Q2 2023 Earnings Call

Company Participants

- Callie Field, President - Business Group
- Jon Freier, President - Consumer Group
- Jud Henry, Senior Vice President and Head Investor Relations
- Michael J. Katz, President - Marketing, Innovation & Experience
- Mike Sievert, President and Chief Executive Officer
- Peter Osvaldik, Executive Vice President & Chief Financial Officer
- Ulf Ewaldsson, President - Technology
- Unidentified Speaker

Other Participants

- Brett Feldman, Analyst, Goldman Sachs
- Craig Moffett, Analyst, MoffettNathanson
- John Hodulik, Analyst, UBS
- Jonathan Chaplin, Analyst, New Street Research
- Michael Rollins, Analyst, Citi
- Philip Cusick, Analyst, J.P. Morgan
- Ric Prentiss, Analyst, Raymond James
- Simon Flannery, Analyst, Morgan Stanley
- Timothy Horan, Analyst, Oppenheimer

Presentation

Operator

Good afternoon. Following the opening remarks, the earning call will be opened for questions. (Operator Instructions).

I would now like to turn the conference over to Mr. Jud Henry, Senior Vice President and Head of Investor Relations for T-Mobile US. Please go ahead, sir.

Jud Henry {BIO 22149760 <GO>}

Welcome to T-Mobile's Second Quarter 2023 Earnings Call. Joining me on the call today are Mike Sievert, our President and CEO; Peter Osvaldik, our CFO, as well as other members of the senior leadership team.

During this call, we will make forward-looking statements, which involve risks and uncertainties that may cause actual results to differ materially from our forward-looking statements.

We provide a comprehensive list of risk factors in our SEC filings, which I encourage you to review. Our earnings release, investor fact book, and other documents related to our results, as well as reconciliations between GAAP and non-GAAP results discussed on this call can be found in the quarterly results section of the Investor Relations website.

With that, let me turn it over to Mike.

Mike Sievert {BIO 2140857 <GO>}

Okay. Thanks, Jud. Hi, everybody. Welcome to the call. As you can see we're here with several members of our senior management team. We're coming to you live from Bellevue, Washington and we're ready to take your questions, but first let me share just a few comments.

If you recall, at our Analyst Day in early 2021, we shared our strategy to build the best network, coupled it with a leading Un-carrier value proposition and customer experience, and grow our share in areas where T-Mobile was massively under-penetrated relative to our peers. That strategy and our approach has remained remarkably consistent and our Q2 results continue to show that it's working better than ever. In fact, T-Mobile delivered our highest Q2 postpaid phone net-adds in eight years fueled by both industry-leading gross adds and the lowest postpaid phone churn in company history. And importantly, we did this while industry growth normalized, proving that the growth opportunities and durable advantages we've been sharing with you really are unique to T-Mobile.

We also told you that if we delivered the best product and the best value and the best experiences there was no reason we couldn't get to the lowest churn in the industry. Remember that and in Q2 we did it for the first time in our history. T-Mobile reported the lowest postpaid phone churn in the industry. That is a remarkable statement and it's a testament to the work our team has done to build the best network and to further our value proposition to deliver even better experiences to customers.

Now, I'm sure there's still going to be some back-and-forth between us and the other guys before we consistently put them in the rear-view mirror for good on churn, but all the same, it is great to get this first win. We also continue to run the business in a smart and sustainable manner, translating our industry-leading customer growth in Q2 into industry-leading service revenue growth and core adjusted EBITDA growth while growing free cash flow by more than 60% year-over-year. This industry-leading customer and financial growth let us to raise guidance for the year again.

And we're fortunate to deliver these industry-leading results within the context of a vibrant wireless industry, with growing industry service revenues and industry cash flows, and healthy competition that continues to deliver more value and better networks to customers. In fact, our network we not only defended but extended our leadership in both overall and 5G performance with the latest third-party reports showing that T-Mobile's lead is widening.

Looking at Ookla data, T-Mobile once again swept every category for overall network performance with median download speeds, more than double our closest competitor. We've long talked about how our dedicated 5G spectrum assets, with superior propagation, would result in a demonstrable advantage in customers' everyday lived experiences, even as the competitors try to catch us. T-Mobile is head-start. Our dedicated 5G spectrum assets and our technology leadership are the things that allow us to stay meaningfully ahead as in like two years or more ahead in 5G reach and overall network performance, and to stay ahead for years to come.

And the most exciting part is that many prospective customers are only just beginning to notice, which means lots of the benefit from this is in front of us. And importantly, these things also allow it to do it all, with the best capital efficiency in the industry. Now, we also continue to build on our fame for providing the best value. Our latest Un-carrier move Phone Freedom freezed customers, locked up into those three-year contracts at the carriers and our new Go5G Plus rate plan delivers the best value in wireless. The response from customers has been really amazing.

In fact, Go5G Plus instantly became our most popular plan. And we are seeing improved porting ratios against every competitor including yet another quarter of year-over-year improvement against cable. In fact, total postpaid porting ratios for us have improved every month since we launched Phone Freedom, including in July. As more-and-more customers learned that they can break free from those three-year contracts, come to a better network, and get a better value at T-Mobile.

All of these catalysts, coupled with our unique growth opportunities in underpenetrated markets are what enable a differentiated and profitable growth strategy that separates us from the competition and you're seeing it again in these Q2 results. We added 299,000 postpaid account net-adds, the highest reported in the industry, showing that we continue to win the switching decisions in the market and we had postpaid net additions of 1.6 million, again leading the industry by a wide margin. This included postpaid phone net-adds of 760,000, our highest Q2 in eight years, even as the industry sees more normalized levels of growth. Our increased share was driven by our industry best phone gross adds, which grew over last year's Q2, as well as the lowest postpaid phone churn in our history. And as I mentioned, the lowest in the industry for the first time ever, at just 0.77%.

In T-Mobile for Business, we had a record quarter with the best-ever phone net-adds and our lowest-ever phone churn. Enterprise and government customers buy based on their own rigorous testing of the networks, not just price. And our network leadership, innovative solutions, and customer experiences are driving major wins and fueling our momentum in these segments. We're attracting profitable customers with CLVs in the hundreds of dollars each and still growing.

