BCE

Q4 2018 Results & 2019 Financial Guidance Call

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February 7, 2019

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 Q4 2018 Results & 2019 Financial Guidance Call, as reflected in this transcript, are forward-looking statements. These 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, our network deployment and related capital investment plans, expected growth in our wireless, Internet and TV subscriber base, our expected cash pension funding, BCE's financial policy targets and our intended progress towards meeting those targets, BCE's 2019 capital markets objectives including net debt reduction 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. 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 February 7, 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 February 7, 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 Q4 2018 Results & 2019 Financial Guidance 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 Q4 2018 Results & 2019 Financial Guidance 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 slightly slower rate of economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 1.7% in 2019, down from 2.0% in 2018*
- *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 increase modestly in 2019*
- *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 more customer migrations from Bell Mobility's SSC contract*
- *Expansion of the LTE-A network coverage to approximately 94% of the Canadian population, and continued fifth generation (5G) preparations with network technology trials, 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 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*
- *Continued aggressive residential service bundle offers from cable TV competitors in our local wireline areas*
- *Continued large business customer migration to Internet protocol (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 premise (WTTP) 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 behavior 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 broadcast distribution undertaking (BDU) rate increases, and strategic pricing on advertising sales*
- *Operating cost growth driven by higher programming costs, 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 February 7, 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 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, while 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, and invest and evolve in the appropriate direction*
- *the failure to continue investment in next-generation capabilities in a disciplined and strategic manner, including real-time information-based customer service strategies*
- *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, to deploy new network and other technologies and offer new products and services, and to comply with various obligations*
- *changes to our base of suppliers or outsourcers that we may determine 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 auditsF*
- *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 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 Safe Harbour Notice Concerning Forward-Looking Statements dated February 7, 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). This document is also available at BCE.ca.

The terms "adjusted EBITDA", "adjusted EBITDA margin", "adjusted net earnings", "adjusted EPS", "free cash flow", "dividend payout ratio", "net debt", "net debt leverage ratio" and "adjusted EBITDA to net interest expense ratio" 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 "Accompanying Notes" in BCE's Supplementary Financial Information – Fourth Quarter 2018 dated February 7, 2019 for more details.

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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the BCE Q4 2018 Results and 2019 Guidance 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, as well as Glen LeBlanc, our CFO.

As a reminder, our Q4 results package and 2019 financial guidance targets, and other disclosure documents, including today's slide presentation, are available on BCE's Investor Relations webpage.

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. For additional information on such risks and assumptions, please consult BCE's Safe Harbour notice concerning forward-looking statements, dated February 7, 2019, that is filed with both the Canadian Securities Commission and with the SEC, which is also available on our website. These forward-looking statements represent our expectations as of today and, therefore, are subject to change. We disclaim any obligation to update forward-looking statements, except as required by law.

So, with that done, over to George.

George Cope – President and CEO

Great. Good morning, everyone. Thank you for joining us. I will just start on the presentation, give you a quick overview, and then turn it over to Glen.

Certainly, we ended the year on a positive note, with all three of our operating segments reporting revenue growth and, importantly, EBITDA growth across the three groups.

From the wireline perspective, 2.4% revenue growth, being our strongest organic revenue growth in over 10 years there, driving the 1.3% wireline EBITDA growth, and growth in our market share of Internet and IPTV combined, with net additions up 11% year-over-year.

On the wireless side, I thought it was a balanced quarter, with 143,000 total postpaid and prepaid net additions generating the revenue and EBITDA growth we reported this morning.

I think one of the highlights of the quarter, on top of the wireline revenue growth, was the media's financial performance, up 1.9% revenue and adjusted EBITDA growth of 2.9%, and generating free cash flow growth in the quarter.

Turning to the next page, just stepping back and looking at the year, I think it was a very positive year from a broadband perspective for the Company. Approximately 700,000 subscribers added during the year, up 32% year-over-year; excellent wireless growth of 480,000 net additions, up 44% year-over-year. Of course, a large part of that is driven through the change in direction or trajectory of our prepaid business from negative to positive with the launch of the Lucky brand. The fibre roll-out continues to benefit us with 219,000 Internet and IPTV net additions in the year, up approximately 12%. About 233,000 additional customers now on our fibre footprint, up 40%. So, some obviously strong growth numbers for the year and our investment thesis that we put in place a number of years ago starting to pay off with some broadband growth across all segments.

We turn to the wireless business, a good quarter, 122,000 postpaid net additions. Just for investors, it is worth noting that we did lap the federal government in the fourth quarter, so there were some net additions last year in the fourth quarter, as there were this year, where the other quarters would have had no federal government net additions from a year-over-year comparison. So pleased with that, relative to our largest peer, postpaid churn coming down nine points, obviously a valuable metric for us. Prepaid having its second positive quarter in a row, and clearly we took market share in that segment. And importantly, for us, as I mentioned, just taking what has been a negative revenue growth story for us for a number of years and turning that into something that is positive and adding a little bit of subscriber growth and giving us the ability to migrate over time some of those customers to postpaid.

We continue to maintain the highest ABPU in the industry. Worth noting, if we take out the federal government, we were up slightly, 0.3%, in the fourth quarter on our average revenue—I guess ABPU now, the term that we use—for the quarter.

Overall, for the year, the EBITDA growth and the margin of 42.3%, combined with a capital intensity ratio of under 8%, is obviously driving significant free cash flow margin, and quite healthy free cash flow margin for the Company, enabling it to invest, as it is, in the fibre network and our LTE Advanced network.

Taking a look at our network for next year, 2019, on the wireless side, we would expect to end 2019 at around 94% of the country covered with LTE Advanced, providing Canadians in 60% of the population speeds of up to 750 Mbps, but enjoying typical speeds of 222 Mbps, which is really, as everyone knows on the call, incredible from a wireless perspective by any global standard.

