

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

T.TO - Q2 2020 Telus Corp Earnings Call

EVENT DATE/TIME: JULY 31, 2020 / 4:00PM GMT



CORPORATE PARTICIPANTS

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

Doug French *TELUS Corporation - Executive VP & CFO*

François Gratton *TELUS Corporation - Executive VP & Group President*

Jeffrey D. Puritt *TELUS International - President*

Jim Senko *TELUS Corporation - President of Mobility Solutions*

Tony Geheran *TELUS Corporation - Executive VP & Chief Customer Officer*

Zainul Mawji *TELUS Corporation - President of Home Solutions*

Robert Mitchell *TELUS Corporation - Head of IR*

CONFERENCE CALL PARTICIPANTS

David Barden *BofA Securities, Research Division - MD*

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

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

Simon Flannery *Morgan Stanley, Research Division - MD*

Vince Valentini *TD Securities Equity Research - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2020 Q2 Earnings Conference Call.

I would like to introduce your speaker, Mr. Robert Mitchell. Please go ahead.

Robert Mitchell - TELUS Corporation - Head of IR

Hello, everyone. Thank you for joining us today. Our second quarter 2020 results news release, MD&A and financial statements and detailed supplemental investor information were posted on our website this morning at telus.com/investors.

On our call today, we have Darren Entwistle, President and CEO; Doug French, Executive Vice President and CFO; François Gratton, Group President and Chair of TELUS Health and TELUS Quebec; and Jeff Puritt, Executive Vice President and President and CEO of TELUS International. And also joining us today for the Q&A portion of the call, we have Zainul Mawji, President, Home Solutions; Jim Senko, President, Mobility Solutions; and Tony Geheran, EVP and Chief Customer Officer.

Given we have a virtual call today, Darren will be taking the questions, and he will be allocating them amongst our various participants on the call today.

Briefly on Slide 2. This presentation and answers to questions contain forward-looking statements that are subject to risks and uncertainties and may be based on certain assumptions. Accordingly, actual performance could differ from statements made today, so we ask that you do not place undue reliance upon them. We disclaim any obligation to update forward-looking statements, except as required by law, and we refer you to the



risks and assumptions we've outlined in our public disclosures, including our second quarter 2020 MD&A, our 2019 MD&A and filings with securities commissions in Canada and the U.S.

With that, over to you, Darren.

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

Thanks, Robert, and hello, everyone. Our TELUS team continues to respond dynamically to the needs of Canadians and our communities, whilst demonstrating exceptional operational execution and providing innovative solutions for our customers and communities during the COVID-19 pandemic.

Notably, at a time when the human connection has never been more important, our TELUS team remains committed to ensuring Canadians have access to the technology and support that enables them to work and learn remotely, apply for critical government resources, receive vital medical care and stay connected to family and friends.

In this regard, our TELUS team continues to deliver on our commitment of \$150 million to support COVID-19 relief across Canada. Additionally, since the start of the global pandemic, the TELUS Friendly Future Foundation has contributed \$5.5 million to 326 charitable health projects. With the launch of our virtual TELUS Days of Giving this quarter alone, TELUS team members have participated in 200,000 acts of giving, including 500,000 volunteer hours served and 131,000 masks sewn for our communities.

Clearly, we're stepping forward. This past quarter, we expanded our TELUS Internet for Good program to help people living with disabilities, access the vital tools and resources they need to live, fulfilling lives from the comfort of their own homes. Since introducing our Internet for Good program on a Canadian leadership basis, we've now enabled more than 65,000 Canadians from low-income families with low-cost, high-speed TELUS Internet.

I'd like to take this opportunity to thank the entire TELUS team for their tireless efforts in aiding our customers and our communities and in taking care of each other. Despite the challenges we faced with respect to the global health crisis, TELUS achieved resilient second quarter financial and operational results. Our team delivered industry-leading customer growth of 141,000 net additions, all while maintaining the safety and well-being of our customers and team members by leveraging our strong digital capabilities and demonstrating the efficacy of our long-standing strategic focus, and providing the best-in-class customer experience over our world-leading broadband networks. This accomplishment, realized against the backdrop of an unprecedented operating environment, is reflective of our long-standing focus on fostering a leading culture with a highly engaged team.

Importantly, our strong second quarter results were achieved while 95% of our team embraced working from home, whilst continuing to respond with excellence in meeting the evolving needs of our customers. Leveraging our distinct and excellent digital capabilities in concert with our team's characteristic grit and adaptability within the new operational environment, we added 61,000 high-quality mobile phone net additions comprised entirely of higher value postpaid customers. We also added 47,000 wireline customer additions, driven by 37,000 internet and 12,000 security net additions, which were both up over last year. This strong customer expansion was supported by leading customer loyalty across our key growth product lines, including historically low postpaid churn of 0.59%, backed by the TELUS team's long-standing dedication to delivering premium customer experience over the world's best wireless network.

In Q2, consolidated revenue was up 3.6%, whilst EBITDA decreased by 2.9%, clearly due to the impacts from the ongoing health crisis. In that regard, our second quarter results reflect various COVID-19 impacts across the business, including lower wireless roaming revenue, the implementation of numerous customer support initiatives in response to the pandemic, incremental bad debt expenses, and as well, the temporary closures of the vast majority of our retail points of distribution, certain TELUS international locations and our TELUS Health clinics.

Thanks to our relentless focus on improving our cost structure in this environment as well as our tireless pursuit of incremental opportunities to enhance the contributions coming from all areas of our business, we mitigated some of these downside pressures, whilst managing through various stakeholder initiatives. Had it not been for the total net impact of this exogenous event, EBITDA would have grown by approximately 5% at the



consolidated level. Notably, we generated strong free cash flow of \$511 million in Q2, up more than 57% over last year. These results are a further reflection of our team's resiliency and adaptability in the face of a challenging and rapidly changing operating environment.

Importantly, our robust free cash flow is and will continue to be achieved without having to sacrifice the strategic capital investments necessary to ensure the execution and success of our long-term growth strategy.

Let's take a deeper look at wireless. Second quarter network revenue decreased by 3.3% as our consistent focus on profitable, high-quality smartphone-centric subscriber growth was offset by the aforementioned pandemic-related impacts. As a result, wireless EBITDA was down 3.7%, partially mitigated by an intense focus on cost management at the TELUS organization. Our 61,000 Q2 mobile phone net additions reflects very strong performance, particularly in light of the market environment we face with COVID-19-related channel restrictions as well as our team's agility and innovation in leveraging our digital channels and leading network to offer superior customer service throughout the health crisis. And the results speak for themselves. It is incredibly encouraging to see our smart simplification thesis playing out so effectively in our wireless (inaudible) loading results this quarter and that bodes well for the future.

Our ability to seamlessly pivot our wireless business to operate almost entirely through our digital platforms without missing a step along the way is only possible, thanks to the simplification journey and the technology investments that we made in digital that began several years ago. Healthy connected device net additions of 33,000 were down on a year-over-year basis, primarily due to lower IoT growth additions from a reduction in business customer activity, as customers delayed purchasing decisions during the pandemic, which was partly offset by growth in our consumer health, personal emergency response system devices and part of our overall health and home security thesis.

In totality, wireless net additions, including both mobile phones and connected devices, were 94,000 in the quarter. Our team delivered another quarter of strong and best-in-class loyalty results with a mobile phone churn rate of 0.8%, which represents a 21 basis point improvement over this time last year. Notably, our incredibly low postpaid churn of 0.59% marked a 23% basis point improvement over this time last year. Whilst we benefited from reduced voluntary switching activity as a result of the pandemic, customers are clearly staying with us for our premium customer experience delivered by our team members and our globally leading networks built by our team members.

TELUS' network has continued to perform exceedingly well throughout the crisis, inclusive of the resulting significant changes in usage patterns and added demand as network volumes have become significantly amplified. The efficacy of our ongoing broadband technology investments continues to be reflected in numerous recent awards from leading independent third-party network authorities. Tutela recognized our wireless network as best in consistent quality, lowest latency and fastest download speeds.

