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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2019 Q1 Earnings Conference Call. I would like to introduce your speaker, Mr. Robert Mitchell, please go ahead.

Robert Mitchell

Hello, everyone. Thank you for joining us today. The TELUS 2019 results, news release, quarterly report and detailed supplemental information are posted on our website at telus.com/investors.

On the call today, we have Darren Entwistle, President and CEO, who will provide opening comments; followed by a review of our first quarter operational financial highlights by Doug French, Executive Vice President and CFO. Following prepared remarks, we will move to the question-and-answer session.

With that, let me direct your attention to Slide 2. This presentation; answers to questions; statements about future events, including our 2019 targets outlook and assumptions as well as intensions 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 we ask that you do not place undue reliance on them.

We also disclaim any obligation to update forward-looking statements except as required by law. We ask that you read our legal disclaimers and refer you to the risks and assumptions outlined in our public disclosures, in particular, our first quarter management's discussion and analysis, our 2019 annual MD&A, sections 9 and 10, as well as filings with securities commissions in Canada and the U.S.

The appendix of our presentation in Section 11 of our first quarter 2019 MD&A provide definitions and reconciliations of the non-GAAP and other financial and operational measures that we will discuss today.

And now with that, let me turn the call over to you Darren, starting on Slide 3.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

Thanks, Robert, and hello, everyone. As you've seen today, TELUS once again achieved strong financial and operational results in the first quarter of 2019. This included healthy revenue and EBITDA expansion in both our wireless and wireline product portfolios, high-quality profitable smartphone-centric mobile phone growth in wireless in addition a strong growth in mobile connected devices driven by the Internet of Things, or IoT, and finally, ongoing robust customer growth across our wireline business, which continues to generate strong results.

Without question, our continued strong performance is owing in no small part to our team's unparalleled dedication to providing exceptional customer experiences. In the first quarter, consolidated operating revenue grew by an industry-leading 3.8%. EBITDA was up 8.6% or a healthy 4.4% when normalizing for the effect of IFRS 16.

This performance is clearly indicative of our ability to deliver on the targets that we've set for ourselves in 2019. Notably, we delivered industry-leading overall customer growth with combined wireless mobile phones and connected devices, Internet and TV customer additions up 50% over last year.

Turning to wireless. Revenue in the first quarter grew by 1.8%. In addition, we saw strong EBITDA growth of 8.4% or approximately 5% when normalizing for the impact of IFRS 16.

Wireless loading in the first quarter included 11,000 mobile phone net additions, a year-over-year increase of 14,000 driven entirely by high-value smartphone-centric subscriber growth. We've evolved our wireless loading strategy to intensify our focus on profitable prepaid to postpaid customer growth, staying away from nonaccretive, uneconomical prepaid to postpaid migrations.

Notably, prepaid growth is attractive from a margin perspective and an area in which we can certainly as an organization do better from a loading and execution perspective. Whilst it continues to be smart prepaid to postpaid migration opportunities in the market, they must be balanced with the appropriate ARPU and AMPU economics. As noted in our press release today, beginning this quarter, we've modernized our subscriber loading in terms of our reporting as it relates to the strategic direction to begin disclosing mobile phones and mobile-connected devices as separate subscriber bases and net additions.

We will continue to report mobile phone metrics, which will be reflective of the mix of postpaid and prepaid within our mobile phone subscriber base, and we have restated 2018 quarterly metrics to ensure comparability. Our updated disclosure is consistent with how we look at value creation of overall customer loadings and the associated margin and economics in terms of lifetime value and EBITDA growth and further enhances the transparency of our disclosure in respect of customer loading.

Postpaid loading across the industry has been flatter by prepaid to postpaid migrations and lower margins subsidized tablet loading in recent periods. However, we believe it is important to look more closely at value creation of the overall loading picture. Furthermore, as we prepare for the transition to 5G, we believe an important indicator of the return that we generate on our 5G investment will be the strategic hyperprogression of mobile-connected devices leveraging our leading wireless and fiber networks along the way.

On that note, for the first quarter, mobile connected device net additions were 49,000, an increase of 20% year-over-year driven by our IoT offerings. In total, wireless net additions, inclusive of both mobile phones and connected devices, were 60,000 in the first quarter, reflecting a focus on quality ABPU loading and representing an improvement of some 22,000 loads over last year.

Looking at customer loyalty, TELUS once again led the industry by a considerable margin with a mobile phone churn rate of 1.02%. This represented an 8 basis point improvement over last year and a record first quarter low for our company. Notably, the basis point improvement under our previous reporting methodology for both total and postpaid would have been virtually identical.

