Q4 2020 Earnings Call

Company Participants

- Jud Henry, Senior Vice President and Head of Investor Relations
- Matt Staneff, Executive Vice President and Chief Marketing Officer
- Mike Sievert, President and Chief Executive Officer
- Neville R. Ray, President of Technology
- Peter A. Ewens, Executive Vice President, Corporate Strategy and Development
- Peter Osvaldik, Executive Vice President and Chief Financial Officer

Other Participants

- Brett Feldman, Analyst
- Craig Moffett, Analyst
- John Hodulik, Analyst
- Jonathan Chaplin, Analyst
- Michael Rollins, Analyst
- Phil Cusick, Analyst
- Simon Flannery, Analyst

Presentation

Operator

Please standby. Good afternoon. Following the opening remarks, the earnings call will be open 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 17995947 <GO>}

Welcome to T-Mobile's Fourth Quarter and Full Year 2020 Earnings Call. On the call today are Mike Sievert, our President and CEO; Peter Osvaldik, our CFO; Neville Ray, our President of Technology; Matt Staneff, Our Chief Marketing Officer, 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 Factbook, and other documents related to our Q4 and full year 2020 results, as well as reconciliations between our GAAP and non-GAAP results we discuss on this call can be found on the Quarterly Results section of the Investor Relations website. Please note that we expect to file our Annual Report on Form 10-K later this month following the completion of our first year-end audit following our merger with Sprint.

Results prior to the second quarter in our earnings materials represent the historical results of standalone T-Mobile prior to our to merger with Sprint. I would also note that we will not comment directly or indirectly on the FCC's ongoing C-band auction, C-band spectrum or the post-auction market structure. Likewise, we look forward to having a great discussion with you around our merger synergies and future business trends at our upcoming Analyst Day, and we'll focus today's Q&A on our 2020 results and guidance for 2021.

With that, let me turn it over to Mike.

Mike Sievert {BIO 2140857 <GO>}

Thanks, Jud. Hi, everybody. We're coming to you live from our Bellevue, Washington offices today. We have some amazing results to cover and we're going to jump right in.

I did plan this call to be a little bit shorter than unusual to respect your time, mindful that we're going to be seeing you for a much more in-depth discussion at our Analyst Day coming up just next month. Our whole team is really looking forward to being with you. But today, we are so excited to share our Q4 and full year 2020 results. And with results like these, I never get tired of hosting these calls and talking about our business. Because as it turns out, 2020 was T-Mobile's best year ever across our major customer and financial metrics. Not just because we're bigger now after our merger, but because of how our team delivered. And we capped off this year with a very strong Q4, beating expectations and showing that we have momentum on our side. So our business is well-positioned for success in 2021, and more importantly, beyond. From network, to synergies, to operations in new investment areas, T-Mobile showed again this quarter that we are positioned to win.

Those of you that follow us know that we're focused on three core ambitions. First, continuing to profitably outgrow the competition. Second, delivering bigger-than-expected merger synergies faster than anticipated to drive scale and enterprise value. And third, making the decisions and investments to drive the long-term growth and the exciting cash-generation potential of this company. As you look at our full year and Q4 results, it's clear that we are doing exactly that. And listen, the thesis for our company has never been more clear. We're very rapidly leaping ahead of the pack on network with the best assets, the best team and the most loved brand in our space. If we play our cards right, T-Mobile is positioned to stay ahead in the 5G race for years to come.

This quarter showcased a few key points that are important to understand when you look at T-Mobile and when you look at the whole competitive landscape. First, we delivered the highest postpaid customer growth in our history in 2020, finishing on top of the pack again in Q4, while simultaneously delivering strong service revenue, EBITDA and cash flow. Look across the major players in this industry and you'll note that only T-Mobile delivered significant growth in customers and profitability.

Second point. T-Mobile delivered the industry's best churn on our flagship T-Mobile brand, and we did it by delivering the best-in-class experiences across network, value and customer service. Just let that sink in for just a second. The best churn in the industry. Although we don't normally report on T-Mobile brand-specific churn, I did want to make that point clear. T-Mobile went from worst to first on churn with our winning formula, and that formula is only getting better as we pull away from the pack on 5G and more customers begin to care about that. And here is the point. We know how to apply that same formula to our much higher-churning Sprint-branded customers, creating a big potential tailwind on future performance once this integration is substantially complete.

Third key point. Our growth and profitability are fueled by the rapid unlocking of synergies, which we are achieving faster than expected as today's numbers made very clear. And finally, these synergies have helped us deliver the nation's fastest, biggest and most available 5G network, which is going to inform the competitive landscape for years to come.

So, let's dive into these just a little bit. As you saw in January when we shared our early customer results, we ended 2020 as the clear growth leader in wireless, profitably taking share again despite all the complexities of our merger. In fact, we delivered our highest ever total postpaid net adds of 5.5 million, and we grew our postpaid phone base by an estimated 2.2 million; an industry best. We did all that and still delivered strong financials. Building upon our improved scale from the merger with over 50 billion in service revenue, growing year-over-year when our peers were relatively flat, and growing to $224.6 billion of adjusted EBITDA. In a quarter when Verizon sacrificed growth for profitability and AT&T sacrificed profit growth for customer growth, only T-Mobile delivered customer growth and profitability growth beating consensus on both. And with our guidance that Peter will share in a moment, it looks like only T-Mobile is expected to deliver both again in meaningful ways again this year.

Churn. As I mentioned, we also didn't miss a beat on churn. Our total postpaid phone churn across all brands was essentially flat year-over-year for both the full year and the fourth quarter compared to standalone T-Mobile a year ago. This is including the legacy Sprint customers that were churning at over 2% this time a year ago in Q4. And as I said, postpaid phone churn for our branded T-Mobile base was the lowest of all national carriers and a company record-low for a Q4, a reflection of genuine customer loyalty that's earned by giving customers the best network and the best value with great customer experiences, something that the Un-carrier is truly famous for. And as we continue to integrate, we're bringing more of that same T-Mobile experience directly to our Sprint customers.

