Q1 2021 Earnings Call

Company Participants

- Dow Draper, Executive VP, Emerging Markets
- Janice V. Kapner, Executive VP, Chief Communications Officer
- Jon Freier, Executive Vice President of Consumer Markets
- Jud Henry, Senior Vice President and Head of Investor Relations
- Michael Katz, Executive VP, T-Mobile for Business
- Mike Sievert, President and Chief Executive Officer
- Neville Ray, President of Technology
- Peter Osvaldik, Chief Financial Officer

Other Participants

- Brett Feldman, Analyst
- Colby Synesael, Analyst
- Craig Moffett, Analyst
- David Barden, Analyst
- John Hodulik, Analyst
- Jonathan Chaplin, Analyst
- Michael Rollins, Analyst
- Phil Cusick, Analyst
- Ric Prentiss, Analyst
- Simon Flannery, Analyst

Presentation

Operator

Good afternoon. Following opening remarks, the earnings call will be open for questions via the conference line by pressing the star followed by one and via Twitter by sending a Tweet to @TMobileIR or at Mike Sievert using #TMUS. 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 First Quarter 2021 Earnings Call. On our call today we have 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 a number of 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 Q1 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. I'd also like to note that historical results prior to the second quarter of 2020 represent the standalone T-Mobile prior to our merger with Sprint.

With that let me turn the call over to Mike.

Mike Sievert {BIO 2140857 <GO>}

Thanks Jud. Hi, everybody. Thanks for being here and May the 4th be with you all. I don't know if you can see us. If you're not watching, we're coming to you live from our T-Mobile Fight Night Octagon here at our T-Mobile headquarters. And I'll tell you it is great to be here in Bellevue with so many of our leadership team members as we gradually and safely find the right ways to be together in person at work. And even better, we have another great quarter of results to talk about today, results that show incredible work done by this team as we continue to push T-Mobile even further ahead of the competition, while doing what we do best, putting customers at the center of what we do.

We are off to a terrific start in 2021, from accelerating our network leadership, which is fueling customer momentum, to delivering merger synergies and expanding our addressable markets for growth. We have again demonstrated that our unique winning formula and balanced approach enables us to grow share while delivering strong financial results.

In our increasingly connected world, we recognize our role as stewards of this profitable company and industry, while continuing to use our un-carrier DNA to bring change to wireless and broadband alike, to disrupt the status quo and ultimately benefit customers, and this quarter was no exception. We achieved our three core ambitions, first, delivering industry-leading growth by expanding our addressable market and growing customer relationships. Second, delivering substantial enterprise value by realizing merger synergies faster and bigger and beginning to transform our business. And finally, positioning the company for long-term success with sustained 5G leadership, our strong and getting stronger brand and the best customer experiences.

I'll start off with a few highlights. First, T-Mobile led the industry in net add growth yet again, building on our existing fame for superior value and customer service, while making big strides in network perception to fuel our momentum. And we did it while simultaneously delivering better than expected service revenues and core adjusted EBITDA.

Second, we continued to further expand our 5G leadership to deliver America's largest, fastest and most reliable 5G network with multiple third-party experts now taking notice and network perception metrics on the rise. This is so great to see because it will translate into overall network leadership as we serve both businesses and consumers.

And third, this unmatched 5G advantage is already unlocking new and underpenetrated segments of customers for T-Mobile. We're giving more consumers and businesses the opportunity to experience the best 5G combined with the best value and delivered from the best team.

Fourth, we've been busy this year executing on our growth plan with a number of un-carrier moves and strategic initiatives. And finally, yes, it's another beat and raise quarter for T-Mobile. We beat expectations with continued customer growth, increased profitability and rapid unlocking of merger synergies, which enables us to raise guidance for 2021 just one quarter into the year, something Verizon and AT&T were not confident enough to do despite all of their happy talk on their calls.

All right, so let's talk about some of these in a little more detail. As I mentioned, we led the industry in total net adds in Q1. We delivered 1.2 million postpaid net adds, including 773,000 postpaid phone net adds, and our postpaid phone churn improved sequentially to 0.98%. We've mentioned before how our opportunity to improve the elevated churn from our Sprint base would be a tailwind for our business, and this is already starting to unfold as we were the only wireless provider to improve churn sequentially as we execute the same worst to first playbook that has led us to the industry best churn rates for our T-Mobile branded customers.

This quarter's results are particularly important and show that we continue to make great strides improving churn for both our T-Mobile and Sprint customers by providing them with best-in-class experiences, while others in the industry saw their churn rates flat to up from Q4.

On prepaid, we delivered 151,000 net adds, which were the highest in three years and reflected record low industry leading prepaid churn of just 2.78%. As I mentioned, perception is absolutely catching up to reality, that T-Mobile is the clear 5G leader, with 5G quickly becoming one of the top things that customers say they're looking for in their next wireless provider. And we're extremely encouraged by our perception trends in the quarter.

They showed that our network is increasingly becoming a catalyst for customers to choose T-Mobile. In fact, the percentage of customers who say T-Mobile is the 5G company has increased nearly 120% over the last just year and a half. And we saw an immediate uptick in customers switching to T-Mobile with the launch of Magenta MAX, which provides additional momentum for us to continue to outgrow this industry.

As you've heard me say before, and I plan to keep reminding you, T-Mobile has the scale and the resources to do something that has truly never been done before, offer the best value and the best network, freeing customers across the country from having to compromise and providing them with our team's award-winning customer service experience on top, which is our secret sauce. This opens the door to further penetrate prime consumers and businesses that require the highest-quality network experience and compelling reasons for them to adopt more premium plans.

Another differentiator is that only T-Mobile is operating with a synergy backed model, which allows us to simultaneously grow customers and profits while also investing big in the business. And with the rapid expansion of free cash flows like we had, we are positioned to have great strength and flexibility from a balance sheet perspective.

Okay, now let's talk about those merger synergies and our continued progress on integration for a moment. Last quarter, we shared our initial 2021 guidance to be more than double the $1.3 billion in synergies that we delivered in 2020. Today, we're already raising our synergy guidance for 2021. This progress includes continuing to migrate Sprint customers to the T-Mobile network to improve their experience, which is key to unlocking synergies. We've already moved 20% of Sprint customers to the T-Mobile network and have really hit our stride in the pace of our migration process.

In addition, and this is important, we are now carrying approximately 50% of the total Sprint customer traffic on the T-Mobile network when you include the seamless roaming that we provide those customers to improve their experience. This is twice as much as just last quarter.

In Q1, we took another important step forward in our integration process as we transitioned many of the Sprint customers onto our go-forward rate plans. This migration is important for two reasons. First, it brings our Sprint customers closer to having the full un-carrier experience by giving them the new value proposition with all of the associated T-Mobile benefits.

And second, it says at sets us up for a seamless billing migration in the future. It's important to understand that separating the brand, network, rate plan and billing migrations into discrete events, which can be done at the convenience of the customer and our business plan, that's a unique and powerful feature of our integration approach and one that's already proving its value.

As we shared with you on Analyst Day, we're executing our integration playbook to deliver the merger synergies bigger and faster than originally promised to ultimately provide run rate synergies of $7.5 billion, 25% higher than the original merger plan and over $70 billion on an NPV basis. This will enable us to invest in initiatives to maximize our long-term growth and cash flow generation and to deliver truly innovative transformational experiences for customers for years to come.

Those amazing experiences really begin with the network. T-Mobile is already America's largest, fastest and most reliable 5G network. The country has never seen anything like our network build. We're tracking ahead of schedule, and the results are clearly beginning to differentiate, not just on 5G, but on network performance overall.

