TELUS 2017 Q2 Call
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rising above

Corporate Participants

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

Conference call participants

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Greg MacDonald, Macquarie Research
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 Q2 Earnings Conference Call. I would like to introduce your speaker, Mr. Paul Carpino. Please go ahead.

Paul Carpino
Thanks, Oliver. Good morning, everyone, and thank you for joining us today on our second quarter conference call. Our Q2 news release and detailed supplemental investor information are posted on our website, telus.com/investors. On the call today will be President and CEO, Darren Entwistle, who will provide opening comments; followed by a review of the second quarter operational and financial highlights by Doug French, CFO. After our prepared remarks, we will conclude with a question-and-answer session. In consideration of your day, we're 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 2017 annual targets and outlook and intentions for dividend growth and future share purchases, include forward-looking statements that are subject to risks and uncertainties and are made based on certain assumptions. Accordingly, actual performance could differ materially from statements made today, so do not place undue reliance on them. We also disclaim any obligation to update 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 second quarter management's discussion and analysis and in our 2016 annual report MD&A Section 9 and 10 as well as filing with securities commissions in Canada and the United States. The appendix of this presentation in Section 11 of our second quarter MD&A provide definitions and reconciliations of the non-GAAP measures that we use today.

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

Darren Entwistle
Thanks, Paul, and good morning, everyone. In Q2, TELUS delivered another quarter of strong financial and operational results. This was driven importantly by success in both our wireless and wireline operations and underpinned by our unprecedented customer loyalty performance. Notably, our consolidated operating revenue and EBITDA were up 3.9% and 3.6%, respectively. These results reflect the quality of our asset base and excellent execution by our teams, which, in combination, continue to deliver higher data revenue and healthy subscriber growth across both our wireless and our wireline operations. These results also capture our team's continued traction in our efficiency initiatives.

Specifically, on the wireless front, TELUS network revenue grew 7.2%, while our EBITDA increased 3.3%. Network revenue growth was driven by ongoing strength in high-quality customer loading as well as increased data demand from customers who continued to embrace our numerous data-friendly pricing plans. Our EBITDA growth reflects our consistent and balanced approach to our COA and COR investments. Notably, our focus on high-quality smartphone loading and customer loyalty is contributing to our leading postpaid net adds, churn and lifetime revenue results. Indeed, TELUS reported 99,000 high-quality postpaid net additions, a 62% increase from the second quarter of 2016. These new customers in Q2 joined the 85,000 MTS subscribers who became part of the TELUS family back in the first quarter.

Over the past decade of our Customers First journey, the 50,000 strong TELUS team has fully committed their energy and passion into the creation of our client-centric culture. This unwavering commitment to customer service excellence continues to inspire client loyalty, as reflected in our record wireless postpaid churn rate of 0.79% in the second quarter. This new benchmark is a full 11 basis point improvement on a year-over-year basis and represents the 15th quarter of the last 16 where our churn rate was below 1%. Also of note, our fully blended churn for the second quarter, which includes both prepaid and postpaid subscribers, was a record 1%. Importantly, our strong customer loyalty and high-quality smartphone loading was accomplished despite the highly competitive nature of the wireless market, highlighting the differentiated customer experience we strive to provide our customers at TELUS. Blended ARPU was higher by 3.9% to $66.87 and represents TELUS' 27th consecutive quarter of year-over-year growth in this regard. With our strong churn and ARPU results, TELUS drove record lifetime revenue of $6,700 per subscriber. That's economic value creation. This represents an increase of 19% as compared to one year ago. Moreover, this is a notable 64% and 26% higher than our national competitors, the highest differential versus our peers in our company's history.

Moving to our wireline business, our financial performance remains strong despite aggressive competition. Revenues increased 2.2%, whilst our EBITDA growth remains a world-leading 4.1%. TELUS added 17,000 high-speed Internet subscribers and 5,000 TELUS TV customers in the first quarter. Importantly, our results reflect the TELUS organization's focus on delivering positive wireline loading in combination with strong financial results. This, in our opinion, is an essential combination needed to drive sustainable, long-term value creation for customers and shareholders alike.

Overall, we are pleased with our Q2 results, which reflect the skill and experience of our management team and the quality of our asset base. Our team continues to demonstrate its track record for consistently delivering strong operational and financial execution, despite vigorous competition, economic volatility and periods of regulatory uncertainty that are normal course dynamics in our industry. These results also firmly support our strategic capex investments and dividend growth initiatives.

Indeed, our longstanding history of returning capital to shareholders is without parallel. TELUS has already returned $860 million in dividends in the first 7 months of 2017 to individual shareholders, mutual fund owners, pensioners and institutional investors. Moreover, since 2004, TELUS has returned $14.5 billion to shareholders through its dividend and share purchase programs, including $9.3 billion in dividends and $5.2 billion in share purchases. This represents over $24 per share. Backstopped by these strong results, we are approaching the remainder of 2017 and beyond with confidence. We anticipated the fact that fibre is going to make a difference, and it is. Our advanced fibre network build will be halfway complete early next year. And we will return to a positive free cash flow position for fiscal 2018 and beyond.

Moreover, we expect that our already modest leverage of 2.79 will decline in 2018 and expect to return to our leverage objective range in the medium-term, consistent with the long-term strategy of this organization to balance the interest of all security holders, equity and credit alike. I'd like to congratulate the TELUS team for consistently delivering on our commitments to all of our stakeholders. As our results demonstrate, we are a company that embraces the responsibilities we have to our clients, our shareholders and the communities that we serve. The TELUS team is proud of what we've accomplished to date, and we look forward with optimism in terms of what we are capable of delivering into the future. I'll now turn the call over to Doug to provide additional color in respect of our second quarter results.

