Q1 2019 Results Conference Call

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain made by BCE's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer during BCE's Q1 2019 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 2019 annualized common share dividend and common share dividend payout policy, anticipated ARPU levels, our network deployment and capital investment plans, 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. These statements are not guarantees of future performance or events, 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 May 2, 2019 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 May 2, 2019. 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 Q1 2019 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 Q1 2019 Results Conference Call for periods beyond 2019 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 slower rate of economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 1.2% in 2019, representing a decrease from the earlier estimate of 1.7%*
- *Employment gains expected to continue in 2019, as the overall level of business investment is expected to grow but remain variable*
- *Interest rates expected to remain at or near current levels*
- *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 consistently high level of wireline and wireless competition in consumer, business and wholesale markets*
- *Higher, but slowing, wireless industry penetration and smartphone adoption*
- *A shrinking data and voice connectivity market as business customers migrate to lower-priced traditional telecommunications solutions or alternative over-the-top (OTT) competitors*
- *Advertising market expected to be impacted by audience declines and variable demand*
- *Continued escalation of media content 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*
- *Higher prepaid customer 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 subscriber acquisition and retention spending, driven by higher handset costs and more customer device upgrades*

- *Improving blended ABPU, driven by a higher postpaid smartphone mix, increased data consumption on 4G LTE and LTE-A networks, and higher access rates partly offset by the impact of a higher prepaid mix in our overall subscriber base and the impact from Bell Mobility's SSC contract*
- *Expansion of the LTE-A network coverage to approximately 94% of the Canadian population, and continued 5G preparations with network technology trials, as well as the deployment of small cells and equipping all new sites with fibre*
- *Ability to monetize increasing data usage and customer subscriptions to new data 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 retail residential IPTV and Internet subscribers*
- *Increasing wireless and Internet-based technological substitution*
- *Residential services household average revenue per user growth from increased penetration of multi-product households and price increases*
- *Continued 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 telecommunications 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*
- *Further deployment of direct fibre to more homes and businesses within our wireline footprint and an acceleration in our fixed wireless-to-the-home (WTTH) rural buildout*
- *Growing consumption of OTT TV services and on-demand streaming video, as well as the proliferation of devices, such as tablets, that consume large 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, operating efficiencies enabled by a growing direct fibre footprint, changes in consumer behaviour and product innovation, as well as the realization of additional synergies from the next phases of integration of Manitoba Telecom Services Inc.*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireline business*

Assumptions Concerning our Bell Media Segment

- *Revenue performance expected to reflect further Crave subscriber growth, flow-through of broadcasting distribution undertaking rate increases, and strategic pricing on advertising sales*
- *Operating cost growth driven by higher programming costs, excluding IFRS 16, mainly due to continued investment in Crave content*
- *Continued scaling of Crave and sports direct-to-consumer products*
- *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*
- *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 video 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 2019:

- *Total post-employment benefit plans cost to be approximately $310 million to $330 million, based on an estimated accounting discount rate of 3.8%, comprised of an estimated above adjusted EBITDA post-employment benefit plans service cost of approximately $250 million to $260 million and an estimated below adjusted EBITDA net post-employment benefit plans financing cost of approximately $60 million to $70 million*
- *Depreciation and amortization expense of approximately $4,375 million to $4,475 million*
- *Interest expense of approximately $1,125 million to $1,150 million*
- *An effective tax rate of approximately 25%*
- *NCI of approximately $50 million*
- *Total cash pension plan funding of approximately $375 million*

- *Cash taxes of approximately $650 million to $700 million*
- *Net interest payments of approximately $1,125 million to $1,150 million*
- *Average BCE common shares outstanding of approximately 900 million*
- *An annual common share dividend of $3.17 per share*

The foregoing assumptions, although considered reasonable by BCE on May 2, 2019, 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 2019 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2019 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, coupled with new product launches, 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*
- *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 TV competitors, for programming content, which could drive significant increases in content acquisition costs and challenge our ability to secure key content*
- *the proliferation of content piracy impacting subscriber growth and our ability to monetize products and services, as well as creating bandwidth pressure*
- *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*
- *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, consumer-related codes of conduct, 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 such as information security attacks, unauthorized access or entry, fire and natural disasters*
- *the failure to optimize network and IT deployment and upgrade timelines, accurately assess the potential of new technologies, or invest and evolve in the appropriate direction*
- *the failure to continue investment in next-generation capabilities in a disciplined and strategic manner*
- *the inability to drive a positive customer experience in all aspects of our engagement with customers*
- *the complexity in our operations resulting from multiple technology platforms, billing systems, sales channels, 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, staff reductions, 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*
- *our dependence on third-party suppliers, outsourcers and consultants to provide an uninterrupted supply of the products and services we need to operate our business, deploy new network and other technologies and offer new products and services, as well as to comply with various obligations*
- *changes to our base of suppliers or outsourcers that we may decide or be required to implement*
- *the failure of our vendor selection, governance and oversight processes established to seek to ensure full risk transparency associated with existing and new suppliers*
- *security and data leakage exposure if security control protocols affecting our suppliers are bypassed*

