

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

T.TO - Q3 2020 Telus Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2020 / 5:00PM 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*

Jim Senko *TELUS Corporation - President of Mobility Solutions*

Zainul Mawji *TELUS Corporation - President of Home Solutions*

Robert Mitchell *TELUS Corporation - Head of IR*

CONFERENCE CALL PARTICIPANTS

Simon Flannery *Morgan Stanley*

Jeffrey Fan *Scotiabank*

Tim Casey *BMO Capital Markets*

Vince Valentini *TD Securities*

? *Bank of America Securities*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2020 Q3 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 third quarter 2020 results, news release, MD&A and financial statements and detailed supplemental investor information were posted on our website this morning.

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

Briefly on 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 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 as outlined in our public disclosures, including third quarter 2020 MD&A and 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. For the third quarter, TELUS once again achieved strong operational and financial results, characterized by excellent execution, resulting in industry-leading and record high customer growth of 277,000 net additions. This accomplishment realized

amidst an unprecedented operating environment reflects the effectiveness of our world-leading performance culture underpinned by our highly-engaged team. Indeed, TELUS' recent recognition as the top Canadian organization on Forbes World's Best Employers ranking is a testament to the skill, passion and grit of our high-performing global team.

Leveraging this differentiation alongside the strength of our digital capabilities and product superiority, we continue to achieve robust customer growth in both wireless and wireline in the quarter. Furthermore, this achievement was supported by strong and enhanced customer loyalty across key product lines, backed by the TELUS team's dedication to delivering premium customer experiences, overall world-leading wireless and fiber broadband networks.

In Q3, consolidated revenue was up 7.7%, whilst EBITDA decreased moderately by 0.6%, reflecting pandemic-related impacts. Thanks to our team's resiliency, including a relentless focus on improving our cost structure and realizing important growth opportunities we mitigated some of the downside pressures. Notably, had it not been for the exogenous net impact of COVID-19, EBITDA would have grown by approximately 5% at the consolidated level for TELUS.

Let's take a look now at our wireless business. Third quarter network revenue decreased by 2.9%, as our consistent focus on strong and profitable growth continues to be impacted by reduced roaming revenue. As a result, wireless EBITDA was down 1.6%, partially mitigated by an intense focus on cost management. Leveraging the strength of our superior customer experience, our world-leading wireless network and differentiated digital channels, our team achieved a robust 111,000 mobile phone net additions in the third quarter of 2020. In terms of connected devices, we realized strong net additions of 87,000, up 6% on a year-over-year basis. Overall, wireless net additions, inclusive of mobile phones and connected devices, were 198,000 in the quarter, up 3% over last year. Importantly, our team delivered another quarter of best-in-class loyalty results. Notably, blended mobile phone churn was 0.99%, representing a 10 basis point improvement over last year, and it represents the third consecutive quarter of blended wireless churn at sub-1%.

Underlying this result, postpaid churn of 0.85% was better by 3 basis points compared to last year. TELUS' broadband network continues to perform exceedingly well through the current environment, characterized by evolving usage patterns. The efficacy of our ongoing technology investment is again reflected in numerous awards from leading independent network authorities. By way of example, U.K.-based OpenSignal ranked TELUS as having the fastest network in the world in their September Global Mobile Work Experience Awards. This award builds on our multiple third-party acknowledgments, including U.S.-based PCMag, ranking TELUS as having the fastest mobile network in Canada. U.S.-based Ookla recognizing our mobile network as the fastest and most expansive on a national basis. And finally, Canada-based Tutela placing TELUS first in respect of quality, latency and download throughput across our national wireless network. Each of these accolades have been received now for 3 or more years in a row.

As we continue to roll out our 5G and our fiber networks in the months and years to come, Canadians will continue having access to the world's best speed, the world's best quality and the world's most expansive coverage. To close on our wireless results, both ABPU and ARPU declined by approximately 5% in the quarter. This reflects industry-wide pressure on roaming associated with pandemic related restrictions and reduced travel, whilst at the same time, we continue to thoughtfully migrate our base to our endless data plans and hold the line on our premium brand ARPU.

Importantly, we continue to pursue strategies focused on offerings with attractive economic characteristics, including the strong and steady adoption of our TELUS Peace of Mind data plan and family discount offerings, contributing to more than 60% of all rate plan changes being either step-ups or flat in the quarter, a 10% increase as compared to Q2. And TELUS Easy Payment device financing plans, all of which are performing exceedingly well.

Additionally, we continue to seek out and secure new avenues of wireless revenue growth in high-margin areas with respect to Internet of Things across numerous important verticals for our company. We remain enthusiastic about prospects in this space and the opportunities that the increased commercialization of 5G will unlock in terms of new growth curves that initiate expansive revenue and EBITDA growth and as well cash flow accretion, allowing us to further monetize our critical network investments.

These growth opportunities include catalyzing dramatic innovations in health, educational, environmental and socioeconomic outcomes and as well enabling our entrepreneurial spirit in Canada and improving our productivity and innovation, including facilitating major advancements in ag tech, smart cities and home automation to name but a few.

Turning now to our wireline results. TELUS once again delivered a very strong quarter. Third quarter wireline revenues increased by 18% and EBITDA increased by 1.6%, reflecting the increased contributions from TELUS' Internet growth and our smart security technology as well as TELUS International delivering once again.

