Q1 2020 Earnings Call

Company Participants

- J. Braxton Carter, Executive Vice President and Chief Financial Officer
- Jon A. Freier, Executive Vice President, Consumer Markets
- Jud Henry, VP, IR
- Matt Staneff, Executive Vice President and Chief Marketing Officer
- Michael J. Katz, Executive Vice President, T-mobile for Business
- Michael Sievert, President & COO
- Mike Sievert, President and Chief Executive Officer
- Neville R. Ray, President of Technology

Other Participants

- Brett Joseph Feldman, Analyst
- Craig Moffett, Analyst
- Jennifer Fritzsche, Analyst
- John Christopher Hodulik, Analyst
- Jonathan Chaplin, Analyst
- Michael Rollins, Analyst
- Philip A. Cusick, Analyst
- Simon William Flannery, Analyst

Presentation

Operator

Good afternoon. Welcome to the T-Mobile US First Quarter 2020 Earnings Call. Following 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 first quarter 2020 earnings call. With me today are Mike Sievert, our President and CEO; Braxton Carter, our CFO; and Neville Ray, our President, Technology, as well as other members of the senior leadership team.

Please note that any comments on this call relating to Q1 2020 results are referencing standalone T-Mobile prior to our merger with Sprint Corporation and our forward-looking statements refer to the combined post-merger Company.

During this call we will make forward-looking statements that include projections and statements about our future financial and operating results, our plans, the benefits we expect to receive from our recently completed merger with Sprint, our business and operations in light of COVID-19 and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties outside of our control that could cause our actual results to differ materially, including the risk factors set forth in our quarterly report on Form 10-Q filed today.

Reconciliations between GAAP and the non-GAAP results we discussed in this call can be found in the quarterly results section of the Investor Relations page of our website.

Let me now turn it over to Mike.

Mike Sievert {BIO 2140857 <GO>}

Well, thanks a lot, Jud, and thanks to everybody for joining in. Welcome to our first quarter earnings call coming to you live, mostly from our living rooms and home offices and maybe a few kitchens across the country.

And let me just start by saying what a crazy quarter this was, and I think, a really proud moment in history for our team. Over the last couple of months, we've closed one of the largest telecom mergers in history after fighting for it for over two years. And we started by making immediate progress on our integration work to unlock the value of this combination.

We transitioned our CEO office, we established a new leadership team for the Company and we completely reinvented how we serve our customers, all during a global pandemic and all at an incredibly fast pace. And through it all, we did it while posting some pretty fantastic business results, which is what we're here to talk with you about today.

Okay. We've got a lot of ground to cover. I plan to share some early insights and thoughts about the new T-Mobile, touch on the impacts of COVID-19, cover some highlights from Q1 and of course, brag about some of those early wins that Neville and his team are already delivering on our network, including some really fast work the teams done to rollout our 2.5 gigahertz spectrum from Sprint in Philadelphia and in New York onto the T-Mobile network. Then Braxton will impact the financials, and we'll share some guidance for Q2.

Amazingly, it's been just five weeks since finally closing our merger with Sprint and let me tell you we're incredibly fired up about the opportunity ahead. While the process took way longer than anyone could have imagined. We took advantage of every moment during the approval process for this deal to plan for a rapid integration of these companies and we've hit the ground running.

As we dig into our combined businesses, we see an opportunity to move even faster and potentially to unlock even more synergies from this combination than originally planned. Opportunities like the acceleration of our retail rationalization and network integration and we likely see additional upside from our increased scale in areas like procurement, and potentially faster improvements in the churn rate of Sprint subscribers than planned.

There's been a lot of talk about the changing landscape and we all find -- that we all find ourselves in it right now and I can say this about it. The value proposition and unprecedented network that we'll deliver will position new T-Mobile incredibly well to serve even more customers, particularly as the economic environment continues to change. I've said it before and I'll say it again today, customers are not going to have to choose between a better value or a better network with the new T-Mobile customers will finally get both.