- *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*
- *the failure to attract and retain employees with the appropriate skill sets and to drive their performance in a safe 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, whether the dividend on common shares will be increased, 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*
- *new or 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*
- *unfavourable resolution of legal proceedings and, in particular, class actions*
- *new or 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 and equipment*
- *the inability to maintain customer service and our networks operational in the event of epidemics, pandemics or 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 2018 Annual MD&A dated March 7, 2019 (included in BCE's 2018 Annual Report), BCE's 2019 First Quarter MD&A dated May 1, 2019 and BCE's news release dated May 2, 2019 announcing its financial results for the first quarter of 2019 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 May 2, 2019 announcing its financial results for the first quarter of 2019 for more details.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Q1 2019 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, Lori. Good morning to everyone. With me here this morning, as usual, are George Cope, BCE's President and CEO, and Glen LeBlanc, our CFO.

As a reminder, our first quarter results package and other disclosure documents, including today's slide presentation, are available on BCE's Investor Relations webpage.

Exceptionally, this quarter, because our Annual General Shareholder Meeting is taking place starting at 9:30 this morning, we will be ending the call earlier than usual, at 8:45.

However, before we get started, I want to draw your attention to the Safe Harbour statement on Slide 2. Information in this presentation 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. 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.

With that, I will turn the call over to George.

George Cope – President and CEO

Great, thanks, Thane. Good morning, everyone, and thank you for joining us. I will just begin with a quick overview.

Our revenue momentum did continue in the quarter, with 2.6% growth, and Bell, as you have seen, reported strong EBITDA results of 6.9%, driven by our revenue growth and the IFRS 16 accounting changes. Importantly, though, we had positive EBITDA growth for all Bell operating units, excluding the impact of IFRS 16. The Company enjoyed strong financial results from wireless, and excellent wireline broadband retail subscriber growth, with 44,000 combined retail Internet and IPTV net additions up 37% year-over-year. We had positive top line growth across all wireline units, producing 1.8% year-over-year growth. Bell had another strong quarter, and second quarter, of positive TV advertising revenue growth and cost savings, which drove material EBITDA growth year-over-year. The strong organic results in the quarter and the declining capital intensity drove a 20% year-over-year increase in free cash flow.

Given it is our Annual Shareholders Meeting this morning, it is notable that, overall, the Company enjoyed its 54th consecutive quarter of year-over-year EBITDA growth, or 13.5 years of uninterrupted, consistent EBITDA growth.

Turning to wireless, total gross activations for us were slightly up year-over-year, postpaid net additions were 50,000 in the quarter, and the reduction year-over-year mostly impacted as the federal government contract starts to mature out in our net additions. We had our best quarter of postpaid churn in 15 years, and, in fact, the Bell-branded churn was under 1%, at 0.98%, in the first quarter, and, certainly, I do not ever recall that happening in the wireless side for us.

The blended ARPU increased 1.2% year-over-year to $67.35, although I think it is important I call out, if you exclude the government contract and the shutdown of our CDMA network early on in the quarter, the blended ARPU, for the analysts, was actually up 0.8% year-over-year.

Prepaid gross additions continued to grow. Lucky successfully growing in the market, gross additions up 56% year-over-year, and an improvement of 50% year-over-year in our net customer losses on the prepaid side. We also harmonized our prepaid deactivation policy to 90 days across all brands, a much more conservative approach to our churn and consistent with our other brands across Mobility.

I am very excited this morning to announce that Dollarama has been appointed as a distributor of our Virgin and Lucky Mobile prepaid services. That is a key retailer in Canada, with over 1,200 locations, who is entering the wireless business for the first time, and has an exclusive distribution agreement for Bell's prepaid products of Virgin and Lucky Mobile.

Just turning to the wireless network, we continue our journey of providing network leadership, not just in Canada, but from a global perspective. Our wireless network is now generally recognized to be roughly twice as fast as the speeds available in the United States. We will exit the year with 60% of Canadians have accessing speeds of up to 750 Mbps speeds with LTE-Advanced technology, and in some of our markets, we are actually going to have download speeds that can exceed 1 Gbps.

I want to remind investors again that our fibre investment in wireline will continue to pay dividends for years for us on the wireless side, as we now have completed much of the build for the fibre to cell sites as we begin the journey towards 5G. Approximately 90% of our capacity today utilizes fibre backhaul, and that will be obviously core to providing the type of speeds we are all talking about in services, latency reductions, and all of those things we will see with 5G in the coming years.

Our capital intensity continues to be low. We continue to believe it will be approximately 7% this year, even with this network leadership that we have in the marketplace.