Furthermore, in early July, TELUS won U.S.-based Ookla's 2020 Speedtest Fastest Mobile Award, marking the sixth consecutive year that TELUS has won this award as well as Best Mobile Coverage for the third time. Notably, in The State of Rural Canada's Mobile Network Experience May 2020 Report, U.K.-based OpenSignal, found that rural Canadians benefit from some of the fastest download speeds in the G7. It noted that the rural experience on TELUS' network is better and faster than in any location within G7 nations with the exception of Japan, clearly, a significantly smaller country than Canada, which at 49 megabits per second, was only slightly faster than TELUS' 48 megabits per second.

Consistently earning these prestigious third-party accolades is particularly gratifying as our team focuses relentlessly on maintaining robust reliability and world-leading performance across all of our critical services in rural as well as urban areas to keep Canadians connected to the vital economic, educational, health and social resources that they need, that they need particularly so during the contagion.

Looking to our next major network evolution. In June, we announced the first wave of our 5G network rollout in Vancouver, Montreal, Calgary, Edmonton and the Greater Toronto area, with an expansion to 26 additional markets across Canada throughout the remainder of 2020. In addition, we announced new partnerships with Ericsson and Nokia for our core wireless network and Samsung for our radio access network. Importantly, our 5G network will profoundly enhance the way our customers connect to information, connect to resources and, of course, connect to each other. Building on our consistently world-leading technology, our 5G network will bridge digital divides and drive innovation across businesses, government, health care, education and social pursuits, whilst creating an estimated 250,000 jobs and contributing \$40 billion annually to Canada's economy, something that we're clearly going to need in the aftermath of COVID-19.



This critical development in our 5G ecosystem is a testament to our team's dedication to maintaining a world-leading network experience from coast-to-coast in Canada from urban to rural. We've done it for 20 years on the network front, we'll do it going forward with 5G.

Finally, to close, in our wireless results, ABPU was \$69.65 and down 5.1%, and ARPU was \$56.82, which was down 5.8%. We continue to pursue strategies with attractive economic characteristics that mitigate the effects of the pandemic and its impact on these metrics. This includes the continued strong adoption of our TELUS Easy Payment device financing, our TELUS Peace of Mind endless data plans and our TELUS Family Discount plans that are all performing exceedingly well within the marketplace.

Indeed, once again, over half of rate plan changes and migrations in the quarter were either step-ups or flat from a revenue perspective. And I think this should be encouraging for investors. We are also continuing to seek out and secure new avenues of wireless revenue growth in high-margin areas such as Internet of Things, which will clearly get volumized as the 5G ecosystem gets commercialized. We are excited about prospects in this space, in concert with the commercialization of 5G and the opportunities that this is going to unlock in terms of new long-term growth curve initiatives for our wireless business that will drive, not just top line revenue growth, but will drive significant EBITDA expansion and free cash flow generation as we extract an ROI on the capital investments that we've made in commercializing 5G, volumizing the speeds and delivering on the pervasive coverage.

Now let's turn to our wireline results. TELUS once again delivered a solid quarter with smart execution and performance, buttressed by our premium diversified and evolving product portfolio. Second quarter wireline revenues increased by 13%. This was supported by data revenue growth of 18%, driven by a combination of higher revenues coming from our diverse portfolio of services and solutions, including robust performance at TELUS International; with contributions from our successful acquisition of Competence Call Center; as well as strong organic growth, which Jeff will touch upon later in this call.

We're also seeing strong data growth coming from excellent results achieved once again in home and business smart technology and security with the inclusion of ADT Canada as well as robust growth in Internet, third-wave data services and a very resilient performance from our TV offering. And finally, we're seeing significant data growth with increased revenues from the hyperscaling of our virtual health care solutions where we've seen a tenfold increase in demand for Babylon by TELUS Health and 300 new corporate customers within our Akira virtual care platform. François will provide additional color on our health results in a few moments.

But clearly, from wireline to wireless, from TI to security, to our health business, the diversity of our data growth at TELUS is both strong, resilient, and it bodes well for continued performance in this regard prospectively.

In addition to COVID-19-related disruptions at TELUS International, revenue growth was partly offset by a decline in health revenue from the temporary closure of clinics for all nonessential services as well as reduced health benefits claims. It was also offset by lower revenue and EBITDA from business customers as they redeployed resources to answer the unique challenges that they faced within their markets, within the respecting operating environments that they struggled to cope with.

Wireline EBITDA decreased by 1.2%, reflecting temporary impacts from the pandemic in the quarter, including the previously mentioned disruptions at TELUS International and TELUS Health, along with customer-first initiatives, including the waving of overage fees and increased bad debt expenses.

Clearly, we were deeply sensitive to the predicament of our customers during this period and acted accordingly and respectfully and humanely in that regard. These factors were partly offset by the increased contribution from TELUS International and our home and business smart technology as well as excellent cost containment across the business, thanks to the efforts of our team.

Looking at our robust customer expansion. We earned industry-leading second quarter Internet additions of 37,000, a 12,000 year-over-year improvement on the back of higher gross loading and significantly lower customer churn. We also realized TV net additions of 8,000, including solid double-digit basis point churn improvement as well as strong security net additions of 12,000, which was up 1,000 over this time last year. Not bad going given all the constraints within the pandemic from marketing and sales through to the handcuffing of a lot of our fulfillment activities



that we would have done on a more traditional basis, calling for greater innovations in that regard to be forthcoming from the TELUS team. And indeed, they were. These results underscore the attractive bundled offers available to customers across our highly differentiated product portfolio.

Our strong results also reflect our team's steadfast focus on leveraging the competitive differentiation inherent in our PureFibre broadband network. Notably, despite being largely unable to enter the homes or premises of our customers, we achieved exceptional Internet and security loading results due to the success of our innovative virtual technician model, and the grit of our team in providing best-in-class customer experiences, even in the most challenging of circumstances. And this was the most challenging of circumstances.

As a result, overall, total wireline RGU net additions of 47,000 were up 4,000 on a year-over-year basis, which represents an outstanding achievement whilst facing the challenges of the global pandemic and remaining steadfast in keeping our customers and our frontline team members safe and healthy. Our consistent industry-leading wireline execution clearly highlights the importance of our dedicated focus on delivering customer service excellence over our world-leading fiber network.

During the quarter, our team expanded our PureFibre coverage to approximately 73% of our high-speed broadband footprint, on our way to approximately 80% coverage by the end of 2020. My, we have come a long way since the end of 2012, to be able to be within spinning distance over the back half of 2020 now to get to a coverage footprint of 80% as it relates to our Internet broadband territory. This bodes well for the future, not just what it means for our FFH business, but what our pervasive fiber network will enable for our 5G wireless operations, given the synergy between the two.

Indeed, the current environment underscores the potency of the TELUS PureFibre network, which enables millions of Canadians to work, learn, access, entertainment, transact online and socialize virtually from home on a significantly intensified basis. All is we, as a nation, as citizens, as consumers and as businesses, make a quantum progression into the digital society and digital economy that will endure and grow well beyond the current global health crisis. And we are clearly positioned for sustainable competitive advantage in this regard, given the technology investments that we have made on a persistent basis over the past decade.

Notably, the efficacy of our ongoing broadband technology investments is also reflected in a recent award from leading independent network authority, U.S.-based PCMag, which ranked TELUS as the fastest internet service provider in Canada. And this is down to the PureFibre investments that we've made and the massive footprint that we have built and realized for the benefit of customers and shareholders alike.

Despite the challenges we faced with respect to COVID-19, TELUS delivered resilient financial results, industry-leading subscriber growth and customer churn alongside robust free cash flow generation. Importantly, we continue to expect to drive strong free cash flow within the lower half of our original target range of \$1.4 billion to \$1.7 billion, based on management's goal to deliver flat to slightly positive EBITDA for 2020. And doing that, making astute capital investments in line with our original CapEx guidance for the full year 2020.

Moreover, we remain hopeful that conditions will permit us to meet or exceed our targeted dividend increase when we report our third quarter results in November.

As we continue to advance our broadband leadership and embrace our winning go-to-market strategy, backed by our globally recognized culture and industry best customer experience, we remain confident in the long-term outlook for our business and the significant opportunity before us to further elevate the TELUS brand, accelerate our growth strategy and build increasing value for shareholders and return that money to shareholders, given the success of the implementation of our go-to-market actions.