As we saw in Q4, others may try to buy customer loyalty because they see what we see. We're pulling ahead of the pack on network and we're about to take all their customers but, unfortunately, their results show that it's painfully expensive and, ultimately, just a Band-Aid to mask the real drivers of why customers eventually leave. The fact is there are no shortcuts to creating genuine loyalty and sustainably low churn, and I'm confident we'll see all of this play out down the road.

And while we're talking about great customer experiences. Just today, J.D. Power recognized T-Mobile for the best customer care in wireless for the 21st time and the seventh time in a row. Meaning, we've earned more top honors than any other wireless provider in the history of their study. As you've heard me say before, T-Mobile now has the scale and the resources to do something that's never truly been done before; offer customers the best value and the best network.

Perceived network quality was the moat around the Verizon and AT&T castles that allowed them to overcharge customers for years, but T-Mobile is freeing customers across the country from having to compromise. This evolution creates a path to penetrate further into prime customers and businesses that require the highest-quality network experience and it creates compelling reasons for them to adopt more premium plans. One of the reasons all of this works is that only T-Mobile is operating in a synergy-backed model, which allows us to simultaneously deliver customer and profit growth while also investing big in the business. Let me say this. Our national capital plan may be ambitious, but it's known and it's supported by our massive synergies. We'll talk about this more next month, I expect.

Let's talk about those synergies for a minute. We delivered $1.3 billion in run rate synergies in 2020. That's more than we guided last quarter and well ahead of our plan. This progress includes the start of our customer migration work, something that's key to unlocking synergies, and we already have over four million Sprint customers moved over to the T-Mobile network. I also told you that we expected synergies in 2021 to be more than double what they were in 2020. Well, we still expect it to double and then some, as we now expect to realize $2.7 billion to $3.0 billion in run rate synergies in 2021. These synergies allow us to make smart investments in the future and that starts with the network.

Only T-Mobile offers the fastest, biggest and most available 5G Network in America. The country has never seen anything like this network build. We're tracking ahead of schedule and the results are clearly beginning to differentiate, not just on 5G but our network performance overall. To have the best network, you have to win across both coverage and capacity. T-Mobile's Extended Range 5G now delivers 5G coverage across 1.6 million square miles, reaching 280 million people, offering nearly 2.5 times more geographic coverage than AT&T and nearly four times that of Verizon's so-called nationwide 5G.

And we're also expanding our Ultra Capacity 5G at an unprecedented pace. This is where you see truly game-changing speeds and capabilities enabled by the bigger channels of spectrum found in mid-band and millimeter wave. We brought Ultra Capacity 5G to 106 million people last year, 50 times more than Verizon's Ultra Wideband, just crushing our goals. And now, we're onto our next audacious goal to cover 200 million people nationwide by the end of this year.

For a number of reasons, getting to 200 million is a much taller challenge, but we've ramped the biggest network factory this country has ever seen and we're up to the task. This is important. We are now running a huge deployment machine at pace with a proven rollout model, something that takes a long time to ramp, a process we started way back in early 2018. I expect we'll be talking more about this advantage next month also. And third parties are seeing the results. Just last week, new independent data from Opensignal was released and it's based on billions of measurements from real customers, and it proves T-Mobile customers get the fastest 5G download speeds, fastest 5G upload speeds, and they get a 5G signal more often than anyone else. And of course, you'll see these advantages in our marketing and messaging, including with our latest Super Bowl message this weekend.

I actually think the perception battle is the biggest one and we're all over it. This team operates and executes, and our goal is to not miss opportunities. For example, we're increasing our specialized sales force and building tailored products for large enterprise and government. We see room to run here. We've competed mostly on price in the past, if we're honest. And now, we have a premium product that's increasingly the catalyst for our wins. On the consumer side, we're planning to add significantly more points of distribution in thousands of sales and service agents to reach beyond urban areas where we have historically had our big success. We have a multi-year expansion plan to bring real competition and a quality service to 50 million US households in smaller markets where our market share is currently only half of what our national market share is. This is a huge opportunity to bring our Un-carrier story to more of America. And we'll soon rollout our 5G home broadband offering to bring critical connectivity to rural parts of this country and actual competition to the cable operators. All of these opportunities are built on our game-changing Ultra Capacity 5G that we are rapidly expanding across the country, further distancing ourselves from the competition every day.

So these are just a few things to wet your appetite. We'll dive deeper into each of these opportunities next month when you can hear directly from the leaders who are driving these growth areas. So hopefully, you get the idea that this team believes T-Mobile is well-positioned. We will expand our proven Un-carrier strategy and capitalize on our emerging network leadership, our customer-loving brand and our new scale as we tackle the challenges and opportunities that are ahead.

As I said earlier, this wasn't just another great year at T-Mobile. It was our best year yet. We delivered the highest postpaid customer growth in our history, while simultaneously delivering strong revenue, EBITDA and cash flow growth. Only T-Mobile delivered significant growth in customers and profitability, fueled by the rapid and faster-than-expected unlocking of synergies. And only T-Mobile can say that we offer the nation's fastest, biggest and most available 5G network. And we did all this while navigating a pandemic that made us rethink how to best serve our customers and protect our employees, and in only the first nine months after the merger. Great work by an amazing team and you know what? We're just getting started.

So, let me turn it over to Peter to take us through the financials and our guidance. Peter, take it away.

Peter Osvaldik {BIO 18597986 <GO>}

Thanks, Mike. As you can tell, we're fired up. We finished the year with exceptionally strong results and there is no doubt we are entering 2021 with great momentum. After raising our second half guidance on our Q3 earnings call, we executed on our winning playbook and beat expectations yet again in Q4, so let's jump right in.

