Q3 2018 Results Conference Call

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made by BCE's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer during BCE's Q3 2018 Results Conference Call, as reflected in this transcript, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to BCE's financial guidance (including revenues, adjusted EBITDA, capital intensity, adjusted EPS and free cash flow), BCE's common share dividend payout policy, anticipated ARPU levels, our expected pension cash funding, our network deployment plans and related capital investments, annualized cash savings expected to result from management workforce reductions, BCE's business outlook, objectives, plans and strategic priorities, and other statements that are not historical facts. Forward-looking statements are typically identified by the words assumption, goal, guidance, objective, outlook, project, strategy, target and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against relying on any of these forward-looking statements. The forward-looking statements contained in this transcript describe our expectations as of November 1, 2018 and, accordingly, are subject to change after such date. Except as may be required by applicable securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this transcript, whether as a result of new information, future events or otherwise. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after November 1, 2018. The financial impact of these transactions and special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements were made during BCE's Q3 2018 Results Conference Call for the purpose of assisting investors and others in understanding certain key elements of our expected financial results, as well as our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes. The forward-looking statements made during BCE's Q3 2018 Results Conference Call for periods beyond 2018 assume that the economic, market, operational and financial assumptions as well as the material risk factors described in this transcript will remain substantially unchanged during such periods.

Material Assumptions

A number of economic, market, operational and financial assumptions were made by BCE in preparing certain forward-looking statements contained in this transcript, including, but not limited to:

Canadian Economic and Market Assumptions

- *A gradual improvement in economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 2.1% in 2018, representing a slight increase from the earlier estimate of 2.0%*
- *Employment gains expected to slow in 2018, as the overall level of business investment is expected to remain soft*
- *Interest rates expected to increase modestly in 2018*
- *Canadian dollar expected to remain at near current levels. Further movements may be impacted by the degree of strength of the U.S. dollar, interest rates and changes in commodity prices*
- *A higher level of wireline and wireless competition in consumer, business and wholesale markets*
- *Higher, but slowing, wireless industry penetration and smartphone adoption*
- *A soft media advertising market, due to variable demand, and continued escalation of costs to secure TV programming*
- *Ongoing linear TV subscriber erosion, due to growing cord-cutter and cord-never customer segments*

Assumptions Concerning our Bell Wireless Segment

- *Maintain our market share of incumbent wireless postpaid net additions*
- *Continued adoption of smartphone devices, tablets and data applications, as well as the introduction of more 4G LTE and LTE-A devices and new data services*
- *Higher handset cost, driven by a higher sales mix of premium devices, increased new customer activations and more customer device upgrades attributable to a higher number of off-contract subscribers due to earlier expiries under two-year contracts*
- *Wireless revenue growth driven by postpaid subscriber base expansion and a higher volume of handset sales*
- *Expansion of the LTE-A network coverage to approximately 92% of the Canadian population*

- *Ability to monetize increasing data usage and customer subscriptions to new data services*
- *Ongoing technological improvements by handset manufacturers and from faster data network speeds that allow customers to optimize the use of our services*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireless business*

Assumptions Concerning our Bell Wireline Segment

- *Positive full-year adjusted EBITDA growth*
- *Continued growth in residential IPTV and Internet subscribers*
- *Increasing wireless and Internet-based technological substitution*
- *Residential services household ARPU growth from increased penetration of multi-product households and price increases*
- *Aggressive residential service bundle offers from cable TV competitors in our local wireline areas*
- *Continued large business customer migration to IP-based systems*
- *Ongoing competitive repricing pressures in our business and wholesale markets*
- *Continued competitive intensity in our small and mid-sized business markets as cable operators and other telecom competitors continue to intensify their focus on business customers*
- *Traditional high-margin product categories challenged by large global cloud and OTT providers of business voice and data solutions expanding into Canada with on-demand services*
- *Accelerating customer adoption of OTT services resulting in downsizing of TV packages*
- *Ongoing deployment of direct fibre and growing consumption of OTT TV services and on-demand streaming video, as well as the proliferation of devices, such as tablets, that consume vast quantities of bandwidth, will require considerable ongoing capital investment*
- *Realization of cost savings related to management workforce reductions including attrition and retirements, lower contracted rates from our suppliers, reduction of traffic that is not on our network and operating synergies from the integration of MTS*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireline business*

Assumptions Concerning our Bell Media Segment

- *Revenue performance is expected to reflect an improving TV advertising sales trajectory supported by our broadcast of the 2018 FIFA World Cup, further CraveTV subscriber growth and continued growth in outdoor advertising*
- *Operating cost growth driven by higher TV programming and sports broadcast rights costs, as well as continued investment in CraveTV content*
- *Continued scaling of CraveTV*
- *Ability to successfully acquire and produce highly rated programming and differentiated content*
- *Building and maintaining strategic supply arrangements for content across all screens and platforms*
- *Increased revenue generation from monetization of content rights and Bell Media properties across all platforms*
- *TV unbundling and growth in OTT viewing expected to result in lower subscriber levels for many Bell Media TV properties*
- *No material financial, operational or competitive consequences of changes in regulations affecting our media business*

Financial Assumptions Concerning BCE
The following constitute BCE's principal financial assumptions for 2018:

- *total post-employment benefit plans cost to be approximately $335 million to $355 million, based on an estimated accounting discount rate of 3.6%, comprised of an estimated above adjusted EBITDA post-employment benefit plans service cost of approximately $270 million to $280 million and an estimated below adjusted EBITDA net post-employment benefit plans financing cost of approximately $65 million to $75 million*
- *depreciation and amortization expense of approximately $4,000 million to $4,050 million*
- *interest expense of approximately $975 million to $1,000 million*
- *an effective tax rate of approximately 25%*
- *NCI of approximately $50 million*
- *total pension plan cash funding of approximately $400 million*
- *cash taxes of approximately $700 million to $750 million*
- *net interest payments of approximately $950 million to $975 million*

- *other free cash flow items, which include working capital changes, severance and other costs paid, preferred share dividends and NCI paid, of approximately $25 million*
- *average BCE common shares outstanding of approximately 900 million*
- *Common share buybacks totalling $175 million*
- *an annual common share dividend of $3.02 per share*

The foregoing assumptions, although considered reasonable by BCE on November 1, 2018, may prove to be inaccurate. Accordingly, our actual results could differ materially from our expectations as set forth in this transcript.

