Company Name: T-Mobile
Company Ticker: TMUS US
Date: 2018-08-01
Event Description: Q2 2018 Earnings Call

Market Cap: 51,706.54
Current PX: 61.03
YTD Change($): -2.48
YTD Change(%): -3.905

Bloomberg Estimates - EPS
Current Quarter: 0.828
Current Year: 3.265
Bloomberg Estimates - Sales
Current Quarter: 10705.211
Current Year: 43091.043

Q2 2018 Earnings Call

Company Participants

- Nils Paellmann
- John J. Legere
- J. Braxton Carter
- G. Michael Sievert
- Neville R. Ray

Other Participants

- Michael I. Rollins
- Brett Feldman
- Simon Flannery
- Jonathan Chaplin
- Philip A. Cusick
- Craig Eder Moffett
- Amy Yong
- Walter Piecyk

MANAGEMENT DISCUSSION SECTION

Nils Paellmann

GAAP and Non-GAAP Financial Measures

Reconciliations between GAAP and the non-GAAP results we discuss on this call can be found in the Quarterly Results section of the Investor Relations page of our website

John J. Legere

Business Highlights

Postpaid Phone Growth

- Welcome to T-Mobile's second quarter 2018 earnings call and Twitter conference coming to you live from Bellevue, Washington
- We have incredible results to cover
- Let me just give you the headlines and then we can jump into the details
- We just posted our best Q2 ever and led the industry in postpaid phone growth for the 18th quarter in a row
- Service revenues and adjusted EBITDA are hitting record highs, and we also posted record low branded postpaid phone churn

- Our network was just recognized by Ookla and OpenSignal as leading the industry in 4G speeds

Ookla and OpenSignal

- Extending our – our network was just recognized by Ookla and OpenSignal as leading the industry in 4G LTE speeds, extending our winning streak to 18 quarters in a row
- And even Verizon's favorite pay-to-play measurement service RootMetrics gave T-Mobile's network some love in their report last week with 454 Metro Area RootScore Awards, second only to Verizon and well ahead of AT&T
- Our retail and customer care teams are setting the standard for customer experience and our increased guidance shows that we expect to maintain this level of performance in H2
- In a nutshell, T-Mobile continues to meet the needs of customers by delivering more value and that is translating into incredible results

Net Additions

- So, let's dive into our fantastic second quarter
- We added 1.6mm total net customers, extending our winning streak to 21 quarters in a row with more than 1mm
- That's more than half a decade, if you're keeping score at home
- With 686,000 branded postpaid phone net additions, we captured about two-thirds of the industry's postpaid phone growth, grew nearly 2 times faster than Verizon, AT&T, Sprint and Comcast combined; and more than 3 times faster than our next closest competitor, Comcast
- And we grew faster sequentially and y-over-y
  - So, who says we're slowing down?

Share Gains

- Our share gains are also reflected in strong postpaid porting ratios. The overall postpaid porting ratio was 1.86, up from 1.69 in Q1 and 1.38 in Q2 of last year
- In Q2, our postpaid porting ratio against both AT&T and Verizon was higher than 2:1
- Yes, I did say 2
  - This acceleration in growth has been driven in particular by our continued focus on under-penetrated segments, such as new geographies, business, 55+, and most recently this April, Military, one of the most underappreciated segments
- We also had strong branded postpaid net additions of 1mm, supported by continued strong growth of wearables, particularly the Apple Watch

Postpaid Phone Churn

- Our customers are staying longer than ever before
- In Q2, we had our lowest-ever branded postpaid phone churn of 0.95%, down 15BPS y-over-y
  - This blew away even the most bullish analyst estimates and was our first quarter ever with churn below 1%

- In branded prepaid, net customer additions came in at 91,000, flat y-over-y despite increased competitive activity in the market

Service Revenue and Net Income

- Our financial results were just as solid as our customer results
- Service revenues grew by 7% y-over-y to $7.9B, which was another record high
- Net income was strong at $0.8B, up 35% y-over-y, and fully diluted EPS came in at $0.92
- Adjusted EBITDA amounted to a record high $3.2B, up 7% y-over-y with a 41% adjusted EBITDA margin

Network Performance

- Now, turning to network, we continue to expand coverage and improve our already industry-leading network performance
- We now cover 323mm POPs with 4G LTE, well on our way to 325mm by year-end
- And we continue to aggressively rollout low-band spectrum with our 700 megahertz deployment virtually complete and our 600 megahertz deployment continuing at a furious pace
- We now have low-band spectrum deployed to 289mm POPs, and 600 megahertz is live in 992 cities and towns in 33 states as of today, and the 600 megahertz gear we are deploying will be upgradable to 5G with a software update

LG G7 ThinQ

- In March, we launched our first 600 megahertz-capable flagship smartphone, the Samsung Galaxy S9, which was followed by the LG G7 ThinQ in June
- Including these phones, we now have a dozen smartphones in market that are 600 megahertz-capable
- Our plan continues to be to bring 5G to 30 cities in 2018, starting with New York, LA, Dallas, Las Vegas, with nationwide coverage coming in 2020
  - This network will utilize 600 megahertz and will harness 4G and 5G bandwidth simultaneously for dual connectivity and will be ready for the first 5G smartphones in 2019