Service revenues grew to $14.2 billion, driven primarily by our continued growth in postpaid customers. Cost of services of $3.8 billion reflects the accelerated volume of site upgrades to support the rapid deployment of our 5G network, as well as over $500 million in merger-related costs as we continue our network integration. SG&A expenses of $4.8 billion included over a $150 million in merger-related costs as we advance our integration efforts, and included benefits from increased synergy realization. Net income of $750 million and diluted earnings per share of $0.60 were both better than consensus expectations, and included merger-related costs of $506 million, or $0.40 per share, in Q4 on an after-tax basis. Adjusted EBITDA amounted to over $6.7 billion ahead of our guidance and consensus expectations, and included lease revenues of $1.2 billion. Our pre-tax merger-related costs, which are excluded from adjusted EBITDA, were $686 million. Net cash provided by operating activities totaled $3.5 billion, driven by our strong operating performance, while cash purchases of property and equipment, including capitalized interest, amounted to $3.8 billion as we accelerated the build-out of our nationwide 5G network. Free cash flow, which was fully burdened by merger-related costs of $583 million, amounted to $476 million, an increase over Q3 even while funding our accelerated network investments. Postpaid ARPA, or Average Revenue Per Account, amounted to $133.08, while postpaid phone ARPU was $47.86 as we continue to grow the number of customers per account, and ARPU was in line with our Q2 ARPU as we had previously guided.

A big shout-out to our teams who had great execution all around to deliver strong results in a very challenging year.

Okay, let's talk about how this momentum carries into 2021, which is a peak investment year from an OpEx and EBITDA perspective, while simultaneously delivering on our promise of continued profitable growth. We expect total postpaid net additions to be between 4.0 million and 4.7 million, reflecting our continued focus on profitable growth despite the ongoing COVID-19 impact on the switching environment. Going forward, we will focus our guidance and discussion of results on core adjusted EBITDA for improved clarity and transparency, given that we have de-emphasized leasing as part of our value proposition.

And I notice how many of you look at our results since the merger already. We expect core adjusted EBITDA in 2021 to be between $22.6 billion and $23.1 billion. This is based on adjusted EBITDA that is expected to be in the range of $26.5 billion to $27.0 billion, and includes leasing revenues of $3.8 billion to $4.0 billion. The strong year-over-year increase in core adjusted EBITDA reflects the expected growth in customers and service revenue, as well as an expected increase in synergies, partially offset by our investments to unlock profitable growth vectors and an expectation of increased switching activity driving higher customer acquisition expenses compared to 2020. Core adjusted EBITDA for 2021 also includes the full-year impact of the non-cash expense from our master lease agreement with American Tower. Recall, this is the straight-line accounting impact resulting from the long-term nature of the agreement, which generates cash savings from day one while allowing for full flexibility for network deployment.

Merger-related costs not included in adjusted or core adjusted EBITDA are expected to be between $2.5 billion and $3.0 billion before taxes, primarily driven by network activities. Cash purchases of property and equipment, including capitalized interest, are expected to be between $11.7 billion and $12.0 billion as we continue the robust pace of our 5G deployment and the network integration, while also realizing procurement savings from our increased scale enabling our investment dollars to go further. Net cash provided by operating activities, including payments for merger-related costs, is expected to be in the range of $13.0 billion to $13.5 billion. And importantly, this figure excludes proceeds related to the beneficial interest in securitization transactions, which is expected to be approximately $3.7 billion to $3.9 billion and is classified in investing activities for accounting purposes.

Together, this results in expected free cash flow, including payments for merger-related costs, to be in the range of $4.9 billion to $5.4 billion, reflecting growth and the strong cash flow generation capabilities of this business even with higher levels of investments, and does not assume any material net cash inflows from securitization. We also expect our full-year effective tax rate to be between 24% and 26%. And lastly, we delivered $1.3 billion in synergies in 2020, and we expect synergies in 2021 to be between $2.7 billion and $3.0 billion.

Breaking down 2020, we realized approximately $700 million in network synergies, primarily from avoided new site builds and early decommissioning. At the same time, we realized about $600 million from streamlined marketing efforts under one flagship brand, expedited retail rationalization and move quickly to evolve our organizational structure. As we look to 2021, synergies are likely to be fairly evenly split between network-related and SG&A-related savings, with roughly two-thirds coming from cost reductions and roughly one-third from avoided costs that are not reflected in run rate P&L trends similar to 2020. Altogether, we expect 2021 to be another year of profitable growth and free cash flow expansion, while continuing to invest in our network and the business to unlock significant expansion in future free cash flow that is so exciting.

And I must mention the ongoing work done to significantly improve our capital structure and strengthen the balance sheet. Last month, we issued $3 billion of unsecured notes that set record-low yields for five-year, eight-year, and 10-year tranches in the high-yield market, including issuing 10-year secured notes below 3%. We will provide updated color around synergies, mid-term and long-term guidance, as well as a strategic overview of the business at our Analyst Day next month, and we can't wait to have a great discussion.

And before we open it up for questions about our 2020 results and our 2021 guidance. Just a reminder that we're currently in a quiet period for Auction 107 and we'll, therefore, not make any comments related to that.

All right, let's get to your questions. You can ask questions via phone or via Twitter. We'll start with a question on the phone. Operator, first question, please.

Questions And Answers

Operator

Thank you. (Operator Instructions). Our first question will come from Phil Cusick with J.P. Morgan.

Q - Phil Cusick {BIO 5507514 <GO>}

Hi, guys. Thanks a lot.

A - Mike Sievert {BIO 2140857 <GO>}

Hey, Phil.

Q - Phil Cusick {BIO 5507514 <GO>}

One for Mike, one for Pete. Mike, can you talk about your customer strategy this year? I see aggressive two-year free line offers in the market, which should help units. How should we think about that going after accounts as well? And then second for Pete. Maybe dig into the EBITDA guide with double the synergies and a similar mix of cost reductions year-over-year versus avoidance. I think people wonder why it can't be better. Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Hey, Phil. Thanks. You were a little muddled there, but I think the first part you were asking about the competitive environment and customer growth and account growth. We really like what we see and you probably aren't surprised to hear that because our model has proven over and over again to be flexible. And in times when there is incredibly intense competitive pressure, we find a way. And in times when there is a more muted switching environment, we find a way. And that's what we're doing and that's what you see in this very ambitious guide that we've put in front of people today, with all the normal and usual caveats. So, we're really excited.

And obviously what we are expecting to see will be a 2021 year that, hopefully, transitions us back out by the end, some of the dynamics that have dominated the competitive landscape in '20 due to COVID-19; muted switching, challenged payment environments, recessionary circumstances, et cetera. But we'll have to see how it goes. The thing you should take, I think, confidence in is that our plan is nimble and flexible and we're able to call the audibles as we see them. As you saw with three quarters, a very, very strong performance that we just capped off since the pandemic began.