As I mentioned, consumers are beginning to take notice of our network strides as well. As we are winning prime network seekers in the top 100 markets, who increasingly recognize that T-Mobile offers the best combination of network coverage and capacity to meet their needs. We saw our share of switchers in the top 100 markets, increase both sequentially and year-over-year.

In smaller markets and rural areas where we continue to bring the first and in many places only 5G network, we're seeing an incredible response. We're capturing a win share of switchers in these areas in the upper 30s, which shows we're not only on track to meet our goal of 20% share in 2025, but it gives us confidence we have room to run in the years beyond. In addition to mobile wireless, we added 509,000 high-speed Internet customers.

Notably, we've continued to grow our gross adds every quarter since we launched over two years ago as demand for the product just continues to grow. And we saw a sequential improvement in churn again this quarter and net promoter scores that remain multiples higher than cable, demonstrating how our high-speed Internet resonates with and satisfies an important target audience within this larger broadband market. We also celebrated another major milestone in our Sprint Merger integration, as we are now substantially complete with both the billing migration and retail rationalization, well ahead of our year-end target.

At every step of our integration journey, the customer has been our primary focus. As you know, this has allowed us to not only unlock synergies bigger and faster than expected, but also to deliver industry-leading growth and record-low churn at the same time. I could not be more proud of what our team has accomplished in this area.

Okay, I'm going to wrap it up. We are pulling into the station halfway 2023 with great momentum. Our postpaid phone net-adds year-to-date are right on track with last year, which was a growth record year for us. We continue to extend our durable network and value leadership over the competition which fuels our growth opportunities. And our profitable growth strategy continues to translate into the highest core adjusted EBITDA growth and year-to-date cash flow conversion in the industry.

Listen, in our industry change is a constant, but our team navigates it deftly, with the customer as our North Star. And because of that, there has never been a more exciting time to be at T-Mobile.

Okay, Peter, over to you, to talk about our key financial highlights and an update on our guidance for 2023.

Peter Osvaldik {BIO 18597986 <GO>}

Absolutely. Thanks, Mike. Q2 was another quarter of best-in-class profitable growth, which underpins the updated guidance that I'll share with you in a moment. It starts with the best postpaid service revenue growth in the industry, up over 5% year-over-year, driven by continued increases in both postpaid accounts and postpaid ARPA. Our disciplined focus on profitability resulted in an 11% year-over-year increase in core adjusted EBITDA, and we grew our core adjusted EBITDA margin by over 300 basis points year-over-year.

In addition, free cash flow was up 64% year-over-year and with the highest free cash flow to service revenue margin relative to our peers year-to-date. We expect this to be a durable and differentiated unlock of shareholder value going forward. This strong financial performance also supported our share buybacks as we repurchased 25.2 million shares for $3.5 billion in Q2, with a cumulative total of 83.5 million shares repurchased for $11.8 billion as of July 21st.

All right, let's jump into the details of our increased guidance for 2023. We now expect total postpaid net customer additions to be between 5.6 million and 5.9 million, up 250,000 at the midpoint, reflecting growth across all of our market opportunities. And we continue to expect a roughly half of postpaid net-adds coming from phones for the full year. Our focus on profitable growth allows us to fund those higher customer net-adds and still increase our core adjusted EBITDA expectation, which we now expect to be between $28.9 billion and $29.2 billion. This is up 10% year-over-year at the midpoint, based on higher service revenues and merger synergies, and excludes leasing revenues of approximately $300 million as we transition substantially all remaining customers off device leasing by year-end.

Our merger synergies are expected to be approximately $7.5 billion in 2023, achieving the full run-rate synergy target provided at our Analyst Day, a year ahead of schedule as we build towards the full run-rate synergies of $8 billion in 2024. We continue to expect merger-related costs, which are not included in adjusted or core adjusted EBITDA to be approximately $1 billion before taxes. And we now expect cash merger-related costs of $1.6 billion to $2 billion for 2023, as they have underrun the P&L recognition to date.

Net cash provided by operating activities, which includes payments for merger-related cost is now expected to be in the range of $18 billion to $18.3 billion. And we now expect cash CapEx to be between $9.5 billion and $9.7 billion, delivering a capital efficiency unmatched in our industry, unlocked by our network leadership. We expect CapEx to taper in Q3 and then further in Q4. The slightly higher operating cash flows fund the increased CapEx resulting in strong free cash flow of $13.2 billion to $13.6 billion, which includes payments for merger-related costs. This is up approximately 75% over last year, thanks to our margin expansion and capital efficiency, and does not assume any material net cash inflows from securitization. This also represents a free-cash flow to service revenue margin, which is multiple percentage points higher than peers, with further expansion expected next year.

We continue to expect our full-year effective tax rate to be between 24% and 26%. And finally, we now expect full-year postpaid ARPA to increase slightly more than the 1% we had previously guided for 2023, as we continue to expand our account relationships across products and services, as part of our land and expand account strategy to grow service revenue.

Before I wrap up, I want to remind folks that we closed the sale of our wireline assets to Cogent on May 1st, which had a partial impact on our results in Q2, and we expect the full run-rate impact beginning in Q3 as I laid out last quarter. In closing, we continue to extend our network leadership and further scale our differentiated profitable growth opportunities to deliver the highest free cash flow conversion in the industry and unlock shareholder value.

And with that, I will now turn the call back to Jud, to begin the Q&A. Jud?

Questions And Answers

A - Jud Henry {BIO 22149760 <GO>}

All right. Let's get to your questions. (Operator Instructions).

We will start with a question on the phone. Operator, first question, please.

Operator

Certainly. Thank you. That will come from the line of Brett Feldman with Goldman Sachs. Your line is open.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Brett.

