TELUS 2017 Q4Call
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Corporate Participants

Darren Entwistle	President and CEO
Doug French	EVP and CFO
Darrell Rae	Director, Investor Relations

Conference call participants

Greg MacDonald, Macquarie Research
Jeff Fan, Scotiabank
Maher Yaghi, Desjardins Securities
Phillip Huang, Barclays
Simon Flannery, Morgan Stanley
Vince Valentini, TD Securities

Presentation
Check against delivery

Operator
Good morning, ladies and gentlemen. Welcome to the TELUS 2017 Q4 Earnings Conference Call. I would like introduce your speaker, Mr. Darrell Rae. Please go ahead.

Darrell Rae
Good morning -- or afternoon, everyone and thank you for joining us today.

TELUS's fourth quarter 2017 and 2018 targets news release and detailed supplemental investor information are posted on our website at telus.com/investors.

On the call today will be President and CEO Darren Entwistle, who will provide opening comments followed by a review of our fourth quarter operational and financial highlights; and 2018 targets by Doug French, our CFO. After our prepared remarks, we will conclude with a question-and-answer session. In consideration of your day, we are going to try to keep this call to under an hour.

Let me direct your attention to Slide 2. This presentation, answers to questions and statements about future events, including our 2018 targets, outlook and assumptions, as well as intentions for dividend growth and capital investments and the performance of TELUS, include forward-looking statements that are subject to risks and uncertainties and are made based on certain assumptions. Accordingly, actual performance could differ materially from statements made today, so do not place undue reliance on them. We also disclaim any obligation to update forward-looking statements, except as required by law.

I ask that you read our legal disclaimers and refer you to the risks and assumptions outlined in our public disclosures, in particular our fourth quarter management's review of operations, and in our 2017 annual MD&A, sections 9 and 10 as well as with filings with securities commissions in Canada and the United States. The appendix of this presentation and section 3 of our fourth quarter management's review of operations provide definitions and reconciliations of the non-GAAP measures that we use today.

Let me now turn the call over to Darren, starting on Slide 3.

Darren Entwistle
Thanks Darrell and good morning, everyone. As you've seen today, TELUS finished 2017 with strong Q4 financial and operational results. Despite a highly competitive environment, we realized strong loading, strong data revenue growth and a strong financial performance across both our wireless and wireline operations. These results were underpinned by our team's ongoing commitment to customer service excellence and client loyalty and our continued traction in efficiency and effectiveness initiatives.

Notably, consolidated revenue was up 4.9% and EBITDA was up 4.7% in the fourth quarter. We delivered strong loading across all key growth segments with 156,000 new postpaid wireless, internet and TELUS TV customers, up 23% from this time last year. In wireless, our team earned 121,000 in postpaid net additions. This reflects a 39% year-over-year increase and our strongest quarter of postpaid net loading since the fourth quarter of 2012.

Whilst we anticipated strong fourth quarter loading to close out 2017, Q4 was characterized by heightened market activity and aggressive holiday promotions. Notwithstanding this, TELUS delivered strong results thanks to our team's unparalleled commitment to client service excellence that results in low churn and strong client loyalty; strong results that reflect the speed, the reliability and the coverage of our world-leading wireless network; and strong results from our differentiated value proposition and our end market execution. These strategic capabilities underpin the proficiency of the TELUS team in delivering strong results in periods of heightened customer activity.

We saw strong growth in wireless network revenue and EBITDA, which were up 5.4% and 5%, respectively. This was supported by blended ARPU of $67.27, an increase of 1.6% in the fourth quarter. Moreover, we continue to lead in customer loyalty, achieving a postpaid churn rate of 0.99%. Notably, this was up only 1 basis point year-over-year, despite the aggressive competitive promotions that indeed characterized the fourth quarter of 2017. Thanks to our frontline team members, TELUS has now delivered a postpaid churn rate below 1% for 17 of the last 18 quarters.

Turning to wireline. TELUS delivered a strong performance in respect of revenue, EBITDA and subscriber growth, buttressed by our proven and diversified product portfolio. Wireline revenues increased 2.1% and EBITDA grew 4.3% in the fourth quarter, our 21st straight quarter of EBITDA growth in our wireline business. Data revenue grew 6%, whilst high-speed internet and TV net additions were up a healthy 21,000 and 14,000 on a respective basis. Residential network access line losses continued to decline to 14,000 in the fourth quarter, representing our best quarterly NAL performance in 13 years. In total, we earned a healthy 21,000 wireline RGUs in the fourth quarter, which is up 17% on a year-over-year basis.