This strong result reflects our team's unrelenting commitment to executing on initiatives to enhance the customer experience as well as the efficacy of our world-leading network quality, speed and coverage. In this regard, it's my pleasure to announce that, just this morning, TELUS once again earned top marks from J.D. Power on a national basis in it's 2019 Canada Wireless Network quality study. This recognition is a testament to the dedicated efforts of our remarkable TELUS team and the efficacy of our wireless technology and infrastructure investments combined with our customers first culture at TELUS. Moreover this acknowledgment from J.D. Power complements the numerous accolades we've received from PCMag, OpenSignal, Ookla and [Tatella] in respect of our world-leading wireless network.

In the first quarter, monthly mobile phone ABPU was $72.19. This reflects a 0.1% increase in the quarter, driven by growth from customers selecting higher-value rate plans and more smartphones in the sales mix. These factors were partially offset by decreases in chargeable data usage and competitive pressures limiting base rate plan price increases concurrent with expanded data consumption that we're seeing in the marketplace.

The trend toward moderating ABPU growth remains as anticipated, and we're working diligently to better monetize robust data growth while simultaneously delivering a strong value for money proposition to our customers. As the leadership team at TELUS, we are optimistic that our continued efforts to effectively manage the J-curve of increased data buckets within rate plans alongside the ARPU initiatives we have in place will allow us to stabilize ABPU and drive modest improvements in ABPU on a prospective basis that we would see reflected in our wireless network revenue line growth improving as well.

We continue to be ever more focused on quality and margin-accretive customer growth through our consistent strategic execution of premium smartphone loading inclusive of driving higher-value data and share plan adoption, coupled with ongoing cost-efficiency initiatives that are so critical in today's environment. This is illustrated by our strategic refocusing away from subsidized tablets and nonaccretive prepaid to postpaid migration, which I mentioned earlier in my remarks.

Stable ABPU or modestly accreting ABPU alongside TELUS' best-in-class churn drove first quarter mobile phone lifetime revenue per customer up over $7,000. This represented an industry-leading 8% increase over last year.

Finally, in April, we announced the acquisition of important 600 megahertz spectrum licenses covering British Columbia, Alberta, Eastern Ontario and Southern and Eastern Quebec. As the demand for wireless data continues to increase, this spectrum will further support TELUS in delivering enhanced mobile broadband connectivity to our customers in both urban and, as well importantly, rural communities. Indeed today, Canadians enjoy the second-fastest wireless networks in the world, and TELUS specifically has been recognized repeatedly in Ookla's analysis of Speedtest intelligence data as having the fastest network in Canada.

Importantly, the acquisition and the deployment of this spectrum will ensure that we continue to provide citizens from coast-to-coast with globally leading network quality, globally leading speed and a major differentiator in terms of coveraging Canada versus what the rest of the world is doing also while bolstering the advancement of our national 5G wireless growth strategy and the fiber network that underpins it.

Moving now to our wireline business. TELUS delivered robust wireline performance once again with industry-leading revenue and subscriber growth alongside strong EBITDA growth buttressed by our diversified and evolving product portfolio. Wireline revenues increased by an industry best 6.4% in the first quarter. EBITDA was also industry leading and grew 9% in the quarter or approximately 3.3% when normalizing for IFRS 16. Impressively, this marked 6.5 years of wireline EBITDA growth, a performance unrivaled by our global peers.

Importantly, data revenue on the wireline side grew by 12%, driven by Internet, driven by TV, driven by smarthome and business offerings and, of course, driven as well by TELUS Health, and TELUS International. Internet net additions remained strong at 22,000, which was a similar result to Q1 2018. Industry-leading TV net additions of 17,000 were up substantially as compared to 6,000 in Q1 2018.

Residential voice subscriber losses continued to ameliorate to 11,000 in the first quarter. This represented a 31% improvement on a year-over-year basis, and our sixth straight quarter of moderating NAL losses. In total, we earned a healthy, an industry-leading 28,000 wireline RGUs in the first quarter, up close to 2.5x Q1 of 2018.

Our strong and consistent wireline operating and financial results clearly highlight the efficacy of our steadfast focus on delivering customer service excellence coupled with, as always, cost-efficiency initiatives that deal with the parts of our business that are experiencing price commoditization or [marching] compression. They also underscore the attractive bundled offers available to customers across our highly differentiated product portfolio, including the superior attributes of our Internet offering, our TV offering, and increasingly, our home security and home automation capabilities as well as our consumer health offerings. Moreover, our best-in-class wireline results are indicative of our focus on leveraging our leading PureFibre broadband network and the significant points of competitive differentiation that they provide our customers and they provide our TELUS organization.

In this regard, during the first quarter, our team achieved 63% PureFibre coverage of our high-speed broadband footprint of some 3.1 million homes. And TELUS is well on its way to our 70% coverage goal by the end of 2019. This ongoing expansion will enable more customers to access our leading fiber technology as well as the improved client experience that it offers.

The strong performance we have seen with our enhanced broadband PureFibre network will not just support the sustainable growth of wireline, but critically, our broadband wireless services, inclusive of our evolution to 5G. Through the success of our wireline and wireless broadband investments, we have demonstrated our ability to consistently drive long-term growth in revenue and EBITDA while simultaneously delivering on our dividend growth model, maintaining the strong balance sheet and generating a very appealing strong free cash flow outlook going forward for this organization.