TELUS' wireline financials were driven by data revenue growth of 23% through a combination of higher revenues from our diverse portfolio of services and solutions. This includes robust growth in Internet and third wave data services as well as a resilient performance in TV. It also includes strong growth in home and business smart security technology, amplified by the inclusion of ADT Canada.

Our growth includes increased revenues from the hyperscaling of our virtual health care solutions and as well the resilient performance at TELUS International, inclusive of our successful CCC acquisition that we consummated last year. As we indicated at that time, we continue to move forward with the plans for the TI IPO, which we are now targeting for the first quarter of 2021. Whilst we have seen some recovery, we continue to experience transient offsetting COVID-19-related impacts from some business customers as they navigate their own pandemic-related headwinds. As they postpone certain activities and TELUS has to postpone our own activities, including price increases that were postulated across our customer base as well as absorb impacts related to site closures or restricted access in respect of TELUS Health and our TELUS International operations.

Wireline profitability was impacted by the flow-through of the aforementioned impacts of the pandemic in the quarter as well as costs associated with strong customer growth and the dilution from J-curve investments in critical growth areas such as security, health and our ag tech investments. This was all partially offset by strong cost containment across our business, which is the hallmark of our organization.

Looking at our robust customer expansion in wireline, we achieved third quarter Internet net additions of 50,000, an increase of 18,000 additions year-over-year and our highest quarterly loading since 2002. This was further supported by an Internet churn rate below 1%, which alongside an up to 25% increase in monthly recurring revenue of new consumer additions bodes well for future lifetime economics from our HSA business. We also realized healthy TV net additions of 19,000, including a double-digit churn improvement to 1% within our optic operations. Notably, residential voice line losses came in at 8,000 in Q3, representing an impressive 4,000 improvement over last year and the lowest quarterly residential voice line losses since 2004.

Furthermore, industry-leading security additions of 18,000 at TELUS were up 4,000 on a year-over-year basis. These results underscore the unique and attractive bundled offers available to customers across our superior product portfolio and our team's focus on leveraging the competitive differentiation inherent in our PureFibre network.

As a result, total wireline RGU net addition of 79,000, were up 26,000 year-over-year, which is a notable achievement for this organization on any occasion, let alone within the throes of the contagion. During the quarter, our team expanded our PureFibre coverage to approximately 78% of our high-speed broadband footprint, a positive progression for 5G as well, given the significant synergies that exist between the 2 technologies. The synergies between fiber and 5G, which is indeed extremely potent.

Like our wireless network, our fiber network continues to receive important recognition and boy we've come a long way in respect of our PureFibre footprint and all that it enables. Notably, U.S.-based PCMag recently ranked TELUS as the fastest Internet service provider in Canada. This reinforces PCMag's previous recognition of TELUS as Best for Gaming in 2020 amongst our country's major providers, and this is only going to become amplified with the progression on the 5G front, enabled by the underlying fiber network when we think about low-latency applications, including mobile gaming.

On the back of strong, a very strong third quarter performance operationally and financially earlier today, we announced the resumption of our multiyear dividend growth program, which is now in its tenth year. And again, we are targeting annual growth between 7% and 10% through 2022. The 7% increase reflects our confidence in the outlook for our business; the sustainability of our strong results, both operationally and financially as well as our robust free cash flow generation and expected continued significant free cash flow expansion prospectively, as we're now entering a period where chronically, our sources of cash will exceed our uses.

This marks the 19th dividend increase since 2011 and reinforces the strength of our financial and operational performance, which has enabled us to successfully execute on our industry-leading shareholder-friendly program in combination with a strong balance sheet and excellent liquidity.

Notably, TELUS has now returned nearly \$19 billion to shareholders, including \$13.6 billion in dividends, representing approximately \$15 per share since 2004, which represents an enviable and atypical track record.

As we continue to advance our broadband leadership and winning go-to-market strategy, backed by our globally recognized culture and industry best customer experience, we remain highly confident in the opportunities before us to further accelerate our growth strategy, particularly with the significant digital acceleration that's happening within both our economy and our society.

Speaking of growth opportunities. Earlier this morning, we announced the planned acquisition of Lionbridge AI, a market-leading global provider of data annotation services used in the development of AI algorithms to train machine learning models. This acquisition advances TELUS' commitment to harness the power of technology and data to provide outstanding customer experiences on a global basis. Lionbridge AI will help accelerate the digital transformation and strategic growth journey of TELUS International, by adding key capabilities and diversity to its suite of next-generation digital solutions, which Jeff will talk about in a moment. And it's highly complementary to the investments and the scale that we're already building in content moderation.

Our planned IPO of TELUS International in Q1 will amplify this asset as a strategic growth vehicle for TELUS by supporting continued organic expansion as well as progression in key areas through selective smart acquisitions that we can ingest, implement and deliver future organic growth prospects upon. As we manage through the ongoing global pandemic, the TELUS team continues to do good in the communities where we live, where we work and where we serve. Notably, we expanded our Internet for Good program in the quarter and have now provided low cost, high-speed Internet to 68,000 low-income family members and people with disabilities.

Similarly, through our National Mobility for Good program, we've enabled 20,000 kids making the difficult transition out of foster care and vulnerable Canadians with free smartphones and free data plans to help them stay connected to what matters most as they endure that difficult transition. Our team's commitment to improving outcomes for our fellow citizens in concert with our leading operational execution and superior asset mix and culture continues to define TELUS' leadership in social capitalism, not just in Canada, but on a global basis.