On the 5G side, we continue to do trials and continue to prepare ultimately for the launch of 5G mobility. I will just make a couple of comments from a supplier perspective. There is a lot being talked about these days.

Huawei has been a supplier in our radio access layer for 3G and 4G mobile networks for a number of years, with of course Canadian government support, but we do not use Huawei's network in our core. As everyone knows, the government is conducting a cybersecurity review on whether to permit the continued use of Huawei equipment for 5G. We clearly recognize the issues at play and we will manage those appropriately going forward, and of course follow the law.

For investors, it is important to know we have made no selection yet of our 5G vendor, and if there was a ban or we chose a different supplier than Huawei for 5G, we are quite comfortable all those developments would be addressed within our traditional capital intensity envelope and, therefore, no impact from a capital expenditure program outlook, nor do we think, whatever the outcome is, it would in any way impact our timing in the market for 5G.

The other point I want to draw out is our wireline fibre investment continues to truly benefit our wireless business. That is why you are seeing capital intensity levels at historical low levels for us now and our expectation for 2019 at approximately 7%. At the end of 2019, 85% of our combined urban, and now rural, cell sites will also have fibre backhaul in place. Literally, 90% of our capacity will have fibre backhaul, and we think that positions us well against any competitor in the Canadian market perspective in terms of network quality and speed.

Turning to wireline, we added about 65,000 new fibre customers in the fourth quarter, 1.2 million at the end of the year in total. Pleased with the Internet additions at 33,000. Retail up 15% year-over-year. I mentioned the last quarter, and I will mention it again this quarter, we are not focused on the wholesale segment. The revenue stream and the profitability of that stream is really not worth pursuing strategically. It is a regulatory obligation we will meet, but it is not a strategy of the Company.

On the TV side, 36,000 net additions, up 12%. Clearly, Alt TV, our streaming TV service that does not require a set-top box, is available at a maximum of two streams, is clearly helping us drive some additional TV and Internet pull-through growth, with 14,000 overall TV net additions up in our wireline footprint, so up 27% year-over-year.

There is a number of highlights from our product perspective we will pursue this year, that you can see on the page, which makes us quite excited going into next year, that our leadership in broadband in the marketplace and our investments will continue to help grow the Company.

If you take a look at our wireline footprint on the next slide, I am really pleased with 2018. Many investors will recall that we had a target to add 800,000 locations to our footprint from a fibre perspective. In fact, we got closer to 900,000 locations, still within the same capital envelope we had, so really pleased with that outcome. For this year, going forward, we are targeting 700,000 locations, and that includes our fibre and our wireless to the Home Program. Again, we hope to do better than that, but that is what our current plan would show, and over to our Engineering Team to try to exceed that and do it within the same cost envelopes. We will surpass a fibre milestone this year when we go over 50% of our fibre footprint completed, which of course is part of our long-term strategy, which was to continue to grow our broadband share.

I want to announce also this morning that we have decided to take our wireless to the Home Program up from 800,000 homes, it was the plan, to 1.2 million homes. That is really a 50% increase, particularly driven by the recently announced Canadian government program which allows for an acceleration of our capital cost allowance, helping us out from a tax perspective, which Glen will talk about, and then reinvesting that capital in rural markets where, one, they are underserved, and secondly, we think it represents a significant market share opportunity for Bell. In those markets, we would be anywhere, maybe as high as 15% share, and sometimes as low as 5%. So, that roll-out will continue. It will be much more significant, as I mentioned. For next year, for the analysts, it will continue to be the 200,000 households, with 28 communities, getting access to that new service.

On the media side, I mentioned best quarter for us in a number of quarters—fourth quarter of 2016 was the last time we saw these numbers—driven by great growth in the last year, and a bit on our sports network side, where we returned to being the number one sports network in the country. Some really nice growth metrics. Our investment in the Raptors is certainly paying off, not just in winning, but in ratings, where the ratings are up 71% year-over-year.

We are also really excited about the relaunch of Crave, with 2.3 million now linear and direct customers on that service. For our American friends or investors on the phone, it is really quite a unique product. At CAD $20, you have access to HBO, Showtime. You can stream *Game of Thrones* or any other product, or you can get it through a traditional TV provider. At CAD $20, we think it is, quite frankly, one of the best, if not the best SVOD service in the world, in terms of what is available from a content perspective, and we are seeing some nice early growth on that, as well.

I just want to call out, not talked about much, our out-of-home business that we also own. It just had a strong quarter, mid-single-digit growth, from a revenue perspective. We are now the second largest outdoor advertising company in the country, with over 31,000 advertising faces, and we are growing our digital footprint in digital advertising. Outdoor, of course, is excellent for us from an integration perspective, because all that backhaul required for that, of course, runs on our own infrastructure.

Turning to the dividend announcement this morning, obviously really pleased. Management is very pleased again to announce a 5% dividend increase to $3.17 per share. It is our eleventh consecutive year of a 5% or higher dividend increase, and, again, that will be done within our targeted payout ratio of 65% to 75%.

Glen will comment on this, but I just want to call it out, that we have all these changes in accounting rules. If you were to ignore those changes in accounting rules, we are probably close to the high end of that payout ratio, and if you take the new IFRS 16, we are kind of in the midpoint of that payout ratio. Either way, we are within the bounds of the payout ratio.

It is the 53rd consecutive quarter of EBITDA growth, and of course that is given us the ability to announce this dividend increase this morning and the financial results that we have just reported on.

Let me turn it over to Glen.

Glen LeBlanc – Executive Vice President and CFO

Thank you George, and good morning, everyone. I am going to begin on Slide 13 with a review of the consolidated results.