Ookla

- As I mentioned earlier, Ookla released their Mobile Speedtest Report, and millions of real-world tests confirm what we already know: T-Mobile's download and upload speeds continue to lead the industry
- In Q2, our average download 4G LTE speed was 31.8 megabits per second, well ahead of all our competitors
- Like I mentioned, Q2 marks the 18th quarter in a row that T-Mobile was the fastest 4G LTE network

OpenSignal

- OpenSignal also just published their State of Mobile Networks Report, which analyzed billions of data points from actual users

- T-Mobile once again cleaned up, winning five of seven categories outright and tied for first place with Verizon for 4G availability
- Can you hear me now?
- Our frontline is setting the standard for customer experience
- Digitally accelerated retail is making it easier to join T-Mobile by simplifying the switching experience, and a team of experts in care is making it easy to serve our customers in driving record low calls per account

Adjusted EBITDA and FCF

- Our strong momentum and record Q2 means that we're increasing our guidance for 2018 again
- Our outlook now calls for 3mm to 3.6mm branded postpaid net customer additions and adjusted EBITDA of $11.7B to $12.4B.
- Our three-year CAGR estimate for FCF remains at 46% to 48%, with cash CapEx now expected to be at the high end of the guidance range of $4.9B to $5.3B

Pending Merger with Sprint

- Let me also give you a brief update on the progress of our pending merger with Sprint
- While we still have a number of steps remaining in the regulatory approval process, we are optimistic and confident that regulators will recognize the significant procompetitive benefits of this combination and grant regulatory approval
- I think we made it clear that this merger is pro-consumer and all about supercharging the Un-carrier and about bringing broad and deep nationwide 5G to Americans as fast as possible
- On top of that, the New T-Mobile will increase competition and create American jobs

Public Interest Statement

- A few milestones to note, our Public Interest Statement was filed with the FCC on June 18
- On June 27, Marcelo Claure and I had the opportunity to testify in front of the Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights
- The FCC put out its public notice on July 18, starting their non-binding 180-day transaction clock
- Our preliminary S-4 was filed with the SEC on Monday, July 30
- So, we're making great progress and look forward to continuing to tell the story about how this merger will be good for consumers and good for the country

Conclusion

Okay

Before handing over, let me mention one more thing

Isn't it about time we shake things up in this industry again? Let me just say that our next industry-shaking Un-carrier move is just two weeks away

I'll leave it at that and let the speculation begin

I can't wait to talk to you all on August 15

J. Braxton Carter

Financial Highlights

Net Income

- Thanks, John, and I'm so excited to report on another fantastic quarter here at T-Mobile
- Net income amounted to $782mm, up 35% y-over-y
  - This was due to higher operating income, lower interest expense and lower tax expense due to the continued positive impact of tax reform
- Net income included a benefit of $62mm from the new revenue recognition standard and also benefited from $45mm in after-tax insurance reimbursements for the hurricane impacts
- On the other hand, net income was impacted by $39mm in after-tax costs associated with the Sprint merger

Depreciation

- On a sequential basis, net income was also impacted by higher depreciation, which increased 3.7% from Q1 due to lease depreciation and the impact of the further expansion and build-out of our network
- We expect this trend of higher depreciation to continue into H2 and impact net income accordingly

Adjusted EBITDA

- Adjusted EBITDA amounted to $3.2B, up 7.3% and included lease revenues of $177mm vs. $234mm in the prior year
- Note that adjusted EBITDA included a positive impact from last year's hurricanes of $70mm due to insurance reimbursements and $84mm from the new revenue recognition standard
- The adjusted EBITDA performance is a reflection of strong cost management
- Cost of services as a percentage of service revenues increased by just 30BPS sequentially despite the rapid rollout of 600 megahertz and that excludes the net positive impact from hurricanes in Q1 and Q2
- Also, the new revenue recognition standard added $26mm to the cost of services in Q2

SG&A

- SG&A as a percentage of service revenue decreased by 90BPS sequentially despite the acceleration in growth
- This was adjusted for the $41mm in costs associated with the Sprint merger which are also excluded from adjusted EBITDA
- Equipment losses decreased by $45mm, or 9.1% sequentially, in connection with a still light postpaid upgrade rate of 6% and a sequential decrease in the number of devices sold

FCF

- FCF increased by 61% to $774mm
- This was driven by a 14% increase in net cash provided by operating activities and a 50% increase in proceeds related to our deferred purchase price from securitization transactions

Net Cash Proceeds

- Please note that the net cash proceeds from securitization amounted to just $25mm in Q2 and a drag of $125mm in H1 2018
- The increase in FCF occurred despite a significant increase in cash CapEx, which grew by 21% y-over-y to $1.6B.
- As last year, CapEx is front-end loaded in connection with our accelerated 600 megahertz rollout

ARPU

- Branded postpaid phone ARPU proved fairly resilient in Q2 at $46.52, down 0.3% sequentially and 1.2% y-over-y, reflecting the impact of promotions targeting new segments, offset by the positive impact of continued adoption of our T-Mobile ONE rate plans
- For the year as a whole, we continue to expect ARPU to be generally stable, excluding the impact from the new revenue recognition standard

Receivables

- In terms of customer quality, our results in Q2 were outstanding
- Total bad debt expense and losses from sale of receivables were $102mm, or a record low of 0.96% of total revenues, compared to $162mm, or 1.59% in Q2 2017, even with a significantly higher customer base
- Do note that Q2 is usually a seasonal low for bad debt expense for our industry, so we do not expect a seasonal or sequential pick-up in H2