This was further reinforced by the Wall Street Journal, which ranked TELUS 29th in their 100 Most Sustainably Managed Companies in the World Report and 15th globally in respect of the subcategory of social capitalism. This international study assessed more than 5,500 publicly traded companies based on numerous sustainability metrics as well as leadership and governance practices in respect of creating value for shareholders over the longer term. And clearly, ethical investing is front of mind within this contemporary period that we live in and all the changes that we're going through economically and at a societal level.

Impressively, TELUS is the only telecommunications company worldwide and one of only 3 Canadian companies named to this global list, a truly outstanding achievement by the team. And I remain exceedingly proud and grateful to the entire team in that regard.

On that positive note, Jeff, I'm going to hand the call over to you to talk about the exciting progress at TI.

Jeffrey Puritt - *TELUS International (Cda) Inc. - President*

Thanks very much, Darren, and hello, everyone. We're very pleased today to announce our agreement to acquire Lionbridge AI, a leading global provider of crowd-based training, data and annotation platform solutions. Lionbridge AI is one of only 2 globally scaled managed data annotation service providers in the world, preparing high-quality data that's critical for the development and training of AI algorithms for some of the world's largest technology companies in social media, search, retail and mobile. With a crowdsourced community of more than 1 million professional annotators, qualified linguists and in-country language speakers located across 6 continents and competence in over 300 languages and dialects, Lionbridge AI can source multilingual training data to build premium, ground truth data for text, images, videos and audio.

As the development and adoption of artificial intelligence applications continue to accelerate and proliferate the market, new economy services such as data annotation have strong tailwinds due to AI's dependence on digital foundations that must be trained on large amounts of clean, accurate, reliable and unbiased data.

The continued growth of the data annotation market will be driven by factors including the increasing sophistication of AI models that are driving demand for customized data, adoption of AI beyond big tech with use cases across a wide range of industry sectors, including agriculture, e-commerce, telecommunications and health care, driven by our desire for convenience and efficiency in our daily lives, the continuous trend of new emerging technology verticals that rely on AI, such as robotics and autonomous driving. And today's brand's desires for enhanced digital solutions, such as product recommendations, relevant search engine results, speech recognition and chatbots.

The acquisition of Lionbridge AI will be immediately financially accretive, reporting 2019 revenue of approximately \$260 million, which was up 29% year-over-year and an EBITDA margin consistent with TELUS International's 20% to 25% range. Throughout 2020, Lionbridge AI has been resilient in the face of COVID-19. And on a year-to-date basis, has generated revenue of approximately \$230 million, up from approximately \$190 million in the same period a year ago.

CapEx intensity for Lionbridge AI is in the low single digits, driving strong simple free cash flow conversion. With an anticipated closing date of December 31, 2020, I'm excited at the prospect of welcoming the entire Lionbridge AI team to our TELUS International family in the new year. Our combined expertise and capabilities will accelerate our expansion into new AI markets and deepen our existing relationships with the valued brands we partner with around the world.

Turning quickly now to our Q3 performance. Despite persistent challenges stemming from the global pandemic, TI continued to be resilient, delivering strong financial and operational results. Thanks to our highly engaged global team that remains focused on putting our customers first. On a year-to-date basis, TI's revenues well surpassed \$1.5 billion, including double-digit organic growth. We were also able to maintain strong EBITDA margins at the high end of our targeted range, whilst delivering strong simple cash flow underpinned by TI's mid-single-digit CapEx intensity profile.

These results are mainly attributable to growth in our business volumes, resulting from both expanded services to our diverse base of existing clients as well as new client growth. While we've begun to welcome a small percentage of our global team members back into our delivery centers, we're extremely mindful of their health and safety and our regional operations leaders are coordinating closely with local health authorities and governments, and with our clients.

Our success in enabling over 90% of our frontline team members to work from home and our ability to bring our culture to life in a virtual environment positions us to continue delivering exceptional service to our global clients on a sustainable basis as we navigate through this prolonged pandemic.

Let me now turn the call over to Doug for a detailed update on TELUS' Q3 financial results. Doug, over to you.

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

Thank you, Jeff, and congrats. In spite of the challenging environment, we once again demonstrated strong resiliency with 111,000 mobile phone net additions, which were flat to the prior year. Within our Q3 mobile loading, prepaid loading was down on a year-over-year basis. And as a reminder, we do not include tablets in our mobile phone addition metrics. We continue to see a strong mix shift towards our premium TELUS postpaid brand. We achieved this result while being focused on high-quality loading and reducing nonrecoverable COA and COR in the face of intense promotional activity across the industry.

This will benefit both our current and future ARPU and network revenue growth. The Q3 network revenue decline of 2.9% includes a decline of approximately \$67 million from lower roaming revenue, as travel remained restricted throughout the quarter. Given the current outlook of the pandemic, we expect that this roaming headwind will persist into 2021.

Mobile phone ARPU declined 5%. However, this decline would have been approximately 1%, excluding the COVID-19 impact. The underlying improvement in our network revenue and ARPU trends on both a quarter-over-quarter and year-over-year basis are reflective of our consistent focus on high-quality loading and profitable customer growth. Overall, Q3 wireless adjusted EBITDA declined 1.6%, reflecting the loss of high-margin roaming revenue as a result of the ongoing pandemic.

Wireline external operating revenues increased by 18% year-over-year, as we continue to see strong contribution from acquisitions as well as organic growth. Similar to wireless, we maintained excellent momentum and high-quality loading. We continue to see strong product bundling across our base, including a quarter-over-quarter increase in the number of customers that bundled our mobile and home offering.