The fourth quarter capped off another successful year financially, with growth in revenue, EBITDA, adjusted EPS and free cash flow in line with our guidance targets for calendar 2018.

Revenue was up 3% in Q4, reflecting strong year-over-year organic growth across all segments. This drove a 2.8% increase in adjusted EBITDA, with a relatively stable year-over-year revenue margin, as we balanced subscriber growth with pricing discipline and in an intensely competitive marketplace.

Adjusted EPS increased $0.07 over last year to $0.89 per share, mainly the result of higher EBITDA and a pickup of some equity income. However, Q4 statutory EPS was down year-over-year due to $190 million in non-cash impairment charges at Bell Media, related mainly to its French language specialty and its pay TV properties. This was to reflect revenue pressures from ongoing audience and subscriber declines.

Lastly, we generated over $1 billion of free cash flow this quarter, bringing total cash generation for 2018 to approximately $3.6 billion, or 4.4% higher year-over-year. This exceptionally strong growth we saw in Q4 was the result of a planned decrease in capital spending, lower cash taxes paid due to the timing of some income tax installments, as well as favourable reversal of working capital from Q3, driven primarily by the timing of customer receivable collections.

Let us turn to Slide 14 and Bell Wireless. Overall, a good set of financial results once again this quarter, reflecting our consistent disciplined focus on subscriber profitability and cash flow generation. Total revenue was up 4.6%, driven by continued healthy subscriber base growth and a higher proportion of postpaid customers choosing plans with larger data allotments, as well as increased sales of more expensive smartphones, compared to last year.

In terms of operating profitability, wireless adjusted EBITDA increased a very solid 5.1%, while margin was up 10 basis points to 39.5%. This was driven by a combined impact of the high revenue flow-through to EBITDA and spending discipline on both new postpaid subscriber acquisitions and customer upgrades during the seasonally busy holiday period.

Turning to Slide 15, revenue growth accelerated to 2.4% in our wireline unit, driven by a positive top line growth across all of our wireline units. This result represents our best organic quarterly performance in more than a decade. Residential revenue was up approximately 2% year-over-year on combined top line Internet and TV growth of around 4%.

In Business Wireline, Bell Business Markets reported a second consecutive quarter of positive revenue growth on the back of higher IP broadband connectivity and professional service solutions revenue, as well as a higher year-over-year data product sales to large enterprise customers, all of which was indicative of better economic growth trends in the quarter.

With steadily increasing broadband scale, improved business financial performance and the flow-through of cost savings realized from workforce reductions and other productivity improvements, wireline adjusted EBITDA increased a healthy 1.3% in Q4. However, due partly to stronger year-over-year growth in lower margin product revenue this quarter, our wireline margin decreased by 50 basis points to 40.3 basis points.

In terms of cash generation, Bell Wireline provided a strong contribution to consolidated free cash flow in 2018, delivering growth in adjusted EBITDA, less Capex, of 2.9%. With $2.1 billion of simple free cash flow generated, our higher year-over-year fibre capital spending was fully supported.

Turning now to Slide 16, as George mentioned, Bell Media had its best financial results in two years, delivering positive revenue, adjusted EBITDA and simple free cash flow growth in Q4.

Total revenue up 1.9%, driven by 2.8% growth in advertising. Advertising revenue increased year-over-year on stronger specialty TV entertainment and sports performance, that reflected audience growth and higher advertising rates, improved conventional TV ad sales from a strong fall programming lineup, as well as higher year-over-year out-of-home advertising and digital growth. Subscriber revenue was essentially flat year-over-year, as pay TV subscriber clients were offset by growth in our direct-to-consumer Crave and sports streaming services.

Adjusted EBITDA grew an impressive 2.9%. This was achieved despite operating cost growth of 1.7%, driven mainly by sports broadcast rights and ongoing Crave programming expansion.

With that, I will leave my comments on 2018 and move on to 2019. Our 2019 financial guidance targets are summarized on Slide 17. These targets have been prepared in accordance with IFRS 16 accounting standards and take into consideration our current outlook, as well as our 2018 consolidated financial results, which will not be restated to reflect the application of IFRS 16.

For those of you who are not familiar with IFRS 16, it is the new accounting standard for operating leases that became effective January 1 of this year. Going forward, many operating leases will now be recognized on the balance sheet as right-of-use assets and debt, similar to capital leases, with related expenses recorded as depreciation and interest expense rather than operating costs in the P&L. As a result, adjusted EBITDA is positively impacted, revenue is not affected.

Over the term of the lease, the total expense recognized under IFRS 16 will be equal to the previous accounting standard, of course; however, the timing of the expense recognition will change. Under IFRS 16, interest expense will be higher at the beginning of the lease term and decrease over time as the liability decreases. Accordingly, the per lease expense is now more front-end loaded, resulting in a negative year-over-year impact on net earnings and adjusted EPS in calendar 2019.

Regarding the impact on reported free cash flow, the portion of the operating lease payments relating to the principal will now be recorded as a finance activity below free cash flow; however, the imputed interest component remains in free cash flow. As a result, the absolute dollar impact of IFRS 16 on free cash flow is lower than the non-cash benefit to adjusted EBITDA.

Our consolidated financial guidance targets are underpinned by a favourable financial profile for all three operating segments, building on the operational progress we have made in 2018, and reflecting our consistent and disciplined financial execution in a competitive marketplace. With healthy projected adjusted EBITDA growth contributing to higher year-over-year free cash flow generation, our financial foundation remains stable and strong, amply supporting a consolidated capital intensity ratio of approximately 16.5% for 2019, as well as the 5% increase in BCE’s common share that was announced this morning.