Material Risks
Important risk factors that could cause our assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in, or implied by, our forward-looking statements, including our 2018 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2018 financial guidance, essentially depends on our business performance which, in turn, is subject to many risks. Accordingly, readers are cautioned that any of the following risks could have a material adverse effect on our forward-looking statements. These risks include, but are not limited to:

- *the intensity of competitive activity, including from new and emerging competitors, and the resulting impact on the cost of retaining existing customers and attracting new ones, as well as on our market shares, service volumes and pricing strategies*
- *the level of technological substitution and the presence of alternative service providers contributing to reduced utilization of our traditional wireline services*
- *regulatory initiatives, proceedings and decisions, government consultations and government positions that affect us and influence our business, including, in particular, those relating to mandatory access to networks, spectrum auctions, approval of acquisitions, broadcast licensing and foreign ownership requirements*
- *the inability to protect our physical and non-physical assets, including networks, IT systems, offices, corporate stores and sensitive information, from events and attacks such as cyber threats, and damage from fire and natural disasters*
- *security and data leakage exposure if security control protocols applicable to our cloud-based solutions are bypassed*
- *the adverse effect of the fundamental separation of content and connectivity, which is changing our TV and media ecosystems and may accelerate the disconnection of TV services and the reduction of TV spending, as well as the fragmentation of, and changes in, the advertising market*
- *competition with global competitors, in addition to traditional Canadian competitors, for programming content could drive significant increases in content acquisition costs and challenge our ability to secure key content*
- *adverse economic and financial market conditions, a declining level of retail and commercial activity, and the resulting negative impact on the demand for, and prices of, our products and services and the level of bad debts*
- *the failure to optimize network and IT deployment and upgrade timelines, accurately assess the potential of new technologies, and invest and evolve in the appropriate direction*
- *the failure to continue investment in a disciplined and strategic manner in next-generation capabilities, including real-time information-based customer service strategies*
- *the inability to drive a positive customer experience resulting, in particular, from the failure to embrace new approaches and challenge operational limitations*
- *the complexity in our operations resulting from multiple technology platforms, billing systems, marketing databases and a myriad of rate plans, promotions and product offerings*
- *the failure to maintain optimal network operating performance in the context of significant increases in capacity demands on our Internet and wireless networks*
- *the failure to implement or maintain highly effective IT systems supported by an effective governance and operating framework*
- *the risk that we may need to incur significant capital expenditures beyond our capital intensity target in order to provide additional capacity and reduce network congestion*
- *the failure to generate anticipated benefits from our corporate restructurings, system replacements and upgrades, process redesigns and the integration of business acquisitions*
- *events affecting the functionality of, and our ability to protect, test, maintain and replace, our networks, IT systems, equipment and other facilities*
- *in-orbit and other operational risks to which the satellites used to provide our satellite TV services are subject*
- *the failure to attract and retain employees with the appropriate skill sets and to drive their performance in a safe and secure environment*
- *labour disruptions*

- *the inability to access adequate sources of capital and generate sufficient cash flows from operations to meet our cash requirements, fund capital expenditures and provide for planned growth*
- *uncertainty as to whether dividends will be declared by BCE's board of directors or whether BCE's dividend payout policy will be maintained*
- *the inability to manage various credit, liquidity and market risks*
- *pension obligation volatility and increased contributions to post-employment benefit plans*
- *higher taxes due to new tax laws or changes thereto or in the interpretation thereof, and the inability to predict the outcome of government audits*
- *the failure to reduce costs as well as unexpected increases in costs*
- *the failure to evolve practices to effectively monitor and control fraudulent activities*
- *online content theft and piracy and the absence of effective legal recourses to combat them*
- *events affecting the continuity of supply of products and services that we need to operate our business and to comply with various obligations from our third-party suppliers, outsourcers and consultants*
- *the failure of our procurement and vendor management practices to address risk exposures associated with existing and new supplier models*
- *the quality of our products and services and the extent to which they may be subject to manufacturing defects or fail to comply with applicable government regulations and standards*
- *unfavourable resolution of legal proceedings and, in particular, class actions*
- *unfavourable changes in applicable laws and the failure to proactively address our legal and regulatory obligations*
- *health concerns about radiofrequency emissions from wireless communications devices*
- *the inability to maintain customer service and our networks operational in the event of the occurrence of epidemics, pandemics and other health risks*
- *the failure to recognize and adequately respond to climate change concerns or public and governmental expectations on environmental matters*

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. We encourage investors to also read BCE's 2017 Annual MD&A dated March 8, 2018 (included in BCE's 2017 Annual Report), BCE's 2018 First, Second and Third Quarter MD&As dated May 2, 2018, August 1, 2018 and October 31, 2018, respectively, and BCE's news release dated November 1, 2018 announcing its financial results for the third quarter of 2018 for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian provincial securities regulatory authorities (available at Sedar.com) and with the U.S. Securities and Exchange Commission (available at SEC.gov). These documents are also available at BCE.ca.

The terms "adjusted EBITDA", "adjusted EBITDA margin", "adjusted EPS" and "free cash flow" used in this transcript are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Notes" in BCE's news release dated November 1, 2018 announcing its financial results for the third quarter of 2018 for more details.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Third Quarter 2018 Results Conference Call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Thank you, Valerie. Good morning to everyone. With me here this morning are George Cope, BCE's President and CEO, and Glen LeBlanc, our CFO.

As a reminder, our third quarter results package and other disclosure documents, including today's slide presentation, are available on BCE's Investor Relations web page. An audio replay and transcript of this call will also be made available on our website.

However, before we get started, I want to draw your attention to our Safe Harbor statement on Slide 2 of the presentation deck. Information in that deck and remarks made by the speakers today will contain statements about expected future events and financial results that are forward-looking and, therefore, subject to risks and uncertainties. These forward-looking statements represent our expectations as of today and, accordingly, are subject to change. Results may differ materially. We disclaim any obligation to update forward-looking statements, except as required by law. Factors that may affect future results are contained in BCE's filings with both the Canadian Securities Commission and the SEC, and are also available on our corporate website.

So, on that, I will hand it over to George.

George Cope – President and CEO

Great, thanks, Thane. Good morning, everyone. Thank you for joining us.

I am on the slide that starts with Q3 Overview.

The company actually enjoyed an excellent subscriber growth quarter across TV, Internet and wireless, up 78,000 subscribers or 41.5% year-over-year. It was our best ever Q3 wireless performance, with total net adds prepaid and postpaid up 66% year-over-year. We grew our wireline broadband market share in the third quarter with 88,000 Internet and IPTV net additions, and, strategically important, added 77,000 new FTTH customers to our Internet base.

A very positive quarter for wireline, with all of our operating trends heading in the right direction, with an acceleration of revenue growth, and also 1.2% EBITDA growth continued with our industry-leading wireline margins. Worth calling out that it was our best quarter for our business unit in over 10 years.

Our build-out continues on the fibre side. As well, we have begun in the rural markets a fixed wireless roll-out that we have begun and now have completed in 19 communities.

Turning to wireless, as I indicated, had a very strong operating quarter. Net additions, from a postpaid perspective, up 15% year-over-year, our strongest postpaid quarter since 2012. Also, strategically very positive for us, was that our prepaid business is now growing again, first quarter of positive net adds since the fourth quarter of 2009. So the Lucky brand is clearly working in the marketplace, and important for us, we would expect, for the first time in many years, that our revenue growth from prepaid will be positive now as we go forward into 2019.