Our robust and consistent performance over the longer term, coupled with our strong balance sheet and our cost containment measures positions us well to navigate the uncertainty caused by the global health emergency. These factors, alongside the incredible innovations we are driving in response to the current crisis and the tuition value that we've gleaned over the past several months, will also support the ongoing evolution of our operating model and the resiliency of our organization ensuring that we are strongly positioned for anticipated economic challenges and the ability to also seize upon significant market opportunities.

Our team's unwavering commitment to improving outcomes for our fellow citizens in concert with our leading operational execution and our vastly superior asset mix continues to define TELUS' leadership in social capitalism, reflecting the symbiotic relationship between our company and the communities that we serve. I remain proud and grateful to the entire team. And I think that was exemplified over the past 3 months.

And on that note, François, I'll hand the call over to you.

François Gratton - *TELUS Corporation - Executive VP & Group President*

Thanks, Darren. Our efforts in the health space have never been more important as the COVID-19 pandemic continues to impact the country. As we navigate this crisis, the pandemic is highlighting the need to enhance our health care system to support a massive influx of patients, protect the health care workers on the front lines and strengthen our mental health support services. The recent rise in cases indicates that the risk of a second wave is real. COVID-19 will be with us for a longer-than-expected period, and the need for digital health care will expand.

A recent study by the Canadian Medical Association found that nearly half of Canadians who use virtual care during the pandemic would prefer a virtual-first point of contact going forward. More than ever, TELUS Health's leading medical expertise, robust networks and broad technology assets will be pivotal in mitigating second wave risks, providing greater efficiency of care and keeping thousands of health care professionals, families and elderly people, healthy and safe.

TELUS is extraordinarily well positioned to lead the market in that sense. Despite some impacts from clinic closures and reduced claims, our business remains strong, with exploding demand for our TELUS Health solutions. And as a result, we continue to generate positive simple cash flow in the second quarter, while revenues in the health vertical, including broadband connectivity were stable. And our team is leading efforts across the entire health care ecosystem in many ways. Most of all, we significantly extended the reach of our health care, virtual care solutions. They are enabling a one-on-one video consultations with health care professionals with a 3-pronged approach.

First, we have the leading direct-to-consumer virtual care platform, Babylon by TELUS Health. It's addressing the needs of the 5 million Canadians without a family physician today. Babylon by TELUS Health is available for free to consumers and covered through their provincial medical plans. Initially launched in BC, we've now expanded the service to Alberta, Saskatchewan and Ontario. And now we significantly continue to adopt or to roll out our services across the country. Our customer base has more than tripled in the last 6 months.

Second, we have a leading B2B2E, so B2B to employees, virtual care platform with Akira by TELUS Health. Akira is offered through employers, allowing them to take care of the health and safety of their employees like never before, and it's available on demand 24/7. Akira now provides greater access to care and mental health support to over 1 million people across the country. Both platforms, Babylon and Akira by TELUS Health, experienced large volume increases so much that we've seen a threefold increase in the number of average daily consultations. And consequently, had to increase our clinical staff by a factor of 3 to meet demand and keep wait times within minutes.

As a result of this surge, we've doubled our customer growth forecast for both services for the remainder of 2020. We're now forecasting to reach over 420% and 350% growth increases for both Babylon and Akira and their customer base, respectively, by the end of the year.

Third, thanks to the great agility of the TELUS Health team, we were able to deploy virtual visits functionality integrated into our Electronic Medical Records, or EMR, within a week of the outbreak. To date, we've now enabled over 26,000 Canadian doctors to conduct virtual consults with over 165,000 EMR virtual visits now scheduled so far. In just a matter of months, we see now a strong adoption of our EMR virtual visits functionality with a 40% penetration rate, making us the leader in virtual consult. This 3-pronged approach to virtual care. So direct-to-consumer with Babylon with TELUS Health, B2B2E with Akira with TELUS Health and our EMR virtual visit integrated module makes us a unique player in the marketplace and the clear leader in Canada.

We're enabling over 25 million Canadians to have access to virtual care today, and we're doing that with very high patient satisfaction ratings. Above all, our virtual care services are helping to alleviate the burden on our public health systems by keeping people safe by having them stay at home, adding virtual triage capabilities to focus on the most urgent matters and allowing more proactive health care and mental health care by increasing the frequency of consults amongst other benefits. Another way we continue to lead the pack is through our increased adoption of Home

Health Monitoring solutions across the country. This solution enables clinicians to remotely manage, monitor and care for patients diagnosed with chronic disease or chronic conditions. Or patients that are diagnosed or exposed to COVID-19, therefore, relieving pressure from hospitals and keeping patients safe at home. As an example of adoption, it's been endorsed by the British Columbia Ministry of Health, where thus far, we have now over 1,600 patients that have been or are currently being monitored for COVID-19, and we continue to deploy this solution in other jurisdictions across the country.

Furthermore, our LivingWell Companion and Direct Alert by TELUS Health Services contribute to facilitate elderly Canadians access to 24/7 emergency support in the comfort of their own homes. The performance of these services over the second quarter was the strongest yet, achieving a 29% increase in new customers over Q1.

This strong growth enabled TELUS to become the largest Canadian-owned personal emergency response system service provider. These virtual care services now complement our broader digital health portfolio of products, where we've established ourselves as the leading digital health ecosystem player. We now manage health and wellness benefits of 13 million Canadians, process claims for 60,000 allied health care providers, provide executive health care services for over 2,000 employers, support 26,000 physicians to take care of their own patients via TELUS Electronic Medical Records, enable 6,500 pharmacies to dispense medications via TELUS pharmacy management systems, support 200,000 Canadians via provincial personal health records in Alberta and Saskatchewan, and conduct 84,000 patient visits per year in our 16 Med Access and Copeman health clinics.

TELUS Health does lead the way with our broad reach and integrated offering across the continuum of care from virtual care to physical consultations, benefits and prescription management and now closing the loop with Home Health Monitoring. Also, caring for our most vulnerable is at the center of our culture of giving. Health for Good, through our TELUS Mobile Health clinics, brings medical care and mental health support directly to those who need it the most. Since the beginning of the pandemic, we deployed our 11 mobile health clinics in communities across Canada to provide screening, treatment and detection of the -- for the home list, one of the highest risk population for COVID-19. And now nearly 36,000 on-site consultations have been realized to date.

TELUS Health is well positioned for the future and as a meaningful contributor to our consolidated financial and operational performance. We expect to see strong growth in our health care business in the wake of COVID-19, and we are in a great position as the leading provider of health care technology in Canada.

Indeed, we have a solid path to grow our health business as we continue to respond to increased demand for our breadth of health care services and solutions that drive greater efficiencies across the continuum of care. We are leveraging our core business. We are growing into adjacent markets where we are looking to disrupt the traditional care model via our digital health technologies, innovative partnerships in our leading broadband networks such as PureFibre and 5G. Our digital health portfolio creates the foundation to introduce advanced capabilities like AI for diagnosis and treatment. And bio analytics for precision medicine, which has the ability to drive improvement in the health outcomes and transform health care in Canada and globally. Needless to say, this represents a very exciting challenge for our TELUS Health team as we are revolutionizing access to health care and creating better health outcomes for all Canadians.

I turn it over to you, Jeff, now.

Jeffrey D. Puritt - *TELUS International - President*

Thanks very much, François, and hello, everyone. Despite these significant challenges brought about by COVID-19, TELUS International delivered excellent results in Q2. I am so very proud of the continued resilience and the dedicated focus of our global team in rapidly enabling over 90% of our frontline team members to safely work from home. And importantly, to continue providing exceptional service to our global clients during the pandemic.

TI has continued to generate very healthy financial results, surpassing \$1 billion in revenue on a year-to-date basis, including double-digit organic growth. We were also able to maintain strong EBITDA margins at the high end of our previously communicated 20% to 25% expectation, whilst also delivering robust simple cash flow underpinned by TI's low CapEx intensity profile. These results have been driven by growth in business



volumes, derived from both expanded services for existing clients as well as new client growth. This performance is even more impressive when considered in the context of how quickly government-mandated lockdowns disrupted our traditional service delivery model due to COVID. Beyond the rapid work-from-home deployment, our team also managed our costs prudently while driving meaningful productivity improvements that helps to bolster our strong results.