Doug French
Thank you, Darren, and good morning, everyone I'm on Slide 9. We had an excellent second quarter in wireless, building off our strong results in the first quarter. Notably, network revenue growth of 7.2%

increased over Q1 of 6.4% and 5.4% in Q4 of 2016. We continue to benefit from strong postpaid subscriber growth and a third consecutive quarter of 3.9% ARPU increase from the larger portion of higher-rate smartphone plans, including our Premium Plus plans and continued data usage growth. Adjusted EBITDA growth of 3.3% reflected our strong network revenue growth. EBITDA growth included a nominal impact from the acquisition of MTS subscribers of less than 0.5%. Gross loading increased 6.1% year-over-year and also retention units increased 5% year-over-year. Retention volumes were down 6% in the first quarter of 2017. The increased loading and retention as well as an increase in our sales mix of higher-value smartphones increased handset subsidy and commission investments.

On a reported basis, wireless EBITDA declined 1% year-over-year, with an adjusted EBITDA growth being offset by an $18 million increase in restructuring and other costs as well as prior year nonrecurring items. This includes cost related to the acquisition and migration of MTS subscribers and some non-recurrence of Q2 2016 gains from the exchange of wireless spectrum licenses totaling $15 million and a $3 million net decrease in gains related to real estate transactions.

Turning to wireline. Revenue growth increased to 2.2% from 0.7% in the first quarter from increases in Internet loading, average revenue per internet subscriber, business process outsourcing, TELUS Health revenues and TV service revenues. We generated leading wireline EBITDA growth of 4.1%, due to our revenue growth and strong focus on efficiency and effectiveness. Reductions in wireline labor cost were partially offset by an increase in team members at TELUS International to support that growing business. Overall, year-over-year wireline margin expansion continued and was up 30 basis points to 28.5%.

On a consolidated basis, TELUS generated 3.9% revenue growth, up 2.9% in the first quarter, led by service revenue growth of 4.7%, primarily in wireless and wireline data. Adjusted EBITDA rose 3.6%, reflecting strong wireless and wireline revenue growth. We delivered lower cost from our efficiency and effectiveness program in the current and prior years, while making investments in high-quality postpaid loading and renewals, resulting in a 62% increase in high-value wireless postpaid net additions as compared to the prior year. TELUS' solid financial results and high-quality loading are a reflection of our team's focus on operational excellence, driving efficiency and effectiveness, while maintaining financial discipline. Adjusted EPS per share decreased 2.9% to $0.68. The change reflected lower operating income due to our successful investments in our new and existing customers as well as higher depreciation and financing costs. See the appendix for a breakdown on EPS. Capital totaled $810 million in the second quarter as we continued to invest in our fibre-optic network to connect more Canadians in support of small cell technology strategy. Not only does this investment improve our wireless coverage and capacity, it prepares our operations for more efficient and timely evolution to 5G.

We now provide 1.26 million homes and businesses with immediate access to our gigabyte-capable TELUS PureFibre network. This is up more than 400,000 over this time last year. Our wireless network continues to be expanded and enhanced, and we now offer LTE-Advanced services to more than 84% of Canadians. Even as we implement an increased investment in our networks, our free cash flow more than doubled to $260 million year-over-year. This was driven by lower cash taxes and higher EBITDA. Let me now turn it back to Paul for Q&A.

Paul Carpino
Thanks, Doug. Oliver, if you want to start the Q&A, please?

Question and Answers

Operator
The first question is from Phillip Huang from Barclays.

Phillip Huang
Well, first, I was certainly wowed by the improvement on the -- in the wireless metrics, particularly, obviously, the record low churn, which was 11 basis points below my estimates. But it obviously came at a higher cost. So my first question is for Doug. I was wondering if you could provide a bit more color on the different buckets of higher wireless cost in the quarter since you also migrated 85,000 MTS subs in

the quarter. Just trying to gauge how much of the higher cost is nonrecurring. And then the second question is for Darren. So wondering if you believe -- or where you believe the optimal churn level -- postpaid churn level is. Does it vary by quarter? Or where do you think it could go?

Doug French
Okay. So on our -- as mentioned, our retention unit volume was up 5% year-over-year, where in Q1, it was down 6%. So that swing factor in our Q1 versus Q2 results, you'll see a lot of that cost change. But the investments we made were all in COA and COR. We continue to have efficiency and effectiveness programs. Our cost structure, overall, continues to decline. And the investment was not differentiating between new customers and our existing customers. And as offers hit the market, it's available to them all. And when you have periods of time in which there is more stimulation in the market, as you would have seen on significant gross loading, we do see an increase in retention units. The rates on COA and COR are in line, however, slightly up, as all of us are seeing, through increased competition. And we followed a lot of those initiatives as the quarter progressed.

Darren Entwistle
So just to echo Doug's comments, because it's important that you read through our operational and financial results correctly, the investment that we have made on COA, COR is a prudent level of investment and characteristic, I think, of what we have done on a historic basis. And if I've learned anything over the last 17 years, smart COA, COR investments in high-quality wireless loading leads to value creation for your wireless business prospectively. The second comment that I'll make, and I tried to stress this in my comments, is the quality of our postpaid net additions on wireless was excellent. And I'll give you one empirical data point to illustrate it. If I backed out tablets and wireless home phone from our 99,000 postpaid net adds, the resulting number would not be dissimilar to the holistic loading at our peers that includes tablets and wireless home phone. So hopefully, that gives you a sense of the preponderance of smartphone loading within our base. The third thing that I would ask you is in terms of cost investment and aggression. Go back and have a look over Q2 and determine how many price promotions TELUS led in the marketplace. I think you'll struggle to find them.