On ABPU, or what we used to know as ARPU, we were down 0.7% year-over-year, although impacted specifically by the federal contract, as I talked about last quarter. Without that, we would have been up 0.6% year-over-year and 1.3% year to date, and of course we are impacted by the mix now that prepaid is growing again. In fact, without Lucky, we would have been up 1% year-over-year in terms of our overall ABPU. So, roughly in line with the inflation expectation we had net of some of these changes in our strategic direction, but obviously, overall, adding total revenue growth.

On the wireline side, excellent quarter for Internet, 53,000 retail Internet net additions, up 27% year-over-year. Our total was 48,000, but that would be because we had negative wholesale loading, or subscriber additions, which of course we would be very comfortable with, as the average revenue off of our wholesale base would be literally 50% less than our retail subscriber base. Of course, part of that is our strategy with the roll-out of the Virgin Internet brand.

I mentioned the 77,000 new fibre customers added in the quarter, and strategically, with the launch of 1.5 Gigabit services in August in Ontario, we also, since that time, in September, have added Quebec, and this month we will shortly add Atlantic Canada.

Also, a very strong quarter for us relative to many other providers in North America. With growth in our TV net additions of 14,000 in our wireline footprint, 40,000 IPTV net additions, up 10% year-over-year, with very strong demand for our Alt TV product, which of course is the TV product where there is no requirement for a set-top box. And of course that helps pull through Internet subscribers for us, because Alt TV is clearly sold when we also have someone who chooses us as their Internet provider.

For us, also strategically important is probably the first quarter since the roll-out of our fibre that we captured more than 50% share of the ISP revenue growth in the segment. So, that, for me, is a major milestone, when we are starting to capture more than $1.00 out of $2.00 of incremental ISP revenue, and that is obviously consistent with what our strategy has been with investors over time with our fibre build.

Turning to Bell Media, I think, overall, actually, a good quarter, particularly in this space. This morning, you will see an announcement out—it is probably out already—of a new launch of Crave. The historical Crave product will continue, but also we are launching an additional Crave product which we will bundle for the first time all of TMN and HBO and SHOWTIME available in an OTT streaming service, and also available through the BDUs. So, for the first time, consumers will have direct access in an OTT model where you would see first-time *Game of Thrones, BILLIONS*, and a number of other key product portfolios. We think this is going to help our BDUs from a distribution perspective and also take Crave to another level in the OTT world.

TSN remained the number one sports leader and top-rate specialty TV service in the third quarter with some nice growth year-over-year. We were pleased with the decision out of the Free Trade Agreement that will reinstitute the banning of U.S. signals, and so that will clearly help our Media business and help Canadian business, as they will now, when they advertise, be advertising to all Canadians in the marketplace.

Overall, it is a good quarter. The challenge in that space continues to be content costs, although we are feeling pretty good about the revenue streams that we are seeing and the underlying strength from a revenue perspective in this business.

I just want to make a few comments on 2019. We will clearly give full guidance early next year, but I just wanted to share some things with our shareholders this morning.

Over the past 120 days, we have completed a fairly significant restructuring. That is now completed. In that restructuring, we will have about 4% less management workforce going forward, with the elimination of about 700 positions, with an annual cash savings for us of about $75 million.

Also, we expect, as we look forward into 2019, that for the first time in many years our capital intensity ratio will go below 17% on a consolidated basis. That is really driven by four specific items. One is our wireline fibre build will continue at the pace that it is on. Now that we are approaching 50%, there is clearly no reason to accelerate that. So, our absolute wireline capital dollars were pretty close in 2019 as they were in 2018. Also, the rural fixed wireless program is significantly less expensive than the fibre program, so we will get some additional footprint there, but not at the same cost as fibre. Our fibre build that is being absorbed by our wireline business will reduce the requirement for backhaul capital for our wireless business going forward for 5G, because all of our locations will have fibre to them already. Finally, in 2019, because of these investments we have been making on fibre, we would expect our wireless capital intensity ratio will decline by about 1% in 2019, and of course wireless is a bigger share of our overall business. So, with that declining, and the other four items, the mix will take us below 17% for the first time in many years, although our strategy of investment in broadband continues on both wireless and wireline.

On the pension side, we would expect our cumulative cash funding will be about $1 billion to $1.5 billion lower than it has been over the past five years. As everyone knows, we have an opportunity at one point to see a saving of about $200 million if the actual solvency ratio were to go above 105%, and at the end of October—at the end of the quarter, September, we were at 100.5% in terms of our solvency ratio.

Finally, we also have some good news from a tax perspective. The MTS acquisition, which we thought would generate for us $300 million in tax savings, now will generate for us $400 million in tax savings, and we will be able to utilize that extra $100 million as we go forward through 2019 and 2020.

So, all of those pieces put together, we think puts us in a great position going into 2019, from a cash flow generation perspective, particularly on the back of the subscriber additions we are talking about this morning.

With that, let me turn it over to Glen.

Glen LeBlanc – Executive Vice President and CFO

Thanks, George, and good morning, everyone. Let me begin with a high level review of our consolidated Q3 results, on Slide 10.

Our financial performance was strong across the board, with total revenue growth accelerating to 3.2% on a year-over-year increase at all three Bell operating segments. This drove 2.2% higher adjusted EBITDA, in line with our full year guidance target, as we balanced industry-leading ARPU growth with subscriber profitability in a seasonally competitive quarter across both of our wireless and residential wireline businesses.

Consistent with this growth in EBITDA, net earnings were up 2%, which drove a 5.5% year-over-year increase in adjusted EPS to $0.96. EPS also benefited from favorable tax adjustments in the quarter and lower other expense, which I will detail a bit later in my presentation.

Lastly, free cash flow. Although adjusted EBITDA growth and lower capex provided a healthy incremental cash contribution in the quarter, this was effectively offset by higher income taxes paid and a decrease in the cash from working capital, resulting in a year-over-year step-down in free cash flow in the quarter.

Let me turn to Slide 11, and our wireless business.

Total revenue was up 5.9%, driven by continued strong subscriber additions in a growing Canadian wireless market and increased sales of higher value smartphones reflecting a greater volume of customer transactions, compared to last year.

Wireless EBITDA increased a solid 4.5% on the flow-through of strong revenue growth. However, EBITDA margin declined 60 basis points to 43.6% due to a higher proportion of low margin product revenue in our overall wireless revenue mix, compared to last year, and rich handset discounts to match competitors' aggressive back-to-school promotional offers.

On the capital front, as George mentioned, we continue to invest heavily in mobile small cells to optimize our mobile coverage, signal, quality and the data backhaul as we pave the way for 5G, yet our capital intensity ratio remained best-in-class at an industry-low 8.3%. We expect this to contribute to a lower BCE consolidated capital intensity ratio going forward, particularly as our wireless revenue mix grows further.

Moving on to wireline results, on Slide 12, revenue growth accelerated to 1.9%, reflecting stronger year-over-year organic performance across all main lines of business. Wireline residential revenue was up year-over-year on combined Internet and TV growth of 4%. This result was moderated by the impact of upfront discounts and retention credits on service bundle offers driven by the high level of competitive intensity, particularly during this back-to-school selling period.