Our team and our client partners quickly embrace the new operating environment, and in so doing, have unlocked exciting new capabilities and success stories for our business. For example, in Q2, for the first time in our history, we launched support for new clients in a 100% virtualized fashion, starting with the sales pursuits and success, to contracting, recruiting, onboarding and training and on to delivering exceptional performance. This was accomplished by leveraging our leading digital solutions in concert with our highly engaged team.

Our success to the pandemic has also been fueled by our diversified client base that has provided us with meaningful inoculation during these uncertain times. While certain clients have experienced challenges, particularly in the travel and hospitality space, other clients, such as online games and social media, in particular, have more than compensated with significant growth. TI has also continue to partner with TELUS and many other clients to help them transform and execute on their own digital roadmap with next-gen IT digital solutions, which is helping our client partners operate more effectively through the pandemic and beyond. Our acquisition of CCC that we completed at the start of this year, has been performing well ahead of plan, building on TI's track record of successful and thoughtful acquisitions. Integration activities are going very well, and we're excited about the rapid scale we've been able to achieve across Europe as well as the significant enhancement of our trust and safety practice, including content moderation, that has continued to be a high-growth area for TI during the pandemic, particularly in the social media space.

Above all, the health and safety of our team remains paramount in all 20 countries in which we operate. Robust safeguards are in place for our phase return to the office, including temperature checks, on-site medical clinics, mobile symptom screening, physical distancing and enhanced cleaning. Thanks to our successful work-from-home enablement, we're in no rush to return our global teams to our offices. However, we will continue to work closely with our client partners and local government agencies to ensure our team members remain as safe and as productive as possible through the pandemic.

Let me now turn the call over to Doug for an update on financials, following which, I look forward to answering your questions, if any. Doug, over to you.

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

Thank you, Jeff. Our resilient second quarter results reflect the thought leadership of our highly engaged team, who collectively embraced the new operating environment, while focusing on the well-being of our team members, our customers and our communities. Despite the widespread challenges of COVID, we delivered a strong set of subscriber results while actively managing our financial outcomes and delivering strong free cash flow.

Our results were supported by our continued focus on driving cost efficiency and margin-enhancing initiatives. Of the \$250 million goal that we had set for ourselves, we have achieved roughly half by the end of the second quarter. We'll achieve the rest over the next 2 quarters and certain of these opportunities will be permanent. I'm proud of the team's operational execution to realize these benefits, which helped us partially offset the negative COVID impacts that were outlined on Slide 9 of our investor presentation.

In wireless, external revenue was lower, 7.7%, driven by decreases in both network and equipment revenue. Network revenue declined 3.3%, largely the result of the pandemic-related impacts, primarily from a roaming decline of approximately \$65 million as travel remained restricted and borders were closed. Depending on the future timing of resumption of travel and cross-border reopenings, the roaming recovery is expected to be slow and will continue into 2021. Data overage was also down as customers remained home and used their Wi-Fi networks. While we did experience some offsetting upside in (inaudible) voice usage, the overall overage impact was negative.

Network revenue was also impacted by various customer-friendly initiatives, such as waving late payment fees and other charges. Normalized for the total impact of COVID-19, network revenue would have grown by approximately 1.4%. Mobile phone ARPU declined by 5.8%. However, this decline would have been 1.2% -- just 1.2%, excluding the COVID impact. Additionally, the mix of our customers that we loaded showed a positive



trend with 100% of the mobile phone additions being high-value postpaid customers, while we also strategically manage the pace of our rate plan migration.

We also realized cost efficiencies of loading through our customers-first initiatives, including the redeployment of resources to support those customers as well as our digital platform, which we quickly and seamlessly executed in the quarter. Our loading results this quarter were inclusive of nonpayment subscriber churn provisions taken for the delayed suspensions of late-paying accounts as we continue to support our customers through the pandemic. To be more specific and for context, most of the industry did not deactivate customers in Q2 for non or delayed payments. However, we have provided for these by increasing our customer churn for the estimated number of deactivations that would have occurred, if not for the deferred collection activity, to support our customers during this time. This provision is consistent and aligned to the increase in our bad debt provisions. If not for these nonpayment churn provision of 32,000 customers, our blended churn of 0.8 would have been 13 basis points lower and our postpaid churn of 0.59 would have been 14 basis points lower.

In total, our Q2 wireless adjusted EBITDA decline reflects the impacts of the pandemic, including an incremental wireless bad debt expense of about \$17 million related to COVID-19. This amount is a top-up from provisions we already have taken in the first quarter. While we are seeing increased risk as more customers and businesses face financial hardships. However, we believe we are sufficiently provided for both bad debt and nonpayment customer churn.

Excluding the total impact of COVID, which includes incremental savings that were realized, we estimate our wireless adjusted EBITDA would have been approximately 5%. Wireline external operating revenues increased by 17% year-over-year or 13% when normalizing for the \$71 million gain on the retirement of a provision related to put options within the TI -- within ATI (sic) [ADT] acquisition. The gain has been removed from our adjusted EBITDA results. The revenue growth was driven by an increase in data service revenues as highlighted by Darren.

Similar to our wireless loading, our wireline net additions included nonpayment customer churn provisions of 23,000 RGUs to reflect the delayed deactivation of wireline customers as we chose not to deactivate those customers for late or miss payments during Q2. Additionally, we recorded an incremental wireline bad debt expense of \$13 million to reflect the increased risk environment. The additional provision was in addition to any normal growth trends. We also undertook various customer-friendly initiatives that impacted our results, including extending promotional pricing, and offering concessions where appropriate. Adjusted for COVID-19 impacts, the net -- and net of incremental savings and margin opportunities, we estimate our wireline adjusted EBITDA growth would have been just over 5%.

On a consolidated basis, revenue was up 3.6% or 1.7% when normalizing for the aforementioned onetime gain. Adjusted EBITDA declined 2.9% to the flow-through of the various COVID impacts already discussed. Excluding these impacts, we had about consolidated EBITDA growth of approximately 5%.

Consolidated CapEx of \$756 million was down 1.8% over last year. In the quarter, we took advantage of a more efficient environment by redeploying capital from some of the projects that could not be executed during COVID-19 and shifted the spend to strategic projects that provided cost efficiency opportunities through supplier discounts. And while buildings and other traffic, et cetera, was significantly reduced in most of our cities. The redeployed capital is put towards fiber deployment in Alberta 5G initiatives and investments in our customer support infrastructure and system. Free cash flow of \$511 million increased by \$187 million versus last year, resulting primarily from lower device subsidy amounts, income tax payments that have been deferred to Q3 and lower CapEx.

For awareness, we've deferred approximately \$110 million of corporate income tax installment payments from the first half of the year into Q3, consisting of \$30 million from Q1 and \$80 million from Q2. Excluding cash taxes, our free cash flow increased 18% in the quarter and is up 26% on a year-to-date basis. This strong free cash flow was achieved without sacrificing any of our capital spend. And is reflective of our consistent focus on sustainable cash flow expansion, which is especially important during this current environment.

In May, we successfully completed a well-received \$1 billion debt offering in the quarter, consisting of \$600 million in 7-year 2.3 notes and \$400 million reopening of a 30-year 3.95 notes. The attractive rates represent our lowest Canadian yield in 7- and 30-year tenures, bringing our average cost of long-term debt to 3.86% and our average term to maturity souped-up 13 years. The net proceeds were used to refine early our 2021 TELUS Corporation note maturities, which further strengthens our balance sheet and enhances our liquidity position to more than \$3.6 billion. The strong

financial position continues to support our growth initiatives as well as our strategic acquisitions to further enhance our product strategy and growth profile.

Given the nature of the global health crisis, we remain unable to accurately forecast an exact range for positive or negative impacts of our business, and cannot confidently provide official targets at this time. However, for the year, we are working towards flat to slightly positive EBITDA growth. We'll also continue to expect our capital expenditure to be \$2.75 billion, in line with our original guidance. This capital spend will support our ongoing investments and the achievement of our leading network technologies to continue supporting Canadians and advance our fiber and 5G builds.