Next, I think it's important to illustrate that when we have a quarter where our postpaid nets are up 62% on a year-over-year basis, there's a knock-on correlation effect on COR. And the corollary here is that at TELUS, yes, we want to grow our customer base, but we think it's important to also treat our existing customers well. Sometimes you will hear me say that the most valuable customer that you're going to get is the one that you already have in the first place. So the knock-on COA, COR effect, in terms of our existing customers, drives renewals and the renewal investment. But we think that, that's a good thing. The other thing that's important that I don't hear a lot of discussion on is the number of out-of-contract customers within the wireless industry. And we think it's important to mitigate the number of out-of-contract customers, because that either leads to churn in the future, or it leads to more expensive COR when they go to renew during seasonally intense promotional periods, such as what's coming up within the third and the fourth quarter this year. And then lastly, I would say, look at the characteristics of our investment in loading and what we're getting from it. I would highlight our churn level that I articulated and Doug stressed, at 0.79%, in combination with our ARPU growth that was almost 4% on a holistic basis, that gives us a lifetime revenue of over $6,700.That's a new record for this particular organization and a notable difference from our peers but, more importantly than that, an indicator as to the value creation prospectively that we're going to realize from this particular investment. And then lastly, if you look at the investment that we have made, one of the key indicators for me is the health of our network revenue growth and then the profit that's going to flow on a prospective basis given what we've been able to achieve on the loading basis.

TELUS had never been an organization also that goes out there and stretches to consistently lead on loading. Our view has always been one to get quality loading and build the economics of our business on the back of that. And in terms of where the new churn level is, 0.79% for us was a record. To think that that's a record that's going to be repeated or beat quarter in or quarter out, I think is a fanciful expectation. It was a great result for us. And I think it's indicative that it's not some overnight achievement. We embarked upon our customers first strategy back in 2008, and we've been banging away at that year in and year out ever since, trying to do better by the customer, exceed expectations, take the culture of

TELUS and see it manifested in terms of great execution in front of the client, alongside the other competitive choices of that they have, improve our reliability, simplify our offerings, step up on every single occasion across wireless and wireline. So I would say that 0.79% result is a cumulative result, if you will, of 10 years of effort on the customer service excellence front. But when you look at that result, I would say, and if we beat it again on a go-forward basis, that would be a nice thing. But again, I don't think that's a realistic expectation. If we can camp out in that zone, yes, I think that's something to strive for. To be in that particular postal code, I think, would be smart.

And then you've got to normalize for certain considerations prospectively. We always have seasonally higher churn in Q3 and Q4 because of the seasonal selling activities that have acquisition and retention characteristics associated with them. But if you normalize for those considerations or want to draw inference on a singular basis for Q2, I think TELUS, as an organization, striving for a churn level that's within that vicinity, I think, is a good thing to work towards, if we can accompany it with really attractive ARPU growth and get great lifetime revenue and the economics that flow from that. To me, I think that's a smart way of managing our business overall, balancing all the parameters that lead to good valuation considerations.

Phillip Huang
That's very helpful, Darren. I just wanted to follow up on the out-of-contract/BYOD subscriber base that you mentioned. Certainly, that's a metric, I think, you alluded to in terms of reducing in order to mitigate potential future churn. Are you able to provide us any color on the mix of -- the size of the mix of that base within your postpaid subscriber base? And do you see an optimal level for that as well?

Darren Entwistle
I think we've gone a long way on the disclosure, Phil, on that. I think I'll leave it there. I guess, my comment is that as you're acquiring customers, it's also important to renew and retain customers but to do it on a prudent basis to make sure that the economics support that. But it's, I would say, something that you would ignore at your peril. If you let your out of contract-base continue to grow, it's going to either manifest itself in a retention issue downstream, or it's going to be more expensive prospectively on COR as people go to renew during more heavy promotional periods, such as what we've got coming up in Q3 and Q4. And just one thing that I meant to correct. We did not load or take on 85,000 customers on the MTS front in Q2. I just want to correct that. That 85,000 was a subbase adjustment in Q1. The loading that we delivered in Q2 is independent loading of what's been transpiring in terms of corporate development activities in Manitoba.

Phillip Huang
Yes. No, that part I got. I just wasn't sure if any part of the delta on the cost on a year-over-year basis related to any of the migration of those subscribers on to your network, perhaps, giving them a device. But it sounds like it's a vast majority of it, if not all, relates to the normal course of COA/COR. Is that correct?

Darren Entwistle
Yes. And we're about 1/3 of the way through the migration tab on the 85,000 as we speak.

Operator
The following question is from Greg MacDonald from Macquarie Securities.

Greg MacDonald
Darren, thanks for the insight on mix of load as it relates to quality of the load coming on. I wonder if you might talk a little bit about the profile of postpaid ARPU. It was a pretty noticeable beat relative to our estimates on The Street. And I think a lot of us are probably wondering what the sustainability of that type of growth number is. I know it's an easier comp year-over-year this quarter relative to what we'll expect next quarter. But if you could talk a little bit about maybe whether loads coming on are higher on the postpaid side than what I suspect is probably a low $70 ARPU number.

Darren Entwistle

ARPU is healthy. Loading is high quality on the postpaid front. And by high quality, I'm including ARPU characteristics within that, Greg. One of the things that doesn't get discussed very much, as it relates to ARPU, is churn. When you have low churn and disproportionately low churn on your high ARPU base,that gives you a foundation for ARPU growth that's extremely beneficial. And I've not seen anyone really talk about the statistics or the empirical evidence to that effect, but it's an important consideration that 0.79% is not just good in terms of gross to net flow-through and
the economics associated with that, including lifetime revenue. But it's important foundationally to give us the right platform for ARPU expansion, because it's a great number in and of itself. And that number is disproportionately strong in terms of client loyalty and retention amongst our highest ARPU customers.

Prospectively, in terms of what I think about on the ARPU front, as you would know, given the longevity of our relationship, we don't provide prospective ARPU forecast. But what we try to do is to say, "All right, we've had a lot of fantastic ARPU expansion now for 27 consecutive quarters." So I think you can draw some semblance of inference from 27 consecutive quarters in that regard. Secondly, to see ARPU amelioration happening within the Alberta economy is a helpful consideration. And I would note that Bloomberg has actually picked them to have the best provincial GDP growth prospectively over the next 12 to 18 months. So it's not the ARPU engine in terms of contribution that it's been historically. But we've seen ARPU amelioration coming out of Alberta, as we have seen in terms of churn and loading. So I think that's an encouraging factor for, prospectively, our ARPU performance. If you look at what we're doing on pre to post migrations, I think that's a, holistically, 3.9% is not the post number. It's a holistic number. Pre- to post-migrations present an opportunity for an ARPU step-up, and we're cognizant of that. We've been making investments in our high-quality wireless networks. And I think you know what we've been doing in terms of broadband investments, and they support strong data consumption. And within our product portfolio of data top-ups and data step-ups, they have been performing exceedingly well as we've enabled a better level of data consumption amongst our smartphone clients because of the networks that we – investments that we've made on LTE, LTE Advanced, the coverage of those networks and the proliferation of devices that access those networks. Roaming for us continues to be a growing contributor.