Before we dive into the results, I do want to highlight how our Company has navigated the impacts of COVID-19 so far, the way our people and this team has responded to support customers has been nothing short of heroic. And I couldn't be prouder of each and every one of them.

The crisis has highlighted how crucial connectivity has become to our daily lives and as it's unfolded in front of us, we took immediate steps to ensure our customers would continue to stay connected while working hard to simultaneously protect the health and safety of our employees. We were one of the first to take bold steps to do our part to help mitigate the impacts of COVID-19, with widescale temporary store closures and transitioning employees to work remotely, including 14,000 US-based care employees from T-Mobile and Sprint. We utilized our digital capabilities to enable things like virtual retail and we introduced curbside and mobile fulfillment. Through all this transition, our front-line employees have stepped up big to support our customers and continue to deliver the industry-leading customer service that makes us different. And that has translated into record-high NPS satisfaction scores.

Right out of the gate, we knew that our network would see increases in demand and changes in usage patterns. So we took immediate action to increase capacity, including temporarily doubling our 600 megahertz capacity and expanding roaming for Sprint customers. Our network has performed phenomenally, delivering excellent reliability for our customers, in fact, according to Opensignal, average LTE download speeds on our 600 megahertz spectrum actually increased significantly even during this crisis, after we layered on the additional 600 megahertz capacity.

We're also a proud supporter of the FCC's Keep Americans Connected pledge. And I really appreciate the work, that Chairman Pai and the FCC have done to bring the entire communications industry together during this crisis. As a result of our commitment, we waived late fees and maintain service for our consumer and small business customers impacted by COVID-19 regardless of their ability to pay.

Additionally, in the early phases of the crisis, we chose to lift smartphone high-speed data caps, made additional smartphone mobile hotspot data available, and accelerated the launch of T-Mobile Connect to support our customers as they navigate the impacts of COVID-19.

We've also donated millions of dollars through a number of initiatives to support our communities. From support for Feeding America to the Boys & Girls Clubs of America, local schools, and programs for our front-line healthcare workers. I'm really proud of what this team is doing to help across the country.

While this pandemic is definitely not over, we will continue to take the necessary steps to support our customers and do what's right for our employees and communities as things start to reopen. This will result in some continued near-term impacts to our business. Stores that have been closed temporarily obviously reduced our store traffic and subsequent retail volumes and that impacts customer additions, service revenues and equipment revenues in the very short term.

We also introduced some operational changes to help with business continuity, which has impacted our overall performance in the latter part of the first quarter and will likely continue in the second quarter.

As the nation starts to emerge post-COVID-19, customers across the industry will likely be looking for better value in a tougher economic environment, and we will continue to be there for our customers when they need us the most. It's who we are and it's what our Un-carrier brand stands for.

I expect that AT&T and Verizon customers will most certainly be looking to get out from under their high monthly bills in search of a better value, and it's likely there also be an increase in churn from today's low levels, as the carriers won't be able to keep themselves from squeezing customers who are already budget constraint. These factors will likely mean more switching across the industry as things change and we will be there to help.

We know from the past that T-Mobile does disproportionately well in an environment with larger pool of switchers. We're a proven share taker and I intend to keep it that way. We will be there for our customers with prepaid and postpaid products that are geared to their needs, particularly in a time of constrained budgets, and we expect to consolidate our marketing and new offers under the T-Mobile brand later this summer, just as this switching opportunity starts to come to life.

Okay. Time for a few T-Mobile standalone highlights from Q1. Let's start with our main business driver, branded postpaid phones, where we once again led the industry and growth with 452,000 net customer additions in Q1. Not that I'm counting but that's 25 quarters in a row of leading the industry, this time with about 70% of the combined industry growth, which is approximately double the sum total of the rest of the industry combined, including Big Cable.

Total branded postpaid net additions were 777,000 and prepaid net losses were 128,000 yielding 649,000 total branded net adds for the quarter. One of the things I'm most proud of is our customer experience obsession at this Company, which in part shows up in our branded postpaid phone churn numbers. We posted a record Q1 low of 0.86%, down 2 basis points versus last year and down 15 bps versus last quarter.