Our strong and consistent wireline operating and financial results clearly highlight the efficacy of our consistent focus on delivering customer service excellence. They reflect the success of our ongoing broadband investments, with PureFibre network coverage available now to 48% of our Optik footprint at year end, and of course, growing through Q1 of 2018. These results reflect the compelling bundled offerings available to our customers across our differentiated product portfolio, and strong combination of wireless services to go with our wireline products. And they reflect the strong pull-through effect of Optik TV and the significant product functionality feature and content differentiation that we enjoy in that regard. Moreover, our recent acquisition of circa 40,000 AlarmForce customers in Western Canada provides TELUS with a unique opportunity to leverage our robust broadband networks and expertise to continue to enhance our connected home services including security and health products, all, of course, for the benefit of our customers.

Overall Q4 results were strong, topping off a solid 2017 marked with many notable achievements. Notable achievements that include delivering on our annual revenue and EBITDA growth targets for the seventh year in a row, not a level of consistency that's frequently matched among our corporate peers globally. We look at achievements that include adding more than 379,000 net postpaid wireless customers, which represents a 56% increase over last year and more than 70,000 new customers coming from MTS, bringing our total wireless subscriber base to almost 9 million clients. These achievements also reflect our ability to realize an annual postpaid churn rate of 0.90%, down 5 basis points from last year and reflecting our fourth consecutive year below 1%. These achievements include earning industry-leading and record annual lifetime revenue per wireless customer of over $6,000. This is 53% higher than our national peers, supported by our premium lower churn and our annual ARPU growth of some 3%.

And finally, these achievements recognize TELUS as being strong and independently having the fastest, most responsive and highest quality wireless network in the country. Notably, in the OpenSignal 2018 report released just yesterday, TELUS once again ranked #1 in overall wireless download speeds on a national basis and amongst the very fastest globally. In fact, as bizarre as it seems, if TELUS were a country, our LTE download speeds of almost 45 megabits per second would rank third in the world, according to the LTE speed ranking by OpenSignal. Moreover, these results mark a substantial 46% improvement in TELUS's LTE speeds over last year where, of course, we were the leading player in terms of wireless network performance. This reinforces the efficacy of the investments that we're making in our broadband networks, wireless and wireline alike. This acknowledgment represents our second recognition in the annual OpenSignal report and builds on our team's recent success in capturing top marks in respect of network excellence from J.D. Power, PCMag and Ookla.

And I would say more broadly, looking across the Canadian wireless industry and our peers, Canada has what I would argue to be the world's best portfolio of wireless networks when it comes to speed, functionality, reliability and coverage. And I don't think that this can be overstated in terms of its importance to the productivity of our society and our economy in a digital world. And I would note that within the OpenSignal report, the description of Canada, our country, as a 4G superpower. And that is indeed critical to our competitiveness in digital society and digital economies.

Our 2018 targets announced this morning demonstrate the TELUS team's confidence in continuing these strong growth trends, including consolidated revenue of up to 6% and EBITDA growth of up to 7% for the year. Similar to 2017, we expect both wireless and wireline results to contribute to these robust targets, reflecting the quality of our dual-tenet growth engine at TELUS in respect of strong contributions from wireless, strong contributions from wireline. Our consistent growth in wireline and our consistent growth in wireless revenue and EBITDA has buttressed the targeted generational growth investment TELUS continues to make in its core wireline and wireless broadband networks.

As announced in November, consolidated capital expenditures are targeted at approximately $2.85 billion for the 2018 financial year. As indicated on our Q3 investor call, 2017 represented a peak capital investment year for TELUS, both in terms of the dollar value on a nominal basis, and as well, capex intensity. Notably, the majority of our broadband network build program will be increasingly behind us as we pass the 50% build threshold early this year in 2018. It was only a few years ago that it was difficult to conceive that we would be passing the halfway mark on the way to a near-ubiquitous fibre coverage in the years ahead. The TELUS team as an organization has certainly come a long way in terms of our technology, infrastructure and product progression. Clearly, our consistent long-term approach to capital investment and the returns that we exact in this regard has positioned TELUS well for today and into the future. In addition to the notable benefits of our capital investments delivered to our customers and importantly, the communities that we serve, they also deliver meaningful benefits to our shareholders, as we have seen for many, many years with TELUS delivering against the expectations that we've set with the investor community.

Through the success of these capital investments and the people, the great people that have deployed them, we've demonstrated our ability to consistently drive long-term revenue and EBITDA growth and deliver sustainable and expanding free cash flow to support our shareholder-friendly initiatives. Indeed, we've established an enviable track record in this regard. Notably, we returned over $1 billion to shareholders in 2017, $1.1 billion to be exact. Furthermore, since 2004, TELUS has returned more than $15 billion to shareholders, representing some $25 per share. And we continue to honour that commitment and that's what you can expect from this organization prospectively. Building upon our track record of 7.1% dividend growth in 2017 and 6 consecutive years of 10% annual dividend growth prior to that, we are targeting an additional 7% to 10% dividend increase in 2018, as was previously announced and forecasted and guided. This will be supported by our 2018 targets announced today and our outlook for expanding free cash flow up to $1.4 billion in 2018, and looking for that free cash flow to grow beyond that.