Guidance

Long-Term Strategy

- Now, let’s get on to 2018 guidance
- We expect branded postpaid net customer additions to be between 3mm and 3.6mm, up from the prior guidance range of 2.6mm to 3.3mm
- This guidance takes into account our long-term strategy to balance growth and profitability, the lower switcher volumes we’ve seen in recent quarters and our pursuit of growth adjacencies
- Our guidance also takes into account the expected typical seasonal sequential uptick in postpaid churn, which will occur in H2

Adjusted EBITDA

- We expect adjusted EBITDA to be in the range of $11.5B to $11.9B, not including the impact of the new revenue recognition standard, up from the prior guidance range of $11.4B to $11.8B.
- The new revenue recognition standard will increase adjusted EBITDA by another $0.2B to $0.5B for an all-in new guidance range of $11.7B to $12.4B.
  - This guidance takes into account an expected decline in leasing revenues in 2018
- We still targeted at $600mm to $700mm, but that's compared to $877mm in 2017, as well as our build-out of low-band spectrum, including the accelerated rollout of a 600 megahertz spectrum, driving up expected cost of services by $300mm to $400mm per year, which we communicated at the beginning of the year

Cash CapEx

- Our increased outlook for 2018 demonstrates that we're following the same approach with regard to our guidance in prior years
- Note that we now have increased the ranges for both branded postpaid net additions and for adjusted EBITDA twice this year
- We target cash CapEx of $4.9B to $5.3B, excluding capitalized interest
  - This includes expenditures for 5G deployment
- Updated from prior guidance, we now expect to come in at the high end of the guidance range, given the massive success that Neville and his team are having clearing 600 megahertz spectrum

FCF

- Finally, we expect FCF to increase at a three-year CAGR of 46% to 48% from full-year 2016 to full-year 2019, unchanged from the prior range
- During the same period, we expect the net – underlying net cash provided by operating activities to increase at an unchanged CAGR of 7% to 12%
- Let me emphasize that our FCF guidance does not assume any material net cash inflows from securitizations going forward

Merger with Sprint

- Before we get to your questions, let me briefly address the preliminary S-4 for the merger with Sprint
- The S-4 contains disclosures regarding the transaction, including certain standalone and pro forma combined financial projections, which have been prepared on the basis and subject to the qualifications described in the S-4
- The prospective financial information in the S-4 reflects what we believe is a conservative case, does not include the impacts of the revenue recognition standard, and is not necessarily our current view on the outlook for the upcoming years
  - We encourage you to read the disclosure in the S-4 for additional information
- The S-4 has not yet become effective, and the purpose of today's call is to discuss our second quarter
- So, I'd ask that you focus your questions on our earnings

QUESTION AND ANSWER SECTION

<Q - Michael I. Rollins>: So, couple questions, if I could. First on the gross add side. Can you talk about what you're seeing? You mentioned some of the vertical strength, but can you talk a little bit more about maybe some of the benefit that the vertical promotions gave you in the quarter, like the 55+, the Military promotions? And then, what you're seeing from customers who have been bundling in the Netflix promotion? Are you seeing any significant differences in this cohort for churn or engagement rates? Thanks very much.

<A - John J. Legere>: Mike, I think that's the best first question of all time. It's a day of bests. Michael, are you going for that?

<A - G. Michael Sievert>: Yeah. Unfortunately, Michael, I would give you little bit of color, but probably can't unpack it very quantitatively for you. The color is, probably as you would expect, this Unlimited 55+ and also the Military offer we launched last – a few months ago that we're very proud of, they're just going great. They're going gangbusters. And it's really showing new audiences where we've been under-indexed, audiences that have been underappreciated in this market that somebody's looking out for, and our business is responding. So, they've been nice contributors.

Another thing that's been a nice contributor has been the business markets. We saw our highest activations ever in the business markets this last quarter, more public sector successes, across-the-board enterprise successes, and in larger enterprises where churn is more favorable. So, the lowest churn in our business markets ever this last quarter as well.

And to your question about Netflix, we can't unpack it for you too much except to say, yes, it does turn out, those that are taking advantage of it do have lower churn, and that was one of the things that was important for our business case and it's panning out to be the case.

<A - John J. Legere>: Yeah. Mike, I think one of the things I'm glad you recognized, we were a very forward-looking team, not just on the investments in our network, but the focus on the segments that we know will provide growth including, of course, geographic expansion around the network. And that has gotten us to the point where quarter-after-quarter we're now getting the growth that we thought about three to four or more quarters ago.

I would also say that one of the most exciting parts is, on a day-to-day basis, going forward, our network has never been better and it's going to be better every day. And secondly, we have started to perform in the customer care environment in a way that I don't think American business itself has ever seen. In those two aspects of a care experience and a network experience that's never been matched up to now, I feel very bullish about what we're going to be able to do going forward.

<Q - Michael I. Rollins>: If I could just follow-up on your comments on the regulatory side, are there some incremental learning that the management team has had over the last few months in your conversations and engagement with regulators that you'd want to share with the audience today?