I'm also really proud of our team's ability to deliver our financial results, while simultaneously taking care of our customers and employees during these difficult times. We've said it for years. Investing in customers leads to customer growth, which leads to revenue growth, which if we run the Company well, leads to EBITDA and cash flow growth, which we invest right back into our customers and their network experience, which is what started the success cycle in the first place. Our financial results in Q1 show that this winning formula continues to benefit consumers and shareholders alike.

Service revenues in Q1 hit an all-time high of $8.7 billion, up 5% year-over-year, more than twice the growth rate of the next best big provider.

Adjusted EBITDA also hit an all-time record high of $3.7 billion, up 12% year-over-year despite the environment created by COVID-19. Free cash flow excluding payments for merger-related costs was $893 million, up 37% year-over-year.

Now let's talk about the foundation of our new T-Mobile growth story, our network. Despite COVID-19, Neville and his team are hard at work, expanding the network footprint and quality and continue making incredible progress. Our network continues to perform and that's been amplified as we integrate Sprint's spectrum, putting us on our path to build the world's best 5G network.

The whole process will take about three years to complete, but our team was able to take advantage of the extended approval cycle to get moving on a lot of the site leasing and permitting work ahead of time. Combining the spectrum holdings of T-Mobile and Sprint, the new T-Mobile controls 319 megahertz of combined low-band and mid-band spectrum nationwide, 319 megahertz.

New T-Mobile's combined low and mid-band spectrum is nearly double that of AT&T and nearly triple that of Verizon. It's no wonder they spent the last two years fighting the merger behind the scenes. And while AT&T and Verizon are depending on millimeter wave spectrum for their 5G strategy. Well, we have that too, with over a 1,000 megahertz of millimeter wave spectrum more than AT&T. We're ready to leapfrog the carriers and network capability and you know what, they know it.

In fact, we've already started deploying our 2.5 gigahertz spectrum on the T-Mobile network and Philadelphia is already live, with peak speeds of over 600 megabits per second in our tests. And just yesterday, we went live in New York City as well and there'll be many more other cities we'll light up in 2020 and beyond.

For Sprint customers, we're delivering an enhanced network experience by significantly expanding access to the T-Mobile network, to improve coverage as well as 5G availability. More than 80% of the Sprint postpaid phone base has compatible handsets today, and we are seeing a big increase in weekly roaming on the T-Mobile network as a result.

Finally, we remain hard at work on all the network projects you've heard us talk about over the past year. Recall that, we launched America's first nationwide 5G network on 600 megahertz spectrum in early December, covering more than 200 million people right out of the gate. We have 215 million people covered with 5G today, recently lighting up 5G at Detroit, St. Louis, Columbus, Ohio, and just this week we turned up the Bay Area of California as well.

So before I hand it over to Braxton, let me just say this, in the face of unprecedented adversity, we delivered another record-setting quarter, while simultaneously driving changes across our business to deliver for our customers and closed one of the largest telecom mergers in history. We rose to the occasion and hit the ground running in our first five weeks as the new T-Mobile. We feel more confident than ever about our ability to unlock the massive synergy potential of this transaction and we already see opportunities for upside to our plans. Our passionate fired up workforce is focused on one singular mission, being the absolute best at serving customers. The success of this business depends on it and we're moving rapidly to drive innovation in this industry and supercharge competition. As we start to emerge from COVID-19 and look ahead, T-Mobile is a brand that's the best positioned to stand up for customers and deliver a great value combined with an amazing network right when they need it most.

And with that, it's now time to ask our CFO, Braxton Carter to take us through the financials and guidance. Braxton, take it away.

J. Braxton Carter {BIO 4363971 <GO>}

Hey. Thanks, Mike. And yes, I am proudly wearing my magenta hat out here in Washington, while in-country. The opportunity that lies ahead for new T-Mobile is significant. And as we look to unlock the massive synergy potential, I couldn't be more excited for what the team will deliver in the future.