At our AGM earlier today, we were pleased to announce the extension of our multiyear dividend growth program from 2020 through 2022, targeting annual growth once again of between 7% and 10%. This third and latest extension to our transparent and industry-leading, private sector-leading dividend growth program reflects TELUS' confidence in future market opportunities stemming from our longstanding and successful growth strategy.

Notably, this range will enable TELUS to continue to make the strategic investments necessary in our advanced broadband network and quality customer growth that underpin our ongoing profitability and significant free cash flow expansion. As I indicated earlier, our target for this year is 27% free cash flow growth on a pretax basis. This in turn supports the healthy return in terms of cash being brought back to our shareholders. We've established an enviable track record in respect of an attractive balance sheet and strong operational performance, which enables us to successfully undertake and extend this consistent and transparent shareholder-friendly program.

Furthermore, the 7.1% dividend increase we announced today represents the 17th semiannual increase over the full course of our multiyear dividend growth program originally introduced 8 years ago in May in 2011. Indeed between 2004 and April of 2019, TELUS has returned nearly $17 billion to shareholders, including $11.5 billion in dividends, which represents some $28 on a per-share basis.

I'd like to close by congratulating and thanking the TELUS team for continually delivering on our commitment and for building a company that embraces the responsibility that we have for our clients, our shareholders and the communities that we serve. Indeed, it's thanks to our team and our customers that we're able to invest in the success and the health and the vibrancy of our communities.

Our commitment to giving where we live has been brought to life more recently by our team members in flood-ravaged regions across Ontario, Quebec and New Brunswick. I am, speaking on behalf of the Board and the TELUS leadership team, extremely proud of the way the TELUS team and so many others in our communities have stepped up to provide assistance, helping TELUS contribute $150,000 in support to communities impacted by the flooding and to volunteer some 5,000 days helping our fellow citizens in their time of need.

I'd like to extend my heartfelt appreciation for the TELUS team. What a truly incredible exemplification of TELUS' social purpose put into action. On that note, I'll now turn the call over to Doug to provide some additional color in respect of our first quarter results. Doug, it's over to you.

Doug French - *TELUS Corporation - Executive VP & CFO*

Thank you, Darren, and good morning, everyone. Let's begin with a quick overview of our wireless results.

External revenue increased $1.8 million -- or 1.8% driven by both network and equipment revenue growth. Network revenue increased by $20 million or 1.4% reflecting a 4.9% growth in our subscriber base over the last 12 months, partially offset by lower mobile phone ARPU as previously discussed. Wireless adjusted EBITDA increased by 8.4% reflecting higher network revenue growth, lower employee benefits expense, higher equipment margins and the implementation of IFRS 16. Adjusted EBITDA margin increased by 290 basis points to 47.4%.

On a proforma basis for IFRS 16, adjusted EBITDA increased by 5%. As Darren discussed earlier, we modernized our corporate reporting as it relates to our wireless subscriber results. As a result of the change, data-centric devices such as tablets, Internet keys, wearables and connected car devices, will now be reported in our mobile connected devices subscribers.

For transparency, postpaid churn for our old definition declined by 7 basis points in the quarter to 0.88%, making it almost 6 full years below 1%. Wireless net additions would have been 12,000 compared to the 11,000 reported in the mobile phone net additions. And finally, ARPU and ABPU would have been lower year-over-year by 2.1% and 0.6%, respectively.

In wireline, revenue is up 6.4% largely driven by organic data revenue growth. Data revenue growth was up 12% driven by growth in TELUS' International revenues due to organic business growth, increased Internet and enhanced data service revenues reflecting higher revenue per customer as well as 7.4% increase in our high-speed Internet subscriber base over the past 12 months.

Increased TELUS Health revenues driven by both business acquisitions including Med [assist] and organic growth, revenues from our home and business smart technology lines of business, and increased TELUS TV revenues reflecting subscriber growth. Wireline adjusted EBITDA of $498 million increased by 9%, reflecting an increase in margin contribution from TELUS International, higher Internet margins, and higher TELUS Health margins inclusive of business acquisitions and the implementation of IFRS 16. In addition, lower domestic labor costs from our reduction in full-time team members added to EBITDA growth.

Adjusted EBITDA margin increased by 70 basis points to 30.4%. On a proforma basis, for IFRS 16, adjusted wireline EBITDA growth was approximately 3.3%.

Putting it all together, revenue and adjusted EBITDA growth was driven by favorable contributions from both our wireless and wireline operating segments. Basic EPS per share of $0.71 increased year-over-year by $0.02 or 2.9%, while adjusted basic EPS of $0.75, which excludes restructuring and other costs, also increased by $0.02 and 2.7%. EPS growth was driven by higher EBITDA, which contributed 14%, partially offset by an increase in depreciation, amortization and financing costs. Please see the appendix for more EPS details.