Now, I think you were going to turn to Peter Osvaldik for the second piece, so I'll switch over to Peter.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Thank you, Mike. And yeah, Phil, a little muffle there. I think you were asking about EBITDA as well as synergy capture and whether both could be better, is that -- hopefully, that's right. So, let's start with synergy (multiple speakers) capture. And what (inaudible) $2.7 billion to $3.0 billion. And remember, nine months ago is when we closed this merger, and to already be delivering much faster than we anticipated, $1.3 billion in 2020 alone and the guide of $2.7 billion to $3.0 billion in 2021, it's just showing actually the rapid pace of what's happening here.

And if you -- remember, it's a multi-phased approach, and the vast majority of the synergies still come from network and decommissioning of the cell sites and the associated backhaul leases, et cetera. And the first step in that is to build the anchor network, and you see the rapid pace that Neville and his team are just dominating the delivery, the ramp up of the machine that's going to flow all the way through 2021. That part is what unlocks then the ongoing migration of customer traffic and customers onto the anchor network, and then of course we can realize all those synergies on the back-end. So, I've got to tell you, I'm fundamentally extremely excited about the $2.7 billion to $3.0 billion in synergies for 2021, as well as the rapid pace on the network piece which really sets us up for the back-end there.

In regards to EBITDA. Again, let me give you a little more color. First, as you know, we were the only major carrier to show meaningful growth when comparing 2020 to pro forma 2019. And our '21 guide highlights our commitment to the three priorities of profitably outgrowing the competition, unlocking synergies bigger and faster, and investing in our business to set us up for the long-term growth in free cash flow generation.

And for some context, there's a couple of things that you want to highlight when thinking about 2020 and 2021. First, as you know, 2020 had slightly over $500 million of COVID-related costs, which were excluded from adjusted EBITDA with the majority of those now being part of the run rate of the business. 2021 also has the higher non-cash straight-line lease expense associated with that agreement with American Tower. An agreement that had significant positive NPV cash savings from day one and operational flexibility for Neville and his team to continue the rapid pace that he has deployed on. We also anticipate, as Mike said, a gradual return to higher switching in 2021, which comes with higher upfront sales expenses, of course, as the share-taker in the industry, but also sets us up for that customer lifetime value benefit to enterprise value of this business.

And we're doing all of those things and growing core EBITDA year-over-year while we make investments in 2021 to enable that long-term success of the company. We heard about it from the network perspective, you heard Mike talk about it in enterprise as well as distribution expansion to capitalize on the network. So, if you consider all of those factors, it makes the guided core adjusted EBITDA that much more compelling and highlights the success of a profitable growth and synergy-backed model we are executing on, which is also beginning to deliver on the free cash flow unlock promise of the business as you can see from that element of our guidance.

So hopefully, I captured all your questions and got that right.

A - Mike Sievert {BIO 2140857 <GO>}

That's the new strategy. (multiple speakers) If you come in muddled and we can't hear you, we just start talking about whatever we want to say.

Thanks (multiple speakers)

Q - Phil Cusick {BIO 5507514 <GO>}

That's not new.

A - Mike Sievert {BIO 2140857 <GO>}

All right, operator, let's go back out to the phones.

Operator

Certainly. Our next question will come from John Hodulik with UBS.

Q - John Hodulik {BIO 1540944 <GO>}

Okay, great, thanks. Hopefully, you guys can hear me better than Phil. Hey. I guess first follow-up of any way you could sort of size each one of those categories that Peter? I guess you gave some color on the $500 million for the COVID costs, but just give us some sort of relative importance or spend on each one of those items, I think would help a lot. And maybe if you could talk about how it sets you guys up for maybe better growth in '22, you know, what we could expect from -- in terms of benefits from that.

And then secondly, a separate question. Just if you could talk a little bit about the competitive environment and sort of what you expect in '21 as a basis for the guidance. Especially in the last week, we heard Comcast talk about their new MVNO agreement and leading into the wireless market. Obviously, AT&T has been very competitive. Just how do you expect to see the competitive market evolve as you go through '21. Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

That sounds great. I'm going to give Peter a minute to -- a second to unpack that. So, Peter, think about that EBITDA question. And then I'm going to go straight to Matt Staneff because I think, John, this competitive environment is something we really should double-click into. And there's some things to say about Sprint churn as a tailwind, there's also some things to say about looking at the totality of our competitive environment across Verizon and AT&T.

So, Matt, why don't you pick up here?

A - Matt Staneff {BIO 20459281 <GO>}

Yeah, I'll take that. Thanks, Mike and John. So it's interesting you asked about 2021. And I think what's the important thing to do is go -- maybe take a year back and look at a year ago. What's interesting a year ago in Q4, you had a competitive environment, you had one competitor taking a lot of nets, one competitor taking not that many nets, and you fast forward a year in Q4 and you saw them flipped. But in totality, the amount of nets being produced in the competitive environment is more or less the same. And so to what Mike has been saying, what we've been saying, it's -- what we anticipate is a robust competitive environment that's evolving and changing with certain carriers taking more or less share, and us continuing to lead growth through that as we navigate and have a flexible model to really lead it.

The other piece to the question. When you look at where we've guided in '21 and what the next phase of our integration is with Sprint is really churn. It's a churn story. We have yet to start to get to work at really doing what we did on the T-Mobile-branded business going from worst to first on churn with our Sprint business. That's in front of us. We've gotten some things taken care of with the brand transition, stores and sales and gross adds. And we're starting to get into this phase, followed by the work on the network, delivering the entire value proposition in the Sprint base. And so we see that as we start to move forward. It's not going to happen overnight, but we're really going to get to work, and we feel great about our recipe to deliver great churn into the Sprint base. So that's where you're going to see some of that as well.