At TELUS, we believe it is not the right time now to pull back on these core capital investments in our world-leading networks and infrastructure and systems that underpinned our best-in-class customer experience. We have shown a consistent track record of providing impressive returns on our capital expenditures through our high-quality asset mix and our consistent profitable customer growth and leading customer loyalty. At a time when our customers, our communities and our country needs it most, we intend to continue making the necessary investments to expand our network coverage capacity and expansion of products to continue our business and simplify our business operations.

Importantly, we expect to continue to drive strong free cash flow to the bottom half of our original target of \$1.4 billion to \$1.7 billion. While the remainder of the year will present its own set of challenges, the TELUS team has consistently shown our ability to adapt and perform well in challenging times. I'm confident that we will continue demonstrating that through the rest of 2020 and beyond. Now, Robert, back to you.

Robert Mitchell - *TELUS Corporation - Head of IR*

Thanks, Doug. Mike, can you please proceed with questions for the team?

QUESTIONS AND ANSWERS

Operator

The first question comes from Simon Flannery from Morgan Stanley.

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

Great. Thanks for all the detail and the color on the ups of the year. I wonder if you could just talk a little bit about how you're thinking -- you exited Q2 into Q3, where are you on store activity, payment terms? What are you seeing from the enterprise customers? Is Q3 going to be a little bit more of a normal quarter based on what you're seeing so far? And what are the puts and takes, presumably things like bad debts and so forth? You're hopefully well positioned for that. So any color around that would be great. And any commentary on the -- some of the recent moves by show on wireless plans?

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

Thanks, Simon. Why don't I kick it off quickly on the shop front, and then I'll hand it over to Jim and Zainul to top-up in that regard. They can also talk about store activity, and I can close with a little bit of an update on the enterprise market. In terms of Shaw Mobile and the launch this week, I'm going to say something that I've said repetitiously over the years, TELUS has a second-to-none superb track record on the competitive front. And I think we've demonstrated that operationally and financially. And in terms of the economic returns that we've generated for shareholders in terms of the success of our strategies. And we have a decided preference, any day of the week, for vigorous competition over onerous regulation. And when you look at the tail of the tape in terms of our capability set, whether it's our world-leading network superiority from PureFibre to 5G, whether it's our leading product portfolio, whether that's the functionality of our products, the breadth of our product portfolio and how that differentiates us, what we can do in that regard on the bundling front. Or the inherent attributes from best-in-class symmetry, latency, content

delivery, functionality, and our ability to deliver all of that within a customer service excellence package because of the great culture of our organization, the great people and the way that we lead in respect of service excellence.

And then lastly, at the end of the day, products are only going to deliver great results if you've got great distribution channels to support them from marketing and sales through to fulfillment, care and billing. And our distribution strength is second to none in terms of the topology. And clearly, as amply demonstrated by our second quarter results, our digital capabilities are just excellent. And that is both in its own right in terms of our digital capabilities, but the way they are all so synergistic with our physical channels. And that supports our ability to do digital go-to-market, digital fulfillment and digital customer serve and support. And so I'll just stop it there and just hand it over to Jim and Zainul for a little bit of additional color in that regard. And I'll make a quick concluding comment as it relates to enterprise. Jim, Zainul over to you.

Jim Senko - TELUS Corporation - President of Mobility Solutions

Yes. Thanks, Darren. I'll start and Zainul, please top-up. First thing is, obviously, we're not surprised. We've been expecting the Shaw Mobile launch for 4 years now. We've been actively bundling our base, simplifying our offers and ensuring we are simple and transparent for our customers. We possess 4 leading networks across both wireless and PureFibre, which is especially important now. Our wireless network, as an example, has significantly faster speeds and better availability and video quality. We deliver industry best customer service, driven by our team, which is incredibly engaged. We have product superiority across both mobile and home. There's no comparison on the breadth of services from home security to virtual health to over-the-top content. And we stack up really well on bundled pricing.

Overall, TELUS has significantly more points of distribution and a more effective digital experience. And on the distribution front, we have over 300 stores in Alberta and BC to less than 20 from Shaw. We continue to bundle our stand-alone wireless base, and feel that the remaining unbundled base is manageable. And going forward, we'll continue to focus on mobile and home and our network and our customer experience leadership. Just a quick couple of words on the channel, and then I'll hand it over to Zainul. 99% of our channels are operational now. Capacity does continue to be restricted due to safety precautions. We're seeing retail traffic is returning slowly, but still down about 30%. And a return to normal will take a bit of time, especially in the malls. With that said, digital is performing really well. And we'll continue to enhance that digital experience. Zainul, do you want to top-up?

Zainul Mawji - TELUS Corporation - President of Home Solutions

Sure. Thanks, Jim. As Jim highlighted, we certainly have expected this mobile launch from Shaw. And when you look at the TELUS bundle, it's truly unmatched in the industry. Each of our product capabilities from our award-winning PureFibre Internet, to world-class mobility, to our superior SmartHome service, are best-in-class within their domain, and they're based on customer-centric value propositions. So the sum of the parts is absolutely greater than the whole. And then when you layer in our differentiated suite of value-added products, we've demonstrated strength in enhancing customers' digital lives, whether it's seeing a doctor at your convenience and the comfort of your home via Babylon by TELUS Health, staying safe, protected and insured online with TELUS online security or the most diverse entertainment service with OTT packaging on Optik TV. And what's more in the current environment, we've seen customers come to experience the superiority of our network and product as well as our amazing service and place more value in these capabilities.

We also continue to innovate and provide customers with simple and flexible services. Another example of our many first in the industry, yesterday, we announced a partnership with Amazon that offers Prime as a benefit integrated right into the Optik packaging and seamlessly accessible on our TV platform. So we've seen our product intensification strategy continue to pay dividends on both ABPU and churn, and we've demonstrated our channel execution in market, particularly during very difficult times. The passion, grit and customer-first culture of our team has served our customers and our business well in the past, and we believe it will continue to do so in the future.

Darren Entwistle - TELUS Corporation - President, CEO & Director

On the enterprise front, Simon, that sector for us has been largely resilient. Our revenue is down about circa 1%. Clearly, there's some obvious areas that have been pressurized at the EBITDA level, including the wireless component of our enterprise sector as a result of the absence of roaming.

And whilst there have been some sectors, sadly, that have been hard hit on the enterprise front because of COVID-19, we have seen offsetting factors from growth in areas, including the public sector at the federal, the provincial, and in certain cases, the enterprise level. As these businesses or public sectors look to virtualize or digitize their operations, their business models, their customer support strategies and the like, which is clearly the comment that Jeff was alluding to in terms of the TI support that they're affording their corporate client base.

And it's clear to me that COVID-19 is going to accelerate digital transformation activities. And I think both TELUS Corporation and TI are very well positioned to address this significant opportunity. And so we've been focused for years on building intimacy within key verticals within the enterprise space and driving third-wave data solutions on a data networking, data capability front that include working-from-home capabilities, and includes cloud platforms and Agile IT, complemented by very modern concepts, such as cybersecurity, collaborative cloud services and unified communications. And what we can do for clients on the data analytics front and turn that information to predictive models, leveraging the advent of AI.

And I see that getting accelerated by the commercialization of 5G, which I think is going to accelerate this digital transformation and the opportunity to do smart things with our 5G networks in terms of the creation of private networks for our enterprise clients by doing things like network slicing, which I think is going to be a huge opportunity for us within the enterprise space. But also the 5G commercialization is going to support some very interesting market segment opportunities in areas like smart cities, intelligent transportation. And excitingly for the TELUS organization, IoT opportunities within the health vertical and the ag tech vertical.

So for us, we're pretty resilient there. And looking forward, the final aspect of your question, we remain confident in the operational prospects and execution of the organization over Q3 and Q4. I think the trajectory that we've established and our ability to operate within this challenging environment is well borne out and proven by our Q2 results that we've just posted now. And if you look at the quality of our loading at TELUS, it doesn't just come from wireless or wireline, it comes from both. We've had excellent loading on both wireless and wireline, and we've done that consistently. It's not being propped up by a single product line. We've got good resiliency in legacy services like best-in-class voice erosion. We've got excellent performance in our staple products, Internet on the wireline front and smartphones on the mobility front.