Slide 18 provides some perspectives on our revenue and adjusted EBITDA outlook for 2019. We are targeting consolidated revenue growth of 1% to 3%, which is consistent to our 2018 financial guidance when normalizing for MTS’ one quarter of incremental financial contribution last year. This is predicated on our expectation for continued healthy wireless subscriber paced growth, further Internet and TV market share gains driven by our ongoing expansion of our FTTP and rural fixed wireless broadband footprints, and higher residential household ARPU. We also anticipate a narrowing of the wireline business revenue declines on the back of higher telecom spending by large enterprise customers as GDP growth strengthens.

On the media front, we expect revenue trends to stabilize, despite the non-recurrence of the revenue from the 2018 FIFA World Cup and no simsub for this year’s Super Bowl broadcast. We also expect to benefit from the continued growth in Crave and our out-of-home advertising, as well as a recalibration of media spending allocations by advertising towards linear TV, given its broader and more targeted customer reach.

With respect to adjusted EBITDA, because of the continued strong wireless and wireline operating profitability, together with savings from a number of cost-containment initiatives, as we have outlined our Q3 results call in November, we are projecting adjusted EBITDA growth of 5% to 7% for calendar 2019. As I referenced earlier, this growth range reflects the favourable non-cash impact from the application of IFRS 16. Excluding IFRS 16,

consolidated adjusted EBITDA growth for 2019 is projected to be in line with BCE's historical average growth rate of 2% to 4%.

Turning to pension funding, on Slide 19, we made a $240 million voluntary contribution in December, mainly to align the funded status of several of BCE's subsidiaries' defined benefit pension plans with the strong solvency position of Bell Canada plan, and to substantially reduce the use of letters of credit for funding purposes. With this contribution, together with the higher solvency discount rate at the end of 2018 reflecting an increase in government bond yields, the average solvency ratio across the aggregate of all BCE plans is now essentially in a fully funded position, right around the 100% mark.

Given the strong valuation position and the market's expectation for higher interest rates going forward, no additional voluntary pension cash funding is currently anticipated for 2019. As for BCE's total normal course cash pension funding for 2019, that is expected to remain stable year-over-year at around $375 million. As for the Bell Canada plan, it continues moving closer to a surplus position of over 105%, at which point a contribution holiday can be taken on the annual current service cost. That opportunity to reduce BCE's annual cash pension funding of up to $200 million is becoming more and more tangible.

Moving to our tax outlook on Slide 20, the statutory tax rate for 2019 remains unchanged at 27%, while our projected P&L effective tax rate of approximately 25% reflects lower year-over-year tax adjustments, totaling around $0.02 per share. We also expect cash taxes in 2019 to be maintained at roughly the same level as 2018, at around $650 million to $700 million. This stable year-over-year outlook reflects the benefit of $100 million in additional MTS-related tax losses this year, as well as the tax savings of approximately $75 million enabled by the new federal government investment incentive programs that allows for accelerated expensing of capital expenditures. As a result of that program, we anticipate to generate savings in the range of $100 million to $200 million annually for the four years following 2019, which should help to significantly moderate the expected increase in cash taxes during that period.

Slide 21 summarizes our adjusted EPS outlook for 2019, which we project to be $3.48 to $3.58 per share. This includes a negative non-cash impact on earnings totalling approximately $0.05 per share, due to the difference between previously quoted operating lease expense and the timing of depreciation and interest expense under the new IFRS accounting standard for operating leases as I mentioned before. Excluding the financial impact of IFRS, adjusted EPS is expected to grow approximately 1% to 3% in 2019.

BCE's free cash flow for 2019 is projected to be in the range of $3.8 billion to $4 billion. That represents year-over-year growth of 7% to 12%, reflecting the flow-through of higher EBITDA, as overall capital expenditures, pension funding and cash taxes remain relatively unchanged year-over-year. As I stated earlier, this growth range reflects a favourable non-cash impact from the application of IFRS 16 net of the incremental interest component related to the newly designed capital leases, as the portion of the lease payments relating to the principal are being recorded below free cash flow and financing activities. Excluding IFRS 16, free cash flow growth is expected to be consistent with our 2018 guidance range of 3% to 7%, which fully supports the 5% common dividend increase for 2019, at the high end of our target payout ratio of 65% to 75%.

Lastly, on Slide 23, a quick update on our balance sheet and cash resources heading into 2019. As we begin the year, we have access to $1.8 billion of liquidity, together with a capital structure that provides good overall financial flexibility to execute on our 2019 business plan and our capital market objectives. Our strong investment grade credit ratings all have stable outlooks, and our net debt leverage ratio is projected to improve gradually over the next several years with steady growth in EBITDA and applying excess free cash flow to net debt reduction.

Our leverage ratio in 2019 will reflect a one-time negative impact of approximately 15 basis points due to the adoption of IFRS 16, as we added approximately $2.3 billion of capital leases to net debt on the balance sheet on January 1. As a result of this IFRS 16 impact, we are increasing our target net debt leverage ratio policy from the previous 1.75 to 2.25 times adjusted EBITDA to now 2.0 to 2.5 times adjusted EBITDA. This range better aligns with our BBB+ credit rating and is consistent with the target ratios of our direct peers. Our interest coverage ratio is unaffected by the adoption of IFRS 16 and therefore, remains unchanged.

Also highlighted on the slide is BCE's favourable long-term debt maturity schedule that now has an average term of 11 years and a historically low average tax cost of public debt of just 3.1%, and no debt refinancing requirements in 2019.

Finally, I would like to add that BCE's approximately $1 billion in annual U.S. dollar expenditures has been fully hedged into 2020, effectively insulating our free cash flow exposure until that time.