<A - John J. Legere>: Yeah. I think, I wouldn't say new learnings. We've been very, very pleased from day one with the story that we're providing as to why the coming together with Sprint is pro-competition, pro-consumer, pro-America, very critical from many aspects, especially the deployment of 5G capabilities, and the whole story together has been something that we've been telling and working on, and we're very confident that with that story and the details of why these two companies coming together makes tremendous sense for competition, for the country, the learning is that it's a story that we need to keep telling and it's a story that with the aspects associated with the people we're competing against has been very well received. But, as you know, this is a process, where all I can say is we're in a process, we're in multiple processes that we greatly respect and we have committed to playing continuous and not necessarily in the public eye. But as it's going, I would say we feel very good that if we continue to tell this story to the associated regulatory groups that they will see why this is a deal that should be approved.

<Q - Brett Feldman>: Obviously, another quarter of strong service revenue growth. Some of your peers started to show some better service revenue growth. But in their case, it was ARPU-driven, where you guys are still doing it by winning customers. It does look like the pricing ceiling is moving up a bit in the industry, and so, I was hoping you could share your thoughts on sort of the trade-offs between figuring out ways to get people to maybe pay a bit more for the service to get more value vs. keeping your pricing well below peers to make sure that you can drive higher customer growth. Thanks.

<A - John J. Legere>: All right. Let's just make sure we go into that question from the standpoint of remembering that 7% service revenue growth, 7% of EBITDA and the increase that we're driving in cash from operations and FCF in this business is something that's a part of going in. I certainly haven't seen any of our peers driving that kind of growth in top line revenue. And I think mostly our peers, our competitors are attempting to break the zero line. So, I'm very pleased with the differentiation of what we're doing and how we're driving it all the way to cash. But maybe, Mike and Braxton, you can talk both about ARPU and...

<A - G. Michael Sievert>: A lot of what we're seeing is on these ARPU developments has to do with customers choosing to deepen their relationships with us. It's not just about the prices we offer, it's about customers seeing the value of what we offer and deciding to buy up our stack, and that's important. We were able to beat consensus on ARPU this quarter. We were generally stable from a year ago, 1.2% or so. But what's happening is that people are taking advantage of, for example, our taxes and fees included, which is a terrific value and something that's contributing, for example, to our all-time record churn. And so, these things have business cases that unfold, but that's offset by customers deciding to move up from our legacy Simple Choice offers into our fully-unlimited T-Mobile ONE. Customers buying more features from us like T-Mobile ONE Plus, which is a great add-on package and other things. So, they're choosing proactively to deepen their relationships with us, and partly that's because of the experience they're having on our network. We're attracting more prime consumers, more suburban families, people with more serious wireless needs. And because the customers have more serious needs, they are buying up our stack.

<A - J. Braxton Carter>: Yeah. And, Brett, let me just add a couple of things. When you really deep dive some of these ARPU changes in trajectory with the competitors, you got to remember that they're doing it by screwing the customer. Administrative fees are a huge part of what's happening there, and you're taking that out of the pockets of existing customers. You know our strategy has been that when we model all permutations of how we could manage the business, and we're very balanced in the way that we do it, we can create a lot more terminal value by unlocking the scale benefits of the network that's in place, and we're doing that with a generally stable ARPU, which has been down just slightly over the last two years. And that's a situation that we're going to do on a standalone basis, and it gets really exciting the competition that we can bring with all the network capacity with the New T-Mobile that will be formed in the future. And that's our philosophy, that's the way we run the business, and we're here to create shareholder value.

<A - John J. Legere>: And the experience we've had, not just this quarter, but if you go back since we started the Un-carrier moves, you go back to 2013, our customers have enjoyed a 12-fold increase in the data that they can use with about an 11% decline in price, but also a significant expansion in our in our EBITDA and EBITDA margin. That's the history. Our history with MetroPCS is even greater. Since we've merged and acquired MetroPCS, we've twice as many customers, three times as many employees, we cover five times as many markets. And MetroPCS customers have gotten greater than 10-fold the amount of data, and they've enjoyed in their various plans between 17% and 25% lower-priced plans. And by the way, they use more data than the rest of our customer base.

So, when you click ahead to what we're talking about when coming together with Sprint and the significant expansion in available capacity that we're going to have, that's where you can clearly see competition will definitely go up, service offerings will expand and prices, customers will be the beneficiary of lower prices while we'll be able to drive the profitability because of the significant decrease in cost structure. So, that's our game plan, in the past we've proved it, it's our game plan going forward, as well as into the New T-Mobile.

<Q - Simon Flannery>: I was wondering, John, if you could update us on Layer3 TV, and I think, Braxton, you talked about the adjacencies, but what do you see in the ability to take the Un-carrier model beyond your current offerings? Thanks.

<A - John J. Legere>: Yeah, Mike, why don't you start with what you want to update on Layer3 TV, and maybe we can segue into not just through Layer3, but in the New T-Mobile, what we're thinking about and why it's critical for the industry and for the country?

<A - G. Michael Sievert>: Well, as we said, when we announced the acquisition of Layer3, this is a market that if there ever was one that needs to be Un-carriered, and we see a lot of opportunity. We're doing a few things. Number one, we have our heads down kind of quietly expanding what we have, as a test bed, while simultaneously developing the product that we intend to bring to market. And you're going to see a lot of firsts in that product, because customers have a lot of needs, they're sick and tired of these outdated systems that the legacy cable companies have been bringing them with their outdated program guides and the technology island that your TV represents, as opposed to your highly connected social media fueled life that you live in your mobile phones. So, we're really excited about what we can do there. We continue to plan it for this year. [ph] year-end 2018 is our initial launch, and our team is doing a fantastic job.