Q - Brett Feldman {BIO 3825792 <GO>}

Hi. Thanks for taking the question. And it was great to see the strong cash flow in the quarter. In light of that, we've got a few questions around why you decided to downtick a little bit on the buyback. And I guess maybe the higher-level question we're getting now that you're much further into the program. How do you think about managing that program going forward? Cash flow is obviously an input, you're going to be making some payments for C-band spectrum this year, so what is the right way for investors to kind of frame their expectations around how you're going to manage that on a go-forward basis? Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

It sounds great. Thanks, Brett. I'll start and then maybe hand it to Peter for some comments. The way I think about it is, we're buying at a pace through -- mostly through pre-designed 10b5-1 programs, in order to be able to meet the authorization during the timeframe of the authorization. So if you recall, the initial authorization of this program, it's a $14 billion program that takes us through September. And if you look at some of our activity early in the year where we were able to grab some additional run rate, now the remaining funds relative to the remaining time, suggest a run rate where we have it. So it's not really a downtick so much as just -- it's kind of a programmatic view.

And then and maybe Peter can pile on it -- on the second part. The way we think about it broadly is that, there is essentially been no underlying change to the thesis we've been communicating all along. Now, our Board hasn't made a determination yet about the second step, but the inputs to those steps have to do with the free cash flow development of this company, which as you mentioned in the premise of your question is right on track. We're guiding to 75% year-over-year cash flow growth this year and the underpinnings of the growth in the business as you saw from our fantastic Q2 momentum suggest another good year in '24.

And so, as the cash flow develops that's what gives us the confidence that original thesis of around $60 billion through 2025 is intact. But maybe you can also comment, Peter, on kind of how we think about this from a dedication of resources to this versus spectrum and other things as (Multiple Speakers)

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Absolutely. Brett. Yeah, one of the things that we had underpinned at Analyst Day is that it's about up to $65 [ph] billion of free cash flow, that's going to support the $60 billion of potential shareholder remuneration. And within that, we had some room and had reserved some capacity for spectrum purchases and other things. And of course, we'll fundamentally continue throughout this whole period, wanting to deliver, because that underlying delivery of the free cash flow is what allows everything to happen. And of course, always look at opportunities before us for the highest value creation opportunity.

With your question on C-band, that was already included in our assumption here. So when we continue to say, we have optimism around the program in totality C-band is fully contemplated within that.

Q - Brett Feldman {BIO 3825792 <GO>}

That's a great color. I guess as a quick follow-up question, as we're talking about, overall liquidity, any update on the spectrum option that DISH hold -- and if that were to get exercised, how do you think about putting that proceeds to work? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Sure. Well, the first thing I would point out is that any proceeds from that have not been contemplated in the long-range cash planning. So if there is cash that comes from that soon, that would be incremental to the planning expectations. We're still awaiting DISH's decision. So just as an update, and I think our filings made some of this clear, the deadline has come and gone for them to determine whether or not they would exercise their privilege to buy that spectrum for $3.6 billion. But they asked for some additional time of the DOJ and we did not object to that. And so, we have committed that we would not terminate their agreement and right to do that at any time before August 11th. But in fact, we're in discussions with DISH, about whether or not there might be a win-win, that's different from their initial privilege. And if there is, that would be wonderful. But obviously, that deadline is coming. So -- but our view was, it was worth taking the extra time, especially since they asked for it, in case there is a bigger win-win to be had here.

Q - Brett Feldman {BIO 3825792 <GO>}

Thank you. Appreciate it.

A - Jud Henry {BIO 22149760 <GO>}

Operator, next question, please.

Operator

Thank you. That will come from the line of Craig Moffett with MoffettNathanson. Your line is open.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi, thank you. Two questions. One, as long as we're on the topic of DISH. Outside of the 800, if the opportunity came up, would you have an appetite for more mid-band spectrum either from DISH or perhaps any other source? And we're talking about sort of meaningful size chunks here.

And then second, if you could just talk about the pacing and trajectory of fixed wireless as you now with a little more experience under your belt, as you look out towards your long-term guidance. And how do you think about the pacing to get to 8 million or so households?

A - Mike Sievert {BIO 2140857 <GO>}

Sounds great. Well, I'll tackle the first one and then maybe hand to Mike Katz for the second one. I don't mean to be flip, Craig, but I think you've been following us for so long. We've never met spectrum [ph], we didn't lie. And so, of course, and -- but one thing that distinguishes us from other providers is that, when we get our hands on spectrum, we put it to work, right away for the benefit of the American consumer. And so that's not only in the public interest, but that's in the interest of T-Mobile and our customers.

And so you see that in how we're deploying so ambitiously, the 2.5 gigahertz, that are the proceeds of the merger. Having built the best 5G network in history on that spectrum acquisition that came through the merger. So, look, I mean, we're always on the hunt for other ways to add capacity to our network because it allows us to do amazing things like not only continue to take share and grow and meet the ever-rising needs of customers on their smartphones but also to get after the subject of your second question which is fixed wireless access. And to the first part of your second question, nothing has changed in our aspiration. We're still on the hunt for that single-digit penetration and maybe Mike will comment about what we're seeing in the marketplace and the rate and pace of our growth versus our expectations.

A - Michael J. Katz {BIO 20454845 <GO>}

Yeah. Thanks, Mike. Thanks, Craig, for the question. We couldn't be happier with what's going on with this HSI business. You probably saw from our results, we just crossed over 3.7 million customers in this business and the pacing that we're on, which we told you last quarter and the quarter before, right around where we were in Q2, right around 500,000 customers, we -- gives us confidence that the 7 million to 8 million total customers that we committed to at the end of this planning period, that we've got high confidence that we're going to get there.

One of the things that Mike mentioned in his comments and I think it's worth reiterating is, we saw in Q2, again our highest gross adds. Gross adds have increased every single quarter since we launched this product. And then again in Q2, we saw sequential decreases in churn. And I think that really speaks to the fact that this is a great product, it's a great product that customers are really, really loving. And you see that both in this sequential churn decrease, but also just in the overall NPS scores, which continue to be the highest amongst any broadband category in America. So we're really thrilled with where we are with this product.