To conclude, BCE's fundamentals and competitive position are strong, as evidenced by our 2018 operating results. In 2019, we intend to build on that progress, consistent with our financial guidance targets we announced today.

With that, I will turn the call back over to Thane and the Operator to begin the question period.

Thane Fotopoulos – Vice President – IR

Thanks, Glen. Before we start the Q&A, to keep the call as efficient as possible, given the time we have left, I ask that you ask one question and one very brief follow-up to ensure we get to as many people as is possible.

So, with that, Valerie, 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, one 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 the questions. Maybe just on the fibre build-out, George, I guess, now you have gotten to 50% coverage, what is the cadence of the incremental expansion that you see and kind of the capital that you are willing to put to work on the fibre side of that build.

Then, just as a follow-up, have you seen any kind of effect from the Ignite TV roll-out in the marketplace and how it has affected your kind of go-to-market approach? Thanks.

George Cope – President and CEO

Okay, sure. So, on the fibre side, our overall program for 2019, it is pretty much consistent with 2018. I think we called out on—I think it is Slide 9, if I have got the right slide there, Thane—at about $2 billion a year, that does include part of the wireless to the premises build-out, as well, although on a cost per home, not as significant as fibre in terms of the build.

The cadence, we obviously do not give guidance out for the year after year after year, but the fact, if you look, we are doing 500,000 locations, and hopefully a little better on fibre next year, and a couple hundred thousand on wireless. I mean, it would probably be a safe thing to moderate that into some type of model. Now that we are over the 50% number—and everybody can do the math on what 0.5 million means—as we get further and further into that footprint, starting to touch some of the rural markets ultimately, and that is we will have the wireless to the home. If you take our total chart there that just shows our FTTN or FTTH and our wireless footprint, 9.8 million locations as of the end 2019, and if you were to roll out on top of that another 800,000—or, sorry, another million wireless to the home premises, you start to get our footprint being fully competitive as we overlay the FTTN with FTTH. So, hopefully, that gives people a sense where we are.

We do not think you are going to acceleration in that program, we think it will be consistent over the next while, and that is why I mentioned it on the call last quarter. The mix issue of wireless being more of our business than the stable wireline has allowed Glen to give some guidance a little more precise on the capital intensity, at roughly 16.5% this year, which the Street will know is slightly different from where we have been historically.

David Barden – Bank of America Merrill Lynch – Analyst

And, George, just on the Ignite TV?

George Cope – President and CEO

Oh, yes, sorry. On Ignite TV, in the marketplace competing with us, we would say it is a competitive market there. Clearly, that product has had success in the U.S., so it is going to keep us on our toes, but we are pleased with our TV results and we are just going to have to compete with that in the market. We are really

confident. We think the one place we may be slightly different on that approach is our Alt TV product. Being also a product without a set-top box, saving us the costs there, so we can sell it at a different price, focused particularly in the condominium markets, where we now have fibre and two streams, and that is probably a little more of our competitive focus, as well as our IPTV traditional business competing against Ignite TV. So, in the marketplace, but clearly our results show maybe not as a dramatic impact yet, but I am sure they are out there competing with us every quarter.

David Barden – Bank of America Merrill Lynch – Analyst

Thanks, guys.

Operator

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

Phillip Huang – Barclays – Analyst

Hi, thanks, good morning. I wanted to ask about your wireline growth outlook, just given the best organic growth in 10 years in Q4. Obviously, your ongoing expansion in fibre and fixed wireless footprint is going to be very supportive of that growth. There was also contribution from strength in Bell Business Markets and product revenues, which I assume to be potentially lumpy, so just trying to assess if the strong growth in Q4 is an indication that business is entering a period of faster growth, or should we still assume that the growth will be more consistent with the prior couple of years for now.

George Cope – President and CEO

Yes, it is a great question, and giving a very precise answer, we would love to give you exactly. Obviously, we are really pleased with seeing a couple quarters on the wireline side with this type of revenue growth and flowing through to a little better EBITDA growth, than we would have told you a few quarters ago on the wireline side. The guidance is the overall guidance, so I do not want to go down that granular other than to say BBM is clearly doing better in the marketplace, and it can be economics and market share, we are not sure which of the two completely. But it is certainly a more positive view, and if that were to continue, then the wireline business would end up, obviously, in a stronger position. Two quarters does not make for a long-term model, so we have just got to keep executing and—I hate to do this to you, but, frankly, it is just all within our overall guidance. To be complete, you know, to be transparent, we are very pleased to have that type of top line in wireline growth and it was above our expectations for a couple quarters.

Phillip Huang – Barclays – Analyst

Right, I appreciate that, and then just a follow-up on the fixed wireless broadband expansion. I was wondering if you could talk a little bit about some of the areas that you have deployed the technology already and if there are any early indicators of customer adoption or feedback to the product itself. Thanks.

George Cope – President and CEO

Yes, it is very early, we have done a few markets, and in those markets, one was to make sure we really understood the costs, the technology, the line of site, that it was going to do what we wanted it to do. That we could use our mobility sites and also get the backhaul in place for the fibre, because you have got to have the fibre backhaul. But in those markets we launched, it was enough to convince us to have this type of a dramatic change in our approach, to take it from nothing to 800,000 locations, and now, with the accelerated capital cost allowance, to 1.2 million locations.

In those markets, as I mentioned, in some of those markets we had 5% Internet share, in some markets we will be 15%, and we saw not huge absolute numbers, but we saw households move to Bell we have not had in a while. You combine that with our satellite, and if someone has local phone still, then it gives us a package we have not had, because suddenly people are getting speeds that, frankly, were just not available in those markets. So, it has got us making this investment and we think it is a great way to grow our competitive footprint, and if we are in markets where we are under 15% share, and if we can take that number up, obviously, that is going to be good for everyone here on the line who is an investor.