What's really interesting – and we went into Layer3 with the idea in the back of our heads of the New T-Mobile. What's really interesting is what component it could become when the 5G network of the new company starts to unfold, because this 5G network is a network where we intend to plunge into broadband, not just mobile connections like today, but into in-home broadband, because this network has the depth and breadth of 5G that's simply unprecedented in the market. We see the opportunity to offer broadband during – in huge swaths of the market which will bring competition benefits to customers, even those who don't choose us. But we think about 10mm will choose us over the first few years, because we'll be offering a better price broadband offering, and by the way, an offering to parts of the market that have literally no competition today. Like, half of Americans today have one or zero high-speed broadband offers. That's crazy. It's the definition of uncompetitive. Once we do that, now all of a sudden, the TV is even more interesting because you're offering the broadband and you can offer the TV on top of that. So, that's a big piece of the future of the New T-Mobile.

<A - John J. Legere>: Yeah. I think one of the exciting – there was a question previously about any learnings since we announced the transaction. Amongst the things that I'm watching happening in the industry in various announcements is, when you see what's happening in the cable industry, for example, and what broadband access is driving for their value and you realize the speeds that they're giving, what people haven't really connected to until recently is that with the New T-Mobile, by 2021, two-thirds of the country will have greater than 100 megabit speed.

So, if you think about in the context of broadband, by 2024, it'll be 90%. And very importantly, in the underserved rural America segment, when you get out to 2024, we'll have 74% of them covered with greater than 10 megs, but with home CP and in-broadband distribution opportunity that we see, you'll have 84% that can get greater than 25 megabits. Now, that's a big learning because I don't think people have really thought through what's going to come with the network capabilities that the wireless players like us will bring and what its impact is going to be on amongst other things, in-home broadband, where we expect to serve close to 10mm customers out by 2024 and 20% to 25% of them will be in rural America. And these are the things that I don't think people have double clicked on yet with what happens when network speeds get to be 150 megabits, 450 megabits and certainly greater in hot areas.

<Q - Simon Flannery>: And you can support several hundred gigs per customer in that environment?

<A - John J. Legere>: That's right.

<Q - Simon Flannery>: Yeah. Great. Thank you.

<A>: ... bringing up the topic of millimeter wave and the FCC auction. Maybe that's an opportunity for Neville just to comment on that.

<A - John J. Legere>: Neville?

<A - Neville R. Ray>: Yeah. So, Bill's question – thanks, Dave, it was – where is it? Few on millimeter wave or mid-band, not 2.5 gig is foundational future complement to skinny 600 megahertz. I think Mike Dano from Fierce had a question here, too, which is along the same lines: Will you participate in the upcoming FCC millimeter wave spectrum auction?

So, real quick, I think, we can claim – and I don't think it would be disputed that we've been the most vocal company, probably globally, around the need for spectrum in all bands for 5G, be that low, mid, or high. And so, we've had a lot of passion about that in the regulatory environments with – across the technical community and standardization. And today, obviously, everybody talks about 5G being used across mid, low and high bands. That's a different discussion than the one that was happening 12 to 18 months ago. So, that's a good thing.

We're very encouraged by the actions of the FCC on millimeter wave, their efforts and work on mid-band spectrum, be that CBRS or the C-band. There's timing challenges on – especially on C-band that's going to take maybe several years to realize, but millimeter wave auctions are planned for this year and into 2019. And yes, for sure, we have material interest in participating in those auctions. It's something that's of keen interest to us at T-Mobile. We obviously have to work through the process in light of our transaction with – pending transaction with Sprint with the FCC, and we're currently doing that. And we look forward to participating in the auctions later this year. I think from a mid-band perspective, CBRS probably 2019. And then when we look at C-band and some the other opportunities, it's going to be into the next decade. But, yeah, 5G across all bands, a key priority for us and we'll continue to be so.

<A - John J. Legere>: Neville, I think the topic that you're covering is a great one. So, going to the end, yes, we are interested. We've made that very clear from the beginning. We had some processes that we have to work through with the FCC that we're clearly driving ahead and we have nothing to report, but our interest is high.

I'd also say, never confuse our attacks on the millimeter wave strategy of our competitors with us not believing that there's a place for millimeter wave spectrum in the 5G portfolio of what you need to create. It's just not a standalone way to drive what this nation needs for coverage in 5G. And very importantly, what we've said is, with the breadth and the depth that you can get with the New T-Mobile's network of T-Mobile's low-band and Sprint's 2.5, we can deliver something that is truly one-of-a-kind in the world from the standpoint of 5G.

And the millimeter wave component is something we're very interested in, we'll put it in the portfolio. We have some spectrum already that we'll be deploying, but this nationwide deep broad network is what this country needs and that's kind of not something you get purely by hotspots in three or four geographic locations, but good question. And, by the way, along with millimeter wave, Neville has never met any spectrum yet on this planet that he wasn't interested in, so.

<Q - Jonathan Chaplin>: First one for Braxton. You've taken the EBITDA guidance up twice, CapEx guidance hasn't changed and free-cash-flow guidance for 2019 is unchanged. What are you anticipating in 2019 in terms of sort of the – is it a step up in CapEx, working capital drag or something else that would suggest FCF shouldn't be higher than where you've guided?

<A - J. Braxton Carter>: Yeah.