A - Mike Sievert {BIO 2140857 <GO>}

It's really important to hear that message. I mean, people have said hey, what's going on? Isn't somebody moving? What about AT&T, aren't they producing more nets now? And what you just heard from Matt is the sum total of phone net adds from AT&T and Verizon was the same this past Q4 as the prior year. And so those two kind of tend to go back and forth and in any given quarter, there's just dynamics. AT&T is plowing a surprising amount of money, missed big on EBITDA, into some short-term customer loyalty things, if you want to call them that to be generous. Verizon, on the other hand, they didn't spend as much and, therefore, they didn't have the same kind of nets. I don't know what they were doing, and they might have been -- they might have blown all the money paying RootMetrics to tell them their ahead in the 5G race because that feels good for them. So, I don't know where their money went, but it wasn't being plowed to the same extent into net adds, and so they beat on earnings but missed on nets. So it just goes back and forth.

It doesn't change our game plan at all. Our game plan is to continue driving genuine loyalty as you see in our T-Mobile brand being the lowest churning brand in the industry, and to then re-apply that same playbook on the Sprint customers. And that's just such an exciting tailwind for our business.

Now, before we move on, I know you asked a question about EBITDA from Peter, so let's switch over to Peter as well.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Thank you, John. And I'm not going to be able to guide to every one of those elements quantitatively, but you did highlight a couple of them. And again, the $500 million of COVID-related costs, the vast majority of those return to run rate of the business. I know we talked a little bit about some incremental debt from the Keep Americans Connected Pledge in Q2. That was a very small component of that, so the vast majority of those $500 million are run rate costs in the business now.

On American Tower, we talked about at least a couple-hundred-million drag from 2020 to 2021, but it's hard -- it depends on how quickly and where Neville builds and what the priorities are there that could create some variability there, but that's how I think about at least conceptually, magnitude-wise. And then you get into the other elements; the switching costs, the selling costs, as well as the investments. And as Mike said, that depends on what the environment looks like in front of us. And of course, what we do every quarter is what we do best -- best in the industry; we deliver profitable growth and meet or exceed our expectations that we put out there for you, and we adjust. And that's what we're going to do here, but I can't break out the individual components probably further than that for you, John.

Q - John Hodulik {BIO 1540944 <GO>}

Okay. Thanks, guys.

A - Mike Sievert {BIO 2140857 <GO>}

Terrific. Operator, let's go back to the phones, and then I'll ask my team here if there is one or two that you feel like we need to hit that'll be widely appreciated to be heard by others on the call, and we'll go to the Twitter as well. So take a look at those and see if you want to cue one of those up. Janice, I'll assign that to you, if you want. Operator?

Operator

Thank you, sir. Our next question will come from Jonathan Chaplin with New Street.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks. One for Peter and one for Neville. For Peter, I'm wondering if you could characterize your approach to setting guidance and how it might be different from Braxton's since this is our first guidance under the Osvaldik regime. I'm particularly interested in the net add guidance. It's about double the average guidance that you guys have set for net adds for the last five years and usually you beat that by sort of 50% to 100%. And so, I'm looking at the net add guidance and thinking if this was a Braxton guide, the real number could be something a little crazy.

And then for Neville, are we still looking at 200 million POPs covered by the -- at the end of the year with fast 5G on 2.5 gigahertz, or -- it looks like things moved a little bit faster than expected in 4Q with CapEx deployment. Could you exceed that? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Let's start with Peter.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Well, let me start with that. So (multiple speakers)

A - Mike Sievert {BIO 2140857 <GO>}

How does the Osvaldik regime operate, Peter?

A - Peter Osvaldik {BIO 18597986 <GO>}

Well, let me tell you this, Jonathan. It actually isn't the first time you're hearing it. You heard me give guidance in Q3 as well and at Q2 actually second half guidance, and then updated that in Q3 and look where we came in, right? Which is again what our commitment always is, is to profitably outgrow the competition and deliver against what we put out there. But I love how you're asking me about 4.0 million to 4.7 million postpaid net add guidance next year and getting excited about it because what -- if you look at 2020 that guide at midpoint is over twice what AT&T did in total postpaid, and almost three times what Verizon did. So that's the guidance, that's the excitement here.

There's a couple of factors to play out in front of us, as we said. One of those is what is that return in the switching environment? We obviously are still impacted by COVID, and the question is how fast does that come in. That will change the playbook for us. As we said, you saw us deliver in Q3, saw us deliver in Q4 and that's our commitment in the future, but how we do it and how we go about it is in reaction to what's happening in the marketplace at the moment in time. So, look, be excited about the guide because it's an amazing guide, from 4.0 million to 4.7 million on postpaid nets and similarly on adjusted EBITDA, as we talked about.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Peter, if I could just (multiple speakers) follow-up on that quickly. If switching activity doesn't come back as you expect, can you still hit the guide?

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Look, Jonathan, our commitment, and you saw us do it in Q2, Q3 and Q4, is again to profitably outgrow the competition and deliver on what we put out there to you. So that's probably the philosophy that you should think of when you think of myself and Mike and how this team operates, and you saw it executed on in probably the most challenged switching environment that you could have imagined in Q2, Q3, as well as Q4 this year.

And so, I can't predict the COVID future. I wish I could. I'd get it all rid of it for all of us so that we can get out there and start living, but I can't. But I can tell you, we're going to adapt and we're going to deliver and that's the commitment you have from us.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks, Peter. That's great.

A - Neville R. Ray {BIO 15225709 <GO>}

So, let me let me pick it up. Jonathan. Well, man, I love the question, right? So -- and before we go to 200 million this year, just got to celebrate the 100 million that we secured in 2020. 100 million -- 106 million people covered with Ultra Capacity mid-band 5G. And just to do the competitive comparison that you've helped us with, it's about 50 times, 5-0 times, the Verizon, high-capacity footprint, which is pretty stunning. It's almost embarrassing when you think about it, right?

So, love your question because even though we have a huge lead, you're asking can we get even further in front of our competition and do more than we've said we'll do in '21. Obviously, we're going to push on every target, Jonathan, but I'll tell you this. The most exciting thing for me in '20, and Mike referenced this in his comments, is the fact that we built an incredible network machine in 2020. And we have to build and upgrade a lot more sites in '21 to get to that 200 million covered people with the Ultra Capacity. So, we have the machine, we have the resources, the supply chain, the commitments and we have the processes. And so this machine is moving at real pace. 200 million people covered is going -- with Ultra Capacity is going to be a huge lead against what our competition has talked about or said they can do.