2017 was a strong year for TELUS. And indeed, our 2018 targets reflect our team's commitment to continuing this level of performance and building upon it. I want to take this opportunity to thank the TELUS team for their ability to consistently deliver on our strategy, regardless of the competitive environment or other challenges that we encounter along the way, and God knows that's been a hallmark of this organization over the last 18 years. Without question, it's thanks to our incredible team, a team that ranks amongst the top 10% of companies globally in terms of our engagement level, that we're able to achieve such positive outcomes for investors. I continue to be impressed with what our organization can achieve as a collective and how this translates into strong results for our customers, for our security holders, and as well importantly, in our digital society for the communities in which we live and serve as citizens.

Let me now turn the call over to Doug, who's going to give you some additional color on Q4 and as well our targets for 2018.

Doug French
Adjusted wireless EBITDA grew 5%, reflecting our wireless or our network revenue growth, partially offset by higher COA and COR expenses. Reported wireless EBITDA included a net recovery of $21 million related to our MTS subscriber acquisition and lower restructuring and other costs, as Q4 2016 included the lump-sum transformational compensation expense. The MTS net recovery reflects the downward revision of our estimate for the number of qualifying MTS subscribers we acquired from Bell to 74,000. The migration process is complete as of January 31, 2018, and please see our MD&A for more details. Postpaid gross additions increased 17% year-over-year, while retention spending grew 3%, both driving higher handset subsidies, commission costs in the quarter, but will deliver strong revenue and EBITDA growth in the future.

Turning to wireline. External growth increased $31 million or 2.1% as a result of higher internet loading and average revenue per internet customer as customers continue to move to higher-tier plans. An increase in TELUS Health revenues driven by organic growth of professional services and support revenue and acquisitions, higher TV service revenues from our growing subscriber base, and other operating increases mainly due to a gain on the sale of a non-core security consulting business. This growth was partially offset by ongoing declines in higher-margin legacy data and voice portfolios.

We generated adjusted wireline EBITDA growth of 4.3% -- and primarily from a 2.1% revenue growth as noted and our cost savings from our ongoing operational effectiveness initiatives, partially offset by decreases in business process outsourcing contributions. Wireline adjusted EBITDA growth was circa 2.6% when excluding the onetime gain and TELUS International's business process outsourcing declines. Overall, year-over-year adjusted wireline margin expansion was up 60 basis points this quarter to 29.1%.

On a consolidated basis, we generated 4.9% revenue growth. Adjusted EBITDA growth rose 4.7%, reflecting strong wireless and wireline customer and revenue growth. We delivered lower costs from our efficiency and effectiveness programs in the current and prior years, while making investments in high-quality postpaid additions and renewals in wireless and continued internet and TV growth in wireline.

Basic EPS was $0.47. On an adjusted basis, earnings per share increased 3.8% to $0.55. The change reflected higher operating income, partially offset by higher depreciation and amortization and financing costs.

As previously disclosed, BC has increased its corporate income tax rate from 11% to 12% effective January 1, 2018. As a result, TELUS revalued its deferred tax liability, which had an unfavorable non-cash impact of $0.05 on EPS recorded in the fourth quarter. See the appendix for the full breakdown of EPS and adjusted EPS.

Capex totaled $739 million for the fourth quarter as we continue to invest in our broadband networks, including supporting our small-cell technology strategy.

We now provide 1.44 million homes and businesses with immediate access to our gigabit-capable TELUS PureFibre network, positioning us well to surpass our 50% completion mark of our fibre-to-the-home program in early 2018. Our wireless network continues to be expanded and enhanced as we now offer LTE-Advanced services to 88% of the 99% of Canadians we cover.

Even as we execute our generational investment in fibre, our free cash flow before dividends was positive $274 million, up $465 million year-over-year. This was driven by higher EBITDA as well as lower capex and lower cash taxes paid. For the year, free cash flow totaled $966 million.

On Slide 15, you'll see that our targets for 2018 on a consolidated basis were 4% to 6% on adjusted revenue, and 4% to 7% on adjusted EBITDA growth. EPS is targeted to increase 3% to 9%, which reflects our EBITDA growth as well as higher depreciation and amortization as a result of increased capital investments in fibre and wireless acquisitions, as well as higher interest costs, including those from pensions. We are targeting to invest $2.85 billion in capital expenditures, a capital intensity of approximately 20% as we continue to enhance and expand our broadband networks, enhance our products and service delivery and continue to support growth in wireless, high-speed and TV. A full list of our 2018 assumptions can be found in section 1.7 of the fourth quarter management review of operations.

