the type of EBITDA growth that we're postulating for the full year 2016, is the type of EBITDA growth that you can expect from this organization in 2017, 2018, and 2019, in terms of how we are going to be calibrating and delivering on the financial results of this organization.

Next, in terms of precision on the back of the rationale that I've just given you, as it relates to this generational investment that we're making, I would expect TELUS to go free cash flow positive in 2018. We're free cash flow negative now not because of the dividend. We're free cash flow negative now because we're raising money to invest in our business on broadband wireless and broadband wireline. In 2018 I expect us to turn materially free cash flow positive, and remain free cash flow positive, and grow our free cash flow from that 2018 point forward, normalizing for unique events like spectrum auctions.

So in terms of what you can expect to see, 2018 will be materially cash flow positive within that year. We're going to sustain that in terms of being free cash flow positive thereafter, and we are going to be growing our free cash flow from 2018 onwards. And as I said, adjusting for any unique event, like a spectrum auction. So you now have EBITDA guidance, you now have free cash flow guidance, you actually have dividend guidance running through 2019, and you've got the rationale for why this is the right thing to do for this organization.

Maher Yaghi

Thank you. You gave me more than I was hoping for.

Darren Entwistle

It was just for you, Maher.

Paul Carpino

Thanks, Maher. Next question, Peter.

Operator

Thank you. Next question comes from Simon Flannery. Please go ahead.

Simon Flannery

Thanks very much. Good morning. There's a lot going on in the telco M&A market, and we've seen companies in the US look to buy content providers. We've seen a lot of over the top launchers coming up and Shomi, obviously, running into some problems here. Pay TV ads have been down. What are your thoughts about cord cutting over the top, skinny bundles, owning content versus being a consumer of content? Any changes in your perspective there? Thanks.

Darren Entwistle

No changes in my perspective as it relates to acquiring content. I think our strategy in that regard has been borne out and proven to be quite prescient, and excellent for this organization. We think content is important, but we think the value is bundling, distributing the content, and having technology like fibre that can differentiate us in that regard, we're making smart investments in things like LTE advanced, in terms of the delivery of content when people are on the go.

Second comment that I would make as it relates to cord shaving, is it's great not to be the incumbent. We've recognized a lot of challenges over the years in the telecoms front as the incumbent, as a result of things like competitive intrusion, regulatory intervention, or technology evolution, and some of the technology evolution and technology substitution have presented challenges to the organization as it relates to the commoditization of our profit streams. In this particular market on the TV and on the Internet front, we're the new entrant. So I like our growth opportunities going forward, in terms of taking future quality share in that regard. And we embrace over the top type applications, because we can import them into our Optik ecosystem, and give the customer what they want on a bundled basis, so rather than seeing that as separate or exogenous, or competitive, our philosophy here as the new entrant enabled by the fiber technology that we're deploying, is to bring new products, new applications, new over the top solutions into the TELUS ecosystem, and deliver it with very good effect within the Optik framework.

The other thing that, I think is interesting is that it gives us the opportunity to consider new technologies in segmenting the market. So the same way we would look at smartphones as high tier, medium tier, lower tier, I think there is an opportunity to considering how we can share content from more voluminous on the content front, to more sparse according to the viewing appetites, and content appetites of our consumers.

And then thirdly, I think one of the key differentiating factors for TELUS, is that we're a wireline and wireless organization, so again I get back to thinking about wireless, wireline integration on a convergence basis, fixed mobile integration, and I think our ability to take content from traditional to content on the OTT front, and deliver it to people's homes, to deliver it as required on the B2B front, into areas like healthcare, or also to deliver to human beings within our digital society when they're on the move, I think that combination is very attractive, and we can leverage that to good effect.

If you look at our overall results, it's been very interesting in terms of what I would expect in the future. I would say you can draw inference from the past. And if you look over the last five years, even with our RGU results in Q3, despite the competitive intensity, our loading has been extremely healthy on both Internet and on the TV side, extremely healthy. And as I say, even in the face of the competitive intensity that we're experiencing, we did 28,000 net adds on TV and HSIA, despite the elevated churn that we experienced along the way.