The Koodo result continues to be strong. So what's interesting is that you heard me make my comments on ARPU churn and lifetime revenue on a consolidated basis for the TELUS organization. Although we don't break it out, the Koodo story would be highly similar to what we have disclosed on a consolidated basis, great churn, ARPU and lifetime revenue characteristics. And we're exceedingly pleased with that. And then we're seeing a lot of people upsizing their data packages, talking about those data step-ups, if you will. A proliferation of data consumption within SharePlus and family plans and the whole hand-me-down approach on the smartphone front to expand the number of devices within a family or a household and the data consumption that follows from that. So I'm pleased, overall, with the ARPU progression. And we feel cautiously optimistic that, that's something that will contribute to the financial results on the wireless side going forward. And then the -- we were the guys back in, I think it was '09 or 2010, I can't remember now, that said as important as ARPU is, you can't dine out on something forever, or it's not prudent management to just expect that ARPU is going to grow in perpetuity. So we've been focused on AMPU within the TELUS organization and continue to strive to improve the cost efficiency of our business to support the overall economics, even if we do get pressure at the ARPU level prospectively. And that continued duality of both profitable revenue growth and cost efficiency has to be a hallmark of both our wireless and our wireline businesses.

Greg MacDonald
Just a -- can I ask just a quick follow-on, Darren? It's been said, and I don't remember who said it, that the majority of postpaid loads for the incumbents now are coming from the flanker brands. Is that true to make that assumption? And are those customers coming on in the flanker brands necessary below the average 70, whatever it is, dollar postpaid ARPU?

Darren Entwistle
Flanker brands have a lower ARPU. I don't think that's a particularly radical concept. We had a good performance out of Koodo this quarter. But I think it's a great question that you're asking, Greg, because it gives me the opportunity to point out that we had an excellent quarter from TELUS as well. So it was nice to see the overall contribution not being a single tenant like Koodo from a flanker brand strategy but

excellent contribution from Koodo and TELUS alike. The other thing that was, I think, encouraging about our loading is that it wasn't related to any particular geo. It was
pretty pervasive on a national basis. So we're not hanging our hat that we did well within BC or had some fortuitous recovery in Alberta. Right across the country, we had a very strong performance overall.

And then your question, again, is excellent because it gives me the opportunity to emphasize that on the flanker brand front, yes, it may have a lower ARPU than the premium brand, but we have engineered a lower cost structure into Koodo versus the premium brand on the TELUS front. So what is a difference at the ARPU level between the two is de minimis in terms of the difference at the AMPU level because of the lower cost structure that we purposely engineered into both Koodo and Public Mobile. And I think that's a smart way to manage the portfolio of the wireless products that you have. Even on the machine-to-machine front, which is a tidy contributor to our ARPU, there, you have ARPUs that are sub $10. But you have points of margin in the 60-point zone as it relates to the AMPU. So again, nice contributions on the ARPU level but nice flow-through to the AMPU level as well.

Operator
The following question is from Vince Valentini from TD Securities.

Vince Valentini
I hope I can get in a bit of a clarification and then the question I was going to ask. Darren, I just want to make sure we're understanding your comments on an earlier question properly. Are you signaling that you have pulled forward some of the retention volumes that we've all been expecting a big surge in the back half of this year after the iPhone 8 comes out. Are you suggesting you've deliberately pulled some of that forward into Q2, so we shouldn't expect quite as much of a bulge from TELUS in the second half of the year? Or is it just you're going to be subsidizing those phones pretty heavily as well? And as you said, you'll give existing customers the same promotion that you give new customer, so it's inevitable that we'll see continued high retention spending in especially Q4.

Darren Entwistle
Definitively, Vince, I'm not signaling that we pulled forward. I'm just highlighting the correlation between acquisition, retention and renewal, the correlation between COA, COR, particularly in the quarter where we did very well on the high-quality loading front. I'm signaling that we are always attentive to our existing customers that are cognizant as to what promotional plans are out there in the marketplace that you're using on an acquisition basis. I am highlighting or asking to go back and say, "Is this something that TELUS was aggressive about?" And I think if you investigate that, you won't find us being the price promotion leader within the marketplace. And I make that comment as it relates to the solid loading that we have delivered. And then the last comment that I'm making is that you can ignore your out-of-contract base at your peril. And so you just have to be attentive to it, not to the point where you renew at any cost. I made the comment quite explicitly that you have to be cognizant of the ARPU and the churn characteristics and the COR investment that you're making. But on many occasions, and I think Q2 was a good example, we felt that the renewal investment was a smart investment to make across both rate and volume as we have gone through this. And if you don't do things smartly, prudently, economically efficiently, in that regard, then your out-of-contract base can grow. And if it grows, then it's going to come back and manifest itself in some challenges, whether it's a retention challenge or more expensive COR when they're looking at even more aggressive acquisition plans that are out there in the marketplace during the back-to-school, Black Friday, Christmas selling season. So I just -- I think it's important to be attentive to that particular base. That's the comment that I'm making, along with the fact that we had disproportionately strong smartphone loadings. And I think it's a prudent investment that we have made on COA, COR.

Vince Valentini
Okay. No, that's clear. And I just wanted to ask and, hopefully, this is shorter. The cash payments for acquisitions and investments was $493 million in the second quarter. I guess Kroll was $250 million of that. I don't know, Doug, if you can comment on this. What was the rest of it? And maybe if you guys can give a bit color on this Kroll investment, because I don't remember seeing a press release on that previously.