Consolidated CapEx of $646 million was down slightly year-over-year and reflected a CapEx intensity of 18%, down 100 basis points over Q1 last year. Free cash flow of $153 million decreased by 66% over the same period a year ago as EBITDA growth was offset by higher-income tax payments, including the onetime catch-up payment of $270 million; increased restructuring and other costs, net of disbursements, reflecting our investments in operational efficiency and effectiveness to improve our overall cost structure; and an increased interest due to higher debt balance, partially offset by a lower average cost of debt outstanding of approximately 4.17%. Free cash flow before income taxes increased 1% to $504 million.

Our consistent execution, healthy balance sheet and strong cash flow outlook, including our expectations for moderating CapEx, provides our team with the confidence to extend our multiyear dividend growth program as Darren outlined earlier. Our capital return program continues to be balanced with making the right strategic investments to further advance our growth strategy and our commitment to maintain investment-grade ratings.

To be consistent with the way we manage our business, we've revised our target dividend payout guideline effective January 1, 2020, to be calculated as 60% to 75% of free cash flow on a prospective basis. At the end of March, we took advantage of strong credit market conditions, successfully issuing $1 billion 10-year notes at 3.3%. Notably, this is the lowest cost of financing in our company's history for a 10-year offering. At the end of the quarter, TELUS' leverage ratio was 2.84x, up from our 2018 exit rate of 2.54x, however, excluding the impact of IFRS 16, which added approximately $1.45 billion to our liabilities, our leverage ratio would have been 2.63x.

It's important to remind investors of the adoption of our IFRS 16 and IFRS 15 are accounting changes only. It does not affect the economic results, economic financial position or cash flows of the business. Our free cash flow metric is calculated accordingly, and is highlighted in our free cash flow walk-down in the appendix of our presentation.

Overall, we delivered another strong first quarter, results in line with our 2019 consolidated target, which we are reaffirming today. Now let me turn it back to Robert to start the Q&A.

Robert Mitchell

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Phillip Huang from Barclays Capital.

Phillip Huang - *Barclays Bank PLC, Research Division - Senior Equity Research Analyst*

Quick question for you guys, and Darren, thanks for the color behind the evolved disclosure. Just out of curiosity, I think you guys have sort of suggested that you might evolve your disclosure going forward in -- so for some time now. I was just wondering if there's any part of the business that you also could see some evolved disclosure like this one to better align with your internal processes and objectives, whether it be subscriber-loading or otherwise?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

No, I think we've got -- this disclosure move made a lot of sense because it puts the emphasis and the onus on TELUS management as it relates to quality loading that delivers sustainable, attractive but economic returns. I think making that transparent with The Street, it's also the right thing to do because it aligns The Street with the expectations that we're setting on the management front and creates what I would call some positive pressure in that regard in terms of what we want the team to deliver from a quality loading point of view. I think the other thing that's extremely clear that was really the key impetus in terms of modernizing our disclosure was the realization that we're heading into a prolific what I'd call hyperconnected 5G world, and we wanted to create a delineation in terms of quality smartphone loading and all that, that entails and measure how we're doing in that regard in the returns that we generate but greater insight and transparency in terms of growth as it relates to connected devices within ubiquitous IoT ecosystem and, again, to hold ourselves to the same standard that it's not just about volume growth in terms of connected devices and IoT, but what does it do for profitable revenue growth? What contribution is it making to your EBITDA because of the network revenue growth that it's delivering because of the proliferation of those devices, and we thought now's the right time to do it given that we are on the cusp or the advent of bringing 5G capability to fruition.

And it's going to be a big story for this organization prospectively. We've got 9 million connections today, which have been sort of traditionally very humanistic. The machine-to-machine world is going to grow over time to equal and surpass that particular component, and given The Street transparency into what's going on there from base levels of volumes and what's driving those volumes to whether it's fleet logistics on IoT, whether it's machine-to-machine security devices, whether it's electronic payment systems, which is actually the case of the TELUS organization, give you insight into that. And then look at what difference is that making to our revenue and EBITDA lines as manifested in terms of improving network revenue growth along the way.

So I think we're pretty comfortable as it relates to our disclosure now for our core telecom business. One of the things that we're going to do on an augmentation basis is, quarter-to-quarter, we're going to give you some additional ad hoc disclosure that will give you some key insights into developments as it relates to key value drivers in the business, and we're going to make that increasingly a feature of our quarterly reporting so that we can talk with greater alacrity, insight and relevance into the key value drivers at TELUS.