A - Peter Osvaldik {BIO 18597986 <GO>}

Back to my comments upfront, I said, things have been remarkably consistent with what we rolled out to you at our Analyst Day in '21. This is one of those things, we said, we saw a potential here of 7 million to 8 million subscribers based on the excess capacity profile of our built mobile network. That means it's not a capital burden. And because of that, we can make profit there. And so it plays a role, it's a single-digit penetration role and we're on our way to going and seizing it for the benefit of our shareholders and our customers and it's right on track.

Q - Craig Moffett {BIO 5987555 <GO>}

Thanks.

A - Jud Henry {BIO 22149760 <GO>}

Thanks, Craig. Operator, next question, please.

Operator

That will come from the line of Jonathan Chaplin with New Street Research. Your line is open.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thank you very much. Wondering if you can give us context on a couple of things. So, firstly, how are you thinking about the evolution of upgrades in the second half of the year as we go through a new iPhone cycle, and kind of what have you factored into your guidance on EBITDA for that? It looks like upgrades to the industry had been coming in sort of lower-than-expected, much lower than historical trends. I'm wondering how that shipped in the second half of the year.

And then wondering if you can give us a little bit more context on fixed wireless broadband churn. You mentioned that it will come down sequentially, which isn't surprising, and that it's always low in the broadband market in the second quarter.

But what does it look like on a year-over-year basis? Maybe you can give us some context around the kind of levels that it's at for the mature portion of the base that has been with you, maybe for a year or more.

A - Mike Sievert {BIO 2140857 <GO>}

Yeah, Jonathan, you're spot-on in the premise of the question that, looking at the aging of the base is the way to get at it. Will come to Mike on that in a minute. But first on upgrades, historically low upgrades, Peter, what's contemplated for the rest of the year, and maybe a little commentary on why do we think we're seeing that.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Well, let me start with why do we think we're seeing that. And fundamentally, we believe we're meeting customers' needs and desires. And if you look at what we've talked about from a network perspective and a value perspective, it makes a lot of sense. You come on to this network and you have a 5G device member, about two-thirds of our postpaid base already has a 5G device. And they get experience on this network that is just phenomenal. In the broader sense of the word, much more than the competitive sense can bring.

And we think we're just meeting their natural demand. Customers are happy with their devices, they're happy with their devices from a longer perspective. We continue to have a two-year financing construct, so they have the ability to upgrade earlier than the competition. One of the unlocks is a Phone Freedom that we put out there, that led to the port ratio changes. So fundamentally, we think we're exactly meeting what customers need. And in regards to the second half, the second half always tends to have slightly higher upgrade rates. And you mentioned that you have a new product introduction from Apple, you tend to have promotional constructs and a little bit higher switching in the second half. And we're typically the beneficiary of that. We also obviously make very, very solid offers to our base from an upgrade perspective. So we do have higher upgrade rates contemplated than what we saw in Q2, but we don't specifically guide to those other than directionally.

A - Mike Sievert {BIO 2140857 <GO>}

Okay. And Mike, over to you on a little bit more color on high-speed Internet churn.

A - Michael J. Katz {BIO 20454845 <GO>}

Yeah. I mean, I think building on what you're saying, Mike. We have the youngest base of broadband customers in America. And like I think we said in a couple of calls, the churn curves that we see for customers like in our mobile business tends to be higher in the earlier tenure months and then reduces as customers achieve greater tenure links with us. And we're seeing the exact same thing in our broadband business. And customers that have been with us for some months, their churn has decreased to the point that was right where we expected it. So it's looking right on where our plan was, and the behavior has been just right in line with what we expected.

A - Mike Sievert {BIO 2140857 <GO>}

Okay, terrific. And maybe, Jud, tell us when it's time to go to Twitter. So we're not ignoring the people coming in on Twitter, because we always do some of that as well. And while you are thinking about it, we'll go operator to one more online.

Operator

That will come from the line of John Hodulik with UBS. Your line is open.

Q - John Hodulik {BIO 1540944 <GO>}

Great. Thanks, guys. Two questions if I could. First on margins, obviously, a lot of progress there, 200 basis points, but you guys still trail AT&T and Verizon by about 500 basis points. And do you see that closing over time or is it really just a function of those lower ARPU and faster sub-growth? That's number one.

And number two, Mike, I think you said that your porting versus cable has improved. And I don't think you called that out before, but maybe just some commentary about what you're seeing in terms of competition in wireless and cable? I mean, they're talking about, sort of more and more bundled offerings. And I guess Comcast is sort of flattish on a year-over-year basis, but just what the postures there and what's driving that improvement in porting from cable? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Okay, I'll take that one, but Peter will start with you.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Certainly, on the margin question, it's a lot more than an ARPU differential, it's really some structural differences that we always call out. For example, the whole leased versus owned backhaul strategy. The other thing that always note is that with this significant higher switching that we see in the net add production that we're giving, obviously, we have more in SG&A than the competition does. We have a very dense network built out. So there is fundamental some structural differences that also mean, there is a CapEx, OpEx differential when you compare AT&T and Verizon. And that's why it's always important to fundamentally look at conversion of service revenue into free cash flow.

Free cash flow is the value-generation engine that allows you to further invest, return capital to shareholders, or do all sorts of other things to create value. And that is the measure by which we really comparing ourselves to the competition, to get rid of all the structural noise. And on that regard, you heard what we announced today, already there from a year-to-date basis, in terms of beating them on the conversion ratio with next year anticipated to expand that ratio further. So that's how I think about margins.

A - Mike Sievert {BIO 2140857 <GO>}

It's interesting that when you listen to a peer that -- and you hear that even with our superior growth and our lower prices, both of which hit margins, we have the superior cash production per service revenue dollar in the industry year-to-date. And that's rapidly expanding, 75% year-over-year guide this year on our way to higher cash flows next year. And so it really shows you the power of this model based on this team's ability to execute, but also based on the balance sheet, the incredible assets that we control, the track record of execution, the head-start, and many other benefits.