And then lastly, as it relates to fibre, the fibre take-up as it relates to TV and HSIA, and the RGU per household a quotient is, very, very, very attractive. And once we have that wideband connection into the home, and the wideband connection with let's say 5G, for people either on a sentry or on the move basis, then we are positioned as the organization with that wideband connectivity to people, to deliver whatever content solution that we want in a very, very powerful format because of the technology that's come to fruition, and the investments that we made to underpin it. So I feel that we're very strongly positioned in that regard, and also we're not delivering these results at the sacrifice of our financials, we're delivering both the growth and the financials contemporaneously.

Simon Flannery

Great. Thanks.

Paul Carpino

Thanks, Simon. Peter, we have time for two more questions, please.

Operator

Okay. Our next question comes from Vince Valentini, please go ahead.

Vince Valentini

Thanks very much. Just a quick clarification and a question. In terms of that $300 million outflow of the new union agreement, so if I read you correct, you will expense it fully in the fourth quarter, and then there will be no impact on your operating expenses in 2017 or 2018, to reflect what would have been wage increases otherwise?

Darren Entwistle

Yes and no. We'll fully expense it in Q4, but there will be a positive impact on our financials in 2017 and 2018 as you would expect, because part of the lump sum is for salary freezes over 2017 and 2018. So we are not going to have general wage increases, at either the union or the management level in that regard. And as Doug rightly pointed out in his remarks, that parity is important because we have one culture at TELUS, not two. The other component on the lump sums that will support the financial performance of the organization going forward, is that we have bought certain contract concessions within what is right now a tentative agreement, but if that agreement gets ratified, those concessions will yield both productivity improvements that will support the financial goals for 2017 that I have just actually articulated. The other things that those concessions will do, is help us continue to elevate our customer service excellence, and that has been the key to our financial success, and you don't have to look any further than our $5,650 that we have generated in wireless lifetime revenue to underscore that particular point.

The rationale in terms of why we have done the lump sum payments is three-fold. Number one, it acts as a hedge against the future competitive environment on both wireline and wireless over 2017 and 2018. I think that's a smart thing to do. Secondly, it buttresses our generational investments in wideband on both the wireline and wireless front. And that's important. And thirdly, it buffers TELUS relative to the duration and the duress of the economic environment in Alberta. So from a risk management point of view, I would consider that to be sanguine. I think it also provides, Vince, the right balance, because I think here we're doing the right thing for our company, the right thing for investors, but we're also through to lump sums doing the right thing for our team members. And lastly, just anticipating the question, the program is economically accretive.

Vince Valentini

That's great. Congratulations on that deal. The other hopefully quick question I have, is your wireless CapEx intensity at 16% is quite a bit higher than Bell at 11%. Is there a difference here in what is allocated, do you put some of your fiber to the premise investment in wireless, or are you having to catch up on things like data speeds and dual band carriers or something?

Darren Entwistle

Ouch. So, yes, we put a little bit of the fiber investment into wireless, because we think that's the right segmentation. Because I think anyone that knows the technology of wireless knows that the speed and the performance of a wireless network is informed by the wireline network that underpins it. The second factor that may help you with the differentiation is that we are doing a swap out of our wireless technology within the province of Quebec. So we are moving from what was formerly NSN technology in Quebec, and the Ottawa market, to Huawei, and that's a swap out at the radio access network level, and so there's CapEx associated with that particular undertaking. But we believe it's the smart thing to do, because formally of course we had both Huawei and NSN deployed within our wireless network, and we liked the performance characteristics on the Huawei front, as it relates to dropped call rate, access failure rates, throughput speeds, signal attenuation or lack thereof, and so on so forth, so we made the decision to undertake that particular swap out, so that's a CapEx differentiator versus the Bell organization. But I would expect to see improvements as it relates to our wireless network in the province of Quebec, that will serve our clients well, and is consistent with our customer's first philosophy.

Vince Valentini

Thank you.

Paul Carpino

Thanks, Vince. Last question, Peter.

Operator

Thank you last question comes from Batya Levi, please go ahead.