In business wireline, Bell Business Markets had its best performance in over 10 years, delivering positive revenue growth on the back of higher year-over-year spending by large enterprise customers on IP broadband connectivity and business service solutions, as well as increased data product sales across many key sectors, all of which is reflective of a stronger economy.

In terms of operating profitability, with increasing broadband scale, more favourable business market results and the support of our cost management actions, wireline EBITDA was up a very respectable 1.2%.

So, overall, a strong quarter for Bell wireline, with improved financial performance and positive operating trends right across the board.

Turning to Bell Media, on Slide 13, in summary, a good set of results in what is seasonally a low quarter for advertising spending in the industry. Total revenues were up over last year, increasing by 1.1%. Advertising revenues grew 0.6%, mainly on the strength of our live event programming in the quarter, which included the final rounds of the 2018 FIFA World Cup, as well as year-over-year increases in our specialty TV news service CP24. We also enjoyed modest growth in subscriber revenue this quarter, driven by ongoing growth in CraveTV, as well as our direct-to-consumer streaming services, TSN and RDS Direct.

Adjusted EBITDA improved sequentially, with a lower year-over-year decline of 2.7%, which represents our best quarterly result of 2018. However, similar to previous quarters this year, overall performance was impacted by the higher cost for sports broadcast rights and ongoing CraveTV programming expansion.

Let us move to Slide 14, which summarizes the key components of adjusted EPS, which came in at $0.96 per share for the quarter, or 5.5% higher than last year. Tax adjustments arising from favorable resolution of uncertain tax positions related to MTS contributed $0.08 in the quarter. This compares to tax adjustments totalling $0.07 per share last year. In addition to higher EBITDA, which drove $0.04 of earnings growth this quarter, adjusted EPS reflected lower year-over-year losses from our minority interest equity investments. This was partially offset by a step-up in depreciation and amortization expense, consistent with the growth in capital assets, as well as the increased interest expense driven by a higher level of outstanding debt and slightly higher rates. With our strong Q3 earnings performance, we remain comfortably on track to meet our full year 2018 guidance target of $3.45 to $3.55 per share.

Let us flip to Slide 15, and you will see that we generated more than $1 billion of free cash flow this quarter. Adjusted EBITDA less capex, or what is commonly referred to as simple free cash flow, grew 5.8% year-over-year, contributing $83 million of incremental cash. This quarter's results also reflected a step-up in cash taxes due to higher installment payments, in line with plan for 2018, and a decrease in cash from working capital. The working capital decline, with the build-up of new wireless handset inventory ahead of Q4, timing of supplier payments and higher accounts receivable, is attributable to the stronger revenue growth, particularly at our Bell Business Markets and Bell Media advertising, as well as the cash impact from matching the aggressive discount offers I mentioned earlier on the latest wireless smartphones offered during the back-to-school promotions. Several of these factors should reverse out next quarter, resulting in a sequentially stronger absolute dollar free cash flow growth generation in Q4.

Let us wrap up on Slide 16. Our financial results we reported through the first nine months of 2018 reflect disciplined operational execution and a clear focus on the fundamentals of the business. As we enter the fourth quarter, we remain competitively well positioned, with strong momentum across our wireless and our wireline operations, and with market-leading Media assets that generate substantial cash flow for reinvestment in the business. So, with no fundamental change in outlook, I am reconfirming all of our financial guidance targets for 2018.

As we begin to look out to 2019, BCE's cash flow remains strong and reliable, with growth opportunities ahead from business performance, continued capital and cost-efficiency gains, incremental MTS-related cash tax benefits, and a stronger pension solvency position, all of this providing a solid foundation for continued execution of our dividend growth objective.

That concludes my formal remarks, so I would like to turn the call back over to Thane and Operator to begin questions.

Thane Fotopoulos – Vice President – IR

Thanks, Glen. Before we do start the Q&A period, just to keep the call as efficient as possible, I ask that you limit yourself to one question and a brief follow-up, so we can get to as many of you as possible. If we have additional time, we will circle back.

That being said, Valerie, please open the lines for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you, Mr. Fotopoulos. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star 1 on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star 1 at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

Our first question is from David Barden with Bank of America Merrill Lynch. Please go ahead.

David Barden – Bank of America Merrill Lynch – Analyst

Hey, guys, thanks so much for taking my question. I guess one of the standouts in this quarter was the strong prepaid performance in the wireless market. Could you just talk a little about, you know, is the strategy here to kind of make a stronger move in this market and then kind of groom these subscribers up into the postpaid market, or is something else going on? It would just be great to kind of hear the strategy there.

George Cope – President and CEO

Sure. Actually, it is, in one sense, what you just mentioned, David. We really were not in this space for a number of years competitively, as a number of investors will know. I think we are excellent at postpaid execution. We saw a market opportunity on prepaid. One of our peers, I think, has done very well in that space. Clearly, there is a market there. So, we have entered it with Lucky. Now, that it is national, you can start to see that we are clearly taking some market share. From our perspective, that ultimately gives us an opportunity to migrate that base, some of that base to postpaid, which we think is going to be strategically important going forward. We think, as I mentioned, one of our peers has done a good job of that in the last number of years, and so we entered that a year ago. And what I am really pleased with now is what is been a negative revenue growth line for us for eight years will turn positive, and of course that is just a net contributor to the overall wireless story.

David Barden – Bank of America Merrill Lynch – Analyst

If I could just do a quick follow-up. Another, as you pointed out, standout in the quarter was the business strength. Is it purely economic growth, is there some sort of product cycle that is evolving in that segment, is there reduced competition, is there—is this something we can expect to continue or is this just an anomaly?

George Cope – President and CEO

First of all, as we all know, one quarter does not make for a trend, but we have on the last number of calls mentioned that that underlying business was feeling stronger across small and medium enterprises, and we have been pleased with the results this year. We think, also, competitively, we believe we have taken some market share with just strong execution in the market, but the underlying piece, I think, if Tom Little, who runs that, were on the line, he would share the underlying part of that, too, is some strong growth in the Canadian economy adding to that. We have said over time that we needed that type of growth to help that unit, and so we are seeing that. But, clearly, anything that is positive in that sector, from our perspective, is bonus for the wireline business, and helped contribute to what I think is one of our better top line quarters for the company relative to expectations in a number of years for us from an overall standpoint.

David Barden – Bank of America Merrill Lynch – Analyst

Great. Thanks, George.

Operator

Thank you. Our next question is from Jeffrey Fan with Scotiabank. Please go ahead.

Jeffrey Fan – Scotiabank – Analyst

Thanks. Good morning. I just want to ask about the ABPU trend. Excluding the government contract, the ABPU still slowed from last quarter, so I am just wondering if you can talk a little bit about, excluding the government contract, what is going on in the underlying trends. Is this some of the data promotions that we have seen and talked about? Is there anything else noteworthy that is worth pointing out?