Okay, great. The second one was cable. So John, let me come back to that. Yeah, we did make a very light comment on it, but it was light that we had been seeing improvements in our port ratios with cable last quarter because we wanted to provide some commentary because cable in Q4 started to see some pretty big net add trajectory changes. And so we kind of double-click into that, because you kind of have to do that as a competitor to figure out, is this going to come from us or what's going on, and it's kind of interesting you fast forward to this quarter.

And I'll remind you, that even in a world where cable is now a pretty big share taker in overall postpaid, T-Mobile produced the highest postpaid phone net additions for Q2 in eight years. And not only the lowest churn ever in our history but the lowest in the industry. And that kind of answers the question as to whether or not this dynamic from cable is coming from our side, right? I mean, we're performing better than before they were in the industry. But obviously, there is a dynamic that affects others both of our two look alike competitors plus prepaid. There is a lot of brands that have been affected by this, and they're viable competitors to be taken seriously, but it's just, as you can see in our performance not affecting our results.

Okay. Jud, who do we -- what do we have coming in online?

A - Jud Henry {BIO 22149760 <GO>}

We've got a question from Roger Entner, on how strong was the business growth this quarter. Maybe we can and teed that one up, and then I've got a follow-on question around enterprise sector as well. So we can hit those.

A - Mike Sievert {BIO 2140857 <GO>}

Okay, great. So, Roger Entner asked, how strong was business growth this quarter, can you talk about the VA, and any additional color on overall business growth?

We also have Chetan Sharma coming in. Congrats on another great quarter. Thank you. I was wondering if you could provide some color on traction you're seeing in the enterprise sector beyond connectivity. What about vertical industries people using 5G, 5G advanced services, et cetera? So maybe Callie, why don't you start on both of those and anybody else can jump in?

A - Callie Field {BIO 19950831 <GO>}

Okay. Thanks, Mike, and thanks, Roger and Chetan for the questions. As Mike mentioned earlier, we delivered on our highest phone net adds and lowest phone churn ever, candidly being Verizon again. And we're seeing profitable growth in all three segments. In SMB, we achieved positive port trends against AT&T and this makes consecutive quarters against Verizon and we grew ARPU quarter-over-quarter again.

As Mike mentioned in his opening remarks in enterprise and in government, our business is good business with very profitable CLVs, but roughly 60% to 70% relative to consumers and they're rising year-over-year, quarter-over-quarter. And Q2 for enterprise, for instance, we welcomed both the largest global asset management firm and yet another leading global bank, as new accounts we also landed two huge government contracts with the EPA and the IRS, and continue to double our net adds quarter-over-quarter with first responders, most significantly in rural areas where an older LTE network just doesn't cut it for critical response.

So a lot of really good growth this quarter from an incredible team in the Business Group. And then for the VA question if I could just take that one for a second. I wanted to say is, as you may remember, we took Verizon share back in 2018, and now because of our network, we've taken the pole position and have added roughly 20,000 phones year-to-date, supporting more than 50% of the VA funds today. And I'll note to our contract also includes T-Mobile's 5G Internet for the VA's community-based outpatient clinics. So we're able to provide healthcare for veterans in rural areas, because of the network that we have that we have built. So just wanted to add some clarity on the VA subject.

And then one last thing on use cases for 5G applications outside of pure connectivity, I'll start Chetan with some of the verticals where we're seeing the most traction and that would be in retail, where we see many use cases for fixed 5G solutions, where people are looking to look at better cost and less truck rolls and support for perhaps older wireline services, now replacing that with T-Mobile's 5G in multi-unit national retailers. And then in healthcare, it's another area where we're seeing CTOs and CIOs from large hospitals come to us and say, look, we need ubiquitous connectivity both indoor and outdoor. We need more of a programmable network, we need certain places in our buildings where we want to designate private networks. And because of our public 5G network and the solutions that we can offer with our standalone core, we're able to offer a hybrid solution that's really working in a place like a hospital that has lots of different variations to the types of connectivity they need.

And then lastly, I'll say, we're seeing some traction in education. Large campuses that want to provide connectivity for their students, but also ways to use their data differently, and to get in all of the dorms, then places in the campus and rooms and libraries and perhaps older buildings where there is really a need for ubiquitous coverage throughout the campus. Those are the three areas that really popped out to me. The last one I would say is, in federal use cases with the Department of Defense, where not a surprise to anyone, lots of areas for us to begin to deploy hybrid networks and private networks for use cases specific to the military.

A - Mike Sievert {BIO 2140857 <GO>}

Well, hopefully, that answers, and more. I mean, if you listen to Callie it just reinforces what I said in my upfront remarks which is some of the biggest and most sophisticated and profitable customers are choosing T-Mobile because of the sophistication of our advanced network capabilities and our ability to translate that into solutions for their business. And that's just so different from where we were a few years ago to complete 180, and it's fueling momentum in fact all time record results in our Business Group. So hopefully that answers the question, guys.

Terrific. Should we go back to the phones?

A - Jud Henry {BIO 22149760 <GO>}

Operator, next question, please.

Operator

Thank you. That will come from the line of Phil Cusick with J.P. Morgan. Your line is open.

A - Mike Sievert {BIO 2140857 <GO>}

Hey, Phil.

Q - Philip Cusick {BIO 5507514 <GO>}

Hi, guys. Thank you, Mike. The wireless industry is still running maybe hotter than many expected at the beginning of the year, certainly, your momentum is strong. Are you seeing improving porting ratios versus other M&Os and maybe the MVNOs? Or do you think there is a growing mix of customers who are coming in without a phone history or a number? And then second, if I can, CapEx, Mike, you talked about tapering in the second half, does that jumping-off rate in the fourth quarter indicate a much lower '24 CapEx level? Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Okay, great. I'm going to let Peter answer the second CapEx question. The first one is really interesting. The answer to the question is yes and yes, both are true. So, yes, our port ratios are improving each and every month since we launched Phone Freedom, against each and every competitor including cable overall and cable individually. And that's a really interesting fact that it shows that not only are people starting to discover our network advantages which has sort of been a slow improvement over the last year and a half. But we have really sparked, intrigued with consumers around this idea that we can free them from being trapped with the other guys.

