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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2019 Q2 Earnings Conference Call. I would like to introduce your speaker, Mr. Robert Mitchell. Please go ahead.

Robert Mitchell - *TELUS Corporation - Director of IR*

Hello, everyone. Thank you for joining the call today. The second quarter 2019 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; this will be followed by Josh Blair, Group President and Chief Corporate Officer with an update on TELUS International; Doug French, our Executive Vice President and CFO will then conclude the prepared remarks with a review of our second quarter results. Following that, we will move to the question-and-answer session, per usual.

With that, let me direct your attention to Slide 2. This presentation and answers to questions contain forward-looking statements that are subject to risks and uncertainties and made based on certain assumptions. Accordingly, actual performance could differ 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. And we refer you to description of risks and assumptions in our second quarter MD&A and 2019 annual report.

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 good morning, everyone. As you've seen today, TELUS reported second quarter results that reflect strong operational and financial performance, including healthy revenue and EBITDA expansion in both our wireless and wireline product portfolios, in concert with robust customer growth across the business. These strong results, combined with continued value creating financials, are anchored by our team's relentless focus on providing the best customer experience on our world-leading broadband networks.

In the second quarter, consolidated operating revenue increased by 4.2%, while EBITDA was up 4.5% or 9% before normalizing for IFRS 16. Notably, the robust customer growth that we delivered in the quarter included 186,000 new wireless, Internet and TV net additions as well as continued improvement in residential voice, resulting in total RGU growth that was up 33% over the prior year. This was driven by a low combined churn rate of 1.05% in respect of wireless mobile phones, high-speed Internet and TV, inclusive of consistent industry-leading wireless churn and ongoing improvements in wireline loyalty rates. Moreover, this result was fueled by the ongoing generational investments we are continuing to make in our globally leading broadband networks.

Notably, looking at total wireless and wireline customer growth over the last 10 years, inclusive of wireless, Internet and TV net additions as well as residential voice, TELUS led the industry in nearly half of the 40 quarters, while ranking second in 15 others. This is undeniably a clear demonstration of our consistent focus on profitable customer growth and the resulting significant value creation over the longer term, buttressed by the best customer experience in the industry on world-leading networks.

Turning now to wireless. We achieved solid growth in second quarter wireless revenue and EBITDA, which were up 2.8% and 5.1%, respectively, with reported EBITDA up to 8.6% before normalizing for IFRS 16. As expected, second quarter network revenue growth of 1.7% represented an acceleration as compared to the first quarter of the year, a trend that we aim to continue to deliver on going forward.

Wireless loading in the second quarter included 82,000 mobile phone net additions, a nearly 20% increase on a year-over-year basis. This was driven overwhelmingly by high-value postpaid smartphone-centric subscriber growth. Notably, mobile phone loading was bolstered by an 8.4% increase in gross activations with increases in both postpaid and prepaid. Consistent with our comment last quarter, we've evolved our wireless-loading strategy to intensify our focus on profitable postpaid and prepaid smartphone customer growth, moving away from non-accretive prepaid to postpaid migrations.

Second quarter mobile connected devices net additions of 72,000, approaching a two-fold increase on a year-over-year basis, were driven by growth in IoT offerings, partly offset by reduced lower-margin subsidized tablet loading. As a reminder, connected devices include tablets, connected cars, IoT and wearables as a few key examples of what's in that portfolio. In totality, wireless net additions, inclusive of both mobile phones and connected devices, were 154,000 in the second quarter, reflecting a 45% increase over last year.

In early July, TELUS took a significant step forward in our long-standing commitment to put our customers first by becoming the first national carrier to launch three innovative programs in combination, providing more value, more simplicity and greater transparency to Canadians than ever before.

Thanks for the passion and the skill of our TELUS team, we successfully launched Peace of Mind endless data rate plans, alongside our attractive TELUS family discount offering and Easy Payment device financing. In addition to facilitating a significantly enhanced customer experience on the path to 5G, these new mobility service offerings will support sustainable and profitable client growth, enhanced bundling options that are exciting and long-term financial performance for this organization and our investors.

Importantly, the simplification attributes and device payment transparency will enable significant opportunity to improve our cost structure and support operating margins while bolstering EBITDA and free cash flow growth.

Whilst it's undeniably still early days and a quiet part of what's going to be a busy quarter, we are very encouraged by the initial response. Initial response that includes: Strong adoption of the new offerings, step-ups to higher monthly recurring revenue and data usage increases; lower device promotional costs; enhanced digital adoption, and leveraging of TELUS International given the simplicity attributes of the plans; and finally, a reduction in customer calls and improved handling time efficiencies within our contact centers and channels.

Furthermore, we have seen a significant decrease in the device component associated with COA and COR. Moreover, Easy Payment provides us with additional tools to enhance handset affordability such as 0% financing, certified pre-owned devices, Trade-In and Bring-It-Back offers as well as 36-month device financing.

Notably, well over half of the customers moving to our Peace of Mind plans are stepping-up in terms of monthly recurring revenue, which is tracking favorable to our original business plan.

Looking at customer loyalty, TELUS, once again, led the industry by a considerable margin with a mobile phone churn rate of 1.01%, inclusive of both postpaid and prepaid. This represented a slight 2 basis point increase over last year, reflective of the competitive market environment that we experienced in the second quarter. Consistently strong customer loyalty is, of course, a hallmark of the TELUS organization, and our team is continuing to strive for overall mobile phone churn of sub-1%, and we are clearly close to achieving that objective.