George Cope – President and CEO

I think two things—great question. One I mentioned, as well, obviously, our denominator/enumerator math is slightly changing our pre-versus postpaid because of Lucky, and so that is obviously going to have some impact, but overall, obviously, it is a weighted average overall better revenue growth over time. So, that is one of the other elements. Then, I think the other one is clearly the buckets are larger, so the out-of-bucket revenue growth is impacted. I mentioned that last quarter. It is one of the reasons we talked about, excluding a couple of these strategic items, looking for CPI-type of growth, and I think that is basically what we are seeing. The migration of customers to LTE has happened and now the buckets have gotten larger, and as a result, you know, you see the type of ARPU we have got, which, frankly, underlying those two things, is still positive growth from an ARPU perspective. But, that is really it, that is exactly—what you raised is exactly the issue.

Jeffrey Fan – Scotiabank – Analyst

Just a quick follow-up on the capex. It is amazing to see capital intensity in wireless at 8%, or it looks like it is going below that. A lot of investors, I think, have been asking and talking about 5G. How sustainable do you think this level of capital intensity in wireless is as you look out the next few years?

George Cope – President and CEO.

Yes. So, I want to be careful there because of guidance comments. I think, for sure, we have directed the Street where we see capex intensity will drop next year. But part of that is because we are so advanced on our LTE, you know, Quad-band speeds, that people are seeing 750 Mbps speeds off of our product today, and the fact that our fibre backhaul is really being built on the back of our wireline capital intensity. So, we think that is contributing to the CI that we have. Going out after that, as you start to overlay some 5G, the real test on whether or not that intensity level will go up will be a function of how much revenue growth you have had in wireless over, say, that 24-month window from now. And so you do get some headroom on that intensity on the back of the higher revenue growth. Whether or not it goes up from where it is when we are talking about next year, for some of the 5G, that may be the case, but I do not think we are today ready to give that type of direction to the investment community.

Jeffrey Fan – Scotiabank – Analyst

Okay, thanks, George.

Operator

Thank you. Our next question is from Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery – Morgan Stanley – Analyst

Great, thank you very much. Good morning. Just staying on the wireless service revenue growth, I think it was 2.5% year-over-year in the quarter. Obviously, you got some good volume growth, but some headwinds, as you were just discussing. Given your CPI comments, do we sort of trough here and sort of stabilize in this 2% plus level or could we have another quarter or two of deceleration before it picks up again? Related to that, I guess, is how far through this out-of-bucket absorption are you? Is there still a lot of added bucket revenues that could get kind of put into the main build over the next few quarters? Thanks.

George Cope – President and CEO

I want to be careful on a month-by-month or quarter-by-quarter ARPU forecast. I would say this. We tried to give some direction on 2019 overall on where we see the cash in the business, and then from an ARPU perspective—I mean, on a blended ARPU perspective, using the old term. Clearly, as prepaid is a bigger mix, because we did not have prepaid growth, that will have some impact, and the federal government has still got to work its way through and then that will normalize itself out as we get into next year. Probably the latter half of next year, that is finally through, in terms of that entire base moving over to us. Those are kind of the two key components of that. But, underlying all of that, we still really feel quite strong about the execution of our postpaid business. Hopefully, that is helpful.

Simon Flannery – Morgan Stanley – Analyst

Great, and on the overage?

George Cope – President and CEO

Well, overage is what I have said. I mean, that is a function of the competitive marketplace, quite frankly, the larger buckets. Clearly, where we have seen right across the entire country not the acceleration of the ARPU, part of that is the buckets are larger than they were before. The next acceleration of speed, when that happens, maybe we seen another acceleration, a larger bucket use, but right now what we have said is really what we are seeing.

Simon Flannery – Morgan Stanley – Analyst

Okay, thank you.

Operator

Thank you. Our next question is from Phillip Huang with Barclays. Please go ahead.

Phillip Huang – Barclays – Analyst

Hi, good morning. George, I just wanted to—I have a question on the prepaid opportunity. I know it is still early days for Lucky Mobile, but just given the strong acceleration, was wondering if you might be able to provide some colour around the profile of the, I guess, average prepaid subscriber. Obviously, I was wondering if you could give us a sense of the prepaid ARPU you have been able to load subscribers at. Also, given the greater reliance on self-service, I was wondering if you could give us a sense of the type of margin that is achievable for this segment, just relative to the postpaid segment.

George Cope – President and CEO

Yes, it is a very different segment, and, clearly, as I said, were not competing in it. I think a lot of it is in some of the city markets. So, that is an opportunity for us to grow market share. Because it is a no-credit-check product for us, it also opens up some markets we were not pursuing. That is another piece for us in terms of that.

In terms of ARPU, we are not really giving out—we do not mix the ARPU out. It is not really any different than what traditionally prepaid was, although we think it will be higher as we execute it. What I love about it, it is not any more than a two-month payback, from a cash perspective, every subscriber. So that is a really nice way to grow some EBITDA on huge dollars, better than a drain the other way. The key strategic point, obviously, is to capture a share of that, where really one of our players was taking literally all the share in that space, and migrating those customers from our Lucky brand to our other postpaid brands over time, versus not getting that opportunity. We do think 2019, as I mentioned, for the first time probably since 2009, we will actually see some positive revenue growth in that category, and of course that is helpful overall for wireless.

Phillip Huang – Barclays – Analyst

No, that is helpful, George. If I can do a quick follow-up on the fixed line side. Obviously, very healthy acceleration in both your Internet and IPTV subscriber growth, and 2018 being a year of expanding fibre in Toronto, I was wondering if you could comment on your wireline subscriber performance across the various regions you are in, in Quebec versus Ontario. Thanks.

George Cope – President and CEO

Yes, careful competitively, but I would say we are very pleased with the results across the board. Frankly, we would still like to see even more traction in our Toronto fibre footprint, and we think that is just execution in the marketplace, and the other areas, frankly, we had just a tremendous, tremendous result. So, now it is just head down, strong execution in Toronto, pushing the Alt TV in that marketplace, because it is very, very conducive to the condominium market. It is a two-stream product, no set-top box, and a pull-through of Internet, which is perfect with fibre, and of course with the 1.5 Gigabit product now in the market, we think that is working. Having said all that, we did add 77,000 customers, moved or added to our fibre footprint, and that is by far our largest quarter. I think we have been running at about 45,000 up until now.

Phillip Huang – Barclays – Analyst

Thanks, George.

Operator

Thank you. Our next question is from Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning, and thanks for taking my question. George, I just wanted to focus on the fixed wireless opportunity that you touched on in your prepared remarks, perhaps a little bit more colour on the size of the opportunity. I think in the past you have indicated the size of around 800,000 households. I just wanted to get a sense of the magnitude of the opportunity. Are these substantial areas where you have sub-10% market share and you are kind of looking to get towards maybe perhaps 30%, 35% and that gives us a sense, but I just wanted to get some colour around the size of the opportunity? Thank you.