Phillip Huang – Barclays – Analyst

Thanks very much.

Operator

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

Jeffrey Fan – Scotiabank – Analyst

Hi, thank you, good morning. My first question is on wireline. The revenue number was definitely stronger than expected. I was wondering if you can comment a little bit on the margins with respect to wireline as we look a little bit forward, and how or whether cost-cutting, if any, is going to start to—should we start to think about that as a key contributor to 2019.

Then, the second question is on the wireless side. Great churn numbers, but I think we are seeing is some moving parts, compared to last year, given the competitive activities that happened in Q4 2017 with the promos. I am wondering if you can talk a little bit about some outlook with respect to how churn and ABPU and net additions may look for 2019, because I think we are—at least it seems like, based on the results that we have seen so far—and I know Telus is going to report next week, but it just feels like there is a little bit of moving activity in wireless more so than what we have seen maybe in the last couple of years. Thanks.

George Cope – President and CEO

Okay, great. On the margin side, I think Glen called that out, that—

Glen LeBlanc – Executive Vice President and CFO

Yes, our wireless margins—

George Cope – President and CEO

Wireline.

Glen LeBlanc – Executive Vice President and CFO

Excuse me, wireline margins, if you look at them for the calendar year, Jeff, they are very stable. They move around in this quarter. It was down a little bit. We had a higher volume of product sales, and as was mentioned earlier in the call, they can be lumpy. As we look forward, we see stability in margins and thinking 2018 is quite indicative of what we see going forward. Cost initiatives and cost efficiency, that is just part of what we do, and execute on every year.

George Cope – President and CEO

Yes. So, not really a subtle change there. Then, on the wireless side, I think it is an overall question, I mean, for the Company. Certainly, this year's fourth quarter, we are happy with the net additions, happy in terms of the swing on the prepaid and overall. Clearly, last year's fourth quarter had a bit of a unique happening in the marketplace and some of that share moved our way, against one of our largest competitors, in a pretty dramatic way, but to us, like as I said, a little more normal quarter, I guess, is what I would say in terms of that, and then that is in our results.

From a churn perspective, we saw a decline year-over-year and we will see how that unfolds as we go forward. The issue on the ARPU, as we mentioned, I think people have seen the flattening of our ARPU here versus ARPU growth, and that is, frankly, reflective of the competitive intensity that we have seen in the marketplace.

Then, on the wireless free cash flow, obviously, the fact that our capital intensity is significantly below, certainly, one of our peers, it gives us, I guess, we think the investment horizon that we need to keep generating the free cash flow growth for shareholders on the wireless side.

But, clearly, the four players are building out, they are more competitive, and that is why we are going into other segments as well, to try to pick up revenue, and obviously making significant investments in IoT opportunities. That will be, as I mentioned before on calls, a large volume of units and very small increments of dollars, but all adding up to something to help us on the cumulative front over time.

I do not know if that helps answer it or not, Jeff.

Jeffrey Fan – Scotiabank – Analyst

Okay, thanks, George.

Operator

Thank you. Our next question is from Landon Park with Morgan Stanley. Please go ahead.

Landon Park– Morgan Stanley – Analyst

Good morning. This is Landen Park on for Simon Flannery. I just wanted to quickly touch on the ARPU outlook on both the wireless and broadband sides, and if maybe you can also just talk about how we can think about Crave profitability and penetration, as well.

George Cope – President and CEO

Okay. So, on wireline ARPU, as people migrate to higher speeds on the broadband side, we would continue to anticipate to see ARPU growth in that space, because just the mix of clients moving to 1 Gigabit, 1.5 Gigabit generates for us some incremental ARPU growth on that product portfolio.

On the wireless side, as I have said, we have seen—we saw flat really on a year-over-year basis. And so now for us, one of the—Thane will get into this later on with the analyst community—but of course, as prepaid grows #as a mix of ours, there is a denominator/numerator math there, but we are not going to forecast ARPU. We have basically give you our guidance on the consolidated basis and we are just going to have see, because it was pretty hard to predict last year, up and down, in terms of what was happening competitively. And we do—Thane just handed me a note, so this was not my idea, but we are lapping the Government of Canada contract this year, and as we get later into the year, which will—

Landon Park– Morgan Stanley – Analyst

When should you start fully—when should that start rolling off the year?

George Cope – President and CEO

Probably, as we get into second quarter, second half—second half, I was just told, second half of the year.

Sorry, the other question was?

Landon Park– Morgan Stanley – Analyst

Crave TV profitability.

George Cope – President and CEO

The consolidated Crave is profitable, because we have obviously combined it with our—we have now combined it with our linear business and OTT business, repackaged for our traditional linear TV subscribers and this OTT product, and the OTT product at $20, whether you are on a TV subscription or over-the-top, provides us a profitable business model going forward. Obviously, our goal here is putting these—some of this content that traditionally was only available through linear and not over-the-top, we think will also help us improve our mix of over-the-top subscribers, which for us, of course, adds more profitability to BCE overall, because the margin stays within the house at 100% on that side. Now, it is just about subscriber growth. But, it is being well received in Canada. At CAD $20, it is quite a product, and an amazing content, having, obviously, the HBO and Showtime content in it, and now it is about growing subscribers there.

Landon Park– Morgan Stanley – Analyst

Great, thank you.

George Cope – President and CEO

Thank you for the question.

Operator

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

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning, thanks very much. George, I wanted to ask you about sort of your early experience following the GTA fibre-to-the-premises roll-out. Obviously, you started sort of the more active marketing around it around April/May last year. Can you just talk a little bit about the market share shifts that you are seeing there and the competitive counteractivity? I suspect it is fair to say that much of the gains from the enhanced product is still ahead of us, but I was wondering how you kind of saw the initial months in terms of market share shifts following that roll-out.