On the B2B side, the impacts from a challenging economic environment continue to pressure growth. In spite of these macroeconomic headwinds, we continue to thoughtfully pursue opportunities to recontract existing customers and earn new sales by providing innovative and next-generation solutions to our business customers. Within TELUS Health, we saw a quarter-over-quarter improvement in the clinic-related revenue, as our clinics reopened across the country. However, the activity is still below business as usual. TELUS Health continued to face pandemic headwind.

A breakdown of our major COVID-19 impact is shown in our investor presentation. On a consolidated level, adjusted EBITDA declined by 0.6%. However, EBITDA is estimated to be more than approximately 5%, excluding the pandemic-related items. Our results were supported by our continued focus on driving margin-enhancing initiatives and cost-efficiency savings. Of the \$250 million goal that we set for ourselves, we have achieved almost 90% at the end of the third quarter and are confident in our ability to meet or exceed that goal by the end of the year.

In terms of bad debt, we continue to see good collection cadence and have accrued appropriately for the current risk profile of our customer base. Consolidated CapEx of \$741 million, was down \$7 million compared to last year. We continue to be opportunistic with our capital spend and took advantage of cost efficiencies, but accelerating certain projects, including our fiber build in Calgary. In addition, we had higher success-based capital in conjunction with our leading wireline RGU growth. We have provided a high-level breakdown of our capital and where it's being allocated in our posted slides, including confirming 2021 capital to be similar to 2020 at approximately \$2.75 billion.

Free cash flow of \$161 million, was down \$159 million versus last year. However, this is primarily due to the timing of income tax payments, as you may recall various government jurisdictions permitted installments to be deferred from the first half of the year into Q3. The deferred amount paid in Q3 was \$110 million, and the remaining free cash flow decline was due to device financing related to our high-quality loading profile.

On a year-to-date basis, free cash flow of \$1.2 billion, is up more than 50% over the prior year. With this strong momentum, we continue to execute towards achieving the lower end of our free cash flow target set in February of this year. Additionally, as we build on strong and resilient year-to-date results, we continue to strive towards flat EBITDA growth for the full year. I'm, once again, very proud of the consistent execution, resiliency and operational excellence that the entire organization has shown this year, and I'm confident that we'll continue demonstrating not throughout the remainder of this year and into 2021 and well beyond.

Robert, back to you for Q&A.

Robert Mitchell - TELUS Corporation - Head of IR

Thanks, Doug. Mike, can we proceed with the questions now, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Simon Flannery from Morgan Stanley.

Simon Flannery - Morgan Stanley

On the 5G, thank you for the disclosure on the rollout there. Perhaps you could just give us some more color about where we go from here. And what are the sort of use cases that you're seeing as most promising in the near term? And then any comments around the competitive environment, particularly with the new iPhone out there? How do you think this year compares to prior years, given COVID and everything else?

Darren Entwistle - TELUS Corporation - President, CEO & Director

Thanks, Simon. Why don't I kick it off, and Jim, then maybe I'll ask you to top up at the applications layer and also talk about the iPhone 12 launch and the competitive environment. So as it relates to 5G, Simon, as I've told you before, this is a journey, not a sprint, a journey that's going to be synchronized with the increasing availability of spectrum from mid-band with the 3.5 auction at the midpoint next year and then millimeter wave coming online after that. It's a commercialization that I would see running into 2023, 2024, as greater swaths of frequency, i.e., bandwidth become available, which will amplify some of the exciting applications that we would like to deliver on the 5G front, particularly as it relates to certain verticals that we are very well poised to address.

If you look at where we're at right now, roughly in Canada, we're covering about 34 markets across the Canadian landscape, which would roughly equate to about 22% of the population. And we're generating speeds in the 1.7-gigabit per second zone. Over the remaining months of the year, we want to exit 2020 with a build program that would see us in circa 50 communities across Canada, bumping up against 30% of the population and amplifying the speed a little bit from a tweaking point of view closer to 2 gigabits per second at that particular time.

We've got about 150,000 users right now on 5G, which is going to get amplified, given what's going on within our OEM ecosystem and what you saw with the iPhone 12. We've got about 10 device models right now within the totality of our vendor ecosystem that are 5G enabled. And importantly, 5G is entirely tethered to our Peace of Mind endless data plans because we want to make sure that as we launch this new technology, we set ourselves up for economic accretion in that regard.

I think it's also important to point out that, once again, a hallmark of the way we roll out technology and infrastructure in Canada. We're not singularly focused on urban markets. But as we have done with every single wireless technology deployment since 2000, we are as focused on our rural build as we are on our urban build, and we'll be leveraging our low-band frequencies to support the rural expansion of 5G, which I think is important to make sure that the digital economy and the digital society is inclusive for all Canadians regardless of where they live.

I think we're pretty excited about what it can mean to both our digital economy and our digital society in terms of innovation and productivity, which is going to be important as it relates to the COVID recovery. But I think COVID has also provided a digital acceleration, which is going to expand the use cases as both businesses and consumers seize the digital transformation thesis. The other thing that, Simon, you and I have spoken about for the past decade now is the synergistic relationship between wireless technologies and the underlying wireline network that does the front-haul delivery and the backhaul redistribution. I think TELUS is pretty unique on a global basis with our potent combination of fiber and 5G. That's a major differentiator for us now and into the future, particularly given how scale our fiber deployment is in that regard. And it's amazing because it's not a situation where we're deploying 5G out of necessity when we're already leading the world on wireless speed, coverage and reliability with our 4G networks, where our 4G technology is beating 5G technology and other jurisdictions as it relates to speed, coverage and reliability, which it puts us in an exceedingly good position to be winning on 4G and beating other jurisdictions on 5G, as we begin to scale and amplify our 5G footprint across the Canadian landscape.