Turning to wireline, it was a really positive quarter for us. Our strategic investments are beginning to pay dividends for us. Our retail Internet net additions were up approximately 25% year-over-year. We saw 18% growth in our fibre additions in the quarter, with 51,000 new fibre additions. All of our fibre footprint today includes an offering of 1.5 Gbps for our clients, which I do not think you would find in any markets in the world, quite frankly, and so this footprint advantage that we are building over the long term positions us very well for both business and consumer.

IPTV was certainly quite positive, up 54% year-over-year, with 21,000 additions, and that reflects our strategy with our IPTV product and our Alt TV product, and is also helping us pull through Internet clients. Our retail satellite additions were lower. Net addition losses were better year-over-year, which of course has helped from a revenue and cash flow perspective. Overall, I would say that our investments are truly beginning to provide us some product leadership in the marketplace, and when you start to see some double-digit growth for us year-over-year in net additions, that is obviously a very positive sign for our Company.

Turning to Media, really nice to see a second quarter in a row of strong results there. We saw viewership of our English specialty TV properties up 27% year-over-year.

Although not in the quarter, we just could not call out the incredible viewership we are seeing on *Game of Thrones* and the benefit that this is having to our Crave products in the marketplace, with the largest specialty audience ever in Canada at 3.3 million viewers one of the evenings. Who knows, maybe we will surpass that as that incredible series comes to its conclusion.

TSN has had a very positive year and a positive first quarter. As you can see, one of the things we called out is ratings, for instance, on the Raptors for the entire year were up 50%, and of course, this quarter, if we get a good playoff run, we are a beneficiary of that, as ratings are up dramatically over previous seasons.

I think a really important call-out for investors is our top 20 advertisers spent about 14% more in the quarter than they did a year ago, and we, as one of our other peers mentioned, are seeing some strong revenue growth from clients moving back into some of our Media properties. It is our third consecutive quarter of year-over-year advertising growth, and I will tell you that the funnel for Q2 looks very strong, indeed, in terms of Media.

With that, let me turn it over to Glen.

Glen LeBlanc – Executive Vice President and CFO

Thanks, George, and good morning, everyone.

Before I begin, I would like to remind everyone that starting this quarter, we are reporting financial results in accordance with IFRS 16 accounting standards for leases. Prior periods were not adjusted.

In addition, we made another reporting change with our operating results of The Source, which are now fully included within our Bell wireless segment, as we primarily manage The Source as a distribution channel for our wireless business. For comparability, we have restated our 2018 quarterly Bell wireless and wireline segment results to reflect this change.

With that, let us move to the summary highlights of Q1 on Slide 10.

We delivered a strong quarter, consistent with plan, reflecting continued healthy wireless financial results, further broadband market share growth, improved wireline business performance, as well as higher year-over-year TV advertising revenue. This all contributed to total revenue growth of 2.6%, which, together with the favourable impact from IFRS 16, drove a 6.9% increase in adjusted EBITDA. Normalizing for IFRS 16, consolidated adjusted EBITDA was in line with our historical average growth rate of 2% to 4%, reflecting year-over-year increases in all three Bell operating segments.

Consistent with the growth in EBITDA and our net mark-to-market gain on equity derivative contracts resulting from an increase in BCE's share price in the quarter, net earnings increased 11.6%. However, adjusted EPS was down $0.03 versus last year, mainly due to lower year-over-year tax adjustments and incremental depreciation in interest expense recognized because of IFRS 16 accounting.

Lastly, free cash flow, as George mentioned, grew 19.6% on the flow-through of strong EBITDA growth and lower capital intensity ratio of 14.8%, that reflected slower construction activity this winter, compared to last year, as well as lower overall planned spending for 2019.

Let us turn to the Bell wireless results on Slide 11. Total revenue was up 4.5%, and this was the result of improving the service revenue trajectory which benefited from continued strong year-over-year subscriber base expansion and a higher sales mix of premium handset devices that drove a 7.7% increase in product revenue.

In terms of operating profitability, wireless EBITDA increased 11.6% in Q1 on the flow-through of healthy revenue growth and lower year-over-year operating costs resulting from the adoption of IFRS 16, which drove a 2.8 point margin increase to 42.9%.

Another highlight in the quarter, as George mentioned, was the capital spending front. Our wireline fibre investments continue to benefit our wireless business. That is why you are seeing an historical low, industry-best wireless capital intensity level of approximately 7% for Bell wireless, which is contributing to a year-over-year reduction in BCE's overall consolidated capital intensity ratio.

Let us move over to the wireline segment on Slide 12. Total operating revenue up 1.8%, reflecting positive top line growth across all main wireline units for the third consecutive quarter. Wireline residential revenue increased year-over-year on the combined impact of industry-leading retail broadband subscriber growth and the flow-through of annual rate increases, that together contributed to growth in total Internet and TV revenue of 4%.

Bell business markets also delivered positive revenue growth in the quarter, driven by higher year-over-year spending on IP broadband connectivity and business service solutions by large enterprise customers, as well as strong year-over-year data product sales to the government sector, all of which was reflective of a growing economy and increasing customer demand for fibre and bandwidth.