George Cope – President and CEO

Yes. So, for those that do not know, it is what you have said, we will do 700,000 to 800,000 households over the next—I will not give the exact timeframe for our competitors, but it will be executed on. It is in communities now where, you are right, in most cases, we have sub-10% market share. These are customers that may be sitting on a satellite service offering or, frankly, on even—some of them even on dial-up Internet, where, frankly, there is been no solution. What we are doing—because we are putting fibre to every cell site in anticipation of 5G, then those cell sites now have fibre capability. Then there are products available now leveraging our 3.5 Ghz spectrum that we can use that allows someone to have a fixed product in the home and speeds of 25 Mbps to 50 Mpbs that they will get off of that, and a competitive product. Then we obviously have the ability to bundle that with our satellite, and even in some cases, obviously, our local access. So, our strategy around that is, I guess, now laid out for the Street to see. It is those communities, and it brings the communities in Canada that up until now have not had the broadband speeds that other markets in the country have had. So, it is growth opportunity for us, great for Canadians, and a great leverage of our 5G technology setup because of the fibre backhaul investment we are making.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Thank you.

George Cope – President and CEO

I am pretty excited about it, as you can tell listening to me.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Thanks a lot.

Operator

Thank you. Our next question is from Maher Yaghi with Desjardins Securities. Please go ahead.

Maher Yaghi – Desjardins Securities – Analyst

Thank you for taking my question. I wanted to just—I mean, the math on the impact of the government contract on your wireless ARPU makes sense. I just wanted to understand—from my calculation, it looks like it is peaking right now, the negative impact, probably another difficult Q4, but then we cycle through Q1, Q2, should start to relieve itself. When you look at after we go through this transition, are you expecting, George, to get back to 1% to 2% postpaid ARPU growth, or we are more into the zero to 1%, and I have a follow-up question on wireline?

George Cope – President and CEO

Well, first of all, we answered this one way. Let me just try another way. I am, obviously, not going to give ARPU guidance for one, two years out and the percentage. But some of your comments about the federal contract moving through, you are correct, so some of those will mitigate, but the offset of that, of course—which we will come back, obviously, in the first quarter, as we always do and share with the Street how we see the market—the offset, of course, is the mix issue. What analysts are going to want to start to do, I think, is do, okay, a postpaid assumption, a prepaid assumption. As prepaid is no longer declining in your base, the blended ARPU is kind of for us now, it gets to be a bit of funny number to compare on, and so we are going to have to decide, even internally here, how we direct the analyst community to understand the difference between the two items. So, we will see how that unfolds. But, if you step back, this type of overall subscriber growth for wireless is what is going to drive the top line revenue growth for the company, and that is what I am so thrilled about with the quarter, because we have got all cylinders hitting on postpaid and prepaid in terms of market share growth.

Maher Yaghi – Desjardins Securities – Analyst

Yes, we have been trying to split postpaid and prepaid. Maybe you can help us by giving us the numbers, essentially, that would be even more helpful.

George Cope – President and CEO

It would also very helpful to my competitors, so we will balance that off against the free cash flow generation of the company, and you guys know us.

Maher Yaghi – Desjardins Securities – Analyst

Yes, no, I understand. On Internet, I noticed a nice acceleration of Internet loading, and the quality of the Internet loading seems to be better, more retail-oriented than wholesale, but I wanted to ask you, when I look at last year versus this year, it seems like you are less competitive on the wholesale side, more competitive on the retail side. Can you talk about maybe just what is going on? Is Rogers more competitive on the wholesale end? When you look at the quality, the ARPU generation from an Internet load, how do you see it going forward?

George Cope – President and CEO

Yes. So, I would say, first of all, your observation about our focus is correct, our focus is on retail. And one of the reasons we launched the Virgin Internet brand is it is competing at a different price market that was there in the wholesale market, we might as well compete for that, and also compete at the retail price, not at the wholesale price. And then, of course, with the migration we are talking about on the fibre side, that is obviously a high-quality retail customer base, as well. Then, I think you see it in our overall revenue growth of wireline, and we happen— because our competitors disclose their Internet revenue growth, we can see that we know we captured more than 50% of the growth in the quarter. So, maybe it gets a little bit away from just subscriber growth now and now more mix of subscribers or wholesale versus retail that will drive it, and our focus is 100% on retail. The wholesale is a regulatory obligation, not a business strategy for us.

Maher Yaghi – Desjardins Securities – Analyst

So, less focus on wholesale, but still decent revenue coming from that segment of the market. Why has it changed, in your view, going from, let’s say, telco ISPs, telco-delivered ISPs to cable?

George Cope – President and CEO,

Well, I do not know why the—you would have to ask the cable companies on strategic focus. On our focus, it is the launch of the Virgin Internet brand to compete with wholesale, but we access the retail revenue stream. Canadians get the benefit of competition and we get the benefit of a revenue stream that would be double what we would get through the wholesale market, and that is really our strategy there.

George Cope – President and CEO

Basically, it is retail pricing for us and retail top line growth against wholesale growth, and as everyone knows, it is a regulatory requirement for wholesale, not a strategy of Bell's.

Maher Yaghi – Desjardins Securities – Analyst

Definitely makes more sense. One last question on the pension, maybe for Glen. I am trying to just figure out if there is a difference between the $1 billion to $1.5 billion of lower anticipated cash funding and the $200 million of potential savings in current service costs. Are these mutually exclusive or inclusive?

Glen LeBlanc – Executive Vice President and CFO

Good morning, Maher. If you look back over the past five years, our current service cost pension contributions, coupled with the voluntary contributions we had to make under the contributions we made into the plan, you would get a number that is north of $3 billion. I think it is around $3.3 billion. If I look out forward over the next five years, I think the material special contributions are behind us, and I know we have discussed that before. Current service runs at about $400 million a year. The number we quote does not take into account contribution holidays, as I think where you are going. I think we have $1 billion or more opportunity, reduction in cash drain because of not having to make these special contributions to the plan.

Now, accelerate that one step further, and we all see that we are headed for a rising interest rate environment over the next 12 and 24 months. A 50 to 75 basis point increase in interest rates would take us well beyond that fully funded position we have been chasing for 10 years and get us into a position of being north of 105%, and that allows you to take contribution holidays of up to $200 million a year. So, that number could even be bigger.

Maher Yaghi – Desjardins Securities – Analyst

So, I should add them together, if you ever get to above 105%?

Glen LeBlanc – Executive Vice President and CFO

Yes, that would be a great day.

Maher Yaghi – Desjardins Securities – Analyst

Thank you.

Glen LeBlanc – Executive Vice President and CFO

Thank you, Maher.

Operator

Thank you. Our next question is from Batya Levi with UBS. Please go ahead.

Batya Levi – UBS – Analyst

Great, thank you. Can you talk about the churn differences you are seeing for your standalone broadband product and when you bundle it with video, and how you think about the competitive environment for the bundle, and how you balance subscriber growth versus profitability going forward?