Let me get into some of the financial details of the quarter to best explain why. Record Q1 net income amounted to $951 million in Q1, up 5% year-over-year and diluted earnings per share was a $1.10, up 4%. Note that net income was fully burdened by the Sprint merger-related costs of $117 million as well as COVID-19 related costs of $86 million in the first quarter. Similarly, EPS was impacted by $0.14 related to the Sprint merger and $0.10 related to COVID-19. These cost $250 million combined before taxes are excluded from adjusted EBITDA.

Adjusted EBITDA amounted to a record $3.7 billion, up 12% year-over-year. The increase was primarily due to higher service revenues and lower equipment sales, partially offset by higher cost of services and SGA expenses.

Cost of services as a percentage of service revenues increased by 10 basis points year-over-year in Q1 as we continued the rapid rollout of 600 megahertz spectrum and investments to transform our 4G LTE network to 5G. SG&A as a percentage of service revenues increased by 70 basis points year-over-year in Q1 as we invested in our people and customers during this difficult time.

Excluding the Sprint merger-related costs of $143 million and $117 million of supplemental employee payroll, third-party commission and cleaning related COVID-19 costs, SG&A would have been down 90 basis points year-over-year.

Free cash flow increased by 18% year-over-year to $732 million in Q1 as net cash provided by operating activities increased 16% and cash Capex decreased 9%. Free cash flow in Q1 included $161 million in payments for merger-related costs, excluding these merger-related payments, free cash flow would have been $893 million.

Branded postpaid phone ARPU amounted to $45.80 in Q1, which was generally stable sequentially and year-over-year, as an increase in our promotional activities, including the ongoing growth in our Netflix offering, a reduction in regulatory program revenues from the continued adoption of tax-inclusive plans and a reduction in certain non-reoccurring charges were offset by the growing success of new customer segments and rate plans.

We also reintroduced branded postpaid ARPA or average revenue per account this quarter. As we focus on growing total revenue per account, which is the real customer relationship. Branded postpaid ARPA was $129.47 in Q1 and was essentially flat year-over-year.

In terms of customer quality, our results in the first quarter were impacted by the macroeconomic impacts of COVID-19. Total bad debt expense and losses from sale of receivables was $138 million or 1.24% of total revenues in the first quarter of 2020 compared to $108 million or 0.98% of total revenues in the first quarter of 2019. However, excluding the adoption of the new credit loss standard, which now recognizes lifetime expected credit losses upfront, bad debt would have been flat year-over-year in Q1. We are watching bad debt very closely, given the current economic backdrop which may put pressure on bad debt in the next few quarters, but we feel we are well prepared to manage through these economic conditions.

One of the reason we feel well prepared is that subsequent to the end of the first quarter, we raised $23 billion in debt financing. I am super proud of what we achieved. When you think about it, we literally hit the market the day we closed the merger when the markets are basically been closed for weeks, and we're able to issue $19 billion in investment-grade notes. Even in that market, the confidence and excitement to invest in T-Mobile led to an order book of $74 billion and despite it being our first issuance in the investment-grade market, our 10-year notes have recently been trading inside where AT&T notes are trading.

In addition, our recent merger loan syndication with another strong showing from investors effectively reopen the leveraged loan market, which has been quiet since the inception of the COVID crisis. Just a remarkable execution by our team and that support from the market gives us confidence in our liquidity and our ability to go full speed ahead on the integration of Sprint and T-Mobile businesses.

So let's get to guidance. Due to uncertainty around the ongoing impact of COVID-19, purchase price accounting, accounting policy alignment work, we are providing guidance for the new T-Mobile for Q2 2020 at this time. We expect to provide full-year 2020 guidance on our Q2 earnings call when we share the combined quarterly results of new T-Mobile, and hopefully have better visibility into the COVID-19 and economic conditions for the back half of the year.

For Q2, we expect postpaid net customer additions between zero and 150,000.

This reflects ongoing impact of COVID-19 including retail store closures and lower gross adds, partially offset by lower churn.