So, we'll keep pushing on it, but I'm super excited to be able to sit here with high confidence and talk about delivering a nationwide high-capacity -- high-high-capacity network in the coming 11 months, on top of a coverage network which just blows the competition away. Our Extended Range 5G capability there, Mike mentioned this again, more coverage on 5G than AT&T and Verizon combined. You have to let that sink in a little bit to really understand the position that we're in. And on top of that coverage layer, now we can add and pile on this mid-band assets.

So, tremendously excited about the progress we made in 2020, but we're just getting started on this thing, so it's going to be a really fun year in '21.

A - Mike Sievert {BIO 2140857 <GO>}

I talked about this a little bit in my remarks, but I just want to underscore how remarkable it is the rate and pace that we're operating at right now because it's a real competitive differentiator. And this isn't something -- Neville and team are -- they're doing something that's never been done before operating at this scale. It was many, many thousands of sites that had to be touched and upgraded with advanced 5G technology to get us to that 106 million, let alone the 280 million people that are covered by Extended Range 5G. But that's now moving to tens of thousands of sites in 2021, tens of thousands of macro sites with Ultra Capacity 5G. It's a massive undertaking and we started it way back in 2018 planning and siting, permitting, design in order to create a contiguous leading network. It's not something that can be created overnight and as I said, it's a real advantage. I think we're going to probably have an opportunity to talk a lot more about.

So, terrific. Let's go back to the phones.

Operator

Thank you. Our next phone question will come from Craig Moffett with MoffettNathanson.

Q - Craig Moffett {BIO 5987555 <GO>}

Two questions, if I could. First, Peter, I'm going to steal a little thunder probably from your Analyst Day but as I think about longer-term margins, there are some differences between your business and and, say, Verizon's or AT&T's in that you tend to lease more backhaul rather than own it, you have lower industry -- sorry, lower retail prices. How do you think about the long-term margin potential of the business relative to your peers?

And then Mike, I wonder if you could just update us a bit on your progress in the areas where you have traditionally under-indexed, the business services market -- or the business wireless market, and then the rural markets where you've been growing. Just how -- can you give us some progress metrics, I guess, in those areas?

A - Mike Sievert {BIO 2140857 <GO>}

Yeah, sounds good, and you're right, Craig. We're going to double-click into both of those, as I said in my remarks, next month. And I will give Peter a chance to respond if he wants to steal his own thunder from next month. But as we've said for a long time, we see fantastic cash production from this model at the margin rates that we had already communicated we aspire to. We don't have to achieve the margin rates that Verizon has. In fact, your question is premised on the idea that they'll be able to hang on to theirs, and that -- I don't know that that's the case either. I don't know where theirs is going. I know ours is going up and the cash production that we're able to produce in this business model with the margin rates that we've aspired to are just phenomenal and so exciting and create a very, very valuable enterprise.

And there are differences in our model, and one of them is the terminal growth rate. And so when you think about our faster growth and the investments in present periods to get there, there will be differences between how we pursue our business plan and theirs. And it shows that we are more bullish because we have better assets and, therefore, are willing to invest in a longer tail and a better terminal value, and that's going to be experienced in this five-year planning horizon as one of the big differences.

But Peter, why don't we go to you. And then Matt, I'll turn to you on the -- how we're doing on things like prime, and small-town rural and businesses. So, Peter anything to add (multiple speakers)

A - Peter Osvaldik {BIO 18597986 <GO>}

Well, thanks, Mike. Yeah, and I don't want to steal all my own thunder from Analyst Day because, Craig, I want you to come and attend, so I can't do that at this moment. But I think everything that Matt and Mike talked about earlier, and what Mike just expressed now from a margin perspective is exactly that. Our plan doesn't predicate that we need to get to a Verizon-level margin, and one could really question whether they will be able to maintain it, when you have the combination of the premium product in the form of our network and the premium value, how they're going to be able to justify that with their customers.

But that's not what we're here to do. We here to continue to profitably outgrow. And yeah, there are some incremental costs in the short-run that come with that, particularly on the sales side as you accrue much higher terminal value for doing that. And then you did talk about some of those structural differences, which were absolutely key and come out in CapEx versus OpEx, as you see. So that's why it's so important and exciting to think about what the ultimate free cash flow generation of this business is, which really takes out some of those differentials and focuses on the cash productivity.

So, really excited to highlight and update some of these figures for you next month and looking forward to doing that, so thank you.

A - Mike Sievert {BIO 2140857 <GO>}

And Matt, small-town rural (multiple speakers)

A - Matt Staneff {BIO 20459281 <GO>}

Yeah. Craig, that's great question. As Mike said, we're going to dive deeper into it in Analyst Day, but just a couple of things. One, I don't want to overlook that part of our record results we have this year was success in business, in particular in education and public sector. And one thing that you should know about our business, and we keep saying it, is we're nimble and we're flexible and we show up and solve needs when people have it. That's partly why we're able to do things through Project 10Million delivering solutions for kids that had to deal with the pandemic.

And what's great about that on the backside of it, is it opened up a lot of doors that to date weren't answering our call, in part because of the network perception, it's still lagging in reality. But now that we're in the door proving how fast and nimble we can help serve businesses and public sector, more and more calls are in, so we're seeing great progress in this area.

When you talked about rural on the heels of Neville's build-out on Extended Range 5G, I think that's one of the big things that's going to be a paradigm shifter this year is when you take the performance that we're seeing from the Ultra Capacity network and the speeds and the experience consumers have and bring it into rural and bring it to prime consumers, it's a game-changer. And it's going to be another vector for us to continue to accelerate growth going forward as you move upmarket into prime customers who require the best of the best network. To date we have not had that. We're going to get that very quickly on the heels of this build.

So, we see a lot of upside going forward into these areas.