With steadily growing broadband scale, driven by our fibre investments and TV product innovations, improved business market results and the impacts of IFRS 16, wireline adjusted EBITDA was up 2% year-over-year. This maintained our industry-leading margin at a very strong 43.7%, providing ample operating leverage to support our approximately $2 billion in planned broadband capital spending this year.

Moving over to Slide 13, Bell Media's financial results were consistent with industry trends this quarter, reflecting continued momentum in TV advertising and disciplined execution on cost control. Although overall advertising was down 1.3%, this was due to continued market softness in radio, as TV advertising increased 1% in aggregate, reflecting stronger conventional entertainment specialty and new specialty performance. In fact, specialty TV, excluding sports, was up 11% year-over-year, a strong result, driven by higher advertising demand following a shift in spending last year to a main broadcaster of the Winter Olympics, leading content in rating, as well as improved pricing flexibility.

Subscriber revenue was essentially flat year-over-year, increasing 0.1%, as growth in our direct-to-consumer Crave video streaming service was largely offset by ongoing pay and specialty TV subscriber declines.

With respect to operating profitability, Bell Media led the industry in Q1, with the very strong adjusted EBITDA growth of 26.9%. This was driven by a 6.3% reduction in operating costs that reflected the positive benefit of IFRS 16, as well as the programming and production cost containment initiatives, which more than offset the higher costs related to ongoing Crave content expansion.

Let us move over to Slide 14, the components of Adjusted EPS for Q1, which was in line with plan at $0.77 per share, down $0.03, compared to last year, higher adjusted EBITDA growth of $0.12 of growth, but was effectively offset by the year-over-year step-up in depreciation and interest expense from the adoption of IFRS 16. Overall, IFRS 16 had approximately $0.01 of unfavourable net impact on EPS in the quarter. Also negatively affecting adjusted EPS in this quarter was the lower year-over-year tax adjustments and a reduction in the equity income that we pick up from our various minority interest investments.

Let us turn to free cash flow on Slide 15. We generated $642 million of free cash flow in Q1, up 19.6% over last year, driven by strong EBITDA growth and lower year-over-year capital spending. This result included a favourable non-cash impact from IFRS 16 net of the incremental imputed interest component on the newly designated IFRS leases, as a portion of the lease payments relating to the principal is now recorded below free cash flow in financing activities.

Overall, growth in free cash flow this quarter was moderated by a decrease in cash from working capital, driven by the timing of AR collections, as well as higher severance paid resulting from payments related to management workforce reductions undertaken at the end of 2018. Pension funding and cash taxes remain relatively unchanged year-over-year, in line with our guidance assumptions for the full year of 2019.

To wrap up, on Slide 16, BCE's fundamentals and competitive positon remain strong, as evidenced by our Q1 financial results, with positive momentum across all our wireless, wireline and media operations. So, with a strong start to the year and no changes in operating outlook, I am reconfirming all of our financial guidance targets for 2019.

On that, I would like to turn the call back over to Thane and the Operator to begin the Q&A.

Thane Fotopoulos – Vice President – IR

Thanks, Glen. Before we start the Q&A, I want to remind participants of our time constraint this morning, so please limit yourself to one question and a very brief follow-up if you need to, so we can get to as many of you in the queue as possible.

So, with that, Lori, we are ready to take our first question.

QUESTION AND ANSWER SESSION

Operator

Thank you. 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 participants register for questions. Thank you for your patience.

The first question is from Richard Choe from J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Hi. Given the lack of spectrum purchase in the most recent auction, do you feel comfortable with your Capex spend both on the wireless and, I guess, wireline side to support the networks and the migration to 5G?

George Cope – President and CEO

Yes, we are very comfortable. It actually does not change our capital program, really, in any way that investors would say we have changed our capital intensity. We had actually modeled in a high likelihood that we would not participate in the auction, consistent with two of our peers in the U.S., based on the fact that doing some cell splitting, that we know we need to do in anticipation of 5G, gives us the incremental capacity, and we ran that math against this particular spectrum band. It was not for us cost-effective to purchase it versus doing cell splitting, that we knew we were going to have to do, and of course, we would probably beat a dead horse on this, but with the fibre piece in the position in the marketplace already, that helps us evolve from an intensity perspective. So, feel really quite positive about it.

Obviously, the 3.5 GHz spectrum auction is much more strategic for us. As I think all of our peers have mentioned, that is a core band to the roll-out of 5G. We expect that auction in Canada next year, and of course that deployment of 5G, in terms of the real evolution path of 5G, will begin at that point. If the auction happens next year, we will probably see it in the marketplace pretty quickly after that.

Richard Choe – J.P. Morgan – Analyst

Great, thank you.