And then we've got excellent performance in our emerging products, whether it's security, health or IOT. I think that's a pretty robust portfolio at the end of the day. And the other thing that I think is key for investors is all of that loading is quality loading. So it's not about the vanity of leading on RGUs. It's those RGUs translated into economic value creation for investors because they had the right economic attributes to begin with because of that quality loading thesis. So I think our leadership team is confident of the prospects of the organization operationally going forward.

Operator

The next question comes from Jeff Fan from Scotiabank.

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

Just wanted to follow-up on Jim's response on the Shaw Mobile question regarding bundling. If we're trying to kind of unpack how much bundling you've done over the years, can you help us a little bit on that? Maybe the perspective to look at it is the CRTC says that TELUS has about 40%, roughly, wireless share in BC and Alberta. I'm just wondering, within your Internet base, is that materially higher, i.e., that would insulate you from any competition from Shaw? And then I guess a quick question on the digital capabilities that you mentioned and Darren has alluded to as well. Any learnings from your customer behavior on what they're doing on the digital front, particularly related to loading and upgrades? And do you see this digital advantage continuing even as stores start to reopen as we go through the back half of this year and maybe even into 2021?

Darren Entwistle - TELUS Corporation - President, CEO & Director

So Jeff, I'll let both Jim and Zainul top-up on that. I'll caution them to be a bit careful on the competitive disclosure front. But they'll both handle that very adeptly. And Tony, why don't you respond to Jeff's question in terms of digital excellence continuity and what it's meant to our organization and what it looks like going forward and how it differentiates us?

Jim Senko - TELUS Corporation - President of Mobility Solutions

Okay. Why don't I go first and then hand it over. So Jeff, we've been actively cross-selling our base now for several years and have had a lot of success on it. Obviously, I'm not -- it's competitively sensitive, how much of the base is bundled. What I would say is that it's a very manageable unbundled base right now. So we're very comfortable with where we are. Our customers have really responded well to our bundling. And I think that's been one of our areas of great success. So we're feeling really good about where we are, and we are seeing very good customer reaction from our bundles. And especially when you tie that back to our superior wireless network and our superior PureFibre network, the customers -- that's really resonating with their customers. So I'll leave it there and let you know that we're confident. So Zainul, did you want to top-up or should we hand it over to Tony for digital?

Zainul Mawji - TELUS Corporation - President of Home Solutions

Yes. Maybe I'll just make a couple of top-up points. Thanks, Jim. So I spoke about the strength of the individual products in our bundle. And I think what drives our capabilities is that we're able to leverage those unique and individual differentiated product strengths across elements of the bundle. And I think we also provide our customers with significant flexibility to dial up and dial down within the bundle. So those are areas that have really resonated with our customers. And coupled with our excellent channel execution, we've seen really significant progress in our ability to bundle. And we've seen growth in our capabilities quarter-over-quarter. So I'll leave it there, and ask Tony to top-up on the digital.

Tony Geheran - TELUS Corporation - Executive VP & Chief Customer Officer

Thanks, Zainul and Jeff. A couple of things about the digital world. We've been investing in our platform now for a number of years. And I think you could see when we executed on our Peace of Mind and device financing plans last year, we didn't rush to be first to market just for the sake of it. We waited until we had an end-to-end capability that we were satisfied with, work for us and for our customers and give them a great experience. And we've used that mindset as we develop capability. As we watch the emerging pandemic issues growing at the beginning of the year, we rated our platform. We made sure it was robust and could step up to the volumes we would expect that would be coming.

And you can see from our Q2 results that, that worked well for us relative to our peers. I think the real important part of what's going to happen next is not that things will return to normal, it's how does this augmentation of our channel capacity enhance the customer experience. And how do we fine-tune that to make sure more and more customers want the exact business digitally, we're there for them. And we think we're in a good position right now. We're not resting on our laurels, and we have a very tight plan of how we expand our capability and where we focus. And what you can expect from TELUS is a consistent execution in that regard.

Darren Entwistle - TELUS Corporation - President, CEO & Director

Jeff, I would note as well that as we amplify digital throughout COVID, we also achieved the highest customer satisfaction survey response in the history of our organization, which proves that you can achieve the duality of leveraging digital and enhancing the customer experience simultaneously. Over to you, Robert.

Robert Mitchell - TELUS Corporation - Head of IR

Thanks, Darren. Mike, next question, please?

Operator

Next question comes from Vince Valentini from TD Securities.

Vince Valentini - *TD Securities Equity Research - Analyst*

Doug, you mentioned 32,000 subscriber number in wireless and a 23,000 subscriber number in wireline. I'm not sure if I heard you incorrectly, but I think you said that the 23,000 subs in wireline were not treated as disconnects because they hadn't been paying. But I think that's wrong. Can you just clarify, you did take out 23,000 subs, and you still were able to put up these strong numbers in wireline?

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

I'll leave it to Doug. It's really important that you get the explanation clear because I'm going to have an embolism if you don't. If this gets misinterpreted, I'm going to be a very grumpy bear.

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

So yes, we did take them out of our base, and it did increase churn. So our nets were reduced for that amount.

Vince Valentini - *TD Securities Equity Research - Analyst*

Perfect. And sorry, I forgot the rules here. So Darren, I'll put this to you, but you can put it to Doug after. Those 23,000 and 32,000 figures, I mean, that just makes sure your numbers look so impressive. I mean postpaid churn at 0.45% is something I don't think any of us thought was ever possible. Can you give us some context here, though? These numbers elevated because of COVID, but they wouldn't have been 0s in the past. There's always some level like that 32,000 on the wireless side. Can you give us any context of what it might have been in Q2 last year?

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

So Doug, why don't you just walk everyone through the numbers 1 more time. And then I'll make a couple of comments as to what the ingredients are behind those results. And given that you're our Chief Customer Officer, Tony, I'll afford you the opportunity to top-up.

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

So Vince, you're right. It was 32,000 as a reduction in the wireless space and 23,000 in wireline split between the Internet, TV and the voice product. And in the past, the numbers were -- we haven't -- I don't have the exact numbers at my fingertips, but they are very close in the same proximity in previous quarters of nonpayment disconnects. So it would be plus or minus a small amount, but not materially different.

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

Vince, key ingredients, and I'll quickly hand over to you, Tony, but the performance culture of the organization clearly is coming to the forefront here. Secondly, we've never let up on our progression path of continuous improvement on customer service excellence. And the traction that we're getting in that regard is just terrific. And the specificity of our actions, the quality of the service from the transactional through the fulfillment component, the fantastic job that Jim and Zainul have done on smart simplification, which is such a customer-friendly thing to do along the way. The intimacy of our one-to-one marketing. Our retention activities have really been borne out along the way. We have gone from rudimentary on bundling to proficient on bundling to sophisticated unbundling. And the mathematical correlation from 1 product to dual product to triple play, quad play, quintuple play and the like, has really driven churn through the floor. And it's been extremely potent, to say the least for our organization in that regard.

We have driven hard as it relates to network excellence. And the fact of the matter is, the COVID-19 has taught Canadians that fiber matters. And in TELUS' case, PureFibre, which means fiber to the home, is the medium of choice in terms of connectivity, given that people want to use that



Internet connection for everything from teleworking to network gaming. And so they want the -- not just the downlink speed, but they want the uplink speed if they're doing business. And they want low latency if they're gamers along the way. And fiber has just been a massive differentiating factor. And people don't want to give it up. They want to get it, and they don't want to give it up. And I've bored the hell out of all of you with the accolades in terms of our wireless network, from speed, to coverage, to reliability on DTR, AFR. And it's gone on for years now. I mean 6 years in a row as it relates to Ookla in that regard. And reliability and speed matters to customers, and they want to stick with us in that regard.