Commencing in the first quarter of 2018 due to the implementation of an accounting standard, IFRS 15, there'll be a shift in the timing of revenue and cost recognition. We'll provide an update to our 2018 target under the new accounting standards when we release our first quarter in 2018 results in May. We have restated 2017 under the new rules and it is included in Note 2 of our 2017 audited financial statements. As a reminder, the economics of our business are not impacted by the adoption of this pronouncement.

Our growth targets compared with our capital expenditures this year will result in a free cash flow outlook of approximately $1.3 billion to $1.4 billion before dividends. This is up more than 37%.

Now I'll turn it back to Darrell to start Q&A.

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

Question and Answers

Operator
First question comes from Phillip Huang from Barclays.

Phillip Huang
I was wondering if you could provide some incremental color perhaps on your performance in the major regions, just given your distinct wireless market shares across the country. Just wondering if it's fair for us to assume that you gained some share in Ontario, but maintained or potentially lost a bit of share in BC and Alberta.

Darren Entwistle
It's pretty solid performance across Canada nationally, Phillip. So I don't think its right to call out one region in particular because we didn't have a dichotomy in terms of our performance where we were strong in one area and weak in the other. I think it was geographically quite a strong performance for the TELUS organization across the board. So I think it would be leading you to draw inference to a wrong conclusion, if we highlighted that level of disparity when it's not empirically the case. We've delivered a set of robust results that are not geography-specific.

Phillip Huang
That's helpful. Maybe if I could dive a little deeper on what happened in the Q4, just as everyone's reported now. Want to better understand the competitive dynamics in December, just leading up to the mid-December, well-documented 5-day pricing plan promotions. Rogers characterized the market as being a bit quiet, which kind of led them to initiate the pricing promotions in Western Canada and pull forward some volumes. Just wanted to get your take on the market prior to those promotions. Would you say it was also quiet for TELUS up to mid-December? I'm just trying to assess how each of players fared in the quarter up to that point, since Shaw began offering iPhones.

Darren Entwistle
In looking at Q4 holistically, thinking about the competitive intensity commencing within the Black Friday period, it was a competitive period for the industry, as per usual, given the characteristics of Q4. I don't want to comment on the interpretation of the market by one of our competitors. That's their interpretation. That's their call and they acted accordingly. I think what's more relevant is to speak to what TELUS did. We responded to the competitive activity as it unfolded. So I'm not going to do an analysis on why - what got precipitated on December 14 came to fruition, but we responded accordingly. I think the results that we generated speak for themselves. I think we're advantaged by the strong level of performance that we have on the churn front which, of course, as you well know, is buttressed by the customers-first mentality at TELUS and what we do in terms of client experience excellence, complemented by the extremely high quality of our wireless network. So I think we fared reasonably well accordingly. I think we need to be mindful that when we get into rate plan competition, the rate plan discounts at the ARPU level frequently are not overcome by the volumes that get generated and can be net-dilutive to the overall economics of the industry. And I think it's important to be cognizant of that.

The other thing that we've talked about at TELUS for quite some time is not to uniquely look at our wireless business according to the P&L, but the P&L and the balance sheet. And when you have heavy data plans in an industry where you spend billions of dollars on spectrum and technology deployment, frequently with technology having a very short life or half-life, if you will, before you do the next technology rollover, heavy data plans that may have net negative economics at the P&L level are even more economically dilutive when you consider the capital investments that you need to make to support both the bandwidth on the spectrum front and the technology deployment. And I'm always cognizant of that particular factor in terms of generating holistically the right economic return.

And then lastly, for TELUS I would say, as an organization, we've responded very well to all forms of exogenous shocks, whether they be market-based, regulatory or coming from the competitive market. And I think we showed well again in Q4, given the characteristics of our business. And I would expect us to continue to perform well and leverage wireless momentum in 2018, because I would see that momentum continuing and the strong operational and financial performance parameters at TELUS continuing into 2018 as well. And it's just a fact of life, we're in a competitively intense marketplace. And this is the type of thing that is reflective of that. And there'll be quiet periods. There'll be moderate competition and then, you know, will get extremely intense. And I don't see that characterization changing in terms of how the years unfold ahead of us.

Operator
All right, next we have a question from Greg McDonald from Macquarie.

Greg MacDonald
So Darren, I'm looking at the guidance. And the consensus currently being at the low end of the guidance for revenue and EBITDA, I guess you can call that a reasonably positive message there. Could you comment on what the major issues are that would influence whether the company can hit the top or the low end of that guidance?