Adjusted EBITDA is expected to be in the range of $6.2 billion to $6.5 billion in Q2. Our adjusted EBITDA target includes leasing revenues of $1.3 billion to $1.4 billion.

Cash purchases of property and equipment, including capitalized interest of approximately $100 million are expected to be between $2.3 billion and $2.5 billion for Q2 2020, and will ramp substantially as we get into the outer parts of the year.

In Q2 2020, merger-related costs are expected to be $500 million to $600 million before taxes. These costs are excluded from adjusted EBITDA, but will impact net income and cash flows. These amounts are before any incremental opportunities to accelerate synergy realization through a potential pull forward of additional spending in the Q2 such as severance related restructuring, store rationalization and network build expenses.

COVID-19 related costs, not included in adjusted EBITDA are expected to be between $450 million to 550 million before taxes. Net cash provided by operating activities includes payments for merger-related and COVID-19 related costs and including 2.3 billion in gross payments for the settlement of interest rate swaps is expected to be in the range of $0.7 billion to $1 billion.

Free cash flow, including payments for merger-related and COVID-19 related costs, but excluding $2.3 billion in gross payments for the settlement of interest rate swaps is expected to be in the range of $1.3 billion to $1.5 billion.

We will continue to monitor developments regarding the COVID-19 and evaluate appropriate steps we need to take as a business to align with guidelines from state, local and federal government agencies to do what is best for our employees and customers. We expect our business, liquidity, and financial condition as well as operating results to continue to be adversely impacted by the COVID-19 pandemic for the remainder of 2020 and potentially thereafter.

The full impact of COVID-19 on our business is difficult to predict and is subject to uncertainty, potential impacts may include: lower net customer additions, equipment revenues and cost of equipment sales, and the higher bad debt expense; continued costs to protect and support our employees and customers, which will increase from the costs incurred during the first quarter of 2020; and potential disruptions to our supply chains.

In addition, we are in the process of re-evaluating our spending across various operating areas. We are taking actions to adjust our spending given the significant uncertainty around the magnitude and duration of any recessional impacts arising

From the COVID-19 pandemic. The uncertainties related to COVID-19 may also adversely impact the Q2 guidance we provided.

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

Questions And Answers

Operator

Well, thank you. (Operator instructions) And our first question will come from Simon Flannery with Morgan Stanley.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Simon.

Q - Simon William Flannery {BIO 1505834 <GO>}

Thank you very much. Good evening. Thanks for all the color. Mike, perhaps you could just give us a sense of what the integration, where you are so far you've had a few weeks now to work with the Sprint team, obviously, in difficult circumstances, but any color around what the positives have been so far? And what the areas where maybe you need to -- you're finding things taking longer or whatever?

And then for Neville good to see the 5G lighting up, can you give us a little bit more color on what to expect from the fixed wireless initiatives during 2020 and beyond? Thank you.

A - Mike Sievert {BIO 2140857 <GO>}

Sure. Yeah. Simon, I have to say that one of the things we're most excited about is, as I said in my remarks upfront is that after five weeks as one team, if anything, we see more potential to go faster and to go bigger on synergy attainment and growth than we had been expecting.

And there's a number of reasons for that. Among them, the fact that we see opportunities to move faster on certain things like network, it -- this -- we had a long time to prepare for this merger and we looked at a lot of tracks when it comes to permitting and leasing, and we're moving fast. And as we start to knock this down, it does appear that there's going to be a pace to this that may be able to stay ahead of schedule relative to our now two-year-old plans that calculated up all these synergies. Retail rationalization might go faster than expected. We had always expected to get after marketing one brand pretty quickly, but getting the retail fleets rationalized due the systems issues and people issues, et cetera, was something we always thought would take a little bit more time. We may be able to move faster and that could accelerate synergies.

And procurement looks like an area of possibility to exceed plan. On the customer side, the churn level of Sprint customers is one of the most financially-sensitive things, and we certainly have hopes that we can see faster movement there as we tackle this network integration at a faster pace. Already, we've lit up more roaming for Sprint customers than we had expected to be able to do, and we're starting to see how they respond to that, and you know what, they like it, which is great.