Notably, earlier this week, TELUS was recognized as having the best mobile phone network in Canada, inclusive of the fastest speed and most expansive coverage as measured by consumers with Speedtest by Ookla. Furthermore, for the second quarter in a row, Tutela ranked TELUS #1 for mobile experience across Canada. These accolades complement the additional major network awards that TELUS has earned from J.D. Power, PCMag and OpenSignal, all received consecutively for 2 or more years. Indeed, these represent an important differentiator for TELUS and reinforce the consistent superiority of our networks and the value of the ongoing generational investments that we are making in our broadband wireless and wireline technologies.

Finally, we expect our churn leadership to be bolstered by our unique, well executed combination of our Peace of Mind endless data plans, family discount offerings and Easy Payment device financing. Together, these offerings represent the next evolution in our decade-plus journey to put our customers and our investors first in everything that we do.

In the second quarter, mobile phone ABPU was $73.43, which was up 0.5% over last year. This is being driven by ongoing robust data growth and consistent strategic execution of premium smartphone loading. Over the past 18 months or so, we've been navigating the J-curve of increasing data buckets across the industry, which will continue with our Peace of Mind plans and the ongoing industry transition to larger data plans leading up to the commercialization of 5G.

Data overage has now become a very small part of our revenue, and we anticipate significant ABPU step-ups as customers move to larger data plans over time. Whilst there could be some initial ARPU pressure from high-value customers stepping down, we expect this to be more than mitigated at the EBITDA level by immediate cost savings, afforded by the simplification attributes associated with our Peace of Mind and Easy Payment offerings.

As mentioned, thus far, we've seen step-ups outpace our initial expectations. And of course, longer-term, we expect ARPU and network service revenue expansion to be supported by customers stepping-up to larger data rate plans.

Moving now to our wireline business and our consistently strong financial and operational performance. TELUS delivered another strong performance once again in respect of revenue, EBITDA and subscriber growth, buttressed by our proven, diversified and evolving product portfolio and the world-leading technologies that underpin them.

Wireline revenues increased by almost 6%, while EBITDA grew 3.5% in the second quarter or almost 10% before normalizing for IFRS 16. Impressively, this puts us in our seventh year of consecutive quarterly wireline EBITDA growth, a performance unrivaled amongst our global peers. Importantly, wireline data revenue grew by 12% in the quarter, driven by robust high speed Internet and TV customer growth, strong performance in both TELUS International and TELUS Health and solid growth in our smart home security and business offerings. In a few moments, I'll turn the call over to Josh Blair to provide some additional color on our fast-growing TELUS International business.
Internet net additions were indeed robust and industry-leading at 25,000 in the second quarter. Despite the intense competitive environment, we saw an improvement in churn over Q2 of 2018. TV net additions of 16,000 were up 1,000 over the same period last year and were also industry-leading. Notably, this strong and consistent performance was supported by a double-digit basis point improvement in our TV churn. The momentum in respect of wireline customer loyalty is certainly encouraging and speaks volumes for both our technology and our customer service delivered by our people. Indeed, it clearly demonstrates the efficacy of our expanding PureFibre footprint and the operational success we are deriving from this strategic fibre-build program, alongside our unwavering focus on customer service excellence.

Moreover, improving residential voice performance continues to represent a very positive story for TELUS. Coming in at just 9,000 net losses in the second quarter were down 1,000 over the second quarter of last year, which is, of course, our result being another industry best. This is our seventh consecutive quarter of moderating losses and the fewest residential voice net losses that we've experienced in 15 years.

In total, we earned an industry-leading 32,000 wireline net RGU additions in the second quarter. Notably, this does not include TELUS SmartHome Security, where we had solid net additions of 11,000 in the second quarter, and we are looking to improve upon this result consecutively in Q3 and Q4.

Our strong and consistent wireline operating and financial results clearly highlight the importance of our dedicated focus on delivering customer service excellence, combined with cost efficiency and world-leading technology, it is a potent combination. They also underscore the attractive bundled offers available to customers across our diversified product portfolio, a portfolio that includes the superior attributes of our Internet, Optik TV, SmartHome Security and consumer health offerings. As well, they reflect our team's steadfast focus on leveraging the competitive differentiation inherent in the attributes of our PureFibre wideband network. In this regard, during the second quarter, our team expanded our PureFibre coverage to approximately 64% of our Optik footprint. We are clearly well on our way to circa 70% coverage by the end of 2019. This ongoing expansion of fibre, also coupled with the advent of 5G, enables an increasing number of customers to access our leading broadband technologies and to benefit from a corresponding and marked improvement in the customer experience across all the products within our portfolio. The strong performance, driven by our enhanced broadband network and PureFibre offerings, will support the continued and sustainable growth of wireline and wireless services, including the run-through to 5G.