And then lastly, when you think about shifting now from traditional telecoms to our emerging businesses, and you've seen us do this in 2018. Increasingly, we'll do it in 2019 and beyond. It's to give you greater information, greater insights, greater disclosure in terms of what's going on at TELUS International and TELUS Health as we look to scale those businesses, as we look to not just drive revenue and EBITDA results but drive valuation results in terms of the materiality of those businesses within the overall market capitalization of TELUS to make sure that our value is truly reflective of the sum of the parts within the TELUS asset portfolio. And that's an area that I think will be very interesting to look at where we take disclosure augmentation prospectively to make sure that you can put the right value context as we scale TELUS Health and TI going forward and maybe new businesses that we seek to emerge that would fit within that portfolio as well.

Phillip Huang - *Barclays Bank PLC, Research Division - Senior Equity Research Analyst*

That's very helpful. If I may, I just want to revisit the fiber-to-the-home deployment, your fiber story now that you're essentially 2/3 done or approaching 2/3 and 70% by the end of the year, I was wondering if you still think 75% is the ceiling for that -- for this deployment? And also, any update on -- any -- your latest thoughts on decommissioning of copper as sort of the next phase of realizing efficiencies for this program.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

Okay, the answer is, yes, I do. I think that 75% represents a good target. We're now at 2 million premises passed as we speak or done 63% coverage of the 3.1 million homes within our broadband optic footprint. We will meet or surpass 70% by the end of the year in 2019, which is a really critical milestone for this organization as it relates to scale and our ability to market efficiently against that scale because of the coverage footprint that we now enjoy.

In 2020, we will meet and likely surpass the 75% threshold. And at that point, we have a beautiful level of mutual inclusiveness taking place because, as we get to 75% in 2020, we're going to be commercially scaling our 5G deployment. And as we secure 3.5 gig spectrum and secure millimeter wave spectrum let's say in the first instance, 28 gig to 30 gig, we will now have the opportunity to look at broadband access through a dual lens, both a direct fiber connectivity lens but also through a broadband wireless lens on a point to multipoint basis. And we will start making access network investment decisions based on hardcore economics as to which is the more cost-efficient path to secure a particular customer ecosystem in neighborhoods across our ILEC footprint.

So I'm very bullish and excited by the contemporaneous nature of 5G coming to fruition and the breadth of fiber coverage that we're going to enjoy and the optionality that we'll get in terms of going past 75% is going to be very discretionary as to whether we do fiber direct or whether we leverage wireless spectrum and wireless 5G capabilities as an alternative access mechanism.

The other thing that is just critical is that if you look at the returns that fiber is delivering, it's not just like we've got a blind militaristic point of view that we want to hit certain coverage goal after coverage goal after coverage goal. The reason that we're still emphatic about this is that we're delivering great operational loading and terrific financial results from the wireline side of our business.

If you're looking at Q1, we did 28,000 net RGUs on the wireline front. That was 12,000 up on a year-over-year basis, and PureFibre was a significant driver of that particular outcome, and of course, we're doing it with positive EBITDA, whether it's IFRS 16 embellished 9% growth or normalized at the 3.3% level, we're an organization now that's 5, 6 years into consecutive quarters of wireline EBITDA growth. And I think, that's great.

The other thing that we don't to enough disclosure on -- so this is the one of the advantageous quarterly ad hoc disclosure points that I referenced earlier, greater than 50% of the CapEx that we spend in a quarter is success-based. So if we don't hit certain goals as it relates to client connections, we don't spend the capital. And I think we need to give you greater insight in the performance-based capital, the variability in that regard.

And then if you look at some of the metrics on fiber, they are quite compelling. We're hitting penetration rates on fiber of up to and greater than 70% 2 years postbuild. We're seeing ARPU accretion of up to 40%, 1 year postbuild. We're seeing churn 25% better on fiber than copper. And importantly -- and again, here's another area where we could provide some selective ad hoc disclosure on a quarterly call, significant OpEx efficiency improvements. We're seeing repair tickets drop by over 50% and, of course, the truck rolls that frequently accompany those repair tickets 2 years post fiber builds.

So for us, it's a very exciting tool that we have in our toolkit and just one small segue. As the fiber investment begins to moderate in the years ahead and the concentration of spectrum auctions moderates as we get through 3.5 gig and millimeter wave, and as 5G moderates in the years ahead, we're going to see a major shift in CapEx intensity that will support significant and chronic free cash flow expansion that I think is very exciting when you think about returning cash to shareholders within a 60% to 75% payout ratio of free cash flow. So they're the bookends on that particular story.

Operator

Next question comes from Vince Valentini from TD Securities.

Vince Valentini - *TD Securities Equity Research - Analyst*

Darren, let me keep you on that last theme because you've given us some, seems like, pretty simple math, but it's somewhat astounding. If you -- you're dividend right now is $2.25. If you grow that even at 7% a year for 3 years, that's $2.76, 60% to 75% payout ratios, basically you're seeing free cash flow per share by 2022 will be somewhere between $3.68 and $4.60. Is that accurate?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

So I'm not doing the calculation as you speak, Vince, but I would assume that your accurate in that calculation because we're accurate and the payout ratio range on free cash flow is 60% to 75%. Assuming you've got the right definition of free cash flow and we're pretty adamant about the 7% to 10% annual expansion and CAGR associated with that.