George Cope – President and CEO

Well, overall, as we have mentioned, retail-wise, the back half of the year, we had growth in overall net additions. We think that is—we know it is 100% driven by our total fibre footprint. In fairness, it is not just Toronto, it is our total fibre footprint that is getting us that growth, there is no doubt about that. Toronto, itself, is highly competitive, also, from the wholesale market perspective. It is one of the reasons we have the Virgin brand, as well, in the marketplace selling there.

When we step back and look at revenue growth, share of revenue growth, in the last six months of year we saw ourselves, in some cases, exceeding more than 50% of the net revenue growth in the industry in segments where we had fibre, and that starts to bode well for where we really want this investment thesis to go. We would like it to be both subscriber and revenue growth. But clearly there is been some price activity in the wholesale side that works against that, but we have got to have the fibre footprint, we see it in the last half of the year, and now it is just over time executing in that with the 1.5 Gigabit speed that we have in the market.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Thanks, and just quickly to follow up on some of the comments you made earlier about media and improvements in the advertising front. I just wanted to get your thoughts high level as to sort of your view on how material advanced solutions on the advertising front, or what you call "Ad Pack," would be down the road, just to sort of help maintain that stabilization, and any initiatives you can kind of talk about right now. Thanks.

George Cope – President and CEO

Yes, we have initiatives we are actually executing now in the marketplace with our clients of Bell Media. There is some other technology work to take that to another level, because we know that is where we need to take that product portfolio to. It is early days there. If I had Randy on the line with us here, he would be telling you, you know, some early wins that we are seeing, but we have got some technology evolutions there to do as well to help it. In fairness, I would not say that really had the impact on the fourth quarter results. It was just overall strength in the overall business, as, one, I guess businesses are feeling better about their own organizations advertising. Secondly, I think Glen's correct, we certainly saw movement back into this space, even by companies who sell a lot of their products only in the OTT world advertising a lot on the linear world, and Canadians up here watching would have picked that up, as well.

The other thing I thought was positive, as one of our peers reported, as well, it was just in the media business a good quarter, as well, so clearly it was something across the market, which usually for investors is better than just market share moves for the obvious reason. So, let us hope that holds going forward, but it is early days into the new year, so we will have to see.

Aravinda Galappatthige – Canaccord Genuity – Analyst

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

Thank you. On the wireless metrics, the subscriber and top line were a little light, but it seems like profitability was significantly better. Is there a focus on not worrying about customer accounts and more profitable customers?

As a follow-up, it might be too early days, but are you seeing the prepaid to postpaid migrations from the new prepaid product?

George Cope – President and CEO

Yes, so let me start at the end of then go back to the beginning of it. On prepaid, it is very, very small for us so far. Literally, all of our net additions are coming off of the back of our traditional gross postpaid sales, which, as we know, is different than one of our peers, who we think has done a great job of that, and one of the reasons we are in that prepaid market as we are, to ultimately get some of that conversion opportunity.

In terms of the market, it is kind of interesting. If you look at our results versus—so far, only one of larger peers has reported—we are happy with our relative share, our relative results, a pretty normal quarter, if you take away last year's fourth quarter that had all that unique promo, and one of our competitors has been quite public about having some execution issues. So, we thought it was a relatively good quarter. We are really pleased to see the prepaid market share swing our way, and that is where the revenue growth is from.

On the cost side, you are right, in that we did execute that cost restructuring in the Company, and that was across the entire organization, in the fourth quarter, but I do not want anyone on the call to think that somehow we backed off in the fourth quarter. That is just the market that took place. It sets us up well. I think, maybe, a couple of the analysts, Thane will take people through it a little bit off line, but there were some government net additions last year in the fourth quarter, most of it came in the first quarter, there were some. So, if you do it year-over-year, I think the Street will say it is kind of, it washes out with what some people had in mind.

Hopefully, that is helpful.

Richard Choe – J.P. Morgan – Analyst

Thank you.

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 very much. George, just back on Crave TV, as far as a Canadian OTT service goes, you guys have done a great job locking down the premium programming. I am just wondering, given the success to date, now that you have added—enhanced the platform, any thoughts on do you have enough scale to really grow that sub-base that you are targeting? Would you consider bringing in partners, strategic or financial, to take it to the next level?

A follow-up, just on home security, if you can provide an update just on how that business is performing and how it is contributing. Thank you.

George Cope – President and CEO

Sure. So, on the Crave—first of all, I have got to be careful, because core development is always something you do not want to comment on. But I would say we are happy with the structure we have on that, and we are really happy with our strategic supplier relationships with HBO, with Showtime, with those relationships, and the long-term nature of those agreements, like HBO. So, that is probably where we are there. It does not mean we are not going to do other—I think we announced something this morning with STARZ on the content side. That is not ownership, but it is another relationship. We do think at CAD $20, that amount of SVOD product—and I

know for sure, pretty sure, on the line, U.S. investors will know the U.S. marketplace—CAD $20 for Showtime, HBO, OTT product is a very competitive product in the market, and is profitable for us, combined with our linear TV. So, now it is truly about pursuing those relationships with those other SVOD players and leveraging that through our strong distribution, and our BDU partners.

I mean, one of the things we did not mention, but you may be aware if you are in Toronto. Our number one competitor here in Toronto has now launched Crave and they are now distributing it, our understanding is they like the product, and that is going to help drive Crave subscribers for us, and they make a great margin on that product, so it is good for them, as well. So, we are feeling that we are in the right space there to offer a competitive compelling product to Canadians.