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Thank you for taking my question. Nice improvement in wireless pricing. First, I just wanted to, if you can, provide us a level of detail on the adjustments. First on the impact of the government contract adjustment and the reclassification of your subscriber base in prepaid and postpaid that you did in the first quarter. How those affected your results, but apart from that, again, improvement in the year-on-year growth net of those, what are the main reasons for this improvement and is this sustainable, in your view?

George Cope – President and CEO

Yes, in terms of the adjustments, I did call out the overall impact, is we still had underlying 0.8% ARPU revenue growth. The changes were, obviously, by taking a more aggressive stance on churn prepaid subscribers off of 90 days, we took some zero-based prepaid subscribers out, which obviously give investors a much more transparent way to see what our true ARPU is. Then we had—there is a note in there—we had some subscribers that came off the network because of the shutdown of CDMA, and, of course, they were not really generating any revenue at all, either. So, in one sense, you could say it is a cleaner outlook in terms of the ARPU, but we will get the real run rates year-over-year now going forward. We will make sure we keep everybody informed, but as we did in this quarter, it was really 0.8% underneath it all.

Then, in terms of overall, I think one of the things probably, we are definitely seeing a better mix of the Bell-branded postpaid versus the Virgin. Traditionally, that mix, it swung a little bit in our favour. The Bell churn rate being as low as we talked about—and that tends to be our heavier users, clientele with a lower churn profile—I think that is it. We continue to grow on the business side. I think probably the pace of acceleration of uses that we have seen a few years ago, when that obviously stalled out somewhat last year, there was an impact on the year-over-year growth, and now we have not really seen the buckets increase again another significant amount from that period. So, that is really what is underlying the results.

We are really pleased with the prepaid gross additions, really happy with this new distribution, and feel generally fairly positive to the start on the wireless side.

Maher Yaghi – Desjardins Securities – Analyst

George, also on the wireline, why did you decide to remove the wholesale subscribers from your subscriber base? It is still 15% of the subscriber base total. What drove this decision at this point in time?

George Cope – President and CEO

Yes, it is interesting. It is one of the things we did the last year, if you watch. I was very transparent with the investment community and talking to our retail subscriber base. The revenue will always be in our revenue. Wholesale subscribers are not strategic for us. It is not a market we approach. It is not a market that we have, frankly, any interest in pursuing, other than regulatory requirements. The ARPU from that base is literally 32% of what it is for retail. So, to compare that net addition to any of our actual performance, from our perspective, in the whole industry, creates bad behaviour, in terms of creating subscribers that are not of value to investors, and so, from our perspective, we will always be reporting retail net additions consistently going forward. Of course, it is always in our revenue numbers in wireline, so it is there, but the subscriber information. Finally, given it is immaterial from a revenue perspective, we, quite frankly, do not want our competitors to know what is happening in the wholesale sector through us.

Maher Yaghi – Desjardins Securities – Analyst

Okay, thank you.

Operator

Thank you. The next question is from Philip Huang from Barclays. Please go ahead.

Phillip Huang – Barclays – Analyst

Hi, good morning. Good quarter. I just wanted to ask you a little bit more on the overall wireless market. Both BCE and your peers have reported to far—all the peers have reported so far a bigger seasonal slowdown in the wireless activity, so just wanted to get your thoughts on the reasons behind that. We certainly did observe fewer promotions relative to the spillover that we saw last year, but your postpaid churn is also the lowest in 15 years, and it seems like consumers are holding onto their smartphones longer. So, I was wondering if you do see an overall less active wireless market, in general, for 2019, as the industry appears to be focusing more on retention relative to gross additions, and as consumers are less excited by release of new handsets?

George Cope – President and CEO

There is a few things, and it is hard, it is one quarter into the year. We all know the first quarter is seasonally low, but of course what you are asking is on a relative year-over-year basis, which is the right way to go at the question. A lot of our impact is the federal government contract, in terms of some of our net addition reductions that you have seen year-over-year, and I think there is some commentary, for sure, that the life of the handset is being extended, and as the life of the handset extends, of course, that helps us from a churn perspective. Also, we fundamentally believe there is no network like ours, other than maybe one other country in the world, and we think when you shop for a network, there is not something that is faster or better in Canada, so we think is why we are seeing some of the churn results.

But, once you have the entire year unfold going forward, what I liked about the quarter is the underlying metric for value creation of churn and ARPU, granted, normalized out at 0.8%, it moved in the right direction. In the old accounting world, which is three years ago now, in the true pure service revenue growth side, it felt stronger than it has felt in a while, as well. So, let us hope that is an underlying trend. We will find out as the quarters evolve.

Phillip Huang – Barclays – Analyst

No, that is very helpful. On your ARPU point, certainly, we were positively surprised by the churn, excluding the CDMA and government contracts, but should we assume that growth for the remainder of the year from this point on, and also how many government subscribers are left to be migrated for Q2? Thanks.