The other thing, of course, is important to make sure that investors are mindful of is that we've had a very fruitful 20-year network sharing alignment with Bell. When it comes to new technology deployment, when you can leverage 2 labor pools and 2 balance sheets to ensure that your speed of deployment, your coverage and the depth of your network is second to none, that, again, is a nice asset differentiator for us.

And then just before I hand it over to Jim, we're very excited about the applications on the 5G front whether it's in the private sector or whether it's on a consumer basis and what we're doing in a wider home automation ecosystem. But when you think about what 5G is going to mean to the productivity of society and some of the areas that we're focused on, on a verticals basis, whether it's health, whether it's ag tech, whether it's supporting some of the activities at TELUS International, or whether it's more precisely allowing us to better leverage data analytics and the monetization of the voluminous data generated by 5G, I think the opportunities here are going to be very exciting indeed, particularly with some of the verticals that we're already deeply focused on, on the health and the ag front and the positioning that TI has set themselves up for as it relates to content moderation and data annotation.

And then finally, when you think about economics, we're very focused because one of the things that doesn't get discussed on 5G is cost efficiency or cost per gigabyte. And to the extent to which the cost per gigabyte is going to drop, it's going to allow us to do 2 things that typically have been

quite challenging, if not mutually exclusive, which is offer increasingly improved affordability for businesses and citizens, and at the same time, improve our margins because of those cost-efficiency characteristics.

So that's where we're at on build technology, data and infrastructure and a bit of a flavor on some of the verticals that we're focused on and how we're going to leverage things like network slicing or low latency or edge computing to facilitate those applications. But why don't I hand it over to Jim to just say a couple of words, and then he can transition to answer your next question.

Jim Senko - TELUS Corporation - President of Mobility Solutions

Thanks, Darren. Hi, Simon. On the consumer side, we see 5G being a real tool for us to drive a step up into our Peace of Mind premium rate plan suite. So they kind of go together like hand in glove. So like the initial opportunity is driving that step up from lower plans up into Peace of Mind. The second phase of that is as devices get out there, speeds are up, lower latency, we expect bigger data buckets, higher data usage, more connected devices and also content-type applications on mobility, which will kind of drive our customers in the premium space up to higher rate plans and what we call Peace of Mind connect.

So number one, driving a step-up to Peace of Mind. Number two, connected devices, applications, driving a further step up and more data usage. I think, also, we're going to see IoT applications coming into consumer space. And we're in a great position with smart home. So home automation, connected health, connected car. On the enterprise side, we expect 5G to help drive solutions in agriculture, remote health care, autonomous vehicles. And we also believe there's a significant opportunity around manufacturing and campus-based private 5G deployment opportunities.

So we're very optimistic. All of that to say, it's going to happen gradually over 2021, as devices rollout and as the footprints expand. I think also the cost of premium devices right now, given COVID may influence take rates in the short term, but we're bullish in the longer term. And with regard to your question on the iPhone 12, we saw a very strong -- very strong demand during our pre-registration and preorder. It was up almost double year-over-year.

Coming into market, there are inventory constraints right now, which is kind of holding back them in, but we're seeing a very good take-up to that device.

Simon Flannery - Morgan Stanley

Great. On the promotional activity, the competitive environment?

Jim Senko - TELUS Corporation - President of Mobility Solutions

Yes. On the competitive side, in Q3, we saw a pretty significant increase in promotional activity. The delayed iPhone launch drove back-to-school promotions through September, which is quite unusual in Q3. And in the West, we saw the most aggressive promotions were in the flanker space and sparked by Shaw Mobile. One of our non-Shaw competitors really led on bonus data subsidy and gift cards right down to rate plans at \$45. We were disappointed in the level of promotional subsidy in Q3. We believe there are other ways to drive device affordability and recover that residual value of the device through things like trade in programs and certified preowned. And we think going forward, having Mobile Klinik puts us in a great position to do those kind of things. And our goal is focused on high-value loading and continuing to drive the shift to Peace of Mind with much rather add value at \$75 than at \$45.

And right now, as we enter Q4, October has been pretty disciplined. It's looking more like a typical September month with the iPhone launch, but we do expect promotional activity to pick up with Black Friday.

Operator

Next question comes from Tim Casey.

Tim Casey - *BMO Capital Markets*

I wonder if you could talk a little more about TI and the acquisition. In lay terms, can you walk us through what this new entity will provide for you in terms of capabilities to deliver to the end user? Or is it more about driving efficiency within the organization? And then maybe if you could just in round numbers, maybe, could you update us on what the pro forma financial profile and growth profile you expect from TI? And then lastly, with respect to the IPO, could you remind us what your equity position is now? And what we expect it will be post-acquisition, pre-IPO, if you follow what I mean? And then are you still focused on retaining a majority position of equity in TELUS International? Or is it more about control?