And in cable in some ways, actually is helpful in that, in a dynamic competitive industry, more people are jump balls and more people are saying, should I be with one of those two look alike, kind of old-line providers or should I be with somebody new? And when they ask that question, they are picking cable, by and large, they are picking T-Mobile as you saw, we had the industry-leading postpaid phone net additions.

Now what is happening is, cable is growing very rapidly and faster than I think a lot of people expected. But specifically to the premise of your question, our port ratios with cable have been improving for year-over-year for nine quarters in a row. And what you see is that the big step forward, they started to take in Q4, according to our analysis, about 80% of the year-over-year increment in their performance from the same periods a year-ago Q4, Q1, and Q2, is from non-ports. So they are actually not growing the porting side of their business at the same rate, as they're not porting side of their business, instead kind of printing postpaid adds. They might be coming over from prepaid, they might be just simply net new, they might be kind of dropped in the bag. I don't really know there is probably several different factors to it.

And we just -- we don't know quite how to unpack it because we don't have all the information. I mean, we double-click into things like Verizon's wholesale revenue and note that it's not growing, that's sort of an interesting diagnostic for us that it helps us understand what might be happening. So anyway, hopefully, that helps it. Our industry-leading account growth of 299,000, shows that T-Mobile is winning the switching decisions in high-quality prime-paying families, the kind everybody's going for.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. And on CapEx, Phil, the way I think about next year although we're not specifically guiding is, we're still comfortable in the nine to 10 range, that we gave out, remember. I wouldn't take Q4 as a jumping-off point because really the way often team have built this is a very lean manufacturing approach to the build. One of the secrets to our capital efficiency there. And so it isn't that I take a run rate and an exit run rate and projected but $9 billion to $10 billion feels about right for next year at this point of time.

A - Mike Sievert {BIO 2140857 <GO>}

And speaking of a lean network performance machine, I think it would be a good time to just stop and take note of what's been delivered with this incredibly capital-efficient profile that you're asking about. Often team you guys deserve incredible credit. We've now reached 285 million people with Ultra Capacity 5G, this is something that neither of our competitors -- principal competitors have promised to ever do, certainly not in the next two years. And so we've been talking about this idea of being two or more years ahead in the 5G race, but if anything, it's expanding, maybe you could share a few of the statistics of kind of where we are and also a little shadowing of where we're going.

A - Unidentified Speaker

Well, thanks, Mike. And yeah, the last quarter we actually pulled ahead in our leadership. And 285 mid-band POPs, we're heading towards 300 by the end of this year. We have to remember that we reached 200 mid-band POPs, two years ago in 2021. On our low band, we reached 300, two years ago, where others are now pulling into the station. It gets harder and harder, but the POPs as you grow through, every 100 million POPs takes about three times the efforts in terms of upgrading and building new towers, to be able to deliver the same POP growth. So, this network is just fantastic, and we are so proud of it. And we're proud to support also what Callie commented on early, 5G being capable of not only being that tremendous consumer driver, it's also drives now more-and-more of the business inside the enterprise space, which is a dream for all of the one who follow the 5G for many, years.

On top of that, we have lots of room to move ahead. We have today 255 megahertz of spectrum that is dedicated to 5G on our mid-band. And you have to remember that our low-band is all that dedicated to 5G. When others are talking about their coverage, they're sharing this between LTE and 5G, and we're not -- we're dedicating spectrum. The mid-band megahertz will grow to 200 megahertz, dedicated to 5G by the end of the year by migrating more LTE spectrum over to 5G. And then we haven't even started on what we can use for '24 and beyond, which is our C-band. We can use our 3.45 auction results, we can use our 108 auction results, which is enhancing our 2.5 capabilities even more, and we have yet to (inaudible) spectrum for example on AWS as well. So there is just so much more for us to run at and I'm couldn't be more excited that we're extending our lead in terms of our network.

A - Michael J. Katz {BIO 20454845 <GO>}

Well, it's a good thing you are because we're filling it up. So what's interesting is that, with 3.7 million high-speed Internet customers and rapidly growing. The average speeds on our network are not just twice as fast as our competitors, but growing. We're speeding up, not slowing down on this network and in terms of the average person's lived experience. And that's just phenomenal. And we've got tons of capacity that we have not yet rolled out, which opens up more-and-more opportunity on our way to not only the 7 million to 8 million high-speed Internet customers, but our ability to with the best network continue to take share from our competitors. We said at the beginning we had a two-plus year advantage and we would have it for the duration of the 5G era and you have proven us right with that works. So, thank you.

A - Jud Henry {BIO 22149760 <GO>}

Okay. Operator?

Operator

Your next question comes from the line of Simon Flannery with Morgan Stanley. Your line is live.

Q - Simon Flannery {BIO 1505834 <GO>}

Great. Thanks a lot. Good evening. Just following up, if I could on that spectrum deployment. I think in the past you've talked about rolling out fixed wireless to a majority of the U.S. Perhaps you could just help us understand where you are on coverage today with the base offer and how that should evolve over time now (inaudible) 285 going to 300? And I guess a related question is, for Ulf. You didn't mention the millimeter wave, I know you've been looking at potentially a macro overlay product. How are you thinking about that at the moment or attacking MDUs with millimeter-wave? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Well, let's start with the millimeter-wave question, then we can come back to the coverage on fixed wireless, I can touch on that one.

A - Ulf Ewaldsson {BIO 17529393 <GO>}

Right. So we are actually using millimeter-wave today. We have deployments that we early-on started off in Manhattan, for example, in Los Angeles, in some areas where we really have that extraordinary capacity need, we can use that use the tool of millimeter-wave. Our general strategy is not based on millimeter-wave, it's based on a macro strategy which you know is our layered approach with our low-band and our mid-band and now also deploying, going our PCS spectrum for 5G. But millimeter-wave could also be potentially an interesting play for us when it comes to enhancing capacities that could be used for example for HSI. And we are working with our vendors and we are working through our OEMs to figure out if we can make a viable economic and technical performance case, out of that with them.