George Cope – President and CEO

Yes. So, on our churn rates on broadband, wholesale is by far our highest churn rate and it is our lowest ARPU, so clearly not a strategic focus for us. Our lowest churn comes when we do have bundled our TV product and our Internet product combined; a duo, I guess, is what we would call it. We obviously have some that take local access, as well. We clearly have 3 million local access customers still. So, if you have a triple, it is even more powerful for us. But, right across the board, our churn levels are lower when we have the multiple product in the households.

One of the things for us, with our Alt TV strategy, is, historically, the condominium market was stronger for our peer than us. The build-out of fibre, combined with a TV product that does not require a set-top box, that is priced reflecting the no requirement for a set-top box. So anywhere from $10 to $20 cheaper than traditional TV, because they do not have the set-top box with a truck roll for that type of set-top box install, saves us money, and we are passing that benefit through to the consumer. You combine that with our Internet, we think that is a good path for us going forward. It opens up a market that may be part of the cord-cutting market or the cord-never market for us. I think you see that in our results today, where we actually saw TV subscriber growth across our footprint, and specifically clearly in the city markets, because our decline, if any, was in the satellite. Even though that was better year-over-year, that is where the decline still is.

Batya Levi – UBS – Analyst

Okay. One follow-up. The comment about next year with lowering capital intensity, cash savings from the restructuring and lower taxes, can you talk about how you think capital allocation going forward?

George Cope – President and CEO

Capital allocation? Go ahead, Glen.

Glen LeBlanc – Executive Vice President and CFO

Yes, sure. I think we have had this question many times and I think our past performance is the best indicator of the future, and that is one of balance. We have been respectful of ensuring that we maintain our investment grade credit rating and ensuring no action we take that puts that in jeopardy. We have followed a dividend growth model year after year, ensuring adequate return of capital to our shareholders, and we are proud of that, and think that cash flow generation of the company allows us to continue that. Finally, we invest heavily in the networks we need to support the future. And when you listen to what George has said on our fibre backhaul build and how far we are in 5G-readiness, the fact that we are now approaching 50% of our homes with fibre-to-the-home, I would say this is an organization that takes seriously the investments required to be an industry leader in the networks we build. So, it is one of balance, and nothing has changed as we look out.

Batya Levi – UBS – Analyst

Okay, thank you.

Glen LeBlanc – Executive Vice President and CFO

You are welcome.

Operator

Thank you. Our next question is from Drew McReynolds with RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, thanks for taking my question. Good morning. Just to follow up on the Business Market side of things, George, you talked about, obviously, a nice kind of tailwind there with potential kind of market share gains. I was wondering if you could just strip it down a little bit. You have talked for many years about the structural employment kind of issue not just in Canada, but across the board. So, is this kind of simply a very strong cyclical tailwind that is coming? Is it bodies, is it new business formation? Then, just a follow-up to that. On to 5G and things like smart city and incremental revenues there, you obviously are the biggest business market enterprise player in Canada. Does that give you some kind of a leg-up here in terms of being able to leverage that into what we all probably see down the road as a nicely growing revenue pool around things like smart city? Thank you.

George Cope – President and CEO

Yes. So, on the first part of the question, our underlying—we like to think we are executing better, obviously, and we think we are. Some of the structural things we did a couple years ago, having small business move under where we do some of our direct consumer business, I think has helped us, and then our enterprise and mid-market focus on that customer base a little different. We have done a lot of fibre, too, which sometimes gets lost in this. In fact, I do not even bring it up. A lot of fibre for business is going on, as well, in the marketplace. Some have even direct fibre in very rural markets, but for customers that have branches or retail, that we are doing, as well, which we think is a competitive advantage in the marketplace for us. But, I think it is probably fair you step back from that and say, you know, a stronger economy, reasonable job growth, is clearly giving us some of that strength, as well. I do not think it is something more structural than that.

Then, on IoT, we actually are very excited about our enterprise positioning there with our wireless business going forward. There is a number of things we are working on, a number of initiatives. The Street will hear about them as they hit the marketplace. But, internally, for us, we would think—you see our total wireless base today.

We think we will add at least that many of our entire base to our IoT base over the next five years, albeit at a much smaller revenue in the number of units. But lots of those applications that we are now in the midst of actually working on and starting to roll out with our BBM folks and our wireless sales folks. So, we are quite excited about that space, in fact. There will be a lot more to come to investors on that over the next year or two from us.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, thanks, and if I can just slip in a follow-up here just on the prepaid. Obviously, great traction there. Has the profitability, George, of that business evolved? I know we have talked about the cash return and the revenue growth, but on the profitability side, however you want to measure it, just with technology and how you run that business, is it different than it was five and ten years ago?

George Cope – President and CEO

For sure, there is no doubt it is different. First of all, the top-up capabilities are so different. It is not as manual, in terms of what we were doing there. The distribution can be so much more leveraging online services as opposed to as much through, you know, what would have been a lot more administrative processes. So, it is a much easier business for us to be in.

The other one for us is our distribution strength that we have had for years. We could argue the reason we have been able to pick that pace up on a product in 12 months and take that type of market share is just putting it across our channels, and we now have even—we have additional channels. Yes, that are not carrying Lucky and if we make the decision to put the product there, that should move us closer and closer to our peer, which is really what we are just trying to get to. As with all of our business lines, we want to capture for us the market share based on our scale and size. We are not quite there yet on the prepaid, but we are going to work on that over the next year.

Drew McReynolds – RBC Capital Markets – Analyst

Great, thank you.

Operator

Thank you. Our next question is from Richard Choe with J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Hi. With capex intensity going down, how should we think about the current trends? Because video and broadband seem to be doing well on the fibre side, do you expect any changes there? Then, maybe this might be a little bit minutia, but as you move from the urban to more rural builds, do you expect any changes there?

George Cope – President and CEO

So, the first question—well, both answers, it is almost no, but it is probably too short an answer, so I would say the fibre build continues next year. I want to make sure everybody understands that. In addition to that fibre build, we are doing the rural build that we talked about using the wireless solution. Some of our builds for fibre are less expensive next year. For instance, Montreal, as we continue to build out, is much more aerial, but that is clearly offset by an area, like 905, which, for those on the line who do not know, that would be outside the core Toronto, that is a lot of buried, and so that is very expensive fibre. So, on balance, there is not really a big pickup there, but the pace just continues.

I think because we have passed the 50%—or will pass the 50% threshold market, we just know we are seeing the results. So there is no reason to accelerate it, just continue the pace we are on, and then take maybe some of that additional capital and put it into this wireless opportunity, where, as we talked about half-an-hour ago, we really have literally no market share in those markets. Is that helpful?

Richard Choe – J.P. Morgan – Analyst

Yes. Then, in terms of the NAS losses on residential, they continue to be pretty high. Is that because of MTS, or is there something else going on there?

George Cope – President and CEO

No, there is really not. I have to admit, it does bounce up and down. I think, probably, investors have noticed that, as well. It is clearly just with unlimited voice products now, it is so many different categories of wireless, you know, substitution just continues, and I think it is going to continue, as we know, across the board. I have to admit, some quarters it improves year-over-year, some quarters it declines, or the rate actually accelerates year-over-year, we cannot really put a finger on some distinct difference, but, frankly, our focus clearly is on the other product portfolios now to get enough revenue growth to offset that, what we all know is a continuing trend.