<A - John J. Legere>: I just want to point out that you're going to be explaining why you have a meager 46% to 48% CAGR on three-year FCF, which is something we should stop for a moment and just celebrate before we lean into it.

<A - J. Braxton Carter>: Yeah. Jonathan, great question, but we did actually change our guidance relating to the cash CapEx. And what we signaled earlier is that we're going to be at the very high end of the guidance range on cash CapEx. And that's really a function of the tremendous success. And you've probably seen some of the press releases that Neville and his team have had clearing broadcast or spectrum. And even with that change being at the high end, there is no changes in the free-cash-flow guidance. You kind of know the way that we handle our guidance. We don't mess, we've never messed in five years and we outperform what we say we're going to do.

When we look forward to 2019, what we've talked about publicly is, we got tremendous momentum. You know how we run our business. There'll be a substantial step up in the EBITDA. We'll provide guidance for 2019 in connection with the year-end call. Cash CapEx, when you look at the trend over the last couple years have been inching up a couple hundred million a year, which is really a reflection of a success-based investment model. And we're highly confident that we're going to meet or overachieve the numbers that we got here. And that's what gets me really excited as CFO, because we all know the path's true value creation is ultimately the generation of significantly-ramping cash flows and the thesis is very, very much in place for T-Mobile.

<Q - Jonathan Chaplin>: Great. Can I follow-up with a quick one for John and maybe for Mike? We've seen a huge surge in industry net adds in what I would think of as a pretty saturated market. Any thoughts as to what could be driving it?

<A - G. Michael Sievert>: Yeah. Couple things. One thing, Jonathan, is you're seeing some softening in the prepaid subsector. And that's not necessarily all in one quarter, it's a trend over the past six months, it was strong in some cases this quarter, driven by prepaid other, other than phone devices. But there's been a transference trend over the past year or so and that's partly due to the economy. So, what's happening is, more people are qualifying for postpaid than they were a year or two ago. And when you can qualify for postpaid, a lot of people take it, because they want these device financing deals that they're now qualifying for. So, I think that's been a healthy trend for the industry and it's at least in part driven by the economy.

<Q - Jonathan Chaplin>: Great. Thanks, guys.

<A - John J. Legere>: Before we have the next question, I would note that in the past 10 minutes, Walt Piecyk has submitted approximately 25 questions. 18 or 20 of them are highly inappropriate, will not be discussed. But just to tell you couple things, Walt. Yes, we do know what the next Un-carrier move is, and we're not just crowd-sourcing it over the next two weeks. However, if you have any ideas and we see them, it doesn't mean we can't do more than one. There's also a question, I assume, was tongue-in-cheek, which is, will you coordinate bids with Sprint in the 5G millimeter wave option, which is, we are going for the right to be able to participate in the auction, but it's unsaid, it doesn't need to be said, that it would be inappropriate and not something we would be able to ever think of doing to coordinate bids.

So, I'm sure you were just poking fun there. But hope those are two of your 25 questions, but feel free to keep typing them in. They're somewhat humorous, if not to me, the others that are watching.

<A>: [indiscernible].

<Q - Philip A. Cusick>: Maybe for Mike, can you talk about the performance in the new geographies you've launched in the last two years? I know they've come in in sort of cohorts, but where are we in terms of markets that are launched and with what distribution? And where does that go over the next couple of years?

<A - G. Michael Sievert>: Yeah. So, couple things. One is, we've seen the overall retail footprint grow just in line with the predictions we gave you a couple of years ago. We had said when we were addressing about 230mm Americans, we'd see it hit about 260mm Americans addressed by our retail fleet, and that's what we've accomplished. That and a little more. And back to John's point, a big piece of what I think you count on this management team to do is to look ahead a couple years and see the potential headwinds and take actions to make sure that they become positive tailwinds. And our retail expansion and geographic expansion has been a great example of that.

What we're seeing is what we predicted for you we would see, which is, there's been particularly in Greenfield markets a pent-up demand for T-Mobile. We've got markets where we have entered and gone immediately into [ph] SOPI leadership, share of port-in leadership. That's a great sign for us. So, our retail fleet's been highly productive. As a result, we're going to concentrate any additional expansion into Greenfield areas, smaller towns, rural areas. We're also expanding our fleet of retail like trucks, because that's a great way to address some smaller towns.

So, we've been emboldened by the results. I'll tell you that on the flipside of it, in some of the urban areas we've also found that we've got the right penetration now that we don't need more retail penetration in urban markets, and that's an important learning for us as well. But generally speaking, what we predicted for you when we launched this retail expansion, and last year in 2017 became America's fastest-growing retailer is paying out just like we predicted for you that it would.

<Q - Philip A. Cusick>: Can you talk about penetration in those markets vs. your sort of top 200mm POPs penetration?

<A - G. Michael Sievert>: Not really, some of these markets, by the way, are very small. But in some cases where we're brand-new, never existed before, in just two or three quarters, we're seeing mid-single digit penetrations. That's nice to see. But again, it's – the results, your results may vary, because all these markets are quite different.

<A - J. Braxton Carter>: But, Phil. I think, you're on to a really important piece of the confidence that we have that there is tremendous future growth opportunity with this geographical expansion across the U.S., and even when we combine with Sprint, we just take that up on steroids. In the other growth adjacency that Mike was talking about earlier that gives us extreme confidence for multiple years of high growth is what we're seeing in the business channel. We're still tremendously under indexed, but have incredible momentum going in that channel, and Mike threw out some of those stats earlier. We're just really excited about these two areas.