Then, on home security, yes, actually, it is working as we wanted it to. It is helping us with some stickiness on the Internet side. That product gets, there is some little better integration that goes on next year on that product side. So we will continue to see some steady growth there. It is not in our RGU metrics anywhere, so we do not have it in our Internet subscribers, like some of our peers do. It is just a standalone business unit. So, I think we are happy with the first year. Product roll-outs become a little more competitive in terms of integrating into Bell next year. I think we are pretty optimistic that it has given us the right platform, that is what I would say. But just you guys do not see sub-metrics on it, because otherwise you have to roll it into another number and, frankly, I do not think it is going to help you get a clarity on these other products we have got.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, thanks, George.

George Cope – President and CEO

Yes, thanks for the question.

Operator

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

Vince Valentini – TD Securities – Analyst

Yes, thanks very much. Can I just get a clarification, and then a question? From the midpoint of your guidance and the adjustments, Glen, is it fair to say the EBITDA impact from IFRS 16 is around $196 million and the free cash flow impact is around $160 million?

Glen LeBlanc – Executive Vice President and CFO

Good morning, Vince. No. The actual impact from the changes of IFRS 16 are about $275 million on revenue, $175 million approximately on free cash flow, and then of course the differential of $100 million is interest expense, and that would be in interest.

Vince Valentini – TD Securities – Analyst

Two-hundred and seventy-five million, you said revenue, but there is no—

Glen LeBlanc – Executive Vice President and CFO

Excuse me, EBITDA, $275 million EBITDA, with $175 million flowing to free cash flow, and $100 million of that is interest. My apologies, Vince.

Vince Valentini – TD Securities – Analyst

No problem. The other question. That announcement yesterday, I think it was, on the City of Markham and the smart city, it seems very interesting. I mean, we are all chomping at the bit to try to figure out what the revenue upside could be from 5G in the future and how these deals work between the connectivity provider, like you, and it seems like IBM is the IT provider. George, can you give us any sense as to what kind of revenue you see here and what pathway this gives to maybe more low-latency 5G and IoT services in the future with these kind of city partners?

George Cope – President and CEO

Yes, I would say this, we are like you, we are chomping at the bit to try to figure out what the revenue opportunities are going to be, so it is a great way to describe it. I would say this, we have four now—I think that is our fourth smart city project we have going. Each one of them is the result of having our fibre and our wireless networks as integrated as they are, and some of these partnerships are with IBM, and so people will start to see some application roll-outs in those communities. It starts with demand and service contracts, and ultimately, hopefully, for us, recurring revenue streams.

It is so early for us to start putting quantified dollars against it, but, most importantly, we get the low subscriber revenue, or low unit revenue off the IoT at some point, we get managed service agreements, and of course it is important for us, because these are large wireline clients of ours, as well. So, we think we are really well positioned to be in that space, particularly those markets that have the fibre.

But, you are right, it is really early for us to put any number against it, other than we are pleased we have got four communities we are working with.

Vince Valentini – TD Securities – Analyst

Thank you.

Thane Fotopoulos – Vice President – IR

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

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Thanks for squeezing me in. I wanted to ask you just—so, I have a question on wireless ABPU, and just a follow-up on IFRS 16.

On wireless ABPU, is it fair to say that the peak—or we should start to see less pressure on year-on-year numbers in Q1, as we start to lap the government contract. You talk about the impact on ABPU coming from pressure on overage and the fact that the data buckets are getting larger. How much overage is there still in the

ABPU number, or if you do not want to give a number, how much more pressure are we to expect? Let us say, if we suppose that the data buckets stay around these levels, is there still more downside pressure on ABPU just from the change in overage year-on-year?

On IFRS 16, what is the discount rate you are using internally to calculate your interest cost portion of the operating lease cost?

George Cope – President and CEO

Okay. I am definitely not going to answer question two, so I will answer question one.

In terms of the second quarter—Thane just handed me the note in terms of the launch of crossing the government contract and then we will start to see "normalized" ARPUs without the impact of the government. So, it will be Q2 before we know that answer.

On your second point, frankly, you are on the track of what is driving, I think, some of the stabilization, if that is the right term, in ARPU growth, versus our traditional ARPU growth we have all seen. In that, the buckets are absolutely getting larger, and so our out-of-bucket revenue is less than it was the previous year, and that is where some of that mix change is for sure, and we have mentioned every quarter trying to normalize out for the government contract.

Then, for us, the other issue—and analysts, of course, will all know this—if we do more prepaid—even if postpaid were exactly the same net additions, the more prepaid, the math enumerator/denominator trades that off a little bit, but that does not impact, that is a positive, because that is an accretion of the cash flow.

I think at the end of Q2, we can maybe re-ask the question, see where we are. Q1 is going to be a little—because it has not got—the government stuff will not flow through until we get to Q2.

Glen LeBlanc, Executive Vice President and Chief Executive Officer

Good morning, Maher. It is Glen. On your second question, on IFRS 16, I think we did a real good job today laying out all the components and how they impact our results. I mentioned $2.3 billion in leases would be added to our balance sheet. Approximately $100 million—that results in $100 million of imputed interest expense, so 4.5%, approximately, is what your rate is. I think, through our remarks today, you get a real good handle on how IFRS 16 changes have impacted results.

Maher Yaghi – Desjardins Securities – Analyst

Have you changed how you account for year-on-year change in capital deployment on handset subsidies in your free cash flow calculation?

Glen LeBlanc, Executive Vice President and Chief Executive Officer

No changes to our free cash flow definition at all.

Maher Yaghi – Desjardins Securities – Analyst

Okay, thank you.

Thane Fotopoulos – Vice President – IR

Great, So, on that, everyone, thank you again for your participation this morning on the call. I will be available throughout the day for any follow-up questions and clarification. So, have a good rest of the day and thanks for participating.

Operator

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