With so much focus on 5G, it is worth noting that with this build we have already quietly eliminated the legacy advantages that AT&T and Verizon previously enjoyed on LTE, which is where most traffic remains today. In fact, our LTE coverage and performance are essentially the same as AT&T and Verizon now across the country. And with that common foundation in mind, our demonstrable lead in 5G really becomes the differentiating factor in overall network performance. This is putting T-Mobile in the pole position to become the only provider with the network that can kick-start this new era of connectivity by delivering our Ultra Capacity 5G to nearly everyone across the US.

T-Mobile's extended range 5G now delivers coverage across 1.6 million square miles, reaching roughly 295 million people, offering roughly 33% more geographic coverage than the so-called nationwide 5G of AT&T and Verizon combined, about one-third more than the two of combined. But with our rapid expansion of Ultra Capacity 5G, that's our game changer. We're rolling it out at an unprecedented pace to deliver the truly transformational speeds and capabilities enabled by 2.5-gigahertz and above.

We brought Ultra Capacity 5G to over 100 million people by the end of last year, and we've already expanded that to over 140 million people today. And we are well on our way to covering 200 million people nationwide by the end of 2021. That's this year. In the last month alone, multiple independent third-parties including, Ookla, Open Signal and Umlaut, gave numerous accolades to T-Mobile's 5G network based on real customer usage from millions of device measurements. This shows that not only does T-Mobile have the fastest 5G, but, and this is equally important as you know, T-Mobile delivers dependability where customers live, work and travel. And Umlaut recognized T-Mobile's 5G as the most reliable and the most available. The bottom line is this, we are really starting to pull away from the pack like we told you we would.

Last week, OpenSignal released their latest report also showing the T-Mobile customers average 5G download speed increased by 23% just since the beginning of the year, while speeds on other networks stayed virtually unchanged, widening the gap to competitors as T-Mobile now has nearly 50% faster speeds than Verizon and 30% faster speeds than AT&T. This increase is all about our rollout of super-fast Ultra Capacity 5G.

And as I said earlier, consumers and businesses are taking notice as perception is finally starting to catch up with reality. For consumers that is reflected in positive early trends around our Magenta MAX plan, giving customers the industry's only truly unlimited plan, putting the full capabilities of our Ultra Capacity 5G in the palm of their hand. The early indicators that we see from the Magenta MAX customers underscore that the most discerning customers increasingly consider T-Mobile when we offer the right plan that really showcases our 5G network.

And Magenta MAX customers are taking full advantage of that differentiated 5G network with usage levels 40% higher than other 5G customers and a whopping 70% higher than our LTE average usage, with more video, music and social media engagement on their smartphones.

Okay, listen, I know I've said a lot about our 5G leadership, and the truth is I'm not here to convince you that we're well ahead. I think you know that. What will become increasingly clear is that contrary to what you may be hearing from our competitors, T-Mobile is positioned to maintain our 5G leadership for the duration of the 5G era, thanks to our superior spectrum portfolio, our unprecedented deployment momentum and our synergy-backed model.

And second, that this will matter greatly to the choices that consumers and organizations make. We have the best portfolio of spectrum and the most mid-band spectrum both today and into the future with our recent C-band purchase. And we're using the latest technologies like Massive MIMO and uplink carrier aggregation to unlock the full potential of Ultra Capacity 5G. The result will be amazing customer experiences that drive brand choices.

At our March Analyst Day, we spent some time unpacking the different growth opportunity we see to expand our addressable markets through new or underpenetrated segments. Well, we aren't wasting any time, as you may have noticed from all of the activity we've announced so far this year. With the rapid deployment of our high-capacity 5G network, we commercially launched our 5G home Internet offering to more than 30 million households at the beginning of this quarter. Meanwhile, others in the industry are still in the planning phases of what wireless home broadband could look like, you know, in the future.

For businesses, we saw one of our best ever quarters for phone net adds in Q1. And more importantly, we see increased engagement around how these 5G capabilities available only from T-Mobile in a meaningful way can really benefit their companies. We're bringing the un-carrier to the business space and breaking down antiquated constructs just like we did for consumers by increasing our specialized salesforce and building tailored products for large enterprises and government customers. This includes our recent WFX launch, an innovative suite of products that are ideally suited to help companies adapt to the hybrid workspace of the future with fully featured secure calling and broadband products and the peace of mind of having unlimited data for those customers who've been handcuffed by the pooled data plans from the other carriers.

I mean at a certain level can you believe that? I mean we dragged this industry kicking and screaming into the unlimited era for consumers, and yet the carriers are still selling pooled, shared and limited data to enterprise customers. All of that is about to change because of T-Mobile. We've long said that smaller markets and rural areas which make up 40% of US households are a major upside for our business. And we've made major progress there as well as a result of all of our focus. But now we're kicking it all into a higher gear. This quarter we kicked off plans to add significantly more points of distribution to reach beyond our urban areas, including our innovative new hometown experts distribution model. This will create 7,500 new jobs in small towns and rural communities over the next few years, many of them beginning to be filled this year.

And we announced that we're building on our decade-long relationship with Google to give customers a broad range of premium pixel devices, a great messaging experience on Android which is so needed, and the evolution of our TVision initiative to offer YouTube TV as our premium cable alternative product on our TVision platform.

So as I get ready to turn it over to Peter to comment on our financials, I do want to just take a moment to thank our team for delivering just a remarkable quarter while operating in the pandemic and weathering so much uncertainty. We continued to overcome these challenges and delivered the highest total customer growth in the industry, while simultaneously delivering strong service revenue, core adjusted EBITDA and free cash flow growth.

We continued to execute our unique integration approach to unlock merger synergies, and we continue to offer the nation's largest, fastest and most reliable 5G network as backed by multiple third parties. And the thing is, customers are just starting to notice. With positive momentum on our network perception and many initiatives we have launched across multiple customer segments, we are well positioned to continue profitably growing over time and to deliver on our mission to be the best in the world at connecting customers to their world.

Okay, now let me turn it over to Peter to comment on our financials and our guidance. Peter?

Peter Osvaldik {BIO 18597986 <GO>}

Awesome. Thanks, Mike. As you can tell, this team is firing on all cylinders. We kicked off 2021 with strong Q1 results and good momentum across the business as we look at our expectations for the full year. We executed on our winning playbook and beat expectations yet again in Q1. So let's briefly touch on these great results.

Service revenues grew to $14.2 billion, driven primarily by our continued customer growth. Cost of services of $3.4 billion reflects the continued volume of site upgrades to support the rapid deployment of our 5G network with lower merger-related cost than last quarter as the timing of these costs will vary each quarter. SG&A expenses were $4.8 billion as we advance our integration efforts and included benefits from increased synergy realization.

Net income of $933 million and diluted earnings per share of $0.74 were both better than consensus expectations and included merger-related costs of $220 million or $0.18 per share on an after-tax basis. Our Q1 effective tax rate amounted to 20.9%, which reflects Q1 rate benefits from stock based compensation. Core Adjusted EBITDA was $5.9 billion, driven by continued service revenue growth and synergy realization.

Net cash provided by operating activities totaled $3.7 billion, while cash purchases of property and equipment, including capitalized interest, amounted to $3.2 billion as we continue to aggressively invest in the build out of our nationwide 5G network. Free cash flow amounted to $1.3 billion, which was fully burdened by merger-related costs of $277 million and increased over Q4 driven by our strong operating performance.

Postpaid ARPA or average revenue per account was $133.91, and our postpaid account net additions were nearly double what we saw in Q4. Meanwhile, postpaid phone ARPU was $47.30, in line with our guidance of a roughly 1% sequential decline as a result of lower Sprint customer ARPU arising from rate plan migrations, growing lines per account and lower late and reconnect fees with improving customer payments activity.