If you look at our digital capability set and the comment I made earlier, here we are providing digital. And it's not just speed of transaction or cost efficiency of transaction, there's clearly a demographic out there that's digital native, that prefers digital. Their mentality is digital first, and that's the way they want to transact with us. And we provide that experience. And for them, that's an L2R accretion. That's a better customer set than the human contact. And so to be able to provide that capability and get the uplift on service, you're seeing that in the stickiness of those relationships at the end of the day. And then here we are with the social capitals in company. No one gets anywhere else in the world better than TELUS, the symbiotic relationship between customers and communities. And clearly, our customers understand that we're there for their community. And that their patronage of TELUS goes back into their community. They get that symbiotic relationship. So when they have a choice as to where they're going to spend their money, they think, wow, TELUS has got the best network, the best customer service, it deals with me with the best technology at the end of the day, it gives me the level of support and intimacy that I want. And the money goes back into my community to make a difference for my family and all those things inform people's choices. And here we are as an organization where you don't find at this very many other places in the world, but the biggest competitive model at TELUS internally is who delivers better customer service, onshore or offshore. Offshore for us is in about labor arbitrage. It's about customer service excellence to complement the fantastic customer service that we do domestically to complement what we do on a digital basis. And these things are getting borne out in our results, which is why when Tony talks about, this isn't something that's just made for COVID, this is going to be the operational way of life prospectively, and we feel we're well positioned. Tony, you want to top up?

Tony Geheran - TELUS Corporation - Executive VP & Chief Customer Officer

I'll try and find something else to add there, Darren. Thank you. I think, Vince, what we've demonstrated over the last 6 years is consistently outloading our peers on a qualitative basis with our RGUs and particularly building off the investments we made in PureFibre and our top -- world-class wireless infrastructure. And if you consider this year, not only was our digital channel ready to go, and we think it's wholly irresponsible to drive traffic into malls and stores when there's a COVID pandemic. So we were able to make sure we kept our customers safe and make a transact.

In our field operations, very quickly in March, we drew from crossing the customer threshold. And developed, within 48 hours of restriction, an ability to deliver what we call a virtual technician model of supporting the customer in their self in-store through a video uplink and through some AR technology that we deployed to help customers completely inside the homework. And we had expectations that this would be sort of 50%, 60% successful. And I have to say we went from a high yield -- we're normally in the high 80s, of our yield on truck rows, dropped to 60% on the first few days of deploying this. But the TELUS patent is really to consider, understand what's happening, refine, improve and move on. And within a month, we were back into the high 80s. And in fact, we ended in June with the highest yield on our vitality virtual assistance model with our techs, without even crossing the threshold. And now we can do that. But what we do now is we monitor communities and if there are outbreaks, we fall straight back to the no crossing the threshold.

We want to keep our team members and our customers say. And similarly, in our call centers, over 4,000 call centers team members were pivoted straight to work from home, not including what we did immediately thereafter on our TI team. And we've got great response from our agents as we set them up, and they were able to pick up seamlessly and support our customers, and we now have a new operating model for the future that we will refine as we go forward. So we're very confident that whether a phase 3 comes along and starts disrupting the traditional channels, we have the ability to pivot onto our COVID mode of operations with the enhancements we're making all the time.

We know our digital channel now is a significant augmentation. And we didn't lose a beat in building out PureFibre through Q2. In fact, we found we made more progress in some of our Alberta bills than we would normally do, given the light traffic that Doug mentioned earlier. And we're ready to release those properties to our marketing team and to our delivery team. So we're highly confident that this loading trajectory that we have is consistent, sustainable, and we know we've got the best execution in the business. So we're fairly comfortable here. Thank you.

Operator

Next question comes from Maher Yaghi from Desjardins.

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

So I wanted to ask you, since the beginning of the pandemic, we have seen the value of health technology companies increase significantly, and many companies have been able to get external financing. In the past, you always stated that TI was more the immediate focus for you when it comes to tapping the capital markets. Has the significant increase from the different provincial government usage of your health solutions make you change your mind or accelerate maybe the plans for TELUS Health to tap the capital markets to get into this new growth opportunity? And my second question is regarding your cost structure. We've seen -- as you mentioned, you lost \$58 million -- close to \$58 million of EBITDA because of lower roaming revenues. You have also overage revenues that probably affected your profitability. What actions can you take maybe to realign your cost structure because it might take time for you to get back those revenues given that the pandemic doesn't seem to be letting go?

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

So François, why don't you speak to the first question? Doug, you can take the second question and I'll top-up on anything thereafter.

François Gratton - *TELUS Corporation - Executive VP & Group President*

Thanks Darren. Thanks for the question, Maher. You're right. I think we're seeing very strong valuations in the marketplace. But I would say a couple of things. The first one is, we're entirely focused on serving our customers; responding to exploding demand and leveraging the multiplatform and 3-pronged approach that we've developed; maximizing our growth potential in the marketplace and serving customers and Canadians, the way they need to be served or the way they want to be served either directly through their employers or through the physicians they're used to seeing. We're seeing also a lot of companies in the marketplace focusing on customer growth at the expense of a business model that makes sense.

So you look at players in the U.S. that are trading on a revenue multiple without any kind of profitable business model. That's not the way we're going at it at TELUS. It is a -- very much a sound business model that we're putting together here. And again, leveraging the strength of our distribution capabilities. When you look at what Zainul is doing on the wireline front or what Jim is doing on the wireless front, or Navin Arora and David Sharma are doing on the B2B front. It's really integrating our virtual care capabilities and solutions to reach the biggest number or the largest number of Canadians. And that becomes part of our bundled approach. And really enhances our relationship with our customers. When it comes to monetizing or benefiting from doing an IPO, I think that's for further down the line. I think we're not focused right now on the kind of valuations you're seeing in the marketplace. That's not what's driving our strategic priorities. But Doug, Darren, you may want to top-up.

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

Why don't you go ahead, Doug? And pick up on the cost front or anything you want to say on health, and then I'll close quickly.

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

Excellent. So on the cost side, over the past 3 months, as we've been going through COVID, we've been definitely looking at our operating mode and which of the learnings are we -- can we take from the situation and make them permanent? Which of the initiatives that we had, and it started on customer experience, on digital that you heard from Tony, are we going to even accelerate faster with the underlying theme of customers and team members need to be looked after and protected along the way? So there's definitely cost opportunities that we've been working through in our future mode of operation. Digitization and then looking at our -- easier to do business with is obviously one. The benefits of fiber, we haven't



fully utilized yet either with the reduction in truck rolls, with the synergies and efficiencies that come with fiber, and there's still a significant opportunity as we move forward on more customers on our fiber network.

And then it's going to be the direct impact of real estate costs and other, call it, overhead costs that if we change the dynamic of our flexibility with our team members that we'll be balancing out all of that, call it, more traditional overhead to the more fluid workforce. So those ones will be that top of mind right out of the gate. But there is a list of many more that we're currently working through that we've started to identify and plan for from the learnings of COVID overall.

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

Just on the health front, I would ask you to take your comment as it relates to those players in the marketplace and reengineer it as to what it means for TELUS. So if you're seeing those valuations out in the marketplace with other players, take the math of those valuations and apply it to just a component of our overall TELUS Health business. Within the virtual care area to be more specific, I think you'll get some interesting math as to what the valuation implications are for TELUS, given our position in that market. Secondly, I would say that, that valuation of TELUS should deserve a premium for 2 reasons: number one, we've got an integrated portfolio. Unlike our competitors in this space who are single product players, we've got a continuum of solutions from a product perspective across the totality of the primary health care ecosystem. And secondly, we're profitable. So you don't have to weigh in on negative EBITDA, it would tell us we're EBITDA accretive. And so I think that bestow a premium on us as it relates to taking those implied valuations and doing an application of that to our TELUS Health business in terms of just 1 particular segment on the virtual care front. Secondly, look at our market coverage. Again, I could talk about TELUS Health more broadly, but given that your question is related to virtual care, let's burn in on virtual care.

We have a direct-to-consumer offering on Babylon, where we've not even hit our growth stride yet. We're just opening new markets as we speak on a provincial basis. We have a business to business to employee -- business to employer to employee solution with Akira. And then we have a virtual visit solution for docs with whom we've got 26,000-plus relationships across Canada in terms of doc-to-patient or physician-to-patient relationships. So it doesn't matter what your flavor of virtual care is, whether it's direct-to-consumer, whether it's B2B2E or whether it's physician or patient, we cover the totality of the landscape. And I would say that's pretty good competitive positioning in that regard.

Thirdly, you don't always have to access the capital markets to create a paper capability within your portfolio to get certain things done at a corporate development level. We can create sub-vehicles within health care and leverage the paper of those sub-vehicles to support any astute corporate development aspirations that we have in terms of pursuing what we think are attractive market consolidation opportunities.