Richard Choe – J.P. Morgan – Analyst

Great, thank you.

George Cope – President and CEO

Thanks for bringing it up.

Operator

Thank you. Our next question is from Vince Valentini with TD Securities. Please go ahead.

Vince Valentini – TD Securities – Analyst

Yes, thanks. Just a clarification for Glen and then a bigger picture question for George. Glen, with the $0.08 tax benefits in Q3, does that push you towards the higher end of your EPS guidance range for the year, or do you maybe get some reversal of those tax benefits in Q4?

George, bigger picture for you. I mean, we cannot live in Toronto and not know of friends or family who are not seeing incredibly rich promotions from either Bell or Rogers on activation or retention as you guys roll out fibre-to-the-home and fight it out. Is this normal, in your mind, compared to Quebec City and some of the Atlantic markets where you have launched fibre-to-the-home earlier, this kind of initial promotional battle, and does it ease over time, or do you think there is something a little bit undisciplined going on in the Toronto market right now? Thanks.

Glen LeBlanc – Executive Vice President and CFO

I will jump in first for the easier question for me, Vince. We provide a pretty tight range on EPS, $3.45 to $3.55, so I am not going to try to narrow that range on guidance. I reconfirmed all of our guidance ranges today.

Then, over to George on the other question.

George Cope – President and CEO

Sure. I guess what I would say is if you step back, for all of our investors, our fibre strategy has been, and still remains, that ultimately we would like to see our market share change from where we were under 50%—I think we are roughly 40% of the Internet market. And over time, with this type of fibre and the leading technology, with prudent execution, we should be able to obviously get ourselves into a market share where we are getting one out of two of the net adds, or now, what was an interesting metric, as I said on the call, at least 50% of the incremental revenue which is ultimately the real test that you want to see. In our markets where we have had fibre in for a while, we see those metrics coming.

People who happen to be analyst here in Toronto are seeing Toronto as a competitive market, absolutely it is, and from our perspective, we are just so pleased with our service revenue growth this quarter over previous quarters, and we see that relative to some of our peers. We know what we are doing is working in the marketplace. So, it is a long game, it is not a quarter game for us, in terms of that market share. We know as people move from home to home, if you are selecting an Internet provider, there is no better Internet at 1.5 Gigabit available, quite frankly, in the world. So, we just have to execute that strategy in a disciplined way.

Bundling the products of TV and Internet are very important to us. The strategy around Alt TV, which is no set-top box TV, and also our set-top box IPTV, is a core strategy to what we are doing, because that brings us, obviously, an average ARPU, on balance, it is more than $100, and as people know, with Bell Media, we pay a lot of our content to our own company. So, that is really the strategy that we are executing on. Remember, though, for investors, Alt TV is two streams maximum, and that is the difference between the set-top box and non-set-top box market.

Glen LeBlanc – Executive Vice President and CFO

Just one final piece, Vince. Maybe I was not clear in my opening remarks, so I will apologize. The $0.08 that I alluded to, that was always in our 2018 financial guidance range that we provided at the timing of occurrence.

Vince Valentini – TD Securities – Analyst

Okay, thanks.

Operator

Thank you. Our next question is from Tim Casey with BMO Capital Markets. Please go ahead.

Tim Casey – BMO Capital Markets – Analyst

Thanks. George, could you comment on execution going forward in light of the regulatory review of sales practices? There was some discussion of the potential for a Code of Conduct. Do you think anything is going to come out of that, that will retard your ability to execute on the bundle and those type of things in Toronto and otherwise? Thanks.

George Cope – President and CEO

I do not think there will be any impact on our execution from a distribution perspective. We have so many channels of distribution and sell hundreds and hundreds of thousands of products in the marketplace, and so we have been very clear with the CRTC. If, on the sale side, something was not executed the way it should be and that is not acceptable, it has to be addressed, and we do that every day in the organization, as what we do in the marketplace. We will see how the CRTC responds. There are some suggestions we made that may be helpful for everyone. Some of our peers did, as well, and I am sure they will have some suggestions. Whatever way they come at us, we will obviously execute within those, and at the same time I do not think it will have an impact on demand in the Canadian marketplace. This is a highly competitive market, as has been brought up by a few analysts, and Canadians are seeing the benefit of the best—as we all know, the best broadband technology available in the world and some of the most creative products. So, that is what we have got to make sure Canadians view us as and that is how we keep executing.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Thane Fotopoulos – Vice President – IR

Valerie, in the interest of time, this will be our last question.

Operator

Thank you. Our last question is from Sanford Lee with Macquarie Capital Markets. Please go ahead.

Sanford Lee – Macquarie Capital Markets– Analyst

Great. I just wanted to follow up on the fixed wireless opportunity. I know it is early days, but what are your thoughts with respect to additional fixed wireless broadband opportunities outside of your incumbent wireline footprint?

George Cope – President and CEO

No. Our strategy is to leverage our wireline infrastructure. It is a wireline product for us. Because we have the backhaul in all of that footprint, that model does not work for us if we are not the ones who are providing the backhaul, and the fibre to the cell sites, and that is where are build is. What is very unique for us is our entire 5G build requirements in our wireless footprint and in our fixed build that we are planning is all within our wireline footprint, and that is the synergies out of our fibre, and that is why you are seeing the C to I on wireless where it is. So, no, it is going to be in our footprint.

Sanford Lee – Macquarie Capital Markets– Analyst

Great, and I guess that changes a few (inaudible). Sorry, last one then is, impediments to 5G roll-outs, it looks like, obviously, you guys are well covered when it comes to 5G capex, but where are we when it comes to things like small cell site location?

George Cope – President and CEO

I think, first of all, one of the things for us, which is very different than some other countries around the world, because of the carrier aggregation we have done and the fibre backhaul we have already done—I think most people on the call know our speeds, you know, 700 Mbps, theoretically, some getting up to one gigabit, in theory, on wireless—so we are well in front of a lot of some of the early 5G benefits that will come. 5G to mobile, as we said, is still a while away and that will be a migration for us, and the customers will ultimately see some

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technology. The cell sites, we are in the midst of building thousands of small cell sites right now. I talked about that last year on the guidance call. I will clarify that again for next year for everyone to see it. I think we will have thousands of small cell sites done at the end of this year. I am happy to share that, as Thane will be happy to share it offline, I do not have it at my fingertips right now, but I will certainly bring it back in February and share with everyone on the call.

Sanford Lee – Macquarie Capital Markets– Analyst

Great, I appreciate it. Thanks.

Thane Fotopoulos – Vice President – IR

Good. So, on that, thanks again for your participation on the call this morning. I will be available throughout the day for any follow-ups and clarifications. So, have a good rest of the day. Thank you.

Operator

Thank you gentlemen. The conference has now ended, please disconnect your lines at this time, and we thank you for your participation.