Vince Valentini - *TD Securities Equity Research - Analyst*

Right and one follow up. Just the connected device, your outlook is extremely exciting. I just want to make sure everybody's clear, and you may correct me if I'm wrong, but we'll always fixate on network revenue growth, which arguably is a bit soft at 1.4% this quarter, but none of the service revenue that goes with the connected devices is going into that number, so it won't really paint a full picture going forward to just look at that network revenue line. Is that fair?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

I think the network revenue line is the line that you want to look at, Vince. I think that will be the telltale sign.

Secondly, I'm not satisfied with 1.5% network revenue growth, and I am, on one hand, excited to see the IoT expansion, and of course, that is going to get hyperconnected embellished by 5G. And yes, I like the 22% uplift in the connected devices, and that's all great. But for it to be considered a success at TELUS, I want it showing up in the revenue line and the subset network revenue line, and I want it hitting the EBITDA line. And I want that happening starting in Q2 of this year and for every quarter thereafter.

If we load like maniacs on IoT, and we have fantastic connected device growth rates and machine-to-machine goes through the roof but I can't find it or I need a microscope to find it in the revenue and EBITDA line, I'm going to be one unhappy camper in that regard. So the same thing in terms of smartphone loading to deliver an economic return, I want to have IoT loading to deliver an economic return.

And at the unit level, okay, it might be smaller, so at the IoT level, maybe the ARPU is $7, $9 or $10, but the margins are pretty darn decent. The AMPU on a $10 ARPU can be $5. So I think that's attractive business. We want to scale it, but I want to see the revenue and the EBITDA and the economic returns coming out the other side of the pipe.

And the other thing about it is in terms of the weight on IoT, not only does it have to pay for the investments that we're making at the network level, I want to see it given it's a big economy of scope to get us a return on the spectrum investment that we're making at 600, 3.5 and millimeter wave in respect of 5G. So yes, I am very positive on the scaling of the loading, but I will not be happy until I see that manifest itself in terms of the economic results, and I have zero patience for that, so I want to see the clients starting in Q2 and continue thereafter.

Operator

Next question comes from Maher Yaghi from Desjardins Securities.

Maher Yaghi - *Desjardins Securities Inc., Research Division - VP, Telecom, Media & Tech Analyst and Intellectual Property Analyst*

I understand fully how -- why you've changed your reporting on the wireless to break out more dial and connected devices. I'm still trying to understand why we stopped providing prepaid and postpaid. I understand, Darren, you talked about the fact that what you care about is loading profitable customers and the margins that are associated with those customers, but 10 years ago, 15 years ago, we were all talking about the fact that postpaid used to -- is the way to go. That's where the money's at. And now we're saying it's not the case anymore, or prepaid is as good as postpaid in those kind of discussions. So going forward, why has this happened? And when you look at churn, when you don't break the prepaid and postpaid, are we to expect churn to head higher if we're expecting prepaid to grow more than postpaid?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

So, Maher, let me just kind of tell you completely what our thinking is on this. Number one, we're not saying that prepaid is at a point of equivalency with post. We still have a bias towards post. So the consolidation does not eradicate that ideology.

Secondly, there is a negative mantra associated with prepaid that's not accurate. If you look at ARPU to AMPU, you can have quality AMPU-accretive prepaid loading. And we should focus on that. And so that's the pressure point that we're bringing to bear.

Thirdly, I am saying and I said it on previous calls, I prefer AMPU-accretive prepaid loading over AMPU-dilutive tablet loading or wireless home phone loading any day of the week. So it's not my preference of equivalency between pre- and post. It's my preference of AMPU-accretive pre- over noneconomically accretive tablets or wireless home phones. And that's the efficacy of what we're doing here.

Secondly, in terms of the overall view, there are 2 types of pre- to post migrations. There are quality sensible, economically accretive pre- to post migrations, and then there's nonsensible, noneconomic accretive pre- to post migrations that flatter postpaid loading in a way that's economically dilutive. So why would we do that?

And by consolidating and presenting the results together, I'm saying I want to load on pre-. I have a preference for that versus other areas that are less economically attractive. And when we do look at pre- to post migrations, I want to make sure that they're done with the filter, that it's going to add value to the TELUS organization not destroy value at the TELUS organization. And so that's the ideology behind it. And then secondly, I want to give you enhanced disclosure in terms of transparency into the wireless connected device portfolio as we're on the advent of 5G.

Next, in terms of pre- and post, a couple of things are really important to lay out here. We made this transition, and we just didn't do it in 2019. We went back and we restated 2018. So we didn't do a base adjustment starting Jan 1, 2019, and said to hell with the past. Let's just use it prospectively. We went back and did a proforma adjustment to 2018.