With the great momentum in the business, we now expect Q1 to be the low watermark for ARPU this year and for ARPU to be above Q1 levels for the remainder of 2021 and be within less than a 1% dilution compared to 2020 on a full-year basis.

Taking a look at our financing activity, in January, we issued $3 billion of senior notes that set record low yields for 5-year, 8-year and 10-year tranches in the high-yield market, including issuing 10-year unsecured notes below 3%. Then in March, we issued $3.8 billion of senior notes at an average interest rate of 3.18%, which also allowed us to redeem $2 billion of our 6.5% senior notes, continuing our opportunistic approach to drive down our cost of debt.

Also in Q1, we paid $8.9 billion related to our C-band spectrum purchases, funded by cash on hand from some pre-funding we had done in Q4 and a portion from our financing in Q1. This excludes our estimated C-band relocation expenses of $1.2 billion which will be paid over time through 2024.

Okay, let's talk about how this momentum impacts our outlook for 2021 with another beat and raised quarter from T-Mobile. Our guidance reflects the OpEx investments ahead of us in the network and growth initiatives that Mike discussed, while simultaneously delivering on our promise of continued profitable growth. We now expect total postpaid net additions to be between $4.4 million and $4.9 million, up from our original guidance of $4 million to $4.7 million, reflecting our continued focus on profitable growth, building on our current momentum and the share taking opportunities anticipated in the second half of the year with an increasing switching environment.

Core adjusted EBITDA is now expected to be between $22.8 billion and $23.2 billion, an increase from our original guidance range of $22.6 billion to $23.1 billion, primarily driven by higher-merger synergies along with customer and ARPU growth. This assumes a continued reduction in leasing revenues, now expected to be between $3.7 billion and $3.9 billion for the year versus original expectations between $3.8 billion and $4.0 billion, driven by a faster transition off leases and fewer device step-ups on older lease promotions.

Merger-related costs, not included in core adjusted EBITDA, are now expected to be between $2.7 billion and $3.0 billion before taxes, primarily driven by network activities compared to original expectations of between $2.5 billion and $3.0 billion before taxes. These costs will continue to be lumpy quarter-to-quarter as you saw in Q1 relative to Q4, and we expect a significant sequential increase in Q2 and again in Q3.

Net cash provided by operating activities, including payments for merger-related costs, is now expected to be in the range of $13.2 billion to $13.6 billion, up from our original guidance of $13.0 billion to $13.5 billion. We expect cash purchases of property and equipment, including capitalized interest, to be at the high end of the original guidance range of $11.7 billion to $12.0 billion as we continue the robust pace of our 5G deployment and network integration while also realizing procurement savings from our increased scale, enabling our investment dollars to go further.

Together, this results in expected free cash flow, including payments for merger related costs, to be in the range of $5.1 billion to $5.5 billion, higher than prior guidance of $4.9 billion to $5.4 billion, reflecting growth in the strong cash flow generation capabilities of this business and does not assume any material proceeds from securitization.

We continue to expect full-year effective tax rate to be between 24% and 26%. And lastly, we expect higher merger synergies in 2021 of between $2.8 billion and $3.1 billion compared to our original expectations of between $2.7 billion and $3.0 billion, driven by strong execution of our merger integration.

Altogether, our momentum and execution gives us confidence in 2021 while continuing to invest in our network and the business to unlock the significant expansion and future free cash flow. We're excited about the mid and long-term guidance that we shared with you at our Analyst Day with massive free cash flow generation and free cash flow margins on service revenue better than our peers. We're on track with our plans to unlock significant value for shareholders, including substantial potential share repurchases ahead.

All right, enough from me. Let's get to your questions. You can ask questions via phone or via Twitter. We will start with a question on the phone. Operator, first question please.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from John Hodulik with UBS.

A - Peter Osvaldik {BIO 18597986 <GO>}

Hi, John.

Q - John Hodulik {BIO 1540944 <GO>}

Great. Hey, how you guys doing?

A - Mike Sievert {BIO 2140857 <GO>}

Great.

Q - John Hodulik {BIO 1540944 <GO>}

Great, a couple of questions. First industry phone adds were pretty much off the charts this quarter. Any sense on what's driving that? I mean is -- are the stimulus checks people are getting you think adding to the growth that we've seen? And then I thought the commentary on ARPU going forward was interesting. I mean you didn't give a percentage about what -- how many Sprint customers have been migrated over to T-Mobile plans. But I guess -- are you guys saying that you guys are far enough through that process that you expect dilution from that to lessen as we go forward? And then just sort of any commentary on trends beyond that would be great. Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

I'll start with the industry trends on nets and maybe see if Jon Freier wants to add anything. And then Peter, I'll let you address the ARPU question, some great news in there.

Your question, John, kind of got to the answer in a certain way. We saw a lot of industry activity in Q1, particularly in the second half of the quarter, that we think was driven economically by there being a lot of money in the economy, stimulus, tax refunds, etc. And our competitors think they suddenly got competitive in the second half of the quarter, and they were talking about their sudden momentum. I think they lost sight of that larger picture that there was probably a macroeconomic circumstance that was driving it.

And we're really comfortable with that type of an environment when there is cash in the system and less -- environments of less switching and less going on as you've seen over the past year in our strong performance. We've got a model that's very flexible, but that's at least was our read on it. And it's certainly continuing. Q1 is off to a strong start across the board. You heard some of that from our competitors as well. As it relates to looking forward, I'm very confident that we are in many respects a return to work company. Remember, we've talked all along that our model is one that relies on switching, and we believe switching will, in the macro sense through the year, will gain momentum.

And that doesn't have to be every week and every month, but take it this way. The second half, generally, we think will generate more production for us than the first half, just generally, because we'll see more switching and T-Mobile is always a beneficiary of switching, and that's about the economy getting back after it, people getting back into stores. And as we've all seen, that's starting to happen now, but we think more in the second half than the first half.

As it relates to competitiveness of the brands and the offers and how we think it's looking out there, I'll turn to Jon. And then I'll turn to Peter on the ARPU question.

A - Jon Freier {BIO 19618133 <GO>}

Yes, you bet. Thank you, Mike. Yeah, we just continue to be very pleased with our position in the marketplace today. And like Mike said, the first part of the quarter was an interesting part of the quarter because we were coming out of Q4, when you look at the pandemic, the number of cases, hospitalizations etc, etc. And then with the tax refund and stimulus money coming into the marketplace, we saw a really good uptick. But one of the big things that we saw too is that we launched our Magenta MAX plan at the end of

February. And what we saw with those 2 things is one, really kind of an uptick in terms of the attractiveness of that particular rate plan in terms of people taking that rate plan, but also something that was really a great benefit in terms of people that really value an incredible network experience and value the very best rate plan that they can have in the market, we saw more people switching to T-Mobile during that particular time.

So we love our position. We're incredibly confident, like Mike said. We expect to see the second half continue to accelerate and continue to improve. What you're seeing in the pandemic is really kind of, it's kind of a tale of two tales. One, there are some places that have kind of reopened, in some other places like Texas and Florida, but there's other huge states like New York and California that are still in the process of reopening. And of course, as you continue to see that, you will see the switching pool continue to expand. And when that happens, we're always a share taker, and we love our position when the competition is at its highest.

And, Peter, I'll turn to you.

A - Mike Sievert {BIO 2140857 <GO>}

Well said. So, Peter, the question second part of the question was about your remarks. You mentioned that Q1 would be the low watermark for ARPU for the year, and we see rising trends through the balance of the year. Why is that?