Darren Entwistle
Well, let's go through it quickly, Greg. Number one, I want to see a continuing strong performance from both wireline and wireless. It's one of the key differentiating factors for TELUS versus our global peers to have strong operational and financial contribution from both wireline and wireless. So to the extent to which we get an evolving competitive dynamic on the wireline side of our business, that reflects competition more on technology, product functionality and technology advancements, features in products, if you will, versus price discounting. I think that will be a nice balance to support the growth aspirations that we have on wireline going forward. And I think that the competitive dynamic can be very healthy there where you're competing on broadband technologies, the products that they support, your value proposition, the strength of your distribution and the excellence of your customer service that does underpin the value for money rather than just consistent and singular price discounting. So I think that particular development should bode well for us in 2018 on wireline. And it's important to note that we'll be

passing the 50% build threshold on the fibre front early in 2018. And the economic characteristics of our PureFibre deployment from revenue growth, opex reduction, EBITDA growth and more and more economic return in competitive differentiation, I think, again, bode well for us to be able to deliver against the expectations that we're setting with the street in terms of growth characteristics on revenue, EBITDA and as well EPS and cash flow separately.

Next on the wireless front, I'm looking for us to continue to lead with a focus on lifetime revenue for clients, despite the heavy competitive intensity that we concluded 2017 with. We exited Q4 with a $5,500 lifetime revenue per client, which was still up, despite the pressures in Q4 on a year-over-year basis, by 3%. And that's up to a 53% premium to our peers and reflects the important duality of excellence in terms of client retention and of course, revenue per growth on a per client basis. So for 2018 on wireless, I guess what I'm looking for is to see continued strong loading performance. We've enjoyed that as an industry. It was nice to see that healthy dynamic for wireless as an industry in 2017. And I'm looking for that to continue in 2018. And whether it's related to population expansion, whether it's the expansion of the age continuum in terms of smartphone usage, demographic considerations within our digital society where the number of RGUs per human beings is growing along the way, whether it's from recovery in Alberta, that would be peculiar to TELUS in terms of being beneficial in that regard, moving people up the value chain on pre- to post-migrations, - there's a lot of opportunities for us to pursue in that regard.

We've got a great stratification in terms of market coverage from high, high value in terms of discount pricing as the public mobile and right through to high, high quality and a high-touch experience in terms of the TELUS brand. And then I'm looking to see, perhaps on a more modest basis than what we've seen historically, and that's not necessarily a bad thing, continued ARPU expansion in 2018 to go with subscriber expansion in 2018. And that's going to get driven by continued technology expansion, LTE-Advanced on the path to 5G, more spectrum getting deployed even on an unlicensed basis, leveraging the considerable roaming opportunity that we have in front of us, that we now have Easy Roam in about 130 countries globally, big step forward for us. We're still scratching the surface in terms of data revenue on IoT and machine-to-machine. There's an attractive opportunity for us there. We're going to drive on in terms of premium plus along the way. I think you can look for ARPU growth coming from a greater percentage of our base being on postpaid, particularly leveraging pre- to post-migrations along the way. We're going to be smart in the way that we bundle, looking to have a higher percentage of our base on 2-year share plans along the way. In a world where the data-consumptive appetite is almost insatiable and it's a real characteristic of consumer behavior in North America, we're going to continue to look to upsize data packages and benefit from that along the way. And I'm hoping that 2018 will reflect a continued cadence in terms of the 28 quarters of ARPU accretion that we've enjoyed thus far. And then the thing that we don't talk enough about but what we need to is the duality of the focus on AMPU to go with the ARPU. The same way visually and historically, it was a necessity to take costs out of our business on the wireline upfront, both to deal with price reductions and margin compression and to fund growth initiatives such as our fibre deployment, we've got to do the same thing on the wireless side of the business as well. And I think we're well placed to do that, with the technology progression, TELUS's digital transformation and leveraging our assets on the TI front.

And then lastly in terms of what to look forward to support the growth in 2018 is continued strong performance from our emerging businesses on TELUS Health and TELUS International, which was really a tale of 2 cities for us in 2017. TELUS Health had a terrific year operationally and financially. And TI had a very, very weak year financially, and that was due to a number of our key clients downsizing their businesses with us, because of challenges that they were having within their own markets. And that highlights the need for TI to continue to deliver organic growth with new client along the way and speak to the strategic necessity for them to diversify their revenue base. We've got too much revenue coming from too few customers. And risk management is something that needs to be front-of-mind, and then making smart strategic acquisitions that we can exact value from, like we did towards the latter half of last year with Voxpro, and like we did this week closing the Xavient deal, which gives us a tremendous step forward on IT outsourcing, which is really where the industry is going. And that's exciting in terms of both external revenue growth that it can generate, but also what Xavient can do to help TELUS lower its cost base on the digital transformation front, supporting us on things like application development, application maintenance, quality assurance as it relates to information technology and systems.