Doug French
So the Kroll was $150 million in cash and $100 million in shares was what we issued for that. There was a few small tuck-unders, and the rest would have been MTS. So that's how you would reconcile that number. And Darren, do you want to top up on the Kroll itself?

Darren Entwistle
Yes, the shares that we issued went to management at Kroll and have retention considerations associated with that are nontrivial for us given that we've given Kroll the mandate for running our pharmacy management operations at TELUS on a systems basis. We think it's an attractive opportunity for us as it relates to TELUS' strategy in respect of the primary care health ecosystem. We're very much focused on connecting that particular topology of people, clinicians and pharmacies in terms of network connectivity, building platforms and ecosystems to support the activities of that particular topology and to build services and applications on top of it. The Kroll acquisition gives us some nice enhanced geographic reach to complement our operations. It gives us very strong operating talent and expertise and increases the breadth and quality of our product offering as it relates to pharmacy management systems.

It's going to see the acceleration in terms of TELUS' delivering a national, open platform on the ePrescribing front that we are in the throes right now of developing and launching the operations of as it relates to ePrescribing with Canada Health Infoway, where in Q2, we won the RFP with Canada Health Infoway to provide ePrescribing services across all jurisdictions in Canada. And we are driving that open platform on a national basis. And we think it's going to be a positive development for Canadians in that regard.

It also provides us the opportunity to support pharmacies of all sizes nationally. It's going to drive better collaboration, if you will. I'm thinking collaboration between doctors and pharmacies across the primary care ecosystem. And when you get better collaboration, better flow of data and information across the primary care ecosystem, you get better outcomes for money spent more efficiently on a cost basis. And this is a pretty important challenge, not just within Canada, but around the world. And I think, without a doubt, we're well positioned to drive within Canada a vision as it relates to digital health transformation that will see improved customer connectivity. And it will see better enablement for both providers and patients by putting tools in the hands of both docs, pharmacists and consumers that better enable them to manage the health of the citizens in our society.

Operator
The following question is from Maher Yaghi from Desjardins.

Maher Yaghi
Just a follow-up on your last comment on health care initiatives. It's starting to come quite well together. Is there any thought about doing something like TELUS International, where you bring on a partner to help you support the next leg of the growth phase, or are you intending to keep it inside fully controlled at this point in time? And I just have another question after that.

Darren Entwistle
It's a good question. I think for the foreseeable future, we see it as something that we would keep inside of TELUS. From our point of view, when you think about the money that we're spending on broadband deployment, both wireline and wireless, it's important as an organization that we drive economies of scope in the capex investment that we're making in things like fibre or, prospectively, 5G wireless. So we're very concentrated on what new revenue streams can we create as a result of that new technology infrastructure that we're putting in place. And we see our health offerings as very complementary to our current portfolio of services. So if you think about what TELUS is doing on the communications front, what we're doing on the entertainment front, what we're doing on the data front within the home, what may come in the future as it relates to home automation development and the like, we see health as a very synergistic fit overall within that portfolio. And then again, what's great is that, that synergistic fit isn't just sentry within the home. But when you've got a broadband wireless business, people can take their health applications mobile. And for us, that's tremendously exciting.

So for us, we're focused on building assets of consequence across the primary care, health ecosystem topology, knitting it together with our network, our broadband networks, wireline and wireless, building important platforms within that space, including ePrescribing, such as what I've just described, but others along the way. And you've seen us do that with things like electronic medical records and Home Health Monitoring and then do it in an open ecosystem, API-friendly fashion, where we invite third parties to come in and, on our platforms alongside ourself, develop additional services and applications that are of interest to consumers when it relates to their health management and that of their families, of great interest to docs and empowering the full legislative latitude of pharmacists. And an industry that's spending the type of money that we're spending on health care, I think, needs to think about digital transformations and the technology that accompanies that and what that enables on the citizen front and what we can do from a shareholder value perspective in terms of creating economic value for what we enable within this particular space. And I think it's important to highlight that the performance of TELUS Health financially, I'm talking revenue and EBITDA now, continues to be very strong. And we're pleased with the results both currently and optimistic prospectively.

Maher Yaghi
And on the wireline side, you mentioned that you're approaching the halftime here for your fibre rollout. And now that you've seen a full quarter worth of, I guess, market dynamic with your competitor in Western Canada, can you talk about prospectively what you see in the market in terms of change in behavior of customers that you had on FTTN? The churn rate on FTTN, is it going up now that you have a newer competitor in the market? And what it could mean on your TV net adds in the next couple of quarters, if your churn on older FTTN customers is going up a bit?

Darren Entwistle
Okay. The new competitor comment, are you just talking about the expansion

Maher Yaghi
X1 platform, yes.

Darren Entwistle
Yes, okay. So let's kind of go through this, if you will. Any day of the week, give me vibrant, aggressive, dynamic competition versus onerous regulatory intervention. I think the former is a model that we can be successful within. It's a model that's inspirational to the culture of this management and leadership team. And I think it drives great outcomes in the marketplace from value for money to product innovation that's pretty cool. So I look at the dynamic with Shaw, and I like it. And so I think that's the first thing to highlight. When we don't see that vibrancy, it sometimes leads to a regulatory intervention. And I find that much more puzzling in how you deal with it and respond to it from a management point of view. The second thing that I think is worth highlighting is, there's going to be puts and takes quarter in and quarter out. We have done -- if you look at our Future Friendly Home, our wireline business since 2011 quarter in and quarter out, we've done extremely well on a competitive basis. But there's going to be peaks and troughs in terms of how that continues to manifest itself. And that's fine. I think that's the outcome of vibrant competition.