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah, a couple of things. And I think you had a question on the Sprint base, and it's the majority of Sprint customers that we migrated. And this again was part of the plan there, and as we highlighted in Analyst Day. But there's another element here that's so exciting. And Jon just talked about it a little bit. And that is Magenta MAX, which really does two things. One, it demonstrates the power and the capabilities of this 5G network. Mike talked about the usage profile of these customers, and frankly the take rate has just been amazing. All right, great momentum coming off of Magenta MAX, and it does a second thing, it shows you as Jon mentioned, that there are premium customers that are attracted to this premium network as the perception continues to improve and understanding in the consumer base continues to evolve around just what it is that Neville and team are building. So those are the things that really allow us to get optimism around ARPU for the remainder of the year.

And not only ARPU, but remember that the plan here and the growth strategy to unlock all this massive free cash flow is predicated on ARPA growth. And we're equally as excited about ARPA which we expect to grow during the course of the year as well.

Q - John Hodulik {BIO 1540944 <GO>}

Great, thanks guys.

A - Mike Sievert {BIO 2140857 <GO>}

Thanks, John.

Operator

Thank you. Our next question comes from Jonathan Chaplin with New Street Research.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks, guys. Two from me, if I may. Starting off with Peter, you've got growing customers, growing ARPU and growing synergies during the year. If I just take this quarter's EBITDA and annualize it I get to $24 billion, which is above your guidance. Why wouldn't we be looking at at least $24 billion in EBITDA, what are the sort of the pressures from the cost side that would offset that tremendous story on top-line growth and synergy capture that we might not be thinking about?

And then maybe for Jon. On the -- it looks like the lines per account went up a lot this quarter. You grew lines a lost faster than you grew accounts. I'm wondering if you can give us a little bit of color on what's going on at the current level versus the lines per account level that drove the difference in the trend there? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Sounds good. Peter, want to start?

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah, let me start, great questions. And let me start with EBITDA. And I guess it's a story of what have you done for me lately. But remember at year end, we definitely talked about all of the initiatives and the investments that we'll be making this year to unlock what we shared with you at Analyst Day, that massive expansion both of core EBITDA but of free cash flow. And that really begins in Q2. You saw a lot of the initiatives, WFX, what we're going to do from a T-Mobile for business investment, smaller town and rural hometown experts, the distribution expansion in those areas.

Those are investments that are really beginning in Q2. So that's an element of what I would think about from Q1 that doesn't continue into Q2, right, as you're trying to create the run rate because we're making those investments.

But I'll tell you what, from a year where we're thinking about the investments that lead to the free cash flow targets that we shared with you at Analyst Day, I'll take it, right. It's significant year-over-year growth on a pro forma basis even before you consider the fact that last year had significant COVID costs that were out of core EBITDA that have become part of the run rate of the business. So I couldn't be more excited about the trajectory, the continued profitable growth in Q1 already being able to meaningfully increase guidance for you, and all the while making those significant investments for the unlock of that promised free cash flow.

A - Mike Sievert {BIO 2140857 <GO>}

Now, I don't know, Jonathan, if you're watching on video, but you can literally see a twinkle in Peter's eye when he talks about the cash flow potential of this business the next few years. He literally perks up when he talks about that part. And that's all net of an investment year. And it's very interesting, your point, Peter, that this is an investment year to get to that cash flow future. And yet in this investment year, everything is pointing up in terms of the raised guidance that we've delivered across the board or communicated across the board today. So that's a good place to be.

Jon, second question from Jonathan was about lines per account, and also what's going on with accounts?

A - Jon Freier {BIO 19618133 <GO>}

Yeah, so two things here. As everybody knows, we really drive our postpaid phone net adds from two ways, one, from the new accounts that we create from switching from our competitors and two, deepening our existing customer relationships that we have today. So we saw both of those things in action in a very big way in Q1. First of all, our number of new accounts doubled from Q4, which is just fantastic news and shows you the momentum that's happening in terms of the switching to T-Mobile.

And then, two, we had an opportunity to really deepen relationships as well with our existing customer base. One of the things too, just to remember is that traditionally our Sprint-branded customers, they typically had the lowest number of lines on a per account basis, so we have more opportunity to really deepen our relationships and grow there as well. So we've had a lot of interactions with our existing customers, allowing us to really grow the accounts. And then of course, typically what you see in the tax refund and kind of a stimulus event, is a lot of people that are looking to grow their relationship with us. So we love -- we love our approach on both of those, and we want to continue to take that forward into Q2 and beyond.

A - Mike Sievert {BIO 2140857 <GO>}

Jonathan, I don't know if your question was getting at this, might be because our competitors are constantly filling everybody's ears about this, which is and what part of that is free lines? Are there free lines going on? And the answer is yeah, of course, always has been. And it's a small percentage of our total gross activations though. And I love the fact that our competitors have decided to focus on this because if they think this is what's driving our success, god bless them. I hope that's what they actually think versus just what they're trying to position with you.

But what Jon said is actual paying accounts, total account relationships, were up and up big this quarter, 260,000 net new postpaid accounts, and in those accounts what we saw is customers deepening their relationships with us.

And one of the things we've always found at T-Mobile is that one we can give customers something they really value and we can grandfather them on that thing they really value, it's fantastic for churn. And as you know, we were the only sequential gainer in churn this quarter with a decrease churn versus prior quarter and again the very best churn in the industry on the T-Mobile brand. So churn's a tailwind. And this is one of our tools, giving them something that they value, that they know if they leave they're going to have to give up, and it's been a part of our game plan for a while. So anyway, I don't know if you were getting at that, but you gave me a chance to talk about it anyway.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

That's great. I think Peter has probably got a twinkle in his eye about the $23 billion at the high end of EBITDA guidance as well. But we can wait for more in future quarters. Thanks, Peter.

A - Mike Sievert {BIO 2140857 <GO>}

You already know us so well. That's great, terrific. Operator, you want to take the next one?

Operator

Absolutely. Our next question will come from Craig Moffett with MoffettNathanson.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Craig.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi, thank you. Two questions if I could. First, as long as we're on the subject of what your competitors fill people's ears with, they've talked a lot about their porting ratios being positive against T-Mobile. I wonder if you could just talk about what you see in terms of porting ratios in the competition versus each of Verizon and AT&T?

And then I wonder if separately if maybe we could hear from Mike a little bit about the pipeline for commercial accounts. And I thought the blog post from a couple of days ago was exciting. I'd love to hear more about kind of the sales process and what -- how long the typical sales cycle is to land some of those large accounts and what the pipeline looks like at this point?

A - Mike Sievert {BIO 2140857 <GO>}

Yeah, great, Craig, great questions. I'll start on the first one. Both of our major competitors are porting very negatively to our flagship T-Mobile brand. And what they get in their telemetry is the combination. And so they can't -- they either won't tell you that or don't know, but they're porting very negatively to T-Mobile. And overall, now, if you look at the overall account growth, as I said, we're growing. Overall accounts are growing, 260,000 net new account relationships growth this quarter from last quarter, and that's across all of our brands, T-Mobile and Sprint combined.

And so what that means is that porting at least as it relates to the combination is a bit of a weird artifact, and that's why we haven't been focusing on it recently. And they can't really get a good read on it either because of the data that they're getting, so you got to look at overall growth, and that's how we look at it. And we're very pleased. I mean it's -- the overall momentum for our business with declining churn is something that we've told you would become a tailwind, and this artifact will start to resolve itself as churn on Sprint dissipates, and that's fantastic.

If we can lead the industry in postpaid nets, while dragging around this level of Sprint churn, well that's a fantastic tailwind for our business. So I hope they enjoy this moment where they can at least look at one artifact, probably fueled by promotions that actually especially incentivize ports on their own end, because it's going to be short-lived, if that makes sense.

Q - Craig Moffett {BIO 5987555 <GO>}

Absolutely.