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

So Jeff, why don't you handle the question? And Doug and I can top-up as required. On the pro forma basis, that's a bit of a no-go zone for us. But I think, Jeff can give you a flavor of our growth profile, but give you a very good explanation as to what the data annotation is all about and why we are bullish on it. And then Doug and I can top-up on Jeff's comments as required in terms of the current and prospective equity position. So over to you, Jeff.

Jeffrey Puritt - *TELUS International (Cda) Inc. - President*

Thanks, Darren. So in a nutshell, data annotation, as you may know, is really the function of providing the source data, the labeling and the underpinnings of building AI-driven algorithms. So Lionbridge AI's expertise is really around the labeling and annotation component of that ecosystem where they are preparing the data for labeling. So they're selecting the relevant raw data to put into a labeling system. They're recruiting a workforce, in this case, predominantly a crowd-based workforce who have the relevant skills, whether it's language, domain expertise, et cetera. Onboarding that crowd to a platform, ensuring that, that cloud is trained appropriately, ensuring they're qualified and tested properly, arming that crowd with tools and workflow capabilities to allow and enable them to work more quickly through terabytes of data, the crowd then tags, annotates, classifies, moderates that data and submits it back to the engineers that are using that annotated data in order to build, train and refresh their AI algorithms, which are then used for a myriad of purposes around search and advertising, just by way of example.

So we see that as a natural adjacency to our content moderation capabilities, which we've built and now scaled materially through our recent CCC acquisition that we consummated in January of this year. The growth profile for this industry globally is double digits, starting with a 2. Although the hyperscalers represent the lion's share of the community that are leveraging this capability today, we see a near and longer-term opportunity as AI proliferates across really every facet of industry and commerce, as I referenced in my comments earlier, and we see that as a really exciting element of our overall growth ambition and profile for TELUS International going forward as we continue to leverage digital transformation on behalf of our customers.

I'll hand it back to you, Doug and Darren, for the balance of the response.

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

Doug, do you want to top-up on the equity positioning in a loose sense, if you will?

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

Sure. So you remember when Baring made their investment, it was approximately 1/3. So the ratio is relatively still in that zone of 2/3 TELUS, 1/3 Baring. After post-IPO, we expect to still be mid-50s of ownership, and for the long term, we expect to control. So whatever structure that would take to do that is probably the best guidance I can give you.

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

The very long term. This is a core asset for us and an important asset for us. As you know, our #1 priority at TELUS is having the best customer service in the world. And we can only do that with the support of TI given the talent suite that they bring to bear. But the other thing that's critical for us is that TI is a leading practitioner of facilitating digital transformation. And that, for us, is huge because it's TI supporting TELUS' digital transformation where we've enjoyed great success. But it's also TI productizing that capability set and supporting other organizations within their targeted verticals, go through their own digital transformation strategies.

Operator

Next question comes from Jeff Fan from Scotiabank.

Jeffrey Fan - *Scotiabank*

Just a quick follow-up on TI and then a bigger question regarding competition. Just on TI, with respect to this acquisition, can you just give us the debt and equity? And how you're going to finance this? It sounds like it's going to be debt, basically the TI, but just wanted to see if we can get the split, and what TELUS' equity position would be after this acquisition?

And then the second question, probably for Darren. Regarding the competitive environment in Western Canada, and I guess, I'll blend the wireless and wireline into this question. Your cable competitor is now willing to really price aggressively in their wireless bundle. And I know TELUS in the past and continues to differentiate on products and bundling and customer service. But when your competitor does something like this at the price point in order to try to strengthen their internet base, how do you see the competitive landscape, I guess, both on the bundling and wireless and wireline individually evolve in Western Canada?

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

Okay. Thanks, Jeff. Doug, I'll let you kick it off. You can hit this nail on the head pretty quickly. And then, Zainul, I'll hand over to you, and then I'll top-up accordingly. Doug?

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

Yes. Got it. So the before and after will be the same ownership for TELUS and Baring, as we're going to proportionately put in whatever cash is required. We're still looking at the exact ratio of debt financing and an increase in the debt facility at the TI level versus the cash that would come from ourselves and Baring. And I think the wonderful thing about this asset, and Jeff highlighted it, very high growth, very low capital. So they also delever extremely quickly as well. And so it's a very quick payback on delevering from any of that increase in that debt facility.

Darren Entwistle - TELUS Corporation - President, CEO & Director

Maybe one of the things that we can do is additional piece of data insight is to show the TI leverage concurrent with the CCC acquisition and where it is x month hence past the CCC acquisition to actually give a metric on the speed of deleveraging by looking at the 2 data points. What it was when we consummated the deal, what it is today, I think that would be very indicative and good data analytics for the Street to be aware of.

Jeffrey Fan - Scotiabank

I'll take that away to do that.

Darren Entwistle - TELUS Corporation - President, CEO & Director

Zainul, over to you. Thanks, Doug.

Zainul Mawji - TELUS Corporation - President of Home Solutions

Thank you, Darren. Hi, Jeff. I think we definitely have seen quite a bit of competitive activity in our ILEC territory in the West. And at the end of the day, we're really pleased with our loading performance. As Darren highlighted, we've seen some of our best Internet loading since 2002. And it's really important to highlight that, that is driven on the back of achieving 1% churn, which highlights our customer's first priority. So the beauty of that strong churn performance is it puts less pressure on the gross loading overall. But in addition to that, we've also seen an MRC improvement quarter-over-quarter since last year by 25% on those new Internet loads.