We are very excited about the long-term value creation related to fibre, a particularly potent generational investment when complemented by 5G as wideband becomes increasingly inoculated in every aspect of consumer life. This is productivity, public sector efficiency, and importantly, the digital transformation necessary to answer some of the biggest challenges and opportunities confronting our planet in respect of health care transformation, environmental remediation, education and bridging socioeconomic disparities within our society. In fact, we believe that the market is significantly underestimating the pervasive benefits and long-term economic returns associated with our wideband investments in fibre and 5G and the protracted nature of the return period in terms of the inherent economics. Through our ongoing broadband investments and the consistent execution of our long-standing strategy, we are continuing to build on our track record of providing investors with the industry best multi-year dividend growth program, targeting annual dividend growth between 7% and 10% through 2022. There are not very many companies that can make that statement and then deliver upon it. This is underpinned by our expectation of strong cash flow generation and growth from TELUS over this exact same period. Indeed, our proven history of delivering on our industry-leading shareholder friendly initiatives from the strong cash flow generated by our strategic investments is underscored by TELUS having now returned $17 billion to shareholders, representing approximately $28 per share since 2004. Our performance track record is underpinned by the strong value for money we offer our client, alongside the best customer experience on our world-leading networks.

I'd like to close by congratulating and thanking the TELUS team for continually delivering on our commitments and embracing the responsibility that we have to our customers, our shareholders and the community that we serve. We believe there is a truly synergistic relationship between what we do in business in terms of driving positive outcomes for our customers and shareholders, and what we do to create healthier and more caring communities for our fellow citizens.

This year, we are celebrating our 14th annual TELUS Days of Giving. And in the second quarter, more than 33,000 team members, retirees, family and friends volunteered at events in Canada and around the globe to make a social difference that's meaningful for our fellow citizen and communities. Indeed, it's thanks to our team and our customers that we're able to make the investments necessary to enable these positive social outcomes and support the success, health and vibrancy of our communities.

Finally, I'd like to take this opportunity to extend my sincere congratulations to George Cope on his impending retirement, following a highly successful career in delivering deeply meaningful contributions to both the Canadian business and social landscapes. Importantly, through Bell Let's Talk, George has brought much-needed attention to the critical topic of mental health. Indeed, he's leading an exceptional legacy in the Canadian communications industry that will resonate for generations to come.

On behalf of the TELUS team, I extend my best wishes to George and his family.

On that note, I'll now turn the call over to Josh to provide an update in respect of TELUS International.

Josh Blair - *TELUS Corporation - Executive VP, Group President & Chief Corporate Officer*

Thanks, Darren. On our investor call last August, Darren provided enhanced disclosure on TELUS International. As promised, I'm pleased to provide a follow-up on TI's progress and our robust growth plan in 2019.

In just the last 12 months, our TI team has grown by 6,000 to close to 36,000 team members across North America, Central America, Europe and Asia. Today, with the benefit of a strong leadership team, TI continues to be a global customer experience innovator, partnering with many of the world's leading brands across the telecom and utilities, fast-growing technology, games, health care and travel and hospitality verticals.

Our solutions support our clients' different stages of growth and cover customer experience, digital transformation, IT life cycle management and digital support. It's also worth underscoring that since its inception 14 years ago, TI continues to be an important extension of TELUS, as Darren covered. Notably, our international team truly embodies our caring culture as well as the remarkable and consistent commitment to putting customers first, complementing TELUS' global leadership in broadband network performance and in offering value to our clients.

2019 is shaping up to be an outstanding year for TI. Thanks to our exceptional team around the world and their successful efforts to both sign on a range of new clients as well as onboard many of our existing clients onto newer solutions such as robotic process automation and migrating applications to the cloud.

As you may recall, last year, we had to digest 2 challenges. First, some downsizing by certain clients in response to unique challenges in their own businesses; and second, initial dilution from our Voxpro and Xavient acquisitions. This year, I'm pleased to report that we expect TI to surpass total annual revenue of $1.3 billion, driven by strong organic growth, including revenue derived from TELUS and strengthened contributions by Voxpro and Xavient. Earnings performance this year is also strong, and we're on track to achieve our year-end EBITDA margin target of about 20% on a post-IFRS 16 basis. And for sake of clarity, IFRS 16 has added approximately 5 basis points of margin in the case of TELUS International. Given typical mid-single-digit capital intensity with continued strong execution, TI is well positioned to be a meaningful contributor to TELUS' cash flow growth this year and in the years ahead.

With that, I'll turn the call over to Doug to provide some additional color in respect of our second quarter results.

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

Thanks, Josh. Let's continue with an overview of our wireless results on Slide 10. External revenue increased by 2.8%, driven by both network and equipment revenue growth. Network revenue increased $26 million or 1.7%, up sequentially by 30 basis points, reflecting 5.4% growth in our subscriber base over the past 12 months, partially offset but improving mobile phone ARPU, as declining chargeable data usage was partially offset by growing monthly recurring charges from step-ups and higher rate plan additions and renewals. Wireless adjusted EBITDA increased by 8.6%, reflecting higher network revenue growth, lower network operating expenses, higher equipment margins and the implementation of IFRS 16. Adjusted EBITDA margin increased by 250 basis points to 46.3%. On a pro forma basis for IFRS 16, adjusted EBITDA increased by a strong 5.1%. On a pre-IFRS 15 basis, which reflects more on a cash contribution perspective, adjusted EBITDA was higher than 6% for the quarter and 7% on a year-to-date basis.