George Cope – President and CEO

Well, the second answer, all I will say is, not a lot. That is not very material. I will not give you the number, but there is not a left to go. We got one more quarter and then it really almost normalizes out, for the investment community.

Then, in terms of—you know, we had an objective a couple of years ago, wanting—we thought we might see lease CPI ARPU improvements. We did not see that last year. I think it is a reasonable expectation we might get to that this year, and that is what we are hoping on, we will see how it feels out. If you look at our first quarter, on our reported ARPU, that is almost roughly where we were, I think, and so let us see what happens the next three quarters. It normalizes out at 0.8%, so obviously anything get us 0.8% to 1% would be positive. I do not want to give a forecast, but it felt just a little better than it is felt last year. That is all I will say.

Phillip Huang – Barclays – Analyst

Great, thanks very much.

Operator

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

Simon Flannery – Morgan Stanley – Analyst

Thank you. Good morning. George, some good Internet numbers, 51,000 fibre to the home. Could you just give us a little more colour on what is going on in the fibre markets, where is penetration in some of the markets you have had open for a little while, and what is the opportunity as you continue to build out those markets, and anything you are seeing on usage on those customers? Thanks.

George Cope – President and CEO

Yes, I think the positive thing we are seeing on fibre is the longer in these markets, and the word-of-mouth—and, frankly, if you are in some of our markets on the Canadian side, we are so consistently advertising the benefits of fibre, I think we are always now in the buying decision for it. I think that it is what we are starting to see the benefit of. I think our Alt TV strategy, which is a non-set-top-box TV strategy, with two streams, as I have said on the call, significant discount to traditional TV, but helps us pull through the Internet, are two things that we are seeing.

When we get underneath our results, say, in Southern Ontario, we think we captured literally 60% to 70% of incremental household revenue in the quarter year-over-year. We think—that is overall on the wireline side, and we think that really comes from slowly, but surely, seeing some momentum on the fibre side that gets us into that objective of trying to get to that one out of two customers moving to our Internet service, and then we will drive it from there going forward.

The other side I should mention, which I have not, because you are asking the question on fibre, is on the business side. I think one of the reasons we continue to see some of the results from our Business Markets Team—and they were handing me some notes yesterday on this, as well—the client base, the corporate client base is really now much more interested in fibre for their businesses. National retailers in Canada, not just in urban markets, we are doing some rural builds for fibre for very specific clients. The competitive dynamics in retail today—and banking, as well, there are structural changes going on in banking. Many of the branches are upgrading themselves for technology-friendly solutions for clients. So, we are starting to see some underlying demand for fibre on the wireline business side, that I will tell you two or three years ago would have been us trying to convince the client. Now, it is us trying to manage some of that demand with the clients. We think that may be giving us some of the reasons for the stronger growth that we have seen on wireline business. It is the first time we have seen it, as many of you on the call know, for years and years and years, and any time that is positive, that is a big positive for our wireline business.

Simon Flannery – Morgan Stanley – Analyst

Great, thank you.

Operator

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

Vince Valentini – TD Securities – Analyst

Yes, thanks. Let me see if I can give Glen a bit a of air time here. Two sort of questions for you, Glen. The Source impact, it looks like Q1 last year wireless was restated down $11 million when you include The Source. Can we assume there is a normal seasonal loss that would be buried in your wireless EBITDA you reported for Q1 of 2019, as well? Then, on top of that, can you give us any more granularity on how much IFRS 16 impacted the wireless division, how much of that growth was just from the accounting change versus core?

Glen LeBlanc – Executive Vice President and CFO

Good morning, Vince. Yes, on your first question, the answer is yes, you have that approximately right on the decline that would have resulted from The Source. Just to remind everyone, as I think you picked up, we restated last year, so comparability for each of our segments is there.

On your second question on IFRS 16, when we provided the guidance on the last call, I reminded everyone, and I did it again today, that the 5% to 7% guidance we provided on EBITDA normalized for IFRS 16 is more like 2% to 4%, so there is a 3% year-over-year value to what IFRS 16 is driving into EBITDA.

If I look at it by segment, about a third of it relates to our Media segment, a little less than half, 45%, to our wireless segment, and then 20% to 25% of that is in your wireline. So, in any given quarter, that 3%, it is going to move around a little, Vince, but across the year it is 3%, and that is how it relates to each segment.

Vince Valentini – TD Securities – Analyst

Thank you.

Glen LeBlanc – Executive Vice President and CFO

You are welcome.

Operator

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

Jeffrey Fan – Scotiabank – Analyst

Thanks and good morning. I am going to focus on wireless. The nice acceleration in the service revenue for wireless this quarter, I know there is a lot of factors that drive it, ARPU subscribers. But if we just focus on service revenue, it grew 3.6% this quarter, last quarter it was 2.2%, so a really good start, and I am just wondering if you can just provide some colour on what you think is really driving this inflection point from last quarter to this quarter.

George Cope – President and CEO

Glen, why do not you talk about the one item? There is the one item year-over-year on the wholesale adjustment on the wireless side.