And so we continue to see customers demonstrate that they are selecting us based on the value that they see in PureFibre, as they continue to work from home, learn from home and socialize from home. We're also seeing up-tiering speeds and bundling improvements. And I think, fundamentally, even though we are faced with competitors that are commoditizing our core services, we're continuing to diversify our bundle and add more value. And you've seen that quarter-over-quarter. We are investing heavily, and our network superiority, our services and our amazing customer experience is just unmatched in the environment.

So when you look at the difference between a fully bundled customer and a stand-alone high-speed customer, as an example, you can see up to a 5x improvement in lifetime value on that customer. And then if you look at how we're continuing to diversify our bundle in terms of quarter-over-quarter adding new quality attributes and capabilities, last quarter, we talked about our inclusion and very unique partnership with Amazon Prime and our optic bundle. Just recently, we launched a multidimensional partnership with Calm as well as NortonLifeLock providing Peace of Mind capabilities for mental health to online safety and cyber insurance. We continue to expand capabilities in Babylon by TELUS Health from a virtual health perspective for our consumers. So we are very confident in the diversification of our product portfolio and our ability to drive increased household ARPU, stronger churn performance, better cost efficiency on a per product basis and higher value for our customers in the face of that competition.

Darren Entwistle - TELUS Corporation - President, CEO & Director

I think, Jeff, Zainul hit the nail on the head. But I would just ask you just go back and look at the hard facts as it relates to sustainable performance from TELUS related to our operational and financial track record on the wireline front. It's unsurpassed on a global basis in terms of what we have delivered from a loading point of view and from a financials point of view within our wireline operations. And then I would just ask you to do the tale of the tape in terms of our structural advantages. We have scale on fiber, and we will have greater scale on 5G. Those are not easy things for a competitor's balance sheet to replicate. And I think it's important that, that's understood.

We have vastly greater scale on our channel front and diversity of channels to market in that regard. So it's not just scale, but it's also diversity. We are phenomenally progressed on the digital front and still growing on that side of things, whether it's marketing, whether it's the selling, whether it's fulfilling, whether it's caring, whether it's billing and collecting, we are a digital continuum at TELUS, buttressed by the TI operation.

You know where our customer service has gone in terms of best-in-class. And when you combine that with best-in-class network, those are pretty meaningful structural advantages. And then on the product front, I guess, you would say we're subjective, but we do believe our products are superior. But if we sweep that to one side and switch from the subjective to the objective, we just have services that are unique to TELUS, whether it's our security offering, whether it's our health offering or whether it's our home automation offering.

And then I think there's some intangibles that will play well, whether it's our brand strength, whether it's our social capitalism thesis that brings us closer to communities and customers along the way, whether it's our culture and our talent pool or just overall our financial strength. If you look at the tale of the tape, only 60% of our business overlaps with Shaw. We've got a national footprint and a diversity of revenue and profit sources, again, that are atypical to our organization.

So when I make the comment that the sources of cash are going to chronically exceed the uses prospectively, I don't make that comment lightly. And when we have been in that type of period historically at TELUS, I think investors have done very well. That's the competitive advantage.

Operator

Next question comes from Vince Valentini from TD Securities.

Vince Valentini - TD Securities

Thank you for this extra CapEx disclosure. As you can appreciate, that's going to lead us to ask different types of questions now you're giving us this info. Why is the projected percentage for broadband network build so similar in 2021 or even a touch higher than 2020? Aren't you going to be past 80% on fiber to the home by the end of this year and reaching the finish line? So if you can flesh that up for us a bit it would be helpful. Maybe it's all wireless broadband instead of fixed and I'm just reading it wrong.

Second other thing, I'm not sure I know what AFS Technologies is, and I don't recall talking about when it was acquired, but it looks like you spent \$315 million on it. So if you could spend a second just letting us know what that company is that you bought? And then one last clarification is the 68,000 Internet for Good customers, which I commend you on for doing for society. But can you clarify that in your Internet sub-count? And does it form part of the 50,000 adds this quarter?

Darren Entwistle - TELUS Corporation - President, CEO & Director

Okay. Let me -- François, I'll hand over to you in a second. Vince, as it relates to broadband, that's wireline and wireless in combination. So you've got the mathematical outcome of fiber build continuity complemented by the scaling of our 5G deployment, particularly as we start to complement our existing frequencies with the operationalizing of the 3.5-gig spectrum that we would hope to pick up in the spectrum auction in 2021. So that's the math on that particular point.

François, why don't I hand it over to you, and then we can come back on the Internet for Good front or not come back or I could just deal it up right now. Yes, it is included. That is a total number. It is an immaterial component to our 50,000 net adds. That's the cumulative progression of what we have done on that front. Yes, we include it, is immaterial as it relates to the number that we posted in the quarter.

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

Okay. So, thank you, Darren. As it pertains to AFS, you have to take it in the context of our push into the ag tech vertical. So as we all know, access to quality and safe food will be a growing challenge across the globe as the worldwide population continues to grow. We saw an opportunity to tackle this challenge head on. We are indeed pioneering the first end-to-end digital solution across the entire agriculture food value chain. We see an opportunity to increase yield, reduce waste and trace the quality of our food and the safety of our food from its origin all the way to our dinner table, so to speak.

With AFS, we've actually acquired the leading global food supply chain and promotion management technology software company. AFS gives us the foothold in the global value chain closest to the consumer and complementing the acquisitions we've already made in the agriculture sector. We've indeed acquired a collection of trusted experienced agriculture assets across North America, U.K., Europe and Australia.