And the one thing that I would say for you to be patient about when you're looking at wireline margins in '18, they'll get modestly pressurized. But we'll see that the revenue and the EBITDA growth -- but they'll be modestly pressurized because the maturation of Voxpro and Xavient, given they have reasonable mass to them within the TI fold. It's not the same level of maturation that we have in TI more holistically. Yes, TI's still a growth business, but it's a little bit further along the EBITDA margin curve than Xavient and Voxpro. So that's going to be a developing story for us over 2018. And I would expect that to deliver significant margin expansion in 2019 and beyond as they deliver significant EBITDA growth at those 2 acquisitions and the margin accretion that goes with it. So that's kind of a thumbnail sketch of what we're expecting in 2018, good volume, continued modest ARPU growth. We'll deal with the exogenous shocks along the way in terms of competitor activity. We always have, and we do it very well, and let's continue to leverage some exciting emerging growth stories within the TELUS portfolio.

Greg MacDonald
Can I ask a quick follow-on? If you're able to hit the higher end of the guidance range on EBITDA, does that suggest that there's an opportunity to move up toward the higher end on the dividend growth guidance? Or are issues like spectrum auction and balance sheet still gating factors on that front?

Darren Entwistle
So I think the best thing I can say to you on that, Greg, is we gave you a guidance range on dividend growth, 7% to 10%. So it says that anything is possible between the 7% and 10%. And I think we've got a pretty good track record in terms of delivering against expectations in that regard, but doing it on a responsible basis. And the 2 factors that are going to determine whether we're going to be closer to 7% or closer to 10% are the EBITDA growth component, and to the extent to which we're at the higher end of the EBITDA range, that supports us being at the higher end of the dividend growth range. And that correlation, I think, is an important piece of transparency for you to understand. So that would be parameter number one. And then parameter number two is affordability. And that's something that we've discussed along the way, as we've gone through that free cash flow negative period, as we have financed our broadband bills on both wireline and wireless. And now as we have forecasted to you, we're going free cash flow-positive in 2018. And then we expect that to be a chronic case prospectively, normalizing for spectrum auctions along the way. So increasingly, the affordability is constantly improving in terms of the dividend accretion that we want to deliver to you. And I think that's a developing good news story for this organization as we have forecasted.

Operator
The next question comes from Jeff Fan from Scotiabank.

Jeff Fan
One housekeeping question and then a more big picture question. Housekeeping is just regarding your guidance for 2018. Can you help us parse out some of the contributions from acquisitions on both the revenue and EBITDA line, just so that we can get to an organic number? And then the bigger-picture question is for Darren. I guess one of the assumptions that we've always kind of looked at amongst the national wireless operators is the networks -- their quality, historically anyways, may have been similar to each other. But based on the network tests that we are seeing now, and based on the results that we are seeing, and based on some of your competitors, or at least one of your competitor's investments that they're making on the network, are we starting to see that gap materializing to a point that is contributing to potential leadership in shares that may not have been there in the past? And then more importantly, whether you think this can maybe translate to a leadership position as well in 5G?

Doug French
So on the first one, it's Doug, we had mentioned that next quarter, we would give more insight to TI and Health. And so your first question on the organic versus acquisition side of TI will be a little -- will be more at that time. So I am going to not highlight that today, but we will definitely bring that back when we have the updates on -- more information around TI and Health at that stage.

Darren Entwistle

So firstly, Jeff, as I said in my opening comments, if you look at Canada holistically in terms of infrastructure and technology -- and this would be true across both wireline and wireless, but I'll focus on wireless for the moment. I think the portfolio of wireless networks that we have in Canada are second to none when it comes to quality and speed. And you can see the results of the speed tests. But what's great about Canada is that when we deploy new technologies, we don't just do it in urban centers. We do it pervasively, which is why we've got greater than 99% coverage on the LTE front. And if you look at the functionality of those networks combined with speed and coverage, and the reliability of the networks, when you think about performance on an access failure rate point of view, a drop call rate point of view, latency in a symmetrical digital world. I mean, we are top of the top quartile as a country in terms of wireless network performance. And people continue to undervalue how much that actually matters to our country.

Firstly, when you look at the demographics and the topography of our nation, we need technology to bridge time and distance and to empower both our society and the competitiveness of our private sector. And so it's absolutely critical for us in terms of the vibrancy of our digital society, answering social challenges on health, education and the environment where our technology has got the key leadership role to play in that regard and it's our industry that underpins the innovation and the competitiveness of the private sector.