We've also done that on IFRS 16 to give you a better transparency on a year-to-year basis. So when it comes to comparability, '19 versus '18, and making base adjustments not just in year but retrospectively, I think we've done it in a pretty robust way.

Additionally to give you added points of comfort, we peeled out certain parameters to make sure that you know that there's nothing disconcerting here. So we've showed you the traditional view on our postpaid churn, the traditional view as it relates to ABPU. So in Doug's remarks, he actually articulated that our churn rate on post was down 7 percentage points to 0.88%. So what it would be if we reported the way that we have done historically to get you comfortable, but not only has retention continued to be a good story, it's a year-over-year improvement story using the traditional reporting mechanism.

And I think that's key because if you look at the churn improvements, yes, gross was a bit softer at TELUS, down 5%, but I think if you look at gross at TELUS versus gross at our peers, it compares in a very favorable fashion, particularly when you start stripping out loading to look at the quality component of that. And then largely there, I think, something that's pretty important now is that it's got pretty boring on the traditional front to talk about TELUS churn being below 1%.

So now we're going to talk about where do you want to take our 1.02% churn. What do you think the goal for the team is here? The goal for the team is to take our combined churn from 1.02% into the 0.9% category. And isn't that a great rallying cry to say rather than just talk about consecutive quarters having postpaid churn below 1%, wouldn't it be a great thing to talk about pre- and post together being below 1%.

And that makes sense. It's not just about the vitriol. It's about making sure that our churn thesis isn't exclusive to postpaid. But it's also permeating through at the prepaid because if prepaid has very attractive ABPU characteristics associated with it, shouldn't we want to drive down the churn rate and those value-add subscribers? Absolutely. So rather than the churn ballooning above 1.02%, we're going to be looking to get churn down below it. And there'll be seasonality along the way, but we think that that's a very smart way for us to think about the management of our business from a disclosure perspective, and then also, when we look at lifetime revenue per client, which is up 8% both new and on a traditional reporting basis, you really get an extra value construct coming out of that.

And you know what, I was asked about ad hoc disclosure. I'll give you one interesting point of ad hoc disclosure right now. The churn of 1.02% as it relates to smartphone consolidated pre- and post, if I add into that HSIA and TV and look at how we did on a consolidated basis, so we led the industry with 39,000 net adds on a consolidated basis, pre-, post, HSIA, TV, deduct network access line losses, that number at 39,000 compares very favorably to our peer group. The churn rate on that number is 1.02% as well. So we're 1.02% on mobile phones. Add in HSIA and TV, and we're at 1.02%, and the consolidated net adds that we delivered, I think, is distinctly an industry-leading result.

Maher Yaghi - *Desjardins Securities Inc., Research Division - VP, Telecom, Media & Tech Analyst and Intellectual Property Analyst*

And just one on -- I agree with you that you have inherently good assets that maybe are undervalued by the market in TI and TELUS Health. But providing The Street with ad hoc numbers on these 2 assets might not be enough to get The Street to value them at the proper level. Do you think we can get to a point where you could provide this information regularly so we can build the historical framework in order to value these assets at the right -- in the right way?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

So the answer is yes. So I gave a 3-tiered response to the earlier question. One is as it relates to our traditional business, I'm happy with where we've gone with our current disclosure model and the changes that we've made today. We're going to complement that with ad hoc disclosure quarter in, quarter out to give you greater insight into the key drivers of our business. And then the third tier is TELUS Health and TELUS International and because of what we heard from both sell-side and buy-side investors, we have taken that from TELUS Health and TI on an ad hoc basis to now a regularized disclosure program that takes place in August. So when we have our Q2 call in August and every year hereafter, you're going to get regularized structure disclosure that lets you know how TELUS Health and TELUS International is doing. And with that as the base case, we may look to augment that on a go-forward basis because we don't want to have valuation that's less than the sum of the parts, and these are very positive success stories for the TELUS organization.

By way of but one example, both TELUS International and TELUS Health had a very good Q1. So a nice start to the year, and when we get to the Q2 results in August, Josh Blair will have the opportunity to give you tangible empirical insights into both International and Health that have direct ramifications on the value of those businesses and, by extension, the value of TELUS, and that's regularized and that's our commitment to The Street

Operator

Your next question comes from Jeff Fan from Scotia Capital.

Jeffrey Fan - *Scotiabank Global Banking and Markets, Research Division - Director of Telecommunication Services & Canadian & U.S. Telecom and Cable Equity Research Analyst*

I have 3 quick ones. First, on the disclosure, the question is, was this, Darren, a proactive move to try to preempt some behavior that you think might be creeping into the market or within TELUS? Or was this a move to try to sort of get management to get away from some of the actions that you guys may have taken in the past?