Our approach in ag is very familiar to us. If you look at what we've done over the years in health, combining assets to create significant value for our customers and tell us along the way, leveraging our digital playbook we used in health and applying it now to agriculture, we see important parallels, precision health with precision agronomy, our data processing and analytics capabilities, but we also see linkages between what we do in health and what we're doing now in agriculture because when you think about creating better food outcomes, that eventually leads to better health outcomes.

So it's also an excellent manifestation, if you think about it of our social capitalism mission in action. We're going to be holding an event on November 12 to announce the launch of our TELUS Agriculture Push. And during that event, we're going to be able to share a lot more detail, so we'll welcome you to that event.

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

That's great. Vince, by the way, if you want to look at how our Internet business is performing in terms of economics, have a look at the lifetime revenue given where Zainul and the team have driven churn below 1%. And look at what's happening on the monthly recurring revenues on the Internet base in terms of the growth and the financials that we're deriving from our new net additions in terms of being accretive overall. I think that would be an important complement to the answer that I already provided to you, and I alluded to it this morning in my earlier remarks.

Operator

So last question comes from David Barden from Bank of America.

Matthew Griffiths - *Bank of America Securities*

It's Matthew filling in for David. I just wanted to ask about the wireline EBITDA growth. I know the disclosure on the COVID impact is helpful. It sounds like TI was firing on all cylinders. I was just wondering if you could talk about some of the initiatives that are under your control that may be rolling off in the coming quarter or into next year that can see the EBITDA contribution increase? I'm thinking, obviously, of ADT for one, but I'd be interested to hear how maybe some investments in health are also maybe keeping that EBITDA growth number somewhat lower this quarter and maybe into next? Any color would be helpful.

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

Zainul and Doug, why don't you take that one. Zainul, why don't you kick it off? And Doug, you can clean it up, and I'll add anything that gets left out.

Zainul Mawji - *TELUS Corporation - President of Home Solutions*

Sounds good. Thanks, Darren. So as you've highlighted, we certainly have very strong foundational elements in our EBITDA performance in the future related to the MRCs that we're seeing and the added contribution of household ARPU to the bundles that we have in our base. What you can see from our disclosure at this period is that we have several onetime impacts due primarily to investments in post-acquisition integration efforts. As you can see, we've done a number of acquisitions on the wireline side across the verticals that we've invested in. And in addition to that, we've been conservative in bad debt and provisions and have also invested heavily in supporting Canadians and customers through the challenging times of COVID.

So those onetime impacts have also materialized this quarter in terms of some of our expansion of the programs that Darren highlighted waving and delaying planned pricing activity, and, of course, standing up numerous community and employee support initiatives. At the end of the day, we absolutely have been investing in profitable growth, and we see that based on our product intensity thesis and its success continued to materialize in the market, we're very confident in the prospective financial growth. But Doug, I'll hand it to you for any top up.

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

Yes. I think the other 2 items or 3 items, I guess, which are in the wireline margin number would be the business pressure. So we still are seeing -- when you bring in the pressure under small and medium business, that is under a little bit more of the, call it, delayed COVID reaction where those government funding starts coming to an end. They're under more pressure to bring scale back to their business. And when you think of Ontario and Quebec, they're starting to get a Phase 2, that puts more obviously, price sensitivity and that group of customer base is going to need more help that we've extended throughout the initial COVID period.

The health care side that François was talking to the clinics and well being services are still not firing at 100%. So that is also a cost structure in which you're not getting the full revenue line on which is holding the margins down a little bit as well. And then a couple of the acquisitions and the -- that we've done in ag tech is a good example to that, where there's a little bit of a J-curve start-up, but leading to significant long-term value, which would be the third of the incremental items to what Zainul was referring to within wireline margins.

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

I think the other thing in terms of looking forward, when you're delivering 50,000 Internet adds and a pretty good result relative to the last 18 years and at the increment, we're seeing a monthly recurring revenue improvement of circa 20% to 25% on those new customer additions, that bodes well for us prospectively and highlights the attributes of our underpinning PureFibre program where we're seeing much greater product intensity on the bundling front. And we're seeing much, much better cost efficiency, which is going to be a huge part of the story for us prospectively on the wireline front so that we can deliver very attractive financials, alongside very attractive loading, as we did with 50,000 Internet loads, 18,000 security loads and 19,000 TV loads in combination so that they're financially accretive.

The other thing that is important to point out is in addition to the cost efficiency comment that I made related to fiber and how it supports home automation, how it supports fewer truck rolls, a better repair relationship, if you will, with a client and then better cost efficiencies through economies of scope by having more products on a per household basis, the other element that's going to be key for us from a cost efficiency point of view prospectively is the terrific progression that we're making on digital. And I think that's a missing component from the wireline conversation and leveraging our digital strengths in that regard, again, should give us the mutually inclusive outcomes prospectively, a very strong operational performance flowing through to attractive financials.

Robert Mitchell - *TELUS Corporation - Head of IR*

Okay. Thank you, everyone, for taking the time to join us today. Please feel free to reach out to the IR team with any follow-up questions you may have, and take care, everyone.

Operator

Ladies and gentlemen, this concludes the TELUS 2020 Q3 Earnings Conference Call. Thank you for your participation, and have a nice day.

DISCLAIMER

Refinitiv 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 REFINITIV 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, Refinitiv. All Rights Reserved.