Batya Levi

Great. Thank you. You mentioned that you expect similar growth in EBITDA over the next few years, I was wondering if you could talk about what that assumes in terms of the competitive environment, obviously, you have the best churn in the industry. Are you baking in potentially an increase in the competition in the next 12 to 18 months? And how would you approach balancing sub growth versus profitability?

Darren Entwistle

So in terms of our projections for the years ahead, I think it is smart for us to assume that the competitive intensity that we are experiencing today across both wireless and wireline, will be the case in the future. And I think that is the right way to run the business, because the current environment as it relates to competitive intensity, is not entirely within our control obviously. So if you are an organization and you want to plan for success, making fanciful suppositions in hope that there will be an ameliorating competitive intensity, and reflecting that within your projections, I think is a fool's errand. I think it is better to prepare, plan, and make the investments for continued competitive intensity, and then if it doesn't fully materialize, well you will be the beneficiary of the investments that you have made, and the preparations that you have undertaken. So I just think that it is just a smart way to run the business. And to hedge the strategy effectively of the organization, so what we are seeing today in terms of competitive intensity is what is baked into our models in the years ahead.

The second question that you are asking in terms of quality versus, or loading versus financials, it is an important question. Firstly, we are focused on financial growth, I think that is our responsibility, and revenue and loading is vanity, EBITDA growth, and come 2018, cash flow growth, is sanity. And that is also what drives our ability to return capital to our investors. In terms of loading so that you get the right financial results that I have been postulating, I think we have got to focus on quality. And what I can tell you is the 26% growth in our postpaid wireless results at the 87,000 level, is quality loading. Which I think will help this organization in 2017 through 2019.

You can see it in the ARPU growth, that was industry-leading at 3.8%, you can see it in the 32 basis point delta between us and our two major peers, as it relates to customer retention. You can see it in our almost $5,700 lifetime revenue, that is up to 48% better than our peers. You can see it in terms of our disciplined investment in both COA and COR, despite the rate challenges of expensive iPhone devices, and you can see it washing through the financial results of this organization. And industry-leading EBITDA results, such as what we have generated on the wireless side of our business. And so when I think about growth going forward, it is going to be focused on quality, I think there are some interesting opportunities in terms of expansion. I was very pleased to see the strong loading performance for the industry, I think that is good for everyone.

And I would applaud my peers in that regard, and I think that is a healthy sign for investors as it relates to wireless and the telecommunications industry, and whether that is driven by expansion within our country, at the population level, whether it is expansion of wireless services across new demographics within our society. Whether in fact it is our growing digital society, where human beings are increasingly accounting for multiple RGUs within our growing digital society. Or things that are peculiar to TELUS, Alberta showed better stabilization across consumer and business on the wireless front this quarter. I think there are opportunities for future growth. And I am very excited about what the future will hold on the machine to machine Internet of Things level, on both wireless and wireline. And for us the nice thing is we don't have one growth strategy, we have many. We have got wireless, look how it is growing. We have got wireline, look how it is growing, and how differentiated it is. We have got a health business, we have got TELUS International, so the diversification of that I think speaks to the robustness and the predictability of the economic performance of this organization into the future.

And then lastly, you are asking about what I think about growth and the financials in 2017, 2018, and 2019, and what the risks are, things like how is the competitive environment going to evolve, well one of the smartest things that you can do is take costs out of your business proactively, don't wait until you are experiencing economic duress, or you have hit a bump in the road, or a competitor is invoking an aggressive strategy, or you have taken a regulatory body blow, where you have got to invest in a new technology, take it out proactively. It is what fuels your ability to compete, it is what funds your growth programs, and it is what buttresses your financial results, isn't it nice to have a complimentary situation where financial growth is the duality of profitable revenue in combination with cost efficiency? So that is the type of thing in my view that assures if you will, the desired performance of the organization over the longer term.

Batya Levi

Very helpful, thank you so much.

Paul Carpino

Thanks Batya. So that concludes our call, if you have any follow-up, please feel free to contact the Investor Relations team on behalf of Darren, Doug, and everyone at TELUS, thank you for taking time out of your busy schedules to join us today.

Operator

Ladies and gentlemen, this concludes the TELUS Q3 2016 earnings conference call. Thank you for your participation, and have a nice day.

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