Moving to Slide 11. In wireline, external revenue was up a strong 5.9%, driven by organic data growth of 12%, reflecting organic growth in TELUS International, as Josh just highlighted, from expanded services to existing clients from -- and new clients.

Increased Internet and enhanced data service revenues reflecting higher revenue per customer as well as our 7.1% increase in our Internet subscriber base over the past 12 months. Increased TELUS Health revenues driven by expanded services to existing customers and new customer growth. Revenues from our home and smart -- business smart technology business lines, including security and increased TV revenues, reflecting subscriber growth of 7.1% over the past 12 months.

Wireline adjusted EBITDA of $478 million increased by 10%, reflecting an increased margin contribution of TELUS International, Internet margins, higher health margins and the implementation of IFRS 16. Adjusted EBITDA margin increased by 80 basis points to 28.5%. On a pro forma basis for IFRS 16, wireline adjusted EBITDA growth was 3.5%.

Putting it all together on Slide 12, revenue and adjusted EBITDA growth continue to be driven by contributions from both our wirelines -- wireless and wireline operating segments. Basic EPS per share of $0.86 year-over-year by -- was increased by $0.20 or 30% due to an EBITDA growth, lower income taxes due to $121 million benefit from the revaluation of deferred income tax liability for the multi-year reduction in the province of Alberta.
Free cash flow before income taxes increased 17% to $446 million. Adjusted basic EPS of $0.69 decreased by $0.01. The decrease -- that decrease of $0.01 reflects increasing finance cost, reflecting a $17 million negative foreign change impact as well as IFRS 15, which contributed $16 million to higher financing costs. Higher depreciation and amortization from the growth of our asset base, including leases under IFRS 16, which contributed $46 million to the higher depreciation number and higher shares outstanding. Please see the appendix for our Q2 presentation for further summary of EPS.

As highlighted on Slide 13, consolidated CapEx is $770 million, was down 2.7% over the past -- over the last quarter and reflected capital intensity of 21%, down 200 basis points year-over-year.

Free cash flow of $324 million decreased slightly by 1.5% over the same period a year ago as EBITDA growth was partially offset or was offset by higher income taxes, paid as expected, and increased interest due to higher long-term debt and the IFRS 16 interest, as just discussed. It's important to remind investors that the adoption of IFRS 16, as with IFRS 15, is an accounting change only. It does not reflect our results, our economic financial position or cash flows of the business. In addition, IFRS 16 was implemented prospectively by most companies to 2019 growth rates need to be normalized for a direct year-over-year comparison. We continue to show EBITDA both before and after these changes for transparency to our investors. And on this basis, our free cash flow metric is also calculated transparency and reflective of economics. Please see Slide 17 of our presentation for the continuity.

In May and at the end of June, we took advantage of strong credit positions and successfully completed 2 debt offerings. First, we issued USD 550 million 30-year notes at 4.3%. The notes were swapped back to Canadian dollars for 4.2% -- 4.27%, our lowest 30-year debt financing. And second, we issued CAD 800 million 7-year 2.75% notes. Notably, this is the second lowest cost of our financing in our history. The use of proceeds will be used to redeem our $1 billion series CH 5.05% notes. In the third quarter, we'll have an early redemption premium of approximately $30 million from this.

Subsequently to the early redemption of these bonds, the average term to maturity will be over 12.8 years, and the weighted-average interest rate will be down to a record low of 3.98%.

At the end of the quarter, TELUS' leverage was 2.94x, up 10 basis points. However, excluding the effects of IFRS 16, our leverage rate would have been approximately 2.76x. As we look prudently at our balance sheet and all the interest of our stakeholders to advance our growth strategy, including important 5G spectrum auctions in 2020 and beyond, TELUS today announced plans to amend our dividend reinvestment plan to begin issuing shares from treasury at a 2% discount. These changes will apply to shareholders, who want to participate for the dividends payable on October 1, 2019, and to shareholders who are in record as of December -- September 10, 2019.

Overall, we've delivered another strong quarter and year-to-date results. We are reaffirming our targets today. Our performance reflects the continued execution of our leading customer service, our global leading network and our engaged and high-performing team.

Let me now pass it back to Robert for Q&A.

Robert Mitchell - *TELUS Corporation - Director of IR*

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

QUESTIONS AND ANSWERS

Operator

Sure. Next question comes from Drew McReynolds of RBC Capital Markets.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Just starting the big picture here. There's obviously been a lot of discussion around how relevant the U.S. experience is as a benchmark for Canada with respect to the unlimited plans and the EIPs. Darren, your comments suggest Canada will certainly do better, but would like to get your insight here. And somewhat of a related follow-up, four quarters ago, you were pretty outspoken about the need for Canadian operators to shift the value drivers away from loading for the sake of loading and core price increases, and given what's happened since, would also like your view on where the industry is on this shift? And how it's mitigating or could mitigate regulatory risk across the sector?

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

Thanks, Drew. I'm going to let Doug touch on Canada versus the U.S. And then I'll make some comments with specificity as it relates to the Peace of Mind plans and where I see the industry going.