But when you look at TELUS and what we do, it's not just looking at our track record since 2011 and how we've done on high-speed Internet or TV. It's the way that we've looked to balance our operational results with our financial results. And so this particular quarter, Shaw did well in terms of their operational loading, and good for them. For us, we think we struck what was the most appropriate balance for the competitive conditions in the market in Q2 between loading and our financial results. So we liked our HSIA loading at 17,000. We were a little bit better than what we thought we would be in terms of our network access line losses. So there was a modest amelioration on that front. That was good. And we were soft on TV, and that's due to the competitive pressures and the secular pressures or the technology substitution considerations impacted TV. So I look at that and I'd say, "Well, given what was going on in the marketplace, I'm okay with that particular combination when it's accompanied by a 4.1% EBITDA growth rate, right?" So if we can generate positive wireline RGUs and positive wireline financial results, I think that's a good thing. And I kind of look around my peer group, and there's not a lot of organizations that are generating positive wireline RGUs on a consistent basis and positive wireline EBITDA on a consistent basis. I'll point out that our 4.1% EBITDA growth on wireline was the 17th consecutive quarter of positive wireline EBITDA growth at the TELUS organization. So I think we've got to kind of balance of the combination of the 2. That's pretty important. And so I think you can see that.

So I think our performance was correct in terms of the competitive conditions in Q2. And I think if we over-egged it, then you start losing on 1 of those 2 parameters, whether it's operational loading or the economics that you want to generate from your wireline business in the first place. And it's important to be sensitive to the wireline economics at a time when you're making the capex investments that we're making in fibre expansion.

The other thing that I think is worth highlighting, and, again, I don't see this discussed very much, but our job is to really build quality revenue-generating assets that have good characteristics associated with them, good ARPU, good churn, good lifetime revenue. And if you add up TELUS' Q2 results in terms of postpaid net adds plus high-speed net adds plus TV and then deduct network access line losses, we were well out in front of the entire industry. We've come in at 102,000 holistic net adds in that regard. And that's significantly ahead of our cableco and telco peers by a nontrivial margin. And I think that says, to me, the investments that we're making, we're building quality, revenue-generating assets that will create future value for the TELUS organization.

And then the other thing, if we're looking at the competitive dynamic between us and Shaw, look at what we're trying to do at TELUS. It's not a cheap and cheerful strategy that we're driving in respect of TV. It's about functionality-based differentiations, product-based differentiation. So whether it's 150 MB symmetrical on our HSIA offering, we're the only provider with 4K TV, whether it's 4K proper or having 4K Netflix within our Optik ecosystem, we've taken a different strategy to OTT. We've brought it within our OTT ecosystem. There will be more to come on that front. I think we've got a content of portfolio that's second to none, magnitude-wise, HD-wise, multicultural-wise. Some nice innovations on wireless set top boxes, Restart TV and trying to do things innovative, like our Pik TV value-based offering in the marketplace given the proliferation of OTT-type activity. So for me, that's pretty strong performance overall that we want to drive by things that actually matter to the clients on the product and on the functionality front.

And then finally, it's just a reality of life for us that we have to keep driving on cost efficiency on both wireline and wireless. We've got pressures that are coming from competitive intensity in terms of the moves that Shaw is making. But we've also, both TELUS and Shaw, have pressures from technology substitution. And increasingly, the Internet service, where we did very well at 17,000 net adds, is the anchor product of the home and the one actually that we generate the highest margins on, given our cost base on Internet versus TV, where we procure the content. And so for us, it's the ability to keep driving those efficiencies so that we can generate, in the near term, quality financial results to complement solid, positive loading results but also to take costs out of the business so that we can compete into the future, that we can sustain competitive intensity, that we can sustain technology substitution and still deliver back to our shareholders the results that you've come to expect.

And then lastly, I think the wireless component is an important one. We did well on wireless. The quality of the loading was excellent. And we did well in the West, and we did well in the East. And I think the combination of wireless and wireline and the broadband investments that we're making in fibre sets us up very well for 5G coming to fruition. And we'll pass, as you already point out, the halfway mark in terms of our fibre build in the first part of 2018. We are taking an accelerated rollout to fibre, which we think is the right thing for us to do, whether it's taking advantage of cost of money, whether it's earning that particular growth because of our operational and financial execution, whether it's the positive regulatory framework that we have in that regard, or whether it's the economies of scope that we can generate from fibre or the synergistic relationship between fibre as it relates to both our wireline and our wireless businesses with the advent of 5G. And by the time the 2019 600 auction rolls around, we'll probably be 2/3 built at that juncture. And that's a great setup, not just for competitiveness on our wireline portfolio and the economics that flow from it, but we're set up really well on the eve of 5G coming to fruition in the 2020 time frame. So I like that particular asset set and competitive juxtaposition.

Operator
The following question is from Simon Flannery from Morgan Stanley.

Simon Flannery
Darren, if we could just follow up on that last point there. We have the consultation document on the 600 spectrum auction. I was wondering if you could give us some of your thoughts about that and about 600 in general. You've got T-Mobile sort of -- and DISH being very active in 600 in the U.S. But AT&T was fairly quiet, and Verizon bought nothing, so a real divergence. Verizon, in particular, focused on microwave spectrum for 5G. So what are your thoughts on the 600 auction and, generally, on what sort of spectrum you would be focused on for the 5G deployment?

Darren Entwistle
It is a bit of a delta between Canada and the U.S. as it relates to millimeter wave spectrum, whether in 28 or 40 gig in that regard. That -- there's a desire within the U.S. to use that as more of a broadband access play to ameliorate the cost economics of the final meters of connectivity within neighborhoods and use broadband/wideband spectrum to achieve that. For us, within Canada, it's not that we're ignoring what could potentially be a nice economic access method to complement what we're doing in terms of building fibre to homes and businesses. But for right now, we continue to pursue direct fibre connectivity and have optical network terminations on a per-prem basis over both consumer and the business market in that regard. Secondly, it's still the perspective of TELUS that low-band frequencies are valuable for reasons that I think are either intuitively plausible or technologically important. So when you think about signal attenuation or signal radius or coverage economics or in-building penetration, low-band frequencies have value in terms of your spectrum repertoire, if you will, in terms of the breadth, the diversity of frequencies, within which you would have 600 within your overall spectrum portfolio. So we will be a participant in that particular auction process.