A - Michael Katz {BIO 2428243 <GO>}

(Multiple Speakers) Hey, Phil, great question. I think one of the things that you probably know is in this space when you're talking about businesses and government agencies, sales and activations tend to be a little bit of a lagging indicator because the sales cycles are long, particularly when you're talking about big complex multinational enterprise and large government agencies. So Mike at the top mentioned that we had one of the best quarters that that we've seen to date in T-Mobile for Business, phone nets. And that really -- that success this quarter really is an accumulation of successes from many previous quarters as this team has leveraged this network advantage that's been building, which really started as we got to parity in the 4G area. It allowed us to really engage with enterprises in a way that we hadn't, build those funnels up and start accruing successes like we did in Q1.

And what's happened over the course of this last year is we've been able to take now a differentiated network asset, which by the way network is the key variable that the companies that we're dealing with make their wireless decisions on, and really start stacking that funnel with new opportunities.

New opportunities that include both companies that we haven't engaged with before and existing companies that we're able to go a lot deeper with. So when I look at our business today coming coming off a great Q1, and I look at the funnel, the funnel is in the best place that it's ever been, both in the public and private sector. And it really gives me confidence of sustained success throughout the year, as well as setting us up for success over the next couple of years.

Operator

And our next question comes from Phil Cusack with JPMorgan.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Phil. Thanks for your question. Hey Phil, how it's going?

Q - Phil Cusick {BIO 5507514 <GO>}

I guess, following up on my previous question, can you quantify at all what that business phone nets are. And then second, any kind of early read on the home broadband uptake in the first couple of months? Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Mike, you want to take the first one. The short answer is not going to be not really...

A - Michael Katz {BIO 2428243 <GO>}

Not really, but I will say it up significantly, both on a sequential and a year-over-year basis. And I would say generally better than what you've seen from competitors.

A - Mike Sievert {BIO 2140857 <GO>}

And how is broadband going, Dow?

A - Dow Draper {BIO 17618940 <GO>}

Yes, thanks for the question. And I would say we're at three, a little over three weeks in post our launch on broadband. And I would say we're excited as we've ever been about this business after launch. And really what I'd say is after launch we've seen two things that are very consistent with what we saw when we were piloting. And one is that we have, but just on a bigger scale, we have customers who are coming to us. In fact, I was talking to a colleague yesterday who said a customer approached him and said, "I had no idea I could get those speeds in our neighborhood." And it's such a great feeling. We're seeing that more and more, especially when you think about our presence in rural and suburban and even many parts of urban America where they just don't have -- people just don't have great choices. They might have one choice. They might not even have any choice.

And the other thing we're seeing too, and I think that was even representative of this example I gave you, is we continue to attract customers that don't have a wireless relationship with T-Mobile. And so these are customers with one of our competitors for the wireless service, but they're taking our home internet service. And so as we start to -- what we love about this business too is that it gives us the ability to establish a relationship with someone who isn't a customer. They get to understand and know our business real well. That gives us a great opportunity to continue to upsell, and I think Mike's even seeing the same thing as he's talking to enterprise customers with this as well. So again, we're just getting started, and we're as excited about this business as we ever have been.

Q - Phil Cusick {BIO 5507514 <GO>}

Dow, I'm getting a lot of questions about about how you pitch this to customers? What kind of speeds do you tell customers to expect on sort of a minimum versus average basis?

A - Dow Draper {BIO 17618940 <GO>}

Yes, so what we tell customers is and the service we offer is, it's on average customers are going to get speeds over 100 megabits per second. And I think what is great about this too is that we're in many places with those kinds of speeds that our competitors like haven't even gone to yet. And so when you combine that with what we offer, which is really a great reliable service for a great price, no promotions, no exploding promotions, no fees, taxes included, all the things that the un-carrier does backed by our great customer service, it's -- we find it's a really compelling proposition for people.

A - Mike Sievert {BIO 2140857 <GO>}

I mean, Phil, it sounds like you're shopping. You can go to our easy tool online and see if you're one of the 30 million households that now qualify.

A - Dow Draper {BIO 17618940 <GO>}

Just call me. I'll get someone to call you and take care of you.

Q - Phil Cusick {BIO 5507514 <GO>}

Bye, guys.

A - Mike Sievert {BIO 2140857 <GO>}

Thanks, man.

Operator

And moving on to Simon Flannery with Morgan Stanley.

Q - Simon Flannery {BIO 1505834 <GO>}

Great. A couple of questions for Neville, if I could. You disclosed you've taken the network with the mid-band up 140 million POPs. And now you're up to 325 megabits a second average speed. Perhaps just help us think about how that's going to go through the balance of the year? And maybe if you've got any early data on how many phones are on 5G, what the usage is? And then some of the peers have been talking about supply chain. We seem to be getting mixed messages. Any color on that? And perhaps just lastly, Mike, on the CDMA network, how are you thinking about the shutdown there at this point?

A - Mike Sievert {BIO 2140857 <GO>}

Terrific, Simon, great questions. Neville, you want to start?

A - Neville Ray {BIO 15225709 <GO>}

Yeah, thanks, Simon. Obviously, we're just delighted with the progress that we're making. We have a ton of network momentum. And if you look at the stats, it's almost embarrassing when you look at some of the competitive stats that are out there, especially when you look at high=performing Ultra Capacity 5G services. That 140 million, I mean goodness, we're almost at half the people in the US covered already. And our competition has not even got out of the gate, but we're not slowing down. Simon, we're not sitting on our hands.

The pace that we've secured we intend to maintain and accelerate as we go through the balance of this year and into next. Our nationwide goal is right there for us for 2021 to reach 200 million people, and speeds will continue to improve. Another dimension to think about on our rollout is not just the scale and geographic mass of that, but also the spectrum assets. And by the end of this year, we'll be committing 100 megahertz on 2.5 to that 5G service and Ultra Capacity 5G. Think about that. That's as much as AT&T and Verizon picked up in the C-band auction in their mid-band asset portfolio through the end of 2023.

So that's just for this year. So we've always talked about speeds hitting 400 megabits per second-plus on average, and that's a target clearly in our sights and one we would hope to get to by the end of this year. But '21 is going to be fabulous, '22 is going to be even better. We're not stopping at nationwide. And we're certainly going to try and increase the gap that we have against Verizon and AT&T now.

On supply chain, from a network perspective, Simon, maybe this is the advantage that we have because we started our program so much earlier. And we put massive commitments, multibillion dollar commitments, into the market withour key vendors in Ericsson and Nokia. So we're accelerating the pace of deployment. We're deploying more radio gear than we ever have at a pace that's much, much faster than we've seen in our past. And our supply chain, deep into the supply chain, is very strong at this point in time on the network side, no issues for us there at all.

A - Mike Sievert {BIO 2140857 <GO>}

And that's true on the smartphone side too. We're seeing no supply issues, and we're forecasting no supply issues on either network gear or smartphone. So I think that's important for everybody to understand, and it kind of dovetails into your last question as it relates to our CDMA sunset and upgrade of those customers. It's going really well. We're on track to do that on time as we've been communicating at the end of this year, beginning of next year. And a big piece we have to do is we have to migrate all the Sprint customers in order to get there, and doing really well as well. Last month, you saw in our 5G For All initiative we announced a really awesome unprecedented offer, which is every single Metro and T-Mobile customer can bring any phone, I mean any old phone into a T-Mobile store and upgrade to a 5G phone for free, totally free. And we're making the following commitment to Sprint customers, which is every single customer will be transitioned to a compatible device or have the opportunity to transition to a compatible device before this upgrade happens at the end of the year. And not one single customer will be asked to pay a penny more for a full 5G, 4G rate plan that's compatible with the future.