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

Thanks, Darren. I think it's a significantly different circumstance to the U.S. experience. I think there was a lot of the U.S. learning that we definitely took into consideration. But as Darren pointed out, the amount of ARPU that is on overage now has reduced significantly. The double data bonus plans that have been in market, the larger buckets that have been in market and even family plans that have been in market for a significant time in the Canadian market has taken us almost to unlimited or Peace of Mind-type plans already. And so the impact on us is actually going to be, as we had talked about, potential upsize to our ARPU, and we're looking at that as the step-ups continue, as Darren said, with a benefit to our expectations.

In addition, family plans in Canada are not dilutive to ARPU, where in the U.S. when they were first launched, they were at that stage. The second side of that on Easy Payment was when you look at the plans that have also been in place for a very long time and which was -- was initiated by TELUS, the Bring-It-Back plan, the Tab and Premium Plus plans were already down the path of device financing. So again, it's consistent evolution of the path we're already on. It has transparency and simplicity to our customer base, which allow us also to benefit from that from a cost structure and a customer experience perspective. And so I would say we're significantly better positioned than when it was launched years ago in the U.S.

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

Thanks, Drew, for bringing up the previous comments because they're important. I think, as we look back at the last 20 years, one of the things that's been most punitive to TELUS and the industry hasn't been robust competition. It's been regulatory intervention. I think with the launch of the Peace of Mind plans, with device financing, we present a very interesting trifecta in Canada, and I will speak for TELUS, but I believe my comments are extensible to the industry. When you look at the Peace of Mind plans, undeniably, as it relates to price, value and affordability, we stand tall within the global context in that regard. But it's not a situation that just ends with that parameter, where we compare favorably on value, price and affordability. We lead the world when it comes to customer service excellence within our industry. And clearly, as we have shown repetitiously, because of the per capita investment that we've been making in technology, we also consistently lead the world when it comes to the performance of our networks, be they wireless and wireline. So I think we have significantly reduced the reasons for the government to intervene in our industry. When you're delivering excellence on value and affordability, excellence on service and excellence in terms of the performance and pervasiveness of your technology across the landscape, the necessity to intervene is significantly mitigated. And I think that bodes well for TELUS and the industry prospectively.

Next, I just think the time has come for what we've done with the potent combination of the Peace of Mind endless data plans, in combination with the family discounts, and of course, device financing, in an era where devices are very expensive and the cost of those devices is outside the control of organizations like TELUS. And so by driving this particular combination, I think, not only is it customer-centric but the way that we have structured it is going to support economic accretion for investors over the longer term. And that's a positive.

The other thing that I think makes sense strategically is that the introduction of these plans, with the advent of 5G around the corner, is the right thing to do as increasing data size adoption becomes not just prevalent but voluminous, and we need to enable that within the customer landscape.

Also I think it's important that we get back to bolstering the premium brands within our industry, including the TELUS brand. And what we have done, I think, supports customer operational and financial objectives. We expect to see, over the medium to longer term, ARPU improvements from larger data usage. We expect to experience churn reduction from our already globally leading position. And that combination is going to give us improvements in lifetime value. As I said, we expect to see less regulatory intervention, and importantly, and I've talked about this significantly in the past, there are serious cost reduction opportunities from the smart simplification of our business model. With the introduction of Peace of Mind, we're going from an unwieldy 200 rate plans down to 6 rate plans. We're looking at material efficiencies in terms of inbound call volume reductions, better call processing times within our call centers, better efficiency and processing times within our retail and third party channels. When we have smart simplification, it's easier for TELUS International to support our business, and that's a strong asset for our organization.

And lastly, eating our own gourmet cooking, leveraging strong digital adoption. And since the introduction of the Peace of Mind plans, digital adoption is up 60%. Also with the device financing component and building on Doug's comments, one of the things that's been most frustrating in terms of government reception and customer reception is the intermingling formally of the rate plan and the amortization of the device subsidy. By delineating the device subsidy through device financing front, the rate plan, not only do we provide better transparency, which I think is both customer-centric but I think it's also good in terms of our relationship with the government, we have an opportunity to reduce the promotional costs associated with devices. And in terms of the early returns on the data points that we can draw inference from, and we're only days and weeks into these new plans, but our device cost promo has now dropped below $100, and that's an interesting and exceptional result when you think that we were running hot on COA and COR costs that are in excess of $500. And I think that's consistent with both cost reduction and recovery of subsidies and also better transparency for customers in terms of device subsidization/financing and its delineation from the rate plan. And it's also interesting in terms of the early returns to see the appetite that people have for data. If you look at our original modeling, we thought that we would see 50% to 70% step-downs in respect of the migration that took place in the early days. And what we're actually seeing is 50% or greater of the migrations representing step-ups. I think that's an illustration of the appetite that Canadians have for greater data. And when you combine that with the family discounts that represents a step-up from our existing family share plans, I think that combination supports the economic efficacy of what we're doing here.

Lastly, I like the better mix that we are now seeing of our premium TELUS brand with our flanker and value brands. I think that is pareto optimal combination in terms of economic accretion on a go-forward basis. And I think the simplification mindset is something -- it's not going to be hermetically sealed to our wireless business but something that's extensible to our wireline business which, again, will support customer growth, better customer economics, a better cost structure for the business going forward and better wireless and wireline bundling given the commonality of simplicity across both asset bases within the TELUS fold, particularly when we want to bundle them on a synergistic basis.