<Q - Philip A. Cusick>: Maybe if I can follow-up, the increase in postpaid add guidance was pretty nice to see, but it implies a pretty big slowdown in the back half. Is there anything happening in either tablets or watches that we should look for a headwind? Or is this just typical conservatism?

<A - J. Braxton Carter>: Yeah. No. You know how we do the guidance. I think, Bill Ho actually asked a question earlier, is this the fourth or fifth year where you've increased your growth guidance every quarter. I think it's the fifth year. We take it up as we execute throughout the year and that – we see nothing that's really going to stop the trend. So, no change really in the way that we're providing guidance to the marketplace and we're really optimistic for the back half of the year.

<A - G. Michael Sievert>: It maybe a little conservative, but one of the reasons we do this is because the back half of the year contains, in some senses, a higher degree of uncertainty every year and that's because some of the big phone launches happen during that time and it's hard to predict competitive moves. I will say the last couple of years we've seen – we haven't been really surprised by what we've seen from our competitors in those big phone launches. So, we'll have to see how the year plays out, but we're feeling very confident.

<A - John J. Legere>: But I think it's important, as we said in the commentary, coming off a record Q2, our guidance change is intended to show that we feel very good about the rest of the year.

<Q - Philip A. Cusick>: Got it. Thanks, guys.

<A - J. Braxton Carter>: And I think you asked about tablets. We never really played the tablet game to generate growth. We've consistently done 200,000, 300,000, give or take. We never really pushed that button to juice it up. And I think that strategy played out well when you look at what's really happened in the tablet space being connected with all the other carriers who did actually play that game pretty heavily.

<Q - Craig Eder Moffett>: A question for Neville, I guess. In the Public Interest Statement, Sprint obviously revealed a lot of struggles putting its 2.5 gigahertz spectrum to work. I'm wondering what's different about what you can do other than just having more financial resources to put to work to densify that network? Are there things that as you look back Sprint could have done differently that you think make the 2.5 gigahertz spectrum seem so important to the combined entity's strategy. I wonder if you could just talk about that a bit.

<A - Neville R. Ray>: Yeah, happy to. Thanks for the question on it, Craig. If you think back to T-Mobile's history and even more recently with the combination with MetroPCS, we built the most dense network in the United States, hands down. I think others have talked about densifying away from their initial low-band footprints, AT&T and Verizon continue that struggle and battle. Sprint has done less densification, some. But when you look at network status today and you look at who has the most dense network in the U.S., macro, small cell, it's T-Mobile. And so, what we can do with this transaction is take that to the next level and we would obviously combine key sites and add to the T-Mobile Network with Sprint sites in key areas for coverage and primarily capacity, but put down a network that will be incredibly difficult for others to match, and it's going to be very, very well-suited to 2.5 gigahertz.

So, this is round peg square hole story. I mean, even today, our network is more suited for 2.5 gig deployment than anybody else's because of its metro density. And so, when you think about a combined T-Mobile and Sprint, the incremental density, capability and you put a 2.5 gigahertz layer on that, it's going to perform incredibly well. Along the lines of John and Mike's statements about what we can offer, the capacity that we can generate, it's pretty mind-blowing and very exciting when you think about the capability when you finally put the right spectrum assets together with the right network architecture that T-Mobile has.

<Q - Craig Eder Moffett>: If I could just...

<A - John J. Legere>: Go ahead.

<Q - Craig Eder Moffett>: Sorry. Just to follow-on for a second, can you just talk about the indoor propagation issues? Is that densification that you're talking about sufficient to solve the indoor propagation problems that Sprint has had with the spectrum?

<A - Neville R. Ray>: Yeah. It certainly helps, Craig, right. And even today, I mean, if you deploy 2.5 gigahertz on our dense network in key urban areas, then you'd see pretty strong performance. But it's important, again, we've mentioned this earlier on the call, you need low-band, and you need low-band to get deep into these building cores. You need a good strong mid-band layer and mid-band in 5G includes 2.5 gigahertz, the spectrum band that Sprint has the most of. And so, yes, I mean, the whole plan here and if you think about the statements Mike made about broadband and what we can do, the intent here is to lay down a layer of wireless capability for not just macro and on-street, but also to penetrate the home. And the 2.5 gigahertz spectrum, with the right network architecture and layout, can absolutely help us achieve that.

<Q - Craig Eder Moffett>: Thank you. That's helpful.

<A - John J. Legere>: I just wanted to say that the teams over under on the timing of your answer was 12 minutes to 15 minutes, and you exceeded that.

[indiscernible]

<A - J. Braxton Carter>: Hey, Mike. There's a good one from Kyle Romanoff.

<A - G. Michael Sievert>: With respect to continuing to lower churn numbers, does T-Mobile have new initiatives that could add on to this? Or is the plan to continue current customer loyalty techniques?

Yeah. We haven't talked much about churn. Kyle, tanks for the question. I'll tell you what. Our team should just feel so proud today that we've bust through this 1.0% barrier for the first time ever and delivered 0.95% churn. And it really shows that two things are working incredibly well for this business.