Our approach as it relates to 5G, I think, is going to be balanced across a range of frequencies from low band to 3.5 gigs to selective use on the millimeter wave front. And those 3 areas are ones that you can expect us to progress prospectively. The other thing that's different about Canada, we have challenging diseconomies of scale. You look at organizations in the U.S., like Verizon or an AT&T or a Comcast, they have the scale economies to actually justify ecosystems that are, if not unique, more customized to them. We can't afford to do that. We need to make ecosystems that are consistent with global economies of scale. So things like 3.5 gig spectrum and the global role that it's playing in terms of 5G development is an ecosystem that we will be keenly interested in pursuing so that we can serve the economics of those global ecosystems and have access to the technology at manufacturing costs that make good sense. And I think that's just prudent for us.

What is encouraging is to see the proliferation of frequencies within the chipset of devices. And that's very, very encouraging to be able to have devices coming from the OEMs that allows us to access on singular smartphone devices a multiplicity of frequencies. And for a player like TELUS in a country with diseconomies of scale like Canada, I think that, that's a very important technological development in that regard. So that's a little bit of the U.S./Canada juxtaposition. But you can see us play on 600 for the reasons that I have articulated, interest in development on 3.5G for the reasons that I've articulated. And yes, we will use millimeter wave spectrum in dense, small topologies, as appropriate, to ensure that when it comes to broadband access cost, we make Pareto Optimal decisions across wired and wireless.

As it relates to what we've seen in terms of the straw-man proposal by the government in terms of the consultative process that's now ensuing, seeking comments in terms of what will make up the parameters of the forthcoming 600 auction in Canada, I would say, having been in the industry for quite some time, I'm disappointed by the presence of a proposed set-aside. I'm kind of scratching my head in that regard, particularly given the size, the balance sheet strength and the permanency of the 4 players that we've seen emerge. And these are just the empirical facts when it comes to the size of those companies, the balance sheets that they have available, and I think that's empirical evidence on the record, and the fact that their permanent competitors creating 4-player markets on a regional basis. And I was just complimenting one of them a few minutes ago. And then to me, I don't get it, because I think there were a lot of learnings from the last time a set-aside was implemented. And some of those learnings and the tuition value associated with that wasn't healthy for the industry or consumers. And again, I'm kind of also wondering, well, why didn't we sort of follow on from what we did on the 700 auction and the 2,500 auction. To me, I thought that, that was a more reasonable model to pursue. So we will be filing our comments, our rationale and our justification to that effect.

But Simon, I'd say the most frustrating thing within our organization is when you hear a lot of public statements that take place brewing the lack of investment in Canada by Canada's largest companies, I would say we're on the opposite end of that continuum. If you look at the investments that we've been making, and we've stretched our balance sheet to make these investments, we have been huge investors in our country. And what I would argue is the most important sector for both our digital society and our digital economy, and whether it's health, education, the environment on the society front, or the digital economy front, to me, we have to expand beyond a resource-intensive country. We have to enjoy better economic diversification. And we've seen what happens when you lack economic diversification and you've got a disproportionate exposure to a single sector of the economy, while the investments that we're making in technology, broadband, wireline and wireless is enabling differentiated economic growth, better economic diversification, better innovation and better new businesses coming to fruition on the back of that innovation.

The other thing that is so important is that there are very few countries in the world that have the need for technology investment that Canada does because of the topography of our nation and the demographics of our nation and our low population density. We really do need technology to bridge time and distance because of those particular challenging factors and the fact that we've got inherent diseconomies of scale along the way. And look at what we've achieved in terms of our investments to date. If you look at the OpenSignal report, wireless networks in Canada are 10 MB faster than wireless networks in developed countries around the globe. And they're twice as fast in terms of data flows to what we've seen with wireless networks within the U.S. And to me, that speaks to the health of our country, consumer life quality and the vibrancy of our public sector. And we've got to keep doing that. The other thing that I don't see globally, and not anywhere near the same magnitude that we see in Canada, is the fibre build. I see a lot of countries wishing for a fibre build or lamenting the lack of a fibre build and all that it would enable. And if you look at what's going on in Canada right now, fibre is being built coast to coast. TELUS is doing it on an accelerated basis, but others are getting on with the job of doing that. And that's really differentiated in terms of what Canada is doing in that regard. And that's a very expensive proposition given the challenges of our country. Yet at the end of the day, it's so critically essential. And it's a lot of the incumbents that are driving that particular investment. And it's not just critical in terms of broadband connectivity, but it's critical as well for setting up with what's going to come on the 5G front. And to me, a bit disappointed that there's not more recognition from the public sector to the companies that are straining their balance sheet, making these technology investments, doing it on a differentiated basis, putting Canada in a leadership position as a result of that and doing what other countries are just wishing for along the way.

And then lastly, one of the things that we hear about a lot is big data, big data, big data. And right now, a phenomenal push as it relates to artificial intelligence. I'll tell you right now, in terms of capturing data, moving data, storing data, supporting the computing of data or as it relates to AI, data correlations and algorithms, telcos drive that. They drive that. And those activities that are happening on data correlation because of telcos capturing it, think about M2M. Or moving it, think about Broadband Networks. Or storing it, think about our Internet data centers and the like. That AI activity and all the innovations that it's going to see is what's going to drive better societal outcomes and better business productivity. And we got to do a better job as an industry, and I've certainly not figured this out yet, of highlighting the importance of this to our country, to middle-class Canadians, who certainly deserve it, to people that are socioeconomic challenged in that regard, getting a better level of engendered understanding and appreciation within the public sector as to the magnitude of what we're doing in terms of technology investment and the importance of it to our country and the classes of society that we have.

Operator
The following question is from Aravinda Galappatthige from Canaccord Genuity.