So when I look at this overall, what I would foreshadow, Drew, on a go-forward basis, is revenue neutrality as it relates to this introduction within the industry for the early period, EBITDA being neutral to accretive in the near term and then accretive in 2020 thereafter, leveraging both the growth attributes that I talked about on churn and ARPU, in combination with this significant opportunity to improve our cost structure across all the tenents that I articulated in that regard. And of course, the complementing factor of less of an appetite because there is less reason for regulatory involvement in the mechanics of our industry.

Operator

The 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*

Darren, I wanted to ask a question regarding your discussion about ARPU, the path for ARPU direction in upcoming quarters. As you said, longer term, medium term, you expect the ARPU to be up. As you said, more than 50% of the takers of the new unlimited plans are increasing their spending. Can you discuss the trend over the short term when it comes to ARPU and overage is expected to be declining? And offsetting that, on the margin side, with the reduction in promotion, how do you see your margins behaving over the next few quarters, let's say, over the next 3 to 4 quarters? And just to follow that, do you believe that the industry can sustain the healthy profits or the margins that they have right now if these unlimited plans, which create pressure on ARPU, are not offset by the reduction in subsidies as some of your competitors -- one of your competitors continues to offer subsidies on these plans?

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

I think the industry, in terms of that last point, will discipline itself in that regard. Secondly, if that happens, I don't think it's going to be sustainable. And I think the pressure will drive the right economic decisions within the industry. And thirdly, isn't it interesting to look at TELUS on a differentiated basis where we're not a one-trick growth pony but that we have high-performing businesses both operationally and financially, on both wireless and wireline, and very, very, very interesting growth exposure on emerging businesses in TELUS International and TELUS Health? So I do think that this is going to be a situation where we see sustainable economic accretion. And I do think that this is a future mode of operation that will be economically superior to the present mode of operation for the industry. I do think, Maher, that the early returns are interesting. I'm giving you hard data points as to what the early responses have been in terms of -- we have conservatively included within our business plan and expectation on step-down re-rate, and what we're seeing actually in terms of migrations is step up to higher data plans. Our family discount construct is superior to the family share plans, and so those things are going to be economically accretive, not over the medium to longer term, but the immediacy of now in terms of the trends that we're seeing. And I'll caveat that by saying, you know it's still early days, you know we're only a few weeks into this, and we got to see what happens when we pressure test it through the seasonal periods of back to school and Black Friday and the Christmas period. Secondly, in the world of $1,500 to $2,000 devices, we have to find a better subsidy absorption model. And I like the fact that when you are running at a COA, COR level well in excess of $500 where you've got promo stim plans in terms of device subsidization, that presents quite a J-curve for the organization. Post the introduction of these plans, the device promo cost drops below $100. That's quite a delta from below $100 and $70 zone versus a $500 run rate, and don't think that delta should be lost on anyone.

And then the other aspect of this, in addition to what has been a punitive regulatory intervention, is business simplification is critical here. We have a lot of opportunities on this. Running 200-plus rate plans is unwieldy. And every time we go through a promo period or we respond to what our competitors are doing, we change all of those rate plans. And we got to take out all that through our call centers and our channels. And when we got to change that, we got to do it within the mechanics of our digital capability set. It is difficult. Getting down to 6 with that smart simplification, I think, is going to support a reduction in inbound call volumes because we're not getting a call flow that reflects bill inquiry after bill inquiry after bill inquiry because we've given customers price certainty: death, taxes and next month's phone bill. There is certainty in that regard. And so that's a reduction in our expenses. Call processing times are going to be less because they're going to be easier and simpler conversations in that regard. When we have better call processing efficiency, what does it allow us to do? It allows us to focus on either higher order customer issues, which support better churn results, or upsell to the extent to which we can create oxygen within our channels, both our call centers and our retail channels and our third party operations, that gives us more opportunity to sell additional services to our clients. I think that's a very good thing for the organization. It will facilitate digital transformation. Digitally transforming complex processes is a very difficult thing to do. Digitally transforming simple processes is a much more straightforward thing to do, and that allows us to make inroads in areas like bots, chatbots. It allows us to do robotic process automation which provides us with significant cost savings. We have a fantastic TELUS International asset. We have well over 8,000 people at TI now supporting the TELUS organization. Within TELUS International, when they go through their training, when they go through their development, they don't have to become sophisticated experts in variants on 200 rate plans but learning 6 rate plans, I think we're going to get training efficiencies and execution efficiencies within that area of our operation that's going to be extremely attractive. And as I said, this is going an area where we're looking at an opportunity to spread smart simplification across wireless and wireline, and I think that will drive better changes in our cost structure and better opportunities in terms of bundling. And we've been the people saying, okay, here we are at ARPU and here we are making comments about EBITDA, and on the ARPU front, we're saying, it is going to be long-term accretive. On the EBITDA front, we're saying it is going to be either neutral to positive in the near-term, so there's an immediacy in respect to that comment. And really what we're making there is an AMPU comment. And we've been to people talking about AMPU for a very, very long time, and that's where value is created for our shareholders.