A - Mike Sievert {BIO 2140857 <GO>}

And hopefully, Roger Entner on Twitter, that gives you a little bit -- around your question, can you give us more insights on consumer versus business. Business is -- both are killing it. Our big opportunity in consumer right now that's ahead of us is small-town rural where, as I said in my prepared remarks, we have half our national market share, and this is a huge swath of the country so big, big potential tailwinds there. And in business, we posted double-digit growth, which -- look, I mean everybody has got a smartphone already. So when you've got a business that's posting double-digit growth, it's because you're winning share. And as I said in my remarks, we're winning share not just as a price cop [ph] now, please throw a little piece so you can reprice your AT&T deal, we're winning strategic accounts, the whole account. And that's -- and we're winning it based on our quality and that's just a game-changer, so very excited about what the potential could hold there.

Diana Goovaerts on Twitter asks, do customers really understand the value of 5G or is there confusion over it? And also she asks separately, what are some of the use cases coming? No, they don't really yet and it's a great question. Right now, something -- I think if you look at the country, something like low double-digits of consumers with super funds have switched to 5G already. That means most people, it's just a twinkle in their eye and 2021 is the year when FOMO unfolds. When -- you've got people that you know who've got an incredible phone that works 10 times faster than yours and they're able to do things with it that you can't, and you start to say I need me some of that and you start to realize that when you get it from T-Mobile, it's for real. It doesn't just work on certain street corners, or when the leaves aren't out, or you have a suction cup device to put in your window or whatever. It works across 200 million people, which is the goal we've articulated for this year with our highest capacity variant; Ultra Capacity 5G.

But to your point, it's not just going to be about smartphones and I'm not going to get into it today. I'm sorry, it's a great question, but we see lots of potential. And this is analogous to when 4G started, and we didn't see if -- everything that would unfold in 4G with the digital lifestyles -- mobile-first digital lifestyles that we now lead. But similarly with 5G, which is an even bigger, more discontinuous innovation, we're going to see hardware and software innovations that transform how we live our lives on the go. And the question will be, what kind of a network capability will those innovators develop to, and we're convinced that it has to be a capability more like ours that's widely available than that's available in isolated spots.

And so that's a really exciting thing that I'll get into in a little more detail at another time, but thanks for those questions and let's go back to the operator.

Operator

Thank you. Our next question will come from Michael Rollins with Citi.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks, and good afternoon. Two questions, if I could. First, you mentioned the growth that's embedded in the guidance for 2021, but given all the moving pieces, in revenue you had a wholesale business you picked up, a Sprint prepaid business that left you, you talked about the COVID costs. Can you help level set what the right comparable on a full-year pro forma basis should be for like the key metrics like service revenue and core EBITDA, just so we could better understand what kind of growth rates are within the 2021 guidance?

And then secondly, you mentioned the improvement in the T-Mobile Heritage churn. And as you delved into that performance, I was curious if there were any specific factors that you think had maybe an outside contribution, whether it's certain network stats for those customers, whether it's the bundling of content, or other Un-carrier initiatives that you employed over the last few years. Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Yeah, we'll start with the second one and then flip over to Peter, who will probably give you at least a qualitative if not quantitative answer. It's so many factors into this, but -- Matt, do you want to jump in?

A - Matt Staneff {BIO 20459281 <GO>}

Yeah. Mike kind of hit it a little bit in the remarks. I mean, there's three things that really matter here to the value proposition you get. It's the network and it's how customer service works. And when you look at what we're delivering with this network, one thing that we also know is perception lags reality. And what I can tell you, our T-Mobile customers are seeing today is the reality of this network we have, and you see it in how sticky they are in churn.

We also announced this record on J.D. Power Awards; seven in a row, 21 total. We're killing it in customer service. What Un-carrier move was that? Team of experts. It took us years to craft that and get it right, but you can just see what happens when it's right. And by the way, that's not yet at the Sprint base. We're working through that. That's in our plan to bring it forward.

So, those are some big dimensions that we look to that are structural, as we talked about, to really deliver this value proposition to our customers.

A - Mike Sievert {BIO 2140857 <GO>}

Genuine customer loyalty takes time, yeah. So pro forma comparisons, Peter. One of the things we said in our remarks is we're the only ones that posted genuine growth in service revenues and EBITDA and we stand behind that. It gets a little gooey when you try and get to the math behind it to try and unpack it for you, but it's significant growth.

Peter, do you want to at least give a qualitative picture?

A - Peter Osvaldik {BIO 18597986 <GO>}

Absolutely. Thanks, Mike, and thank you, Mike, for the question. And yeah, I would look at it -- we do provide disclosures in the Factbook that attempt to do a good pro forma, particularly on adjusted EBITDA, and you can look at lease revenues there as well, so look at that in the Factbook. But I would say if you add all that up, and you can do that math from Factbook, core EBITDA is about $22 billion for 2020. And remember that includes having excluded the $500-plus million of COVID costs and the benefits from a lower switcher environment that we saw in 2020, so that's one way to look at it. And then when you put it in that context, the guide is pretty exciting. As I said, that shows the significant

2020 to 2021 core EBITDA growth despite factoring in those things like the COVID costs, the non-cash straight-line lease expense, as well as the projected higher switching costs that we would see as being the industry share-taker as we hope switching picks up over the course of the year with COVID.

So that's probably where I would point you to is on the Factbook, but I can tell you, if you look at it that way, you can see the growth even despite the investments that we're making that will set us up for the discussion that we'll have, hopefully, next month.

A - Mike Sievert {BIO 2140857 <GO>}

And soon we won't have this problem. We're about to start round tripping ourselves in this company, which is exciting. Did you have one follow-up?

Q - Michael Rollins {BIO 1959059 <GO>}

No, I was just saying thank you for taking the questions.

Operator

Yeah, thanks, man. All right, let's go back to the phones. Operator? Absolutely. Our next question will come from Simon Flannery with Morgan Stanley.

Q - Simon Flannery {BIO 1505834 <GO>}

Right. Good evening. Peter, I just wanted to confirm that Shentel is not in your guidance, and perhaps any color you could give on the transaction and the synergy integration opportunities there. And then any updates on the 4G home broadband, how that's going, any subscriber numbers or adoption rates, customer SAT scores, anything you could share on that.