And it's so important that we do this because the digital divide we've seen over the past year and a half is widening, and people who don't have access to the latest technology are at risk of falling behind. So we're full steam ahead on this transition, and we're going to make sure -- our responsibility is as it relates to our branded customers, and we're going to make sure that every single one of them has the opportunity to be ready for the benefits of this upgrade. And not one single customer will be asked to pay a penny more for their rate plan. So full steam ahead and on track.

Q - Simon Flannery {BIO 1505834 <GO>}

Great, thank you.

Operator

Thank you. Our next question comes from Brett Feldman with Goldman Sachs.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Brett.

Q - Brett Feldman {BIO 3825792 <GO>}

Thanks for taking the questions. Hey, guys. So when we go back to some of the key underpenetrated opportunities you talked about, whether it was in the business market or in the rural markets, I mean really you're underpenetrated from an account standpoint. You just would have a lower share of accounts in those markets than I assume you do in others, which is why you have a lower share of subscribers. And the question is, as you gain traction against growing your account penetration in those markets, would it be reasonable to think that your account growth might actually pick up a bit relative to your net adds because they will be increasingly net adds associated with new accounts as opposed to penetration of old accounts? And I ask that because it would seem like that could be a tailwind for your ARPU, as net adds that are associated with new accounts I do believe tend to come in at a higher ARPU. So I'm first just checking to see whether there's logic to that or if there's an offset we should be thinking through? And then just going back to some of the usage statistics, particularly on the Magenta MAX plan, I'm curious if you're seeing evidence that people are actually using their T-Mobile mobile devices as a replacement for their landline when they go up to MAX? And I'm just interested in any other insight you might have about what are the use cases that people are using so much more data on their phones for? Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Love it. I'll start with the first one on MAX and use cases. And then we'll flip to -- it sounds like it was business and consumer. I don't know, Peter, if you have an opinion about account growth and as it relates to ARPU? We are so excited about Magenta MAX. And one of the things that I was just commenting on was how important it has become to get people connected with contemporary connections. In this pandemic, that's become so clear that if you're not fully connected with the best and latest technologies, you're at risk of falling behind, not just falling behind digitally, but falling behind economically.

And Magenta MAX is a differentiated offer because it's on a differentiated network, and it's really a showcase that use cases for 5G are already here. We don't have to wait around for the next couple of years for people to invent use cases. They're doing that, and it's exciting, separate topic, but they're here today. And people, when you give somebody a true unlimited plan on a 5G phone that's screaming fast on the biggest and best 5G network in this country, they use it. And it's a truth that's been around since the beginning of the Internet in the mid-1990s when it became popular with consumers, which is we've never been able to outrun the insatiable demand that customers have on the most popular platforms for data.

And so when you provide the industry's only true unlimited plan, they do what they do. They use it up, in this case with video, a full high-def video and smart usage of all the social media platforms and music and other things. And they're also using it for work. And I think what happens is a light bulb goes off when you provide somebody with true unlimited on a 5G network that's faster than an average WiFi connection, they stop roaming around the world looking for WiFi hotspots. I mean when -- I mean we're all about to start traveling again to a certain extent. I don't go into a hotel or a conference room and start hunting around for a password for Wi-Fi.

I've got a more powerful connection then that already in my pocket, and that's the kind of mentality that Magenta MAX unlocks. It's a real differentiated offer. And by the way, it's only the beginning. Okay, and you were going to talk about accounts and ARPU. So who wants to start on that one.

A - Peter Osvaldik {BIO 18597986 <GO>}

Why don't I start, and then Jon, you can add on, as well as Mike Katz. But yeah, it's an interesting perspective, and it really is going to depend I think on the mix of each quarter. You talked -- you heard Mike Katz talk about the success of TFB right. And particularly as you go into the underpenetrated large enterprise market, you could see it could be one account, but have many lines associated with it, a little bit different dynamic than consumer. I think as you see some of the penetration happen in smaller town and rural, yeah, absolutely, that could happen. But don't forget, we're always going to continue to invest in our existing subscriber base and particularly as we continue on this journey of worst to first in the Sprint churn as well. So it's going to be a mixture. But, yeah, there is definitely correctness in that thesis, particularly in smaller town and rural. I don't know Jon or Mike, if you have anything to add to that?

A - Mike Sievert {BIO 2140857 <GO>}

Yeah, I mean, I think you hit it, Peter. When you're thinking about large enterprise, you both have the dynamics of a single enterprise having really large scale wireless deployments. And honestly, with lot of those companies we already have presence, and we've had presence for a long time. Our role has just changed. You heard us talk about this at Analyst Day. Historically, our role was a little bit of a stocking horse to create price pressure for AT&T and Verizon.

And what you've seen particularly recently with our growth is they're more and more choosing us, and we're displacing the incumbents for their wireless projects. So a lot of our growth has come from customers that had technically been customers of ours before, but we're just majorly deepening our relationship with them.

A - Jon Freier {BIO 19618133 <GO>}

Then I would just finish up and say, yeah, we are definitely excited about our smaller markets and rural opportunity. And like we talked about it at Analyst Day almost two months ago, that's 40% of the entire geographic market in the country. And we've got a market share of about, in the low teens. And we're trying to get that to -- we will get that to nearly 20% over the next few years. That's for sure. And so, like you said, Brett, that's got huge opportunity for new accounts, of course, definitely.

But just remember, one of the things that I said earlier too that when you look at our Sprint-branded base, that we are going to be migrating more and more to our T-Mobile base, that traditionally has had some of the least penetrated number of lines on a per account basis, so there is still big opportunities for us to deepen our relationships with the customers that we acquired through the Sprint transaction back in April of last year.

So, so net net of those two things, sure. There's ARPU opportunities for us in new accounts, but there's also ARPA opportunities for us as well as we deepen our existing relationships.

A - Mike Sievert {BIO 2140857 <GO>}

Great questions, Brett. Thanks.

Operator

And moving on to Michael Rollins with Citi.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Mike.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks. Hi, good afternoon. Two questions if I could. The first one was the prepaid churn came down. And just curious if you see this as a temporary change or if you're seeing something fundamental happen in terms of the retention rates for prepaid customers. And then second, leased devices, it looks like it was down from $14.2 million in the base to $12.4 million in the base in this latest quarter, which is down 13% sequentially. Just curious if you're taking an active approach to quickly reduce the amount of these leased devices in your base and what that steady-state mix might look like for T-Mobile between installments and leases in the future. Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

I'll start on the first one and see if Jon wants to pile in. It's too early to tell. I think what we're seeing is that our market position for Metro by T-Mobile is exactly what the market is looking for. You saw our highest net add growth in three years on Metro. We're the leading brand from one of the major network providers, the leading brand, and yet we're still growing and we're growing in value with churn falling. And that's fantastic. It just kind of shows that we have a well-positioned value proposition.

I think it's going to turn out to be very prescient that we decided to align Metro around the T-Mobile master brand, Metro by T-Mobile, because as the network investments start to take root, what's really important is that customers -- I said this in my remarks, that customers give us credit for those network investments. And that means they need to know they're part of that network, and Metro customers do. As Jon rolls out in smaller markets, we're going to able to do that in a unified way, which is much more efficient to go after smaller markets with Metro by T-Mobile and T-Mobile together with unified distribution, and that's fantastic. So we have a more premium offering that attracts people with a credible and legitimate need to be in this wireless category long term, not coming in, looking and leaving. And that's important. And I think right now in our economy with how much people are relying on their connections, if you're a prepaid customer, that is a very good place to be positioned. I'm not forecasting churn for you. I think that would -- there's so many ins and outs, but I like where we are. I like the overall health of our Metro by T-Mobile franchise. Jon, anything to add to that?

A - Jon Freier {BIO 19618133 <GO>}

The only thing I would add to that is, yeah, we just really love our early retention rates of our prepaid customers on Metro by T-Mobile as well. This is something that we are seeing that's a little bit different from our offer construct, compensation construct, etc. We're seeing improving early survival rates of our new accounts that we acquired through our Metro by T-Mobile brand and products. So we're seeing that, which is fantastic news.