A - Mike Sievert {BIO 2140857 <GO>}

And that kind of bridges to your second question, maybe this is a good time to remind everybody how our capacity model works for fixed wireless access. Essentially, right now, we serve about the potential of about 50 million homes, but they're not in certain geographies, they're geographically dispersed all over the U.S. Because the way our model works is we are selling excess capacity sector-by-sector. And so what we do a study every sector from every tower in our network. And determine what amount of normative smartphone usage will there be over the next several years.

And in areas where there is still excess capacity we today approve applicants for home Internet use. And right now, there's about 50 million home addresses where if you were to go into our tool and apply to be our customer, we'd say yes, out of the 145 million in the country. But what's interesting is, if you and several of your neighbors, all did the same, the end person would get to know, because it's a dynamic model. What we're selling is excess capacity. And because of that, what we are modeling shows us that we will get to as we said at the very beginning about 7 million or 8 million households with this excess capacity model that's not burdened by capital. And since it's not burdened by capital with an already built mobile network, that you need for great coverage and competitiveness, we're able to profitably build this business at very low prices. It's just a win-win for us sort of single-digit penetration, part of the market.

Now to the premise of your question on what Ulf was getting into, of course, we're studying whether there are ways to go beyond that initial excess capacity capital-free model -- capital-free-ish model. And we haven't drawn any conclusions about that yet. I mean, we're looking hard at millimeter-wave. We're looking at whether or not dedicating mid-band spectrum to HSI would make sense. Whether they are non-standards-based solutions. And we just haven't drawn any conclusions. It's not immediately obvious, that there are economic ways to grow this business beyond its initial single-digit penetration. But you may see us doing trials in the marketplace, as we experiment with this and try to crack the code. And so, you'll hear about us trying millimeter-wave things or MDU strategies or non-standards-based solutions to see if there's a way to get after it.

And you see us trailing fiber, whether or not there is a way for our team, our distribution, our brand to add value in the fiber ecosystem and I've made mention of that before. All these things are things we're doing to try to learn. And the good news is, we've got some time because we will hit this kind of initial terminal sizing of HSI. It's still we've got two more years to run. So our heads are down, seeing if there is a way to crack the code on this.

A - Unidentified Speaker

And of course, any of the things we do there that we just talked about a capital burden model or something with fiber, are all things that would have to be accretive to our Analyst Day guidance that we put out there.

A - Jud Henry {BIO 22149760 <GO>}

Good. All right. Great. Operator, next question.

Operator

That will come from the line of Tim Horan with Oppenheimer. Your line is open.

Q - Timothy Horan {BIO 1503813 <GO>}

Thanks, guys. Just curious, why wouldn't you should be raising fixed wireless at the prices now? It seems like you have very, very strong demand from everything we hear out there and you kind of have somewhat limited supply. And I guess related to that, the Go5G plan, can you give some color what that means for ARPU growth in the next couple of years? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Okay, let's start with the second one on Go5G and where is ARPU going and ARPA and all that stuff. Peter, we can start with you.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah, absolutely. I'll let Jon comment on the success of Go5G Plus. But as I always say, when we think about ARPU, and you saw a sequential increase of about $0.20. And we continue to believe on a year-to-year basis, ARPU will be generally stable. There is probably some potential for a sequential increase again from Q2 to Q3. But since it is such a mix-driven metric and you have to put everything into it, whether we're talking about all the benefits received from Go5G Plus, whether we talk about the benefits received from a segmented approach, whether it's military 55-plus and how those might be lower ARPU customers than the average that we see, but our high CLV customers coming in very-high quality customers.

Similarly, in business, business you tend to get enterprise, government large accounts that have very, very great CLVs, but would have given the nature of the volume purchasing lower ARPUs. So all of that blends into ARPU that we see is generally stable, but it's the ARPA strategy that we have. It's the switching, attracting accounts into T-Mobile. And then the land and expand, ARPA strategy which you just saw, an exciting update to the guide from plus 1% to slightly over 1% on a year-over-year basis there. And that's really the focus point for us.

But the question on Go5G Plus, I think I'll hand it to Jon for a moment, that's been a phenomenal success.

A - Jon Freier {BIO 19618133 <GO>}

Yeah. And then, I think Peter just to remind everybody, the Go5G Plus is really kind of a front book initiative, I'm not going into the base and asking people to migrate to Go5G Plus and doing all of that within the base truly kind of a front book initiative, but this is going fantastic. And we had an opportunity to mention this on our Q1 earnings call back on April 27th, when we launched Phone Freedom, Go5G, Go5G Plus in mid-April. And like Mike said a few moments ago, when you look at the overall porting ratios and the attractiveness of this offer and what's happening that we've increased our porting ratios every month against every competitor, and have followed that through so far in July. And over 60% of the accounts that are joining T-Mobile are now subscribing to Go5G Plus. And there is utility, that's different than Magenta MAX in terms of hotspot data that we've increased in terms of high-speed roaming in Mexico and Canada across North America, that we've increased. But that big pain point that I think Go5G Plus is solving, is that New in Two promise. First of all, paired with the Easy Unlock and helping people get out of AT&T and Verizon, mostly AT&T given the unlock devices. Helping people get out of that switching to T-Mobile, but this three-year contract cycle that AT&T and Verizon has, we knew this was a big insight and a big opportunity, but even I underestimated how big of a pain point that is, the fact that you can basically go to law school and complete law school faster than you can complete a phone contract at AT&T and Verizon.

And so that's a huge pain point and the promise of Go5G Plus of being able to getting a new device, same device offer as a new customer, every two years. That's a differentiated and unique proposition in the marketplace that's really different and it's really resonated with customers.

A - Mike Sievert {BIO 2140857 <GO>}

Well said. Okay, and your last question was about HSI pricing. I'll just answer it briefly. I don't normally give sort of forward-looking commentary on pricing. So I'll answer it this way instead which is, do we see ARPU? And are we interested in ARPU enhancement for HSI? And the answer is, yes, of course. But generally, when you look at our track record, our philosophy in the past as to how to get about that isn't a jack up people's prices, is to add value to their life, bring new services, show them increased offers, and let them self-select their way up. And obviously, we're interested in that, in this space.