Number one, Americans are finally realizing that our network has caught up and beaten Verizon's and AT&T's. There may be some coverage differences around the margins in a couple square miles in the rural areas, but where we all live and work, our network is the best bar none. And Americans are finally figuring that out, mostly through word-of-mouth, which gets to the second piece, which is that our brand is firing on all cylinders. We're experiencing the highest Net Promoter Scores right now in the history of this industry, and that means that people are telling other people about T-Mobile. And those two things are working together to bring more customers to us and drive our churn down. And to your question, Kyle, yeah, that's something we think's sustainable, and it will only be taken to the next level when we come together and create the New T-Mobile. But that element of an ever improving network and an ever improving brand is core to who we are.

<Q - Amy Yong>: I guess, just following up on your comments on broadband, maybe if you can elaborate a little bit more on your fixed wireless strategy, timing, market size. Verizon is obviously talking about $30mm market opportunity but being very selective on which cities they're going after. Can you talk about how yours might compare with Verizon's? And then, I know you addressed cable competition in your comments, but maybe some early thoughts on Charter and Comcast's price points and strategies thus far. Thanks.

<A - John J. Legere>: Mike, do you want to start?

<A - G. Michael Sievert>: Yeah. Couple things. Amy, I think our competition is talking about it as a way of justifying getting going with millimeter wave. Because they're kind of quickly realizing that millimeter wave, as John was saying, as a standalone 5G mobility strategy really isn't a strategy. And so, they're pivoting now their story to fixed wireless in the homes. So, that's what they're doing. What we're doing is building a broad and deep 5G network that's a combination of spectrum, low, mid, and high. And that allows us to address big sections of the country with the New T-Mobile, and bring broadband. And as John said, we will be in a place in just three years into this where 66% of the country, two-thirds of the country have 100 megabits per second service or better, and that's going to allow us to support about 10mm customers that use home broadband type capacities, like 0.5 terabyte a month types of capacities.

And so, we're going after this market. We're not going to get into right now what markets or where, but we're going to bring a level of competition to this market that's very serious and that the industry has not seen, and it's a market that needs competition very badly.

<**A - Neville R. Ray**>: I'd just add in real quick I mean, the Verizon number around 30mm, is always fascinating to me. 30mm homes passed on a millimeter wave product. That's one mighty task. But go at it, guys.

<**A - G. Michael Sievert**>: Expensive task.

<**Q - Walter Piecyk**>: John, I actually wasn't joking about those coordination. I think actually if you disclose it to the FCC ahead of time, you're allowed to do it, but presumably that's not the plan for any of these upcoming auctions, right?

<**A - John J. Legere**>: That's not the plan.

<**Q - Walter Piecyk**>: Got it. Can you give us a sense – I mean, upgrade rates were down for you guys and for all your peers. Can you give us a sense as when you look at the age product in your base, what you think is going to happen as we exit 2018? And whether this might be a year that promotions invert back up by you or some of your competitors?

<**A - G. Michael Sievert**>: Couple things. One is, it's not just about promotions, it's also about what you get in the new devices. And one thing you've heard from us, Walt, over and over is talk about the importance of this 600 megahertz layer in our network. Well, because of that, we're going to see it really important that customers adopt 600 megahertz-compatible phones. And so, you may see us getting behind phones in a big way that have that technology because we're obsessed with customer experience. And we know with how fast Neville is going rolling out this network, 950 cities so far and 33 states already being touched by 600 megahertz. We need to get handsets in people's hands. And so, you're going to see us pursuing a strategy that's pro-upgrade, especially when it's an upgrade that'll get you onto a 600 megahertz-compatible phone.

<**Q - Walter Piecyk**>: Got it. And then, Mike, you haven't grown postpaid phone net adds for a while, so this is the first time in six quarters. Is this the inflection point that we've been looking for in terms of the low-band investments and the store investments that you've made resonating with these very low-penetrated markets that you've talked about in the past, whether it's suburb, enterprise, whatever it is? Like, which of these areas do you think are inflecting? Or is this just, hey, you had a good quarter, it might slow down in the second of the year and we're still waiting for that, kind of the big kick in where you take the Verizon subs en masse going forward?

<**A - G. Michael Sievert**>: I mean, as John said, this is – what you're seeing is a demonstration that the investments we've been telling you about are starting to pay off. And if anybody had any question about whether this business was slowing down, this quarter is the latest answer. Our postpaid phone net adds are equal to if you took every other player in market, including the number two player, Comcast, and added them all up and then doubled it. That's how many postpaid phone net adds we delivered in the quarter. And it's a demonstration the strategy's working. Geographic expansion, business expansion, segment expansion, suburban fringe expansion, going after different groupings of customers that have always been under-penetrated into our base and it's working. So, it's – we're really proud of the results.

And as you can tell, it's not just driven by us taking share with 2.0 porting ratios with AT&T and Verizon, but it's also driven by having the lowest postpaid phone churn in the history of our company, and think that's sustainable. That's driven by our network and it's driven by the brand, and those things are both very, very strong and getting stronger.

<**Q - Walter Piecyk**>: I think last time you got over 2.0 was when Verizon launched Unlimited, so I guess we'll see what the competitive response is, if any.

<**A - G. Michael Sievert**>: Right.

<**A - John J. Legere**>: I think the word of the day at school today must have been inflection point. But I don't think that – we've been very consistent over many, many quarters. We feel very strong about it. All right. Walt, you're

always welcome on this call, even though they don't allow you on any other ones.