I think for TELUS, we've done exceedingly well, because the same reason that you guys asked me a few years ago, "Why are you guys ahead on the customer service front?" And I said, yes, we do some things that are different. Yes, our culture is key. And yes, we put our money where our mouth is in that regard. But one of the strongest factors is we set out that strategy years and years and years ago, and we kept at it. It was the consistency and the discipline of that focus that yielded benefits down the line, and a lot of times, organizations don't have that consistency and that discipline to stick with it, and that was the massive differentiator along with the other factors for us in customer service. And the same is true as it relates to broadband technology. We've been on this page forever, putting our money where our mouth is, whether it's 3G or 4G or 4G+ or into 5G progression. Or the bet that we make in deploying fibre into our access network at a magnitude -- or at a pace that is significantly greater than what you would see amongst our peers because we believe in that particular development. The other thing that was clear to us years ago in making that dual investment across wireless and wireline, was the synergistic nature of the fibre 5G combination that I'll get to in just a second. But for me it really made the economics work because now it wasn't just technology to grow revenue, help you take costs out, improve your profit, your differentiation along the way. But now, we were going to get great scope economies across wireline and wireless, and it would also support all those future services that we wanted to deliver into the connected home such as what's transpiring now with health and with security.

So we have made these bets, whether it's fibre to our cell sites on wireless to increase the speed. A lot of people don't appreciate that the preponderance of the performance frequently within a wireless network is determined by the wireline network and the bandwidth of the wireline network that does the backhaul of the wireless traffic or the front-haul delivery along the way. We were there doing cell site densification. We were there aggressive on the deployment of spectrum. We were there deploying MIMO. Just every single step of the way in terms of tuning our network from a performance perspective. And we just thought it was the right thing to do, and we do think that it matters. So when we look at our customer retention and our ARPU growth, at the end of the day, we believe in a world where consumer behavior is hugely data-consumptive, where our marketing thesis is focusing on quality, not just quantity, so very much a smartphone bent, if you've got the best network in that data-consumptive world and you're arming people with the latest high-quality smartphone devices to leverage that data, if you've got the fastest speed, if you've got the best coverage for people wherever they may go and if you lead the way in reliability and by the way, the most important statistical parameter on likelihood to recommend is reliability. If you can nail that up together, then yes, I think it's going to make a difference. It's going to make a difference in usage that will show up in your ARPU and it's going to make a difference in choice that's going to show up in your client loyalty along the way.

The other thing that we've done that I think is nicely differentiated is, we continue to leverage our network sharing agreement. And that's terrific for us to have that network sharing agreement because in terms of speed to market with new technology, it's advantageous. We get great economies through the geographic segmentation of the build responsibility and leveraging 2 labour pools rather than just 1 so we can deploy new technology twice as fast along the way, but also we get great economics out of that network-sharing agreement. For us, it's a strong differentiator both within the urban environment and within nonurban coverage along the way. And then lastly, we've said all the way along, it's a synergistic story right? We've not talked about discrete or segmented broadband on wireless separate from wireline. We've talked about why they're synergistic together. And I won't cover that again because I've spoken about it on previous calls. The criticality of broad fibre deployment to support the highly densified topology that you're going to have within your 5G microcell environment. And it's encouraging for us. I mean, we did the lab tests this year on the 5G front when we did the press release. And when you start getting 28 to 30 gigs of speed on 5G, I think it's pretty telling in terms of what type of competitive package that's going to be for this organization prospectively. And then the last component is, isn't it great to, kind of, be more and more ahead in terms of putting things, like chunks of the broadband build are behind us, passing that 50% threshold on fibre, and more of the cost and the access medium cost in our rearview mirror, rather than a prospective responsibility and burden to our balance sheet? I think that's going to do great things, not just for our competitiveness, but for our chronic positive free cash flow cash generation for many, many, many years.

Operator
Next question comes from Simon Flannery from Morgan Stanley.

Simon Flannery
Thanks for the network commentary there. Can we just pick up on, one of the things you mentioned was getting ready for 5G? There's been a lot of developments here in the last few months in terms of getting the standards. It seems like the chipsets and the handsets and other devices are starting to roll. And we've got a lot of debate about what the right way to attack the market initially is, whether it's fixed broadband using microwave spectrum, or whether it's lower-end spectrum IoT. What are your latest thoughts, both on the use cases for 5G and how we should expect TELUS to start rolling it out?

Darren Entwistle
So I think in terms of a 5G rollout period, I'll give you sort of a broad boundary on it. Developments are taking place now from a preparation point of view. But I think the activity will be heightened between the second half of 2019 and the 2020 financial year. So that is kind of that 18-month period in terms of the nexus on 5G deployment and accretion. In terms of the spectrum parameter component, our response there is all of the above. The band frequencies deploy within the 600 megahertz zone for obvious reasons in terms of coverage and signal propagation and in building that penetration. I expect to see, unlike the U.S., the 3.5-gig 5G ecosystem develop within the Canadian context. And we will also be deployers of millimeter wave spectrum whether it's 28 gig in the 40-gig vicinity or the 65 to 70-gig vicinity. It will be a horses for courses-type deployment. And what you can expect to see is a level of macro/micro network heterogeneity, wireline/wireless network heterogeneity and a multiplicity of spectrums deployed almost in a concatenated view as they deliver the optimal client experience. And I think we're well-positioned for all of the above.