And then like Mike said, just a few moments ago, we're going to be able to have Metro by T-Mobile and T-Mobile all within our T-Mobile stores in smaller markets and rural areas because it would be inordinately inefficient for us to put a T-Mobile store and then right across the street put a Metro by T-Mobile store. And like Mike said, Metro by T-Mobile and T-Mobile, they have met. So in smaller markets and rural areas you should be able to go to one store and be able to get anything and everything that T-Mobile has to offer. So we're looking forward to that as well.

A - Mike Sievert {BIO 2140857 <GO>}

And last one on leased devices, Peter, it's happening -- unfolding slightly differently than we had outlook. So maybe you can comment on that.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah, well Mike, really the plan is the same as we laid out at Analyst Day, where it's really bringing customers onto the T-Mobile value proposition. And when you think about that mid-term timeframe, the goal was really to get lease revenues down to $1 billion to $1.5 billion and ultimately to be below $1 billion by the long-term targets that we put out there. And it's giving everybody again the T-Mobile value proposition, all new originations are practically on EIP and taking away the irritants. So there's definitely incentives.

We're talking about it with Sprint customers, but it's also on their terms, right, to make it be something that isn't an irritant and a churn creator but to quickly migrate them onto all the goodness that the T-Mobile value proposition has.

A - Mike Sievert {BIO 2140857 <GO>}

And, operator, before you go out to the phones, I want to ask my team here. We do have some coming in from Twitter as well. Do we want to go to one of those or two or three of those rapid-fire mode, anything like that? Janice, what's your opinion, you want to?

A - Janice V. Kapner {BIO 20103695 <GO>}

I would. You've got some good ones on enterprise momentum and WFX and on our our big un-carrier move on rural America and distribution and the Great American 5G upgrade?

A - Mike Sievert {BIO 2140857 <GO>}

Okay. I think we kind of talked about the Great American 5G upgrade a little bit, but there is a good question here. So where did it go? Bill Ho -- Bill Ho says, since the launch of WFX, that stands for work from anywhere, can you discuss the reception among the broad business segment. So how's it going? We did the launch. You've made a few comments earlier, Mike. But can you expand on what's going on out there?

A - Michael Katz {BIO 2428243 <GO>}

Yeah. Hey, Bill, good to hear from you. With WFX, the reception that we've seen so far has been great and kind of exactly what we expected. One of the first things that we've seen is we expected that bringing a new set of business services to market would enable us to have another dimension in which to facilitate conversations with enterprise and government buyers. And we've absolutely seen that so far, and we've begun the testing process across all of the products in there. But to kind of get to the second part of your question, one of the really big pieces of the reception that we've seen is one of the things that's been so appealing about what we launched, particularly the home office Internet product, is the fact that it's nationwide. And as businesses are starting to do their planning for a mixed-work environment where some employees are going to be in the office and some are going to be remote, including in their home, having a single nationwide solution and solutions to help facilitate this mixed-work environment has been particularly important for them.

And we think that's one of the most exciting things about what we did, particularly with that home office Internet product, is give a single nationwide broadband solution to enterprise, something that they really can't get anywhere else. So it's going great so far and look forward to keeping you up-to-date.

A - Mike Sievert {BIO 2140857 <GO>}

That's an eye-opener. I mean you think about this offering that is available essentially nationwide for employers. They really can't get that any place else. For their employees not to have to be on an unsecured WiFi network, sharing the WiFi with the kids to try to do their job, and that's, something that we've all seen what that experience is like over the last year. So that's a breakthrough. While we got you, Mike, one more and then we'll go back to the phones. For Jim Patterson, could you comment on the big announcement we made about Lumen and what we're doing, especially as it relates to distributed computing?

A - Michael Katz {BIO 2428243 <GO>}

Yeah, really excited about it, and I think the Lumen team's excited too because as they think about bringing edge compute solutions to market, what was important to Lumen and particularly to the customers that they're looking to bring this solution to is a big distributed powerful 5G network.

And as you heard Mike and you heard from Neville earlier, nobody has got a bigger, nobody has got a more powerful nationwide 5G network to bring these true mobile edge compute solutions to market. So we're really excited about, and the Lumen team is really excited about it as well. We've already begun engagements with customers. So we're working on some use cases. I expect to have something to talk about during the year when those come into market.

And we think there's a lot of exciting potential there to really help enterprises transform parts parts of their business and bring new services to their customers. So more to come on that.

A - Mike Sievert {BIO 2140857 <GO>}

You see what happens, Jim. You ask Mike questions, and he starts to pre-announce awesome stuff. So that's -- you're welcome. All right, operator, let's go back to the phones.

Operator

Thank you. Our next question will come from David Barden with Bank of America.

Q - David Barden {BIO 1506279 <GO>}

Hey guys, thanks so much for asking the questions. I appreciate it.

A - Mike Sievert {BIO 2140857 <GO>}

Sure.

Q - David Barden {BIO 1506279 <GO>}

Hey, guys. So I guess I have a question for Peter, on the guidance, and I apologize it's in four parts. So I guess -- I heard your comments earlier with respect to the twinkle in the eye for the rest of the year. But specifically, with respect to kind of how you change the guidance, how much was related to 1Q versus plan and how much was related to changing expectations for the rest of the year?

And the second question, part two, was how does the increase in travel and roaming and things that have been happening I think faster than people expected, impact your outlook or maybe hasn't yet impact your outlook? And then part three was, at the Analyst Day you talked about Sprint churn in your base case plan going to 1.5%. But with where churn is now relative to last quarter versus to a weighted average a year ago, it's clear at least, I think, that it's not going there. So has that changed yet as a base case. And then finally, Part D if I could, was what have you kind of baked into the plan as an outcome from the Verizon TracFone merger? Thank you. Sorry.

A - Mike Sievert {BIO 2140857 <GO>}

Wow, rapid fire mode, Peter. Let's see how you do. Bang them out, all four of them, yes and now answers.

A - Peter Osvaldik {BIO 18597986 <GO>}

All right. Yes, no, 1Q versus plan the rest of the year. It's actually both. Right. It's more momentum in terms of integration, and that's why we have the synergy raise. But it's also what we're seeing in terms of of course customer and the momentum in the business and ARPU that we talked about Magenta MAX. So it's a combination of both that allowed us to update guidance for the remainder of the year.

Roaming and travel, I would say I don't know. It's hard to really know, but I will tell you there's probably no better provider as you start thinking about travel opening back up, roaming opening up, when you think about mobile without borders, when you think about what we offer to our consumers in terms of international roaming and the capabilities, if you go to Europe or other countries. I would say there is no other provider that's better. So maybe more and more consumers will see that.

A - Mike Sievert {BIO 2140857 <GO>}

It probably hasn't been fueling much of our switching in the last year the way it's been a major contributor in prior years. So it's a fascinating point.

A - Peter Osvaldik {BIO 18597986 <GO>}

On Sprint churn, if you think, are we cutting in half? Are we updating the plan? I think I talked a little bit earlier. As we see the country reopening on a more nationwide basis -- Jon spoke to the fact that it's a little bit different in different parts of the region. We do see and anticipate switching to increase. So it's hard to know whether today's level and what we saw in Q1 is really representative or whether some of that's switching, which again as the share taker is a real positive for us, will impact until we go through the totality of that playbook bringing them from worst to first. So a little bit wait and see there, but really, really pleased with the progress that we're seeing.

And on Verizon and TracFone, certainly for '21, no, I can't speak to when they're going to close other than what they say in terms of external views. But in Analyst Day we did say that we do assume TracFone, which is roughly about $750 million of high-margin service revenue to us, would go away over the period and likely by the mid-term.