Glen LeBlanc – Executive Vice President and CFO

That is an item that occurred in 2014, Jeff, so it is in the results—excuse me, 2018. It is around $14 million that we lapped. Obviously, that results in some improvement there. George?

George Cope – President and CEO

Just to remind everyone, there was that decision a year ago where we had to go back, so there is about $14 million there, but even underlying that, the ARPU growth that I talked about, we saw, and now it is just a function of the competitive marketplace.

The other one for us, overall, on service revenue growth, we had always had this—you have heard me talk about it—we have had this negative prepaid revenue growth, and that turned for us in the back half of last year, and of course it is turning for us now even with the negative growth in the quarter. Of course, we are seeing better ARPU on prepaid, because the product is a little different, and much more focus for us. So, if we can take for our business what is been a negative story and have it positive, like it was the last half of last year, that is an overall contribution to service revenue growth. We have seen some—for me, some confidence building around a little bit of underlying strength there on the overall service revenue.

Look, it is the first quarter, we got a lot of work to do on the year and it is a pretty competitive market, but we will take the first the first ninety days and put it in the bank.

Glen LeBlanc – Executive Vice President and CFO

It is a great start.

Jeffrey Fan – Scotiabank – Analyst

Okay, great, thanks.

Operator

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

Batya Levi – UBS – Analyst

Great, thank you. Can you talk a little bit more about the competitive environment you are seeing in broadband and video? You mentioned your Alt TV product, how that is differentiating you from the others? Also, as some of the competitors expand their roll-out of the new services, are you anticipating a change going forward this year?

George Cope – President and CEO

Yes, I think there is a lot of things we are doing on the Media side and on the TV side to address the consumer buying behaviour being different and the demand for the products being different. If you look on the Bell Media side, Crave, in Canada, quite frankly, for us has become quite a success story. We are seeing top line revenue growth, we have got the business EBITDA positive, and we are seeing positive EBITDA growth and some really nice subscriber growth on it, given that we have combined it with all the original series of HBO, etc. So that is one of the strategic tenets, what we are doing on the change of viewer behaviour.

Alt TV is exactly recognizing that there is a client base that is interested in some of the content, not the full TV package, as we have seen in the past, do not require the set-top box, we do not have to do the truck roll, it is two streams. So, really, it is a TV streaming service that is meeting all the TV licence requirements in the marketplace. It is significantly less expensive than traditional TV, but of course restricted by the number of streams, and of course you need a broadband connection for that, and we really are seeing that. We talk about the type of subscriber growth in IPTV, a lot of that is also being driven by the strategy around Alt TV.

Those are the two key things I would say we are doing in trying to address the change in consumer consumption of media content.

Batya Levi – UBS – Analyst

Thank you.

Operator

Thank. The next question is from David Barden from Bank of America Merrill Lynch. Please go ahead.

David Barden – Bank of America Merrill Lynch – Analyst

Hey, guys, thanks for taking the question. Just as you lap the government contract from the subscriber sample, can you talk about what the potential lift to the ARPU comparisons would be as that kind of cycles through the base?

Glen LeBlanc – Executive Vice President and CFO

Well, I think, as George mentioned in the previous remarks, we think that after we lap the government contract, CPI is probably a good indicator of where we will be. The government contract is playing less and less a role as the number of subscribers are dwindling now, so less of a role in the normalization of the ARPU. So, 1.2% reported this quarter, 0.8% if you normalize for the subscriber and government adjustments. I think, as we look forward, somewhere in that CPI 0.8% to 1% number seems reasonable.

George Cope – President and CEO

The analysts will know this. What you got to watch in our case, too, is because of prepaid becoming a more successful part of our business, it is a weighted average issue on the blended ARPU. Of course, what everyone on the phone really cares about is the absent service revenue growth. If, obviously, prepaid does better, it can have an impact on that blended number, but we will be, obviously, going forward, transparent on that, so that you really can see the pure service revenue growth number.

To me, the biggest strategic issue for us on the wireless side was getting a negative growth story to be positive on prepaid and, secondly, see some stabilization on the postpaid ARPU size, and those two things seem to be just holding on. As I said, it is the first quarter, we have got three to go.

David Barden – Bank of America Merrill Lynch – Analyst

Thank you so much, and if I can just follow up. I think part of the strategy of getting into prepaid was to try and take those subscribers and groom them into the postpaid base. Is there some part of that strategy that we saw kind of support the postpaid subscriber growth in the quarter?

George Cope – President and CEO

Yes, we saw a little bit, actually. It is true, we did see some little pickup over the previous year, and of course, we got a long way to go to get our base at the size and scale of one of our larger peers, but, hopefully, if we do that, we will see some of that migration, as well.

David Barden – Bank of America Merrill Lynch – Analyst

Thanks so much.