Operator
Next question comes from Vince Valentini from TD Securities.

Vince Valentini
Darren, you were asked earlier about sort of the market conditions in Q4 in December. Can I just ask specifically, though? I mean, your churn remains very impressive, but obviously it ticked up 1 basis point year-over-year. Is it fair to conclude that while you had great gross adds during December 14th to 19th, in that period of heightened promotional activity, your churn may have spiked up a little bit? So if you x out that period, we would've seen a consistent trend of postpaid churn declining?

Darren Entwistle
Yes. I'm kind of grumpy because it wrecked our average for 2017, since I wanted to be below 0.90%. So yes, that would be a correct assumption. Despite the fact that nets were up 39%, despite the fact that postpaid gross was up 17%, yes, we indeed had a churn spike.

Vince Valentini
Okay. And one other one, I don't think you covered this in your network commentary a second ago. I mean, we're hearing more about LTE-based services delivering up to 1-gig speeds, even before we get to 5G. If that kind of thing is possible, are you at the point of having to rethink how much fibre to the home is really necessary, versus maybe just fibre to the curb and tons of mini-hotspots or cell sites, and then beaming signals over the last couple of hundred meters just with wireless, and maybe saving some capex?

Darren Entwistle
Maybe. The horses for courses comment was key. We've always lived with heterogeneity within our network. So we had deployed simultaneously ADSL2, VDSL2, Ethernet to the Suite, GPON, all of those things were happening concurrently within our network, so if we've got an access mechanism that we can deploy at scale, the technology is robust, it's complementary to the fibre build that meets the expectations and needs of the client, we'll continue to evaluate those along the way. But one of the things that's important, whether it's LTE or 5G, you still have to have fibre deployed deep, deep, deep into your access network, and that's where the big costs are. It's not so much in the electronics or as it relates to the optical line terminating equipment. It's in the civils component where you have a preponderance of those costs. And then laterally, if you just take your thesis and exploit it further, I think it's really interesting because it leaves it variable as to how far we go on our fibre build. We're passing 50%. Do we go to 60% and stop, 70% and stop, and then use wireless as an access mechanism? I think it's fantastic to have that optionality whether it's LTE or 5G. And we're going to have fibre one way or the other deployed deep into our access layer. Whether we bring it to the premise or leave it at the curb, I think that's an economic choice that we'll make at the time, contingent upon our value proposition, our economics and the needs of our clients. So I couldn't picture us being better-positioned in that regard.

Operator
The last question comes from Maher Yaghi from Desjardins.

Maher Yaghi
I wanted to ask you, Darren, about your views about the wireless pricing and kind of the -- do you wonder why would an incumbent wireless provider reprice their products to a level that makes it more clear to more people that they are overpriced compared to a new entrant? What's the strategy behind doing something like that in a very, very active season such as the holiday period? And the second question I wanted to just follow up on is your assumptions for your targets for 2018 are based on economic expectations for growth in Canada that are lower than your -- what actually transpired in 2017, yet your guidance is for organic growth or growth that you are planning to post that is higher. Is it -- can I go on a tangent here? And I say the differential between your guidance growth in 2017 and 2018 is mainly acquisition-related?

Darren Entwistle
No. I think that would be the wrong conclusion. So the acquisitions that we're doing will be complementary. But the growth is related to a strong wireline performance and an improving competitive dynamic that I think you're all aware of and I've already spoken about, and the increased coverage of our fibre build -- it's related to continued wireless momentum in terms of both volumes and modest ARPU accretion along the way. It's related to cost efficiency measures that we're invoking at the TELUS organization and it's leveraging the emerging businesses for us in TELUS Health and TELUS International. So it would be a wrong conclusion to assume that these results are unduly flattered on the acquisition front, that would be a deeply erroneous conclusion. It's a contributor but it's secondary to the organic performance on wireline for the reasons cited -- wireless for the reasons cited and the emerging components all combined with cost efficiency.

Maher Yaghi
And maybe the first question about pricing and wireless.

Darrell Rae
Thanks, Maher, and thanks everyone for joining us today. If you have any follow-up questions feel free to contact the Investor Relations team. On behalf of Darren and Doug, thanks for joining us today.

Darren Entwistle
Thanks, Darrell.

Darrell Rae
Take care.

Operator
Ladies and gentlemen, this concludes the TELUS 2017 Q4 earnings conference call. Thank you for your participation, and have a nice day.