A - Peter Osvaldik {BIO 18597986 <GO>}

Yeah. Well, let me start, absolutely, on Shentel. And we're certainly looking forward to taking the next steps here. Finalizing the purchase agreement and getting through the close, and starting to do the same network integration and customer integration as we have with Sprint. So, we just see it as part of the bigger picture there. Very pleased that we're getting to that point.

Shentel in our best estimates is included in the guidance that we've provided. Of course, you'll then see once we close some geography changes between wholesale service revenue up into our service revenue and customer geography changes, which we'll be, of course as we always are, very transparent on when we close the transaction. But it is included in there and very excited to take the next steps there and welcome those customers into the T-Mobile family.

A - Mike Sievert {BIO 2140857 <GO>}

Peter Ewens, I see you're out there. Do you want to comment on the transaction?

A - Peter A. Ewens {BIO 16977791 <GO>}

Yeah, I'll just repeat what Peter said. Look, we're excited to get past the appraisal phase, and we're absolutely looking forward to moving on with concluding a purchase and sale agreement, filing all of the appropriate regulatory papers getting regulatory approval, and we're looking for -- hopefully, looking for a close some time in Q2.

A - Mike Sievert {BIO 2140857 <GO>}

And Simon, (multiple speakers) quickly on home internet. Yeah, thanks for bringing that up. I mentioned it a little bit in my remarks. We're really excited. We're in pilot phase right now. We quietly moved from LTE pilot to 5G pilot. That was an exciting milestone but it's a pilot. And part of what we're doing here is we're just taking our time and making sure that we put together the experience base that we need. And that means supply chain, it means customer experience, it means really being able to create a quality service and so far, we really like what we're seeing.

So, as this network capacity starts to really hit its pace in 2021, we've got a big opportunity to get commercial and to really go out there and start attracting customers in bigger numbers. The results so far with customers we have attracted, we're delighted with and customers are too, so that's going really, really well.

This is a chance to bring real competition to this space and our business plan relies on it. We've got a pretty significant set of aspirations in our multi-year outlook here. So, I'm excited to talk more about that when the time is right and that will probably be more when we're ready to announce it as a true non-pilot commercial offering, but thanks for bringing that up. Very, very exciting. Okay (multiple speakers)

Q - Simon Flannery {BIO 1505834 <GO>}

Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Operator, let's go to the phone. And it's now the top of the hour, and I think this will be our last question. We said we'd keep it to the hour, so last question, please.

Operator

Thank you. That question will come from Brett Feldman with Goldman Sachs.

Q - Brett Feldman {BIO 3825792 <GO>}

Hey, thanks for taking the question. Two actually. So on your postpaid net adds guidance, the 4 million to 4.7 million, I was hoping you can give us some thoughts around how you expect that to breakout between phones and other devices. And one of the reason I'm asking is I'm wondering if there is any headwinds we should be anticipating. So, for example, do you think you might have fewer Tablet net adds this year than you did last year when there was a remote education service that probably helped you out a bit?

And then Mike, as you said, the vast number of consumers probably don't appreciate 5G yet because they don't have it, so my question is for Neville. Among the customers in your network who do you have 5G and who access 5G, do you see evidence in their usage patterns that they actually do appreciate it, particularly when they're in the Ultra Wideband coverage? So, for example, are they streaming more, are they doing more 4K, are they actually using apps that maybe they don't typically use in the 4G network? Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

They do speed tests a lot, that we know, but let's talk about the guidance. Peter O., why don't you talk about postpaid versus postpaid phones. And I have a feeling it's going to be kind of a non-answer, but let's give it our best shot.

A - Peter Osvaldik {BIO 18597986 <GO>}

Well, thanks for that preview, Mike. And yeah, Brett, I think you had a couple of questions embedded in there. One was 2020 to 2021, and you did see us absolutely dominate in that educational arena, the public and educational space and the delivery of 2020 was amazing. And so as we flip into 2021 that probably won't be as a big of an opportunity as we saw in 2020, and that's embedded in that guidance as well.

Regarding the breakout of phones versus other. We're not providing that breakout, but what I will say is we have a commitment, as we continue to highlight, of being the industry postpaid phone leader from a growth perspective. So, think about it with respect to that. That's my-- Mike, my non-answer answer, so thank you for that.

A - Mike Sievert {BIO 2140857 <GO>}

That's pretty good. All right, and Neville, you get the last word. 5G.

A - Neville R. Ray {BIO 15225709 <GO>}

Super quick from me. So, Brett, yeah, we are seeing more usage on our 5G customers and so that number is up probably early running 15% something like that, which is a great start. I'd say, on top of Mike's comment, one thing that our customers do talk about when they are on our mid-band 5G network, that Ultra Capacity network, they do talk about those speeds and they're blown away and they're excited. So, go look at out Twitter accounts and see how excited customers are by the speeds they're seeing. And we've talked about speeds on that mid-band layer getting to 300 megabits per second. They're pretty damn close to that now.

And I'll just give you a quick shout-out for Super Bowl this weekend down in Tampa. We've got 80 megahertz of 5G on hundreds of mid-band sites, a mix of 60 megahertz and 80 megahertz, and speeds down there are north of 500 megabits per second on average, actually sometimes going north of 600 megabits. So yeah, folks are talking about it, they're excited about it and usage is starting to climb.

A - Mike Sievert {BIO 2140857 <GO>}

One additional point we're seeing is an emergent excitement. It's always been there, but perhaps even more coming to the fore around mobile gaming. We're just hearing so much about it. I think when I talk about innovators, hardware and software developers seeing this technology and seeing business models, I think gaming is a place to keep an eye on. Definitely, you're seeing video consumption, especially high-def video consumption, take off because that's not something, thanks to Binge On years ago, our customers were really habituated around, so you see that taking off. But keep your eye on mobile gaming. I think you're going to find that 5G with its low latencies and very high capacity is something that is definitely attracting developers, which means it's going to attract consumers.

So, I think that's the show. You guys, thank you so much for tuning in again. Hopefully, you can sense our excitement. This business is firing on all cylinders. We appreciate you and I don't normally get to say this, we'll see you next month. Thanks, everybody.

Operator

Thank you. And ladies and gentlemen, this concludes the T-Mobile US Fourth Quarter 2020 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.