And then a couple of quick ones on the payout ratio, 60% to 75%. Am I reading it correctly that you're going to get to that level of payout given the dividend growth by 2022? Is that the time frame that we should be looking at? And then finally on service revenue growth, are you saying that you need IoT contribution to service revenue to see that reaccelerate?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

I'll take the last one. So I'll take the last one first, Jeff. The answer is yes and no. It isn't a singular contributor to improving network revenue growth. The yes is it will make a contribution to network revenue growth, definitively, but that will not be the sole contribution. I'm expecting a contribution -- material contribution -- significant -- statistically significant contribution to network revenue growth coming from our high-quality smartphone loading as well. So I want to see both priming the pump in terms of improving the revenue growth within our wireless business. So yes, I want it to make a contribution, but I have equal expectations coming out of our smartphone loading as well.

I'll let Doug take the next question in reverse order as it relates to the dividend and FCF?

Doug French - *TELUS Corporation - Executive VP & CFO*

Yes, so the payout ratio, we will be within the 60% to 75% of free cash flow in 2020. So right out of the gate, as we implement the new program, it -- we don't need to wait. It doesn't need to -- or we don't need to grow into to a better term. We set the target to be aligned with our free cash flow projections, and we will be in it right out of the gate.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

And we don't make those decisions lightly, right? So you can imagine within that 60% to 75% range, we modeled a robust number of scenarios as to what the future will look like, could look like, what contingency considerations do we have to deal with, what investment appetites do we have to satiate as to make sure that we could operate comfortably within that 60% to 75% range. So there was a lot of modeling done and a lot of due diligence and pressure testing to make sure that, that range was sustainable not just within the base case scenario but our ability to absorb contingencies and exogenous events.

And the last one is, was it preemptive? I guess, categorically, you would say, yes, because we made the decision in Q4 of 2018. And we've been working on it over the last few months in that regard. As I've already said earlier, there's a discipline factor here by boxing the TELUS organization, the focus on quality smartphone loading, and there's nowhere to hide now in that regard. And then secondly, scaling our IoT loading and making sure you get an economic return. So yes, part of it was to make sure that there was no room for behavior that was either value neutral or value dilutive that now we'd structured or boxed the organization in that regard, or it's got to be quality, quality smartphone loading, supporting economic accretion, and scalable IoT loading supporting economic accretion. So yes, there was a discipline factor associated with it.

I think, also maybe a little bit of a TELUS color. It was a healthy organization activity for us to undertake on the IoT front because, going through this process and disclosing our IoT base meant that we had to come up with an audible IoT count, which I would have thought would have been very straightforward. But it wasn't. As the finance team went through the cupboards of the organization to make sure that the count was accurate in that regard.

And so I think an ancillary benefit of this activity is a better controlled environment on our IoT base and better lenses and filters as we look to materially accrete that base in the years ahead now that we've got public disclosure transparency associated with it and wanting to get the desired economic returns. So it was quite interesting what happens when you put the specter of public disclosure on an organization and looking at the robustness of our operational account of our asset base in that space.

Operator

The last question comes from Simon Flannery from Morgan Stanley.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

This is Landon Park on for Simon. I was just wondering if you can talk your strategy for the 600 megahertz buildout following the auction as well as us any updates on 5G or 5G trials?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

So we'll be looking to deploy 600 in about the next 12 months. We're undertaking a range of 5G trials on the 600 front. We're very interested in testing it in urban areas as it relates to in-building penetration given the wave characteristics and, of course, interested in deploying it in rural dominions given the propagation characteristics of the low band of spectrum.

In terms of 600, it can be deployed as what you see at a T Mobile in the U.S. on an LTE basis, but our thesis really at TELUS is looking at deploying 600 at scale for 5G. And I really see that being a material event in the second half of 2020 and beyond. We first have to go through our RFP process on 5G, select a vendor in that regard and then beginning to deploy 600 and then, laterally, 3.5 and millimeter wave. That's kind of the time frame as it relates to 600. And the applications that we would be thinking about deploying it in terms of building penetration in the urban confines coverage considerations as it relates to rural.

And one of the things that I would say is important in terms of low-band spectrum like 600 to enable 5G, Canada has a fantastic track record across Bell, Rogers and TELUS, but when it comes to deploying new technology, and 5g won't be an exception, we don't just apply that new technology within the urban confines. We roll it out to the entirety of the population so everyone can enjoy the benefits of that technology and what it means to economic growth and diversification and what it means to helping improve social outcomes in areas like health, education, the environment and improving economic disparity among citizens. So that's kind of the time frame on 600. And you've got to get the RFP done first.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

And just one quick follow-up on the 3.5 gigahertz. When do we expect the decision on the claw back?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

So hopefully, in the latter half of 2019 or early 2020. My track record in guessing customer or government time lines is fairly spurious.

Robert Mitchell

Thank you, Landon, and thank you, Mike, and thank everyone for joining taking time to join us today. If you have any follow-up questions, please feel free to reach out to Ian McMillan or myself on the IR team.

Operator

Ladies and gentlemen, this concludes the TELUS 2019 Q1 Earnings Conference Call. Thank you for your participation, and have a nice day.