And then lastly, we have a much reduced exposure on data overage. I mean that used to really crop up our ARPU, our network revenue growth, so on and so forth. That particular component, as it relates to a percentage of our ARPU, is in the low single digits right now. And to the extent to which we have ameliorated that exposure, I think that improves our ability to enjoy the growth rate prospectively from larger data rate plans into the future. And that's a nice combination in terms of better ARPU, less reasons to leave TELUS because we're getting customers what they want, and that supports lifetime economic value creation. And so those are the key trend lines. I'm not going to give you specificity for Q3, Q4. I think you've known that we don't do by quarter ARPU forecasting. But I think the trends at the ARPU level, the churn level, the AMPU level, the EBITDA level are going to be very, very encouraging in the near, medium and longer-term as a result of this. And we are pretty good in this organization in both serving customers and taking costs out of our business.

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

And maybe just to top off a tiny bit on margin there for your modeling, just remember as well that with some of that reductions in COA, COR going forward, it takes a while to flow through at IFRS 15. So as you see last year's amortization come through and you're modeling out margin, just take into consideration the IFRS 15 impact versus the economic impact of the programs that we're initiating.

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

But the cash impact is felt immediately.

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

Absolutely, absolutely.

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

Last time I looked, the free cash flow story in TELUS is pretty compelling.

Operator

The next question comes from Simon Flannery from Morgan Stanley.

Simon Flannery - *Morgan Stanley, Research Division - MD*

Darren, on PureFibre, in the past, you've talked about some of the results you've seen in neighborhoods that have been open for one year or two years, and just kind of signaling the potential as you continue to expand the footprint. So perhaps you'd give us some more insight into that. And also, as you hit 70%, how much further can you take PureFibre into the neighborhoods versus maybe you're looking at 5G fixed wireless-type solutions over time?

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

Great question, Simon. Thank you. With 5G, we're still going to take fibre into the neighborhoods. It just depends how far we're going to take fibre into the neighborhoods given the synergistic relationship between fibre and 5G that you know so very well. I think what you can expect is we're going to expand, for the next couple of years, the $2.85 billion ZIP code, plus or minus the $100 million that we've talked about previously. So that's what you can expect from us through 2019 and 2020. 2020 will look a lot like the same fibre year that 2019 was. I think the opportunities for access network diversification, from a technology point of view, leveraging 5G is something that's going to begin to kick in in 2021 and beyond. Two critical prerequisites to that is getting access to the 3.5 gigahertz global ecosystem and the millimeter wave global ecosystem. And of course, the government has scheduled the 3.5 auction for 2020 and the millimeter wave auction for 2021. So operationalizing 5G as a microaccess technology, I think, is something that's going to scale in 2022 and beyond, and will be highly complementary in what we're doing in terms of our fibre penetration.

In terms of how far we can take it, clearly, we're going to hit the 70% mark or better by the end of 2019 as it relates to our Optik footprint. We've now surpassed the 2 million homes. I would see against that definitional construct, I was probably taking fibre up to the 80% level in that regard. And that's something where we're going to make smart economic decisions. We're going to choose the most attractive markets in that regard, both in terms of addressable market opportunities, penetration opportunity and cost of access. And then post 80%, it's literally going to be an algorithm that says, okay, what is the smart decision here? fibre or 5G or maybe a government subsidy model given the social imperative of bridging the digital divide within the Canadian context or partnering with certain communities that, on a stand-alone basis, may not be the most economically salient thing to do. So it becomes a more customized build versus the militaristic build that we've been on right now.

In terms of the wireline result, I think, Simon, they really do speak for themselves. And to confirm what I said to you previously, the operational metrics, the customer metrics, the cost metrics and the economics have not waned at all. We have not seen any diminishing returns in respect of our fibre build. We just seem to go, knock on wood, from strength to strength to strength as it relates to penetration, customer appetite, multiple RGUs, cost efficiencies, so on and so forth. And maybe just to give you a semblance of the stats in that regard in terms of what fibre has enabled, just over the last 12 months, our Internet base is up, 7%. And if you go back to when we initiated fibre at the start of 2013, our Internet base since the early days of fibre, and that's when we began to volumize it, is up 35% or some 500,000 Internet customers. We get a much higher RGU count on a per premises basis on fibre versus copper. The delta is about 24%. Almost 40% of our fibre customers are triple play product customers. That's really encouraging as it relates to revenue per home, stickiness and resiliency, and the value of our lifetime relationship with that customer and how we can build upon it with the advent of exciting services such as Security, Home Health and Home Automation. The ARPU attributes are superior in fibre versus copper. That hasn't changed. Churn is 10 bps lower on fibre versus copper and, of course, when you get a product combination of higher ARPU and lower churn, you can imagine the delta on the likes of revenue front. And, of course, we get much more significant cost efficiencies in terms of remediation, fewer truck roles and the like. And we get great economies of scope. The opportunity for innovation and what the future may hold in terms of putting that down, the limitless bandwidth of fibre, and really haven't broken the back of the pig going through the python on the major civil costs to get it done. All we have to do in the future is tweak the electronics. I think investors are materially undervaluing what the economic return is going to look like on fibre and 5G and how protracted that economic return is going to be. We had 100 years of economic return on the copper front, and I think it's interesting to draw inference from that as it relates to what the future holds on fibre and 5G and how it's such a critical enabler to our consumer society, business productivity, efficiency of our public sectors and how critical it is to the digital transformation that's necessary in answering some of the biggest challenges that we face as human beings on the planet.