A - Mike Sievert {BIO 2140857 <GO>}

Well done, not bad. Thanks, Dave.

Q - David Barden {BIO 1506279 <GO>}

Rapid fire.

A - Mike Sievert {BIO 2140857 <GO>}

Good work. All right, operator.

Operator

And our next question will come from Ric Prentiss with Raymond James.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Ric.

Q - Ric Prentiss {BIO 1534273 <GO>}

Thanks, and afternoon, everyone.

A - Peter Osvaldik {BIO 18597986 <GO>}

Good afternoon.

Q - Ric Prentiss {BIO 1534273 <GO>}

Wanted to go back to the opportunity in rural America and small market America. You mentioned how there'll be some of the small town rural experts and distribution picking up. You had originally talked also about increasing rural sites by 10,000. Can you update us as far as how that's going? I've seen some of the comments online talking about coverage out in rural America? So can you talk a little bit about those 10,000 sites? Do you still need them and over what timeframe?

A - Mike Sievert {BIO 2140857 <GO>}

Yeah, it's a fantastic question, Ric, because they go hand in hand, right? We go into and really put the distribution and marketing firepower in place once we know we have an awesome and competitive product, and that's the part that so rapidly changing. So I don't know, Neville, do you want to start with this one?

A - Neville Ray {BIO 15225709 <GO>}

Yes, I mean -- good to talk to you, Ric. So the rural piece is huge for us, right. I mean that's the massive differentiator between what we're doing. And if we're honest with ourselves, AT&T and Verizon haven't even announced what they're going to do in rural America with 5G. If you look at our extended range footprint, we have today more than AT&T and Verizon combined. I mean there is only one choice on 5G in rural America today, it's T-Mobile, and we're there materially. You're right, Ric, in the plan as we move through the next years, we intend to add about 10,000 incremental sites to the T-Mobile network. So some some sites come off with decommissioning, and we add some additional sites. And that's happening all of the time. There will be several thousand added this year. There will be more in '22 and again in '23. So not necessarily an even split, but we continue to improve and enhance coverage across the the full coast to coast footprint of the US.

But in the rural territory, Jon's crazy busy rolling out distribution. And the network is just going from strength to strength, and really it's a tremendous upgrade in many parts of the US where we're bringing 5G service has been pretty damn awful for many, many years.

A - Mike Sievert {BIO 2140857 <GO>}

Ric, one of the things we said in our remarks at the beginning was that this build which is synergy backed and ahead of schedule will result in T-Mobile not just having the best 5G network, but the best network with the most coverage. And I think that's important to understand. That's our goal is the best overall network in this country with the most coverage, the most availability, and that's such an unlock. And for customers, of course, they're just now just beginning to understand that this is where we're headed, and for 5G, where we already are. And that's such a fantastic potential opportunity and potential tailwind for our business as we go forward.

Q - Ric Prentiss {BIO 1534273 <GO>}

Can I squeeze in one more rapid-fire question? In the past you've talked about content goes to the internet, internet goes to mobile. It seems like there's a pending now to say, mobile goes to cloud. Can you talk a little bit about what 5G and network slicing might mean? And can you maybe allude to what you guys see as the opportunity, is mobile headed to the cloud?

A - Mike Sievert {BIO 2140857 <GO>}

First of all, Ric, I'm so flattered that you are quoting us on that. That makes -- that's awesome. Look, people are asking what are some of the use cases that will fuel 5G, especially as it relates to enterprise? But you could also say with consumer, and of course it's cloud. And this notion that enterprises don't want to be buying and deploying assets, they want to have networking as a service. They want to have computing as a service. And that does raise very interesting prospects for our business as it relates to being able to ultimately serve enterprise customers with networking as a service. But even putting that aside, which is a fascinating area, that our business model will -- it doesn't rely on yet, but that we won't be left behind on.

The other issue is that customers, both consumers and businesses alike as they rely on cloud, are going to need very high-speed low latency network for that experience to be good. The more local your compute is, the less your network matters. And the more cloud your compute is, the more your network matters. And people are asking, will T-Mobile's 5G advantage matter as it relates to choice, or will it be an advantage that customers don't care about or notice?

While cloud is a differentiator there because the more enterprise customers and consumer applications rely on cloud, the more our network shines. And it really showcases a potential again tailwind for the future.

Q - Ric Prentiss {BIO 1534273 <GO>}

Great, thanks, Mike.

A - Mike Sievert {BIO 2140857 <GO>}

You bet.

Operator

And moving on to Colby Synesael with Cowen.

Q - Colby Synesael {BIO 4192535 <GO>}

Great, thank you. I think there's an expectation that competition is going to increase. And I think we all think about that fairly generically when we say that, but that's expected in the second half of the year tied to this expectation that switching is going to improve, which you also are expecting. I'm just curious what you've baked into your EBITDA guidance in terms of flexibility to respond to that competition to the extent it does show itself and it is aggressive?

And then secondly, just a point of clarification, you guys mentioned that you expect ARPU to be up in Q2 through 4Q versus the results in 1Q. I'm just wondering if that's linear. In other words, 2Q, obviously up over 1Q, but is 3Q higher than 2Q and so forth? Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Well, Colby, first of all, thanks for the question. It's awesome. You're our last question of the day. Those are great questions. And if you have your pen out, we'll just give you the ARPU figures for the next four quarters.

Q - Colby Synesael {BIO 4192535 <GO>}

That'd be awesome.

A - Mike Sievert {BIO 2140857 <GO>}

We're going to start with ARPU because it's a great question, and then I'll come back to the competition piece. So, Peter?

A - Peter Osvaldik {BIO 18597986 <GO>}

All right, certainly, and also how much we baked into EBITDA for promos by quarter, I think all of that would be great. They're excellent questions. No, it's not necessarily linear. There's obviously seasonality, there's promotional aspects. There's other things. There's when investments come. How much of a mix from T-Mobile for business or consumer? But it is a low watermark in Q1, and the rest of the year will be higher than that, but not necessarily linearly increasing.

A - Mike Sievert {BIO 2140857 <GO>}

And to your other question, it really goes to our whole philosophy and mentality. Some people who follow us closely, and if you look at our track record on guidance and then our actuals, would be forgiven for saying we're conservative if you look at our actuals and our track record. And we don't feel conservative, we just feel like we're prudent. And we never know what we don't know. And this is a hypercompetitive business. And so what we do is we give you guidance that covers what we think are the most reasonable outcomes. And, yeah, it may get more competitive this year, and if so, we will execute and perform and deliver on our ambitions yet again.

We've been through this journey long enough, and we have a model flexible enough and we have a set of assets and a hand of cards that's strong enough that if this is a muted environment, we're good. If it's a hyper competitive environment, we're good. We're not going to bring about change like that. We like it how it is now, we think it's serving consumers incredibly well thanks to the innovations that we bring. But if somebody else brings it and they do stuff that totally changes things, we're ready, and we have to be ready. You're hiring us to be ready, and we give you guidance that showcases that we're ready. And that's why sometimes it appears conservative when really it's just prudent, and we'll see how this year unfolds. I certainly hope that we will be back next quarter with a beat and raise, and that's certainly always our aspiration.

And anyway, it's a great question to end on. I appreciate you, and I appreciate all of you. Thanks for tuning in for this. We're celebrating here at T-Mobile. This has been a fantastic start to what I certainly hope and expect will be a fantastic year. Thanks everybody for joining us.

Operator

Thank you. And ladies and gentlemen, this concludes the T-Mobile US First Quarter 2021 Earnings Call. If you have any further questions, you may contact the Investor Relations or Media departments. Thank you for your participation. You may now disconnect and have a pleasant day.