Q - Timothy Horan {BIO 1503813 <GO>}

Okay, great. Good.

A - Jud Henry {BIO 22149760 <GO>}

Alright. Next question, please.

Operator

That will come from line of Michael Rollins with Citi. Your line is open.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks, and good afternoon. Just following on the earlier comment on some of the integration milestones that you've hit. What are the activities that are left to get to the full synergy run rate of $7.5 billion for this year's guidance, $8 billion next year? And can you unpack and maybe even size some of the opportunities for further cost efficiencies that may be embedded in your multi-year plan to drive that longer-term margin expansion? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Okay. Great. Michael, well, let's talk about where we are on synergies this year and what's left to be done. I mean, on the what's left to be done front, not much. The major milestones are behind us, but that doesn't mean the synergy run rates are quite there yet, so maybe you can comment on that dynamic, Peter.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah, exactly. A few things in there, of course, we said we have a small tail of customers to still get over and that will allow the final decommissioning of systems, and thanks to that whether it's front-office, back-office, those are the things that are kind of left to do. Certainly from a cost perspective, there is a little bit in terms of physical decomp, while the sites are shut off, there is still physical decomp happening.

And on the synergy development, we get from $7.5 billion to the $8 billion next year. Really the big chunk of that is avoided costs. So we'll realize the vast majority of the run rate synergies by the end of this year, which you'd naturally expect given we're saying we are substantially done. And then the shift to next year will be fundamentally those avoided site build costs.

A - Jud Henry {BIO 22149760 <GO>}

Okay, great.

Q - Michael Rollins {BIO 1959059 <GO>}

And then just one other. Can you just share how T-Mobile is looking at the role and mix of online distribution? And how you're viewing the durability of customers wanting a physical retail location to (inaudible) upgrade devices?

A - Mike Sievert {BIO 2140857 <GO>}

Yeah, absolutely. It kind of goes to the premise of your follow-on question, your initial follow-on question. I mean, obviously, across consumer markets generally, customers want a transaction that's fast, transparent, simple, and mostly digital. And our industry has been very stubborn on that front, mostly due to the complexity of the offers across all the providers. And so that's something that we're very focused on, and I know everybody in the industry is.

Our digital capabilities are rapidly improving, especially as it relates to self-service for our customers. It's incredible what's going on, left to right in our company as to how we're already applying AI technologies and machine learning to speed things up, serve customers in a better way and we can get into some examples around that. But because of emerging technologies, there is a lot of potential over the coming years to not only meet customers where they are finally in this industry because we've been kind of slow in this industry due to the complexity of our offers. But also to potentially realize some efficiencies over time, and that's a good thing because the cost of competition is high. And as you've seen over the last few years, it has gone up. And so it's all about us seizing opportunities to be able to continue this formula that works so well.

And for us to continue to do what we do with this flywheel of success, we can't sit on our hands. We have to be able to seize new opportunities, not necessarily to outperform the promises we made to you, those promises were really high fulsome promises. But in some cases to achieve them, in light of what we've seen in the past, which is some increased cost of competition. So at the end of the day, it's great for consumers.

A - Jud Henry {BIO 22149760 <GO>}

Alright. Thank you. Next question, please.

Operator

That will come from the line of Ric Prentiss with Raymond James. Your line is open.

Q - Ric Prentiss {BIO 1534273 <GO>}

Great. Thank you. A couple of questions. Wanted to follow up on the private network question. When do you feel that private networks -- 5G private networks will become a material enough number on the revenues? An associated question, do you feel customers, whether it's consumer or enterprise, really understand what 5G means for them and why they should choose you with your head start? It just seems like the market is still just kind of like, not sure what 5G is.

A - Mike Sievert {BIO 2140857 <GO>}

On the consumer piece, I kind of agree and what people want is a really strong powerful signal everywhere they go. That's what they want. And 5G is a means for us to get them that better than anyone else. Whether or not they give us credit that the thing that got them that was 5G, I really don't care. But we have the highest performing network with incredible reach of the high-performing parts of our network, 5G than anybody else. Like, by far, like twice the land mass covered of Ultra Capacity 5G than our next closest competitor and rapidly expanding as Ulf explained.

And you're right, they don't really give 5G credit for that, but what they want, make no mistake, is a very powerful signal everywhere they go. Because they're watching video more than ever, they're glued to their TikTok and their Instagram stories and their sports and their YouTube and their videos and their Zooms, and they don't want buffering. They want that signal with no latency and no buffering and no jitter, and that's the power of 5G whether they give [ph] a credit or not.

On the business side, I'll say the short version, which is we don't really know. I mean, whether to your question, literally material means something in our company and that's big. We're a big company. We don't know when it will be bigger than a bread basket. But we do know that we're best positioned to capture it. And as Peter pointed out back at our Analyst Day, two plus years ago, we actually did not for that reason, factor a lot of revenues in, or really any at all from some of these advanced 5G network services. Our strategy was, let's make sure we are best positioned to capture them.

And Callie, I think very deftly explained some of the things that we're doing in this area, with early adopting customers. But when it becomes something that's bigger than a bread basket and really contributes, we don't really know, because we did know we made you no promises in our long-range plan on it. But I can tell you this promise as that market develops, we are beautifully positioned to capture it.

Q - Ric Prentiss {BIO 1534273 <GO>}

Okay. Great. Thank you.

A - Jud Henry {BIO 22149760 <GO>}

All right. It looks like we're right at time, so I appreciate everybody joining us today. If you have any further questions, please reach out to either Investor Relations or the Media Relations departments. And again we look forward to talking to you again soon. Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Thanks, everybody.

Operator

Ladies and gentlemen, this concludes the T-Mobile First (Sic- Second) Quarter Earnings Call. Thank you for your participation. You may now disconnect, and have a pleasant day.