Operator

Next question comes from Vince Valentini -- sorry, 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*

One quick one on the DRIP and then just to follow up on the equipment financing. On the DRIP, with the move to a 2% discount, what's your estimate of how much cash dividend you think you may save as a result of this? That's the first question. And then the second one, just on the savings related to moving to device financing, I mean, I think we can all appreciate the impact and the value that can be created going from a $500 subsidy to $100. Economically, obviously very attractive. I guess looking at it from the consumer's perspective as a buyer, even if you were to finance this, pass this along over to your consumer, I mean this kind of works out to a 20% increase in the monthly payment for the customer. So I guess my question there is how do you think the take-up of this is going to be received given the increase that the consumers would have to come up with on a monthly basis to subscribe to these plans?

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

First one, on the DRIP. We've seen call it similar programs in the market go anywhere from 20% to 25% to 30% of the dividend over time, so it won't be overnight but if its in place for a few quarters. So that's the range that we would expect.

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

In terms of value, I think some interesting things when you look at rate plans where you can get 10 gigs for $75, you can leverage attractive family discounts on top of that and where you can finance the device over 36 months, that really supports the affordability pieces that we've been articulating.

Operator

And the last question comes from Vince Valentini from TD Securities.

Vince Valentini - *TD Securities Equity Research - Analyst*

Sorry to ask about the same thing again. But just, Doug, I want to make sure I understand how the EIP savings can flow through over the longer term, as you say. Does that mean your equipment margins will go up, or is it some other cost line that has nothing to do with equipment revenue or cost that can somehow come down if you can keep achieving $100 versus $500?

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

Yes. With IFRS 15, because you, in essence, take a two-year window to any kind of subsidy, the previous year's subsidy would flow through, still continuously for the next year or two even if your current spending goes down. So to Darren's point, the cash flow would improve but the actual --it will be a catch up. Call it pre-IFRS margins and EBITDA returns would go up, where post, it would stay lower until it cycles through. So it's really -- that's the limitation in the modeling, and there'll be some impact of that in the shorter term.

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

And I think, Vince, as well if you could also look at our margin improvement at the corporate level, reflecting what Doug was talking about on wireless and our comments earlier with the opportunity for wireline margin accretion that has an attractive immediacy associated with it. We have two transient elements right now weighing on our wireline margins that are going to ameliorate prospectively. One is on the B2B front where we've seen EBITDA degradation on a year-over-year basis, and we're looking to bring that back to EBITDA neutrality and then EBITDA growth. And then secondly, within our fast-growing TI area, post the acquisition of two key assets in Xavient and Voxpro, as those assets mature, we're going to see the average margin improve markedly within the TI organization, consistent with the comments that Josh made earlier. And when you couple that with the Internet growth, the 12% data growth that I just talked about, the fibre economics that I just talked about including longer-term copper decommissioning, our ability to bundle -- TELUS Health margins improving, getting nice margin contributions from Smart Home and Smart Business Security as it relates to margin expansion there and you saw our healthy loading in terms of incremental disclosure in Q2, as our wireline business improves its cost structure from smart simplification. I think the opportunity of all those things, the collective, can bolster our wireline margins and be reflected at the corporate level at TELUS is an attractive growth story. And when you marry up those financials with what we've done at the half year on mobile phone, Internet and data, Internet and TV loading, we delivered 143,000 nets on mobile, Internet and TV, and that was up 41,000 on a year-over-year basis, and is a significant differentiator versus the performance of our peers. So I think the area of margin opportunity on wireline and strong operational execution bode well for the future, both within wireline but also in combination with wireless, so watch through at the corporate level.

Vince Valentini - *TD Securities Equity Research - Analyst*

You actually, I think, predicted what my quick follow-up was going to be, but if I could just ask it in one slightly different way. Your guidance for the year was 4% to 6% EBITDA growth pre any IFRS 16 impact, and I think you would be indicating it somewhere in the lower end of that range for the wireline segment and maybe the higher end for wireless. But purely on the wireline segment, you're at +3.4% for the first half of the year, so is it safe to assume you still think low end of the 4% to 6% is possible so there may be a bit of a pick-up because of a lot of those factors you just mentioned, Darren, in the growth rate in the second half versus the first half?

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

I wouldn't mind getting through, Vince, the psychosis of Q3 before we do any adjustments for our full year guidance. I think I'll just stick with the reaffirmation related to what Doug said. Where I would put some emphasis that you can drop inference from as it relates to the confidence of this organization, I'm very confident in our operational and financial performance across both wireline and wireless. I think they will reflect the ideology in action of amazing customer outcomes delivered by our amazing people on our amazing networks. And I think that that's going to deliver near, medium and longer-term cash flow accretion. That's going to be a very, very, very continuous and exciting story for investors, and it will underpin what we're going to do in terms of delivering on our dividend growth model. And I think the FCF expansion, synergistic combination with the dividend growth model from 2019 through 2022 and hopefully beyond, will be a very positive story on a differentiated basis for TELUS.

Robert Mitchell - *TELUS Corporation - Director of IR*

Thank you, Vince, and thank you, everyone, for taking the time to join us today. If you have any follow-up questions, please feel free to reach out to the IR team. And for those of you in Canada, we wish you a great long weekend.

Operator

Ladies and gentlemen, this concludes the TELUS 2019 Q2 Earnings Conference Call. Thank you for your participation, and have a nice day.