Aravinda Galappatthige
Darren, you talked about the rollout of the fibre program and where you stand right now. Could you give us an idea at this point or when you maybe look into 2018 of the extent to which your key markets now can offer speeds in excess of 100 MB and be able to broadly advertise that based on infrastructure you have right now? I'm really looking to assess the extent to which and how long the period is where your competitor can have certain advantages in terms of speed in particular territories. I'm just trying to assess that, and we're wondering if you can kind of help with that.

Darren Entwistle
Okay. Let me just go through that sequentially. So to give you a flavor of where we're at, I think we're at the midpoint in our 5-year program, to give you sort of a chronological point of reference. So we're sort of at the halfway mark on our development in terms of where we're going to see the greatest level of capex intensity. And I think for the reasons that I've stated previously, I won't repeat them, the accelerated program makes good sense. And we can afford to do it given our balance sheet strength and the respect that we have in terms of our credit obligations.

In terms of precision, right now, we cover about 1.3 million homes with what we call our PureFibre footprint. We say PureFibre because it's not fibre to the node, it's fibre to the premise. And that's about 42% of our Optik footprint overall. And when we have our call at next year's AGM, I would hope that we would have passed the 50% mark at that particular juncture to give you a bit of a pace of the undertaking in that regard. We are not just looking at 100 MB. The fibre program has 150 MB profile. It also has a 250 MB profile, and it's 150 and 250 symmetrical on both the downlink and the uplink. And I don't think I have to highlight the importance of symmetry when you think about things like reduced latency and what that means when you're playing games on a network basis or what it means for people that are working from home in our telecommuting society, where they're not just receiving information, but they're sending information as well, people that are not just downloading a video in our celebrity society, but they're pushing video out along the way, certainly indicative of what's going on within my home right now. I would say latency matters. And we've got a tenfold competitive positioning on the uplink versus our cable competitor in that regard.

I think it's also important for you guys to understand that post the 5-year program, it's not like the capex on fibre is going to 0. But the capex will begin to moderate. It will be less of a blanket build program, if you will, and more of a selective build program. And as we have said on many, many occasions, the one area where we've learned to live and embrace heterogeneity has been the technology in terms of our wireline deployment, whether it was ADSL2 and bonding or VDSL or ethernet to the suite, whether it was vectoring or version 2 or fibre to the prem. or, prospectively, on a select basis post the 5 years, fibre to a particular node in a neighborhood and then leverage millimeter wave spectrum to improve the access economics, thereafter. It will be horses for courses on this that will help improve our capex efficiency in general and lower our capex on a nominal basis.

Next, in terms of where we don't have the fibre coverage, and we're going over the halfway mark in very short order, I'd go back to, all right, in those particular markets, look at our offering. Our offering on Internet is extremely competitive. We have a variety of technology choices that I've just articulated that give us very nice speeds, whether it's ethernet to the suite or leveraging bonding opportunities along the way. And frankly, not everyone is out there wanting to buy and pay a lot of money for super fast Internet. There is a stratification in the market that we're looking to address. And economics matter to people at the end of the day. We've seen it on wireless, and we see it on the Internet front. In terms of the depth of our data offering, from a data consumption perspective, I think it's extremely competitive. And then I go and look at the TV component at the end of the day and say, "All right, in our nonfibre territory, look at all the differentiators that we have on the Optik front versus Xfinity." And I won't go through the list, because I just did it previously. But we have a plethora of meaningful differentiation factors in terms of the product offering that compare exceedingly favorable to the BlueSky platform. And by the way, we can offer all of those services ubiquitously to our customers, where the Xfinity rollout is more incremental in nature.

And if you look at our overall results, again, I go back to revenue-generating assets, postpaid wireless, plus HSIA, plus TV, deduct the access line losses, we did extremely well. And then carving out the wireline component, in particular, compare us to our peers across Canada, do it in Q2 and do it historically. Who generates the combination like we do? I don't see a lot of organizations doing that. And on a go-forward basis for us, if you're wondering, okay, what's going to be the drumbeat? Well, it's going to be a drumbeat that says let's do well in terms of RGU loading. But let's not be silly about it. Let's be prudent and sensitive to the competitive conditions. Let's be protective of our EBITDA growth. Let's leverage our strength in our wireless business synergistically, where we think we've got a strong advantage as it relates to coverage and quality along the way. And then let's build off of our fibre platform.

The fibre business at TELUS is performing extremely well. And we don't give disclosure at this point, but I came close to it on this particular quarter. But on both an absolute basis and on a comparable basis, we are performing very, very well with the fibre investment. And to give you some precision, very pleased with the penetration on the fibre front, very pleased with the competitive juxtaposition versus the best product offering from our competitor, very pleased with the ARPU on fibre, very pleased with the churn on fibre, and as a result, not surprisingly, the lifetime revenue, very pleased with the lower opex that we're realizing on fibre because of a number of things, including better reliability, less truck roles, easier self-revisioning along the way. So we're seeing better opex, lower opex on fibre versus our legacy copper network, and terrific opportunities, as I said previously, in terms of economies of scope.

And then lastly, we got to keep it up on wireline efficiency to support our financial results but also to help fund our future investments on the fibre side of things. What we're doing on that investment is not coming at a cost of dampening our ability to return capital to shareholders through our dividend growth program. And not only do we have a great asset mix, we've got great diversification within our asset mix. Shaw has got about 90% of their products overlapping with us. We're about 57% with them. So it's not just quality but the diversity of the asset mix. And when it comes to the sustainability of your strategy with regional bumps and grinds on the competitive intensity, having that level of diversity is a nice feature of our organization, and I really got to say our business performs well on a consolidated basis, well on a wireline basis, well on a wireless basis. And I think that's the strength and the story of TELUS at the end of the day.

Paul Carpino
Thanks, Aravinda. And thanks, everyone, for joining us on the call. IR team is available for any follow-ups as well. Have a great day.

Operator
Ladies and gentlemen, this concludes the TELUS 2017 Q2 Earnings Conference Call. Thank you for your participation, and have a nice day.