And then lastly, in terms of the capital markets, let's stay focused on getting TI done. TI's worked really, really hard, delivering fantastic results, building great assets with a great management team to earn the right to take the business public and establish a transaction currency, which will amplify the addressable market of growth opportunities prospectively. I'm looking to get that done in the next 12 months. And that's right now what we're focused on in terms of accessing the capital markets in servitude to the TI strategy. And I think TI's performance in general and TI's performance through COVID makes that particular aspiration all the more exciting. And I think that trajectory that's been established in terms of operational performance, customer service performance and economic performance bodes well for our ability to tap into the capital markets, all things being equal, in the first half of 2021.

And our goal here is to be ready to go and then go if market conditions allow. And if not, then let's be patient. But that's not something that we have to do. It's a nice to do. And we'll get it done when the right conditions present themselves. And post that particular move, then I think we can look at other activities as it relates to helping the capital markets or ag tech in the capital markets, or creating paper currencies that we can use smartly to pursue our position that we want to develop within those key verticals. So that's really the essence of the strategy.

Operator

Next question comes from David Barden from Bank of America.



David Barden - *BofA Securities, Research Division - MD*

I guess I just have 2 questions. First, Darren, in the press release, there was some verbiage that said you were hopeful that you'd be able to get to your targeted dividend increase if the Board allowed it. I was wondering if you could kind of elaborate a little bit on what you think the KPIs the Board will be looking at to kind of evaluate whether they will or won't kind of support that? And whether that's just about kind of third quarter performance or maybe how the uncertainty of the forward 12 months might factor into that decision making? And then the second question, if I could, would be just -- you guys, obviously, launched your 5G product this past quarter, you announced -- in fact, last month, announced Samsung as a strategic partner. I was just wondering kind if you could elaborate a little bit on what actually happened? Which spectrum bands? How much spectrum? 1 vendor, all the vendors? I was just kind of interested in kind of understanding where we are because we're going to be extrapolating into 26 new cities over the rest of the year.

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

Okay, Dave, let me hit it. The reason why we're specific on the quote in that regard is because as we've communicated for 20 years, the dividend decision is the providence of the Board. And that decision is made by the Board based on recommendations from management on a quarterly basis. And I never want to [surface] it, which is why we're always very formal in the way that we present our pros, our nomenclature in that regard as it relates to the dividend, both current and perspective. What measures does the Board look at? And these measures are not meant to be static, but dynamic. So both at time T and where they're going at T plus X. The Board looks at the EBITDA robustness in terms of what's been generated in quarter and what's expected prospectively. They look at free cash flow generation, again, in quarter as well as prospectively. They look at where we are within our dividend payout ratio guidelines and what that portends on a prospective basis.

They're also stewards of the balance sheet and take into consideration net debt-to-EBITDA and the like. And then they don't want to make just a static decision in terms of what's good for a quarter or what reflects what happened within the 90 days of the quarter. They want to be more dynamic than that and look at the sustainability of what we're proposing because that's the way that we manage the business. So in making the adjudication, they look at the here and now of those financial parameters that I've just articulated, and how we would expect them to evolve 12 months hence.

And then lastly, they take into account our representations to the street. And so it matters to the Board. And we've had a fantastic history, track record of returning money and delivering against expectations to investors, whether it's our operational and financial targets or whether it's our dividend growth model. And we've had a fantastic run in our dividend growth model. And the Board takes that responsibility very seriously. And it's something where it means a lot to the organization to be able to generate the results from the excellence of our strategy that we can honor the representations or the expectations of that dividend growth model. And if it's possible to do that, we're going to do it, which is why we chose the words quite purposefully. We're hopeful that we'll be able to meet our dividend growth model expectations or exceed it when it comes time to announce our results in November.

And the only other data point I would give you drive inference from is our trajectory on the Q2 front looks pretty healthy. And so I'll draw a line under it there. And I would just ask you, how many other organizations around the world, not just within the telco sector, give the level of forward-looking disclosure that we do on our dividend growth model, both in terms of multiyear longevity and specificity as it relates to the dividend growth accretion? I think we're in a pretty unique category in that regard. And it's even more unique when you consider that we have delivered against it year in and year out, quarter in and quarter out since 2011. I don't think anyone can match that particular track record. I missed your comment on the spectrum front, could you just reiterate that question for me? Sorry.

David Barden - *BofA Securities, Research Division - MD*

No, the question was really around the 5G launch announcement. What actually happened in terms of which spectrums got launched? How much spectrum is DSS involved, et cetera?

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

Okay. So as it relates to the launch, the launch is at the 1.7 gig level with 600 megahertz getting operationalized within key rural areas in the second half of 2020. Our current launch speeds are 1.7 gigabits per second across the topology of Toronto, Montreal, Vancouver, Calgary and Edmonton. Our coverage is around 16% of the Canadian population. As I said in my remarks, we're going to augment that by 26 municipalities over the course of the year, which will take our coverage up to about 30% of the Canadian population. Through network developments and improvements, we'll be able to buttress that 1.7 gigabits per second to be about 1.9, 2 gigabits per second as we look to exit 2020 in that regard.

Look for us to participate in the mid-band spectrum, which the government has slated for mid-2021. That's clearly an important global ecosystem in terms of those frequencies and our ability to secure large swaps of those frequencies to continue the 5G marathon because it's a marathon, not a sprint. As it relates to improving the commercialization and getting more bang for our buck on the 5G speed front along the way, all the way through to what will come thereafter on millimeter wave spectrum auctions on the 28 to 30 gig, 40 gig, 68 to 70 gig and the like.

I think for TELUS, this is a huge advantage in our regard because, again, when it comes to new technology deployment, we have a track record second to none. Number two, we do it from urban to rural, hence, my comments about operationalizing our 600-megahertz spectrum within Alberta and BC and to back over the latter half of 2020 in terms of bringing 5G into the rural dominion of Canada, which is critical for both business productivity and social services along the way.

I think what's also very exciting and unique about 5G for TELUS is that we've got the fiber 5G advantage. So our fiber network being so pervasive, hitting 80% of our Internet footprint by the end of 2020, that is extremely synergistic with 5G in terms of amplifying our 5G capabilities on backhaul, wireless redistribution and front all wireless delivery, leveraging our fiber connectivity.

The other thing that a lot of people don't get is the integration, if you will, between the 5G evolution and the 4G platform. And never has an organization built off of such success at the 4G level, whether it's world-leading speed, world-leading latency, world-leading coverage, world-leading reliability at the 4G level. That really underpins a jump-start performance on the 5G launch. So that we will be best-in-class when it comes to speed, coverage and reliability out of the gate, and we will be pervasive in the deployment very quickly, which again brings me to another one of our distinguishing attributes, which is our network sharing relationship with Bell, which allows us to deploy new technologies twice as fast. Because we're tapping into 2 labor pools, and we're splitting the geographic deployment responsibilities along the way, and we can get it done more cost efficiently because we're using 2 balance sheets rather than 1.

And so those 3 things are really pretty important, leveraging the network sharing relationship and the scale and scope economies that it gives us, leveraging the performance excellence of our 4G platform as a 5G springboard and leveraging the synergistic relationship between fiber and 5G. And then lastly, one of the things that we want to do on the commercialization front is make 5G not just about speed, speed, speed or the symmetry considerations or the coverage, but what can we do on the product development front? How can we specialize that product development for the verticals that I talked about earlier when I was answering Simon's question? How can we lead the world on the data analytics side of things given the voluminous data that 5G is going to generate? And how can we monetize that data by making it meaningful for our customers in a way that helps them answer their business challenges?

So that's really the path that we're on now, 1.7 gig, 600 megahertz, mid-band spectrum and then millimeter wave thereafter. And we're not going to give up our leadership mantra when it comes to speed, coverage and reliability.

Robert Mitchell - *TELUS Corporation - Head of IR*

Thank you, everyone, for taking the time to join us today. Please feel free to reach out to the IR team if there are any follow-up questions. And in the meantime, take care. And for those of you in Canada, we wish you a very enjoyable long weekend.

Mike, over to you.



Operator

Ladies and gentlemen, this concludes the TELUS 2020 Q2 Earnings Conference Call. Thank you for your participation, and have a nice day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.