Operator

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

Tim Casey – BMO Capital Markets – Analyst

Thanks. George, I just wanted to return to the spectrum auction topic for a moment. Obviously, you have said expectations at 3.5 GHz is core and strategic. What are your expectations, if you are allowed to share them, on how the ISED will approach the Inukshuk spectrum, and the use you will be—that will be available to you of that going forward? Thanks.

George Cope – President and CEO

The Inukshuk spectrum, just for the investors that are unaware, that is a 3.5 GHz spectrum that we have a significant holding of, as does our partner at Inukshuk, Rogers has a significant holding. The ISED folks—I was going to say Industry Canada—the ISED folks will come back shortly and tell us how much of that we are able to hold and how much of that we need to return for the purposes of the auction. The amount that we are allowed to hold, of course, we will then use for our Mobility business, combined with what we acquire in the auction. So, we need clarification on what they are asking us to return, and that should be—obviously, has to come ahead of the auction. We do not actually have that answer yet, and when we do, we will share it with the Street right away, but we have obviously filed—because we are user of that 3.5 GHz spectrum for some of our fixed business, we have filed and, obviously, asked if we are able to maintain a significant share of that. You can imagine some of our peers have a different view, and so we will let ISED, as they do lay down the rules, and then we will act accordingly.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Operator

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

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning, and thanks for taking my question. George, just to follow up on your comments on enterprise—you talked about some of the elements that you think are driving that strength that we have seen for a couple of quarters now—could you give us a sense of how much visibility do you have? I mean, is it just a couple of quarters at this point or is it longer than that? I am trying to get a sense of the sustainability.

And a really quick follow-up for Glen. On the IFRS 16 impact, we have a sense of what the annual number is. Was Q1 sort of overall under-indexed, you know, what would be sort of 25% of that? I just wanted to get a little bit more clarity on the underlying growth rate. Thank you.

Glen LeBlanc, Executive Vice President and Chief Executive Officer

No, 25% is reasonable for the quarter. As I said, 3% for the year. The quarters, although, will be one side or the other of 3%, it is not material. The first quarter was not over-indexed or under-indexed.

George Cope – President and CEO

I cannot help myself, it is just me, but free cash flow tells the whole story, anyway, for everyone, as you all know. It is all there, right?

On the enterprise side, I think we have had—let me make sure I got it right—three-quarters of feeling pretty good about that business, some strength, but I have to be honest with the investors, it is a little bit—it is very hard for us to say we now see a trend. If my team from Business Markets were on the call, they are feeling more positive about the business, even this quarter. As we get into the second quarter, I think they are feeling like they got some momentum. But, it is really, really hard to say we have something we can trend into the business yet, and so—and that is being as transparent as I possibly could be on the file. There is definitely some underlying strength.

I would say our team has been together now, this group that is running that, for a number of years, and we think they are executing very well competitively in the marketplace. We like to think they are maybe taking some share, which is a challenge given our share, but we think that is also benefiting the Company overall, in terms of what they have been doing.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Thank you.

George Cope – President and CEO

I am sorry I do not have anymore on that, I apologize, but that is really as far as I can go, because we are, like you, waiting to see if it continues.

Thane Fotopoulos – Vice President – IR

Okay, great. Lori, in the interest of time, this will be our last question.

Operator

Thank you. The last question is from Drew McReynolds from RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, thanks very much Thane for fitting me in here. Maybe a question for you, George. We have talked a lot about the ABPU growth and growth expectation for the year. On postpaid market expansion, just for the industry relative to the 1.5% or 1.6% that we did last year, and, frankly, after two years of pretty good growth and two years of not so good growth prior to that, I just want to get an update on your expectation for 2019 and 2020, and kind of the changes and the moving parts underpinning that. Thank you.

George Cope – President and CEO

Yes, that is a tough one. In one sense, I want to almost turn it back to everyone on the line, or the analysts, and say what you guys are using as your penetration gains for the year is probably—what we are probably using consistently, as well, in our own outlook. I mean, I think some of the questions people have asked about the life-cycle of customers, it is—and we are in it every day and I cannot give you much more transparency. Maybe we see improved churn on the year and less activity of clipping and that adds some pretty significant profit for the space. At the same time, last time we saw that dramatic acceleration, we had to be honest on the call and say we did not see it coming. But, certainly, I think people have guidance on the Street on our subscribers, they work with all the industry and with Thane, and certainly we are not calling off any of what the analysts have been saying that generate EBITDA growth for us. It is hard for me to go beyond that, because, frankly, we have to live these quarters quarters-by-quarters to see.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, thank you.

Thane Fotopoulos – Vice President – IR

Great. So, on that, thank you for your participation this morning. As always, I will be available for follow-up and clarifications later today, after our Annual General Meeting. So, on that, have a great day. Thank you.

George Cope – President and CEO

Thanks, everyone.

Glen LeBlanc – Executive Vice President and CFO

Thank you.

George Cope – President and CEO

Go Raps.

Operator

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