So we're not in a position to guide on it or to give you anything concrete yet. I can just tell you that five weeks in, we're really optimistic and you saw from our print today that standalone business is very strong. You saw our Sprint subscriber numbers a couple of days ago, those were better than most people expected. So we also walked into this with some momentum.

Now as Braxton pointed out, COVID took a bite out of that for everybody. And there are temporary impacts on our business. But you know what, they are just that, temporary. And our view is that, if anything, there is opportunity in the environment that we're going to see one social distancing lift, as I said in my remarks, people are going to be looking for value. They're really going to be hungry to make sure they've got the right value. They're not going to drop this category. I mean, no way, this category is so important, but they might be asking if they've got the right carrier and as switching comes and is elevated versus these low levels, we will be prepared to stand up and give customers what they are looking for.

So we're feeling very optimistic, even though to the premise of your question, look, there is some aspects to it that have [ph] not everybody in this industry off their stride. Comparatively speaking, we feel very good and over the mid and long term, we perhaps feel even better than our deal model that we contemplated two years ago.

Your second question I think was for Neville and I might follow-up to about the network conditions and as it relates to broadband, right?

Q - Simon William Flannery {BIO 1505834 <GO>}

Sure.

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

Yes. And so I pick it up. So great to see, Simon. And as you referenced, I mean, the 2.5 gig rollout is absolutely key. I mean, that's the material spectrum advantage we now have in this mid-band 5G space. And then Mike outlined north of 300 megahertz of Sub-6 gig spectrum for T-Mobile and nobody and no team is more eager than we uniting to get the stuff rolled out. So we didn't sit on our hands during the pendency of the deal, we got stuff into leasing and zoning activity and we were building 2.5 in Philly, parts of New York before the deal closed actually, and so we were able to turn some of that stuff up immediately on close and then we just referenced New York's in 2.5 roll out coming online this week.

And to your question on broadband and fixed, I mean that 2.5 gigahertz spectrum is the critical piece. As we start to ramp up rollout that's going to build the capacity and specifically great 5G capacity for us to start serving customers, not just with the traditional mobility and wireless service that we're killing [ph] it with, but also in this broadband space.

So and it takes some time, obviously, we are not rolling out. I wish we could roll out 2.5 overnight. It's going to take us months and into years to get that program fully complete across the nation. But as we do that and as capacity becomes available, then we'll start to look at delivering our broadband capability to our customers as we've outlined in our deal advocacy and our business plan.

So it's a very material part of how we see shaping the competitive landscape as we move forward. Probably not too much this year. But I'm hopeful that we'll be making some inroads next year and beyond.

A - Mike Sievert {BIO 2140857 <GO>}

Simon, the cable companies are good companies, they're good people. But it's the least competitive market in the history of you man, I mean, everybody knows that. And so to us, as you know, how we're wired. I mean, we are competitors. And as Neville says, we're itching to get in there, because we've got a value proposition that I think it's going to resonate with millions of people to be able to bring 5G-based home Internet access to people that have never had a choice, never one single choice for many of them, and man, that's going to be fun.

So we've got to get the network in condition, as Nevile says, it's more next year and beyond than this year, but we're raring to go and we see a very big opportunity to change that landscape and that market forever.

Q - Simon William Flannery {BIO 1505834 <GO>}

All right. Thanks a lot.

A - Mike Sievert {BIO 2140857 <GO>}

You bet. Queue another one from the phone, operator.

Operator

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

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Brett.

Q - Brett Joseph Feldman {BIO 3825792 <GO>}

Thanks. I actually want to follow up. Hey, guys. I want to follow up on something Mike you were just talking about the ability to bring Sprint churn down may be faster than we initially hoped. You alluded to one tactic which was more rapidly making roaming on T-Mobile network which has superior coverage available to them. But what else you have to do, is there a lot of outreach you need? Are there certain vulnerable customers who maybe aren't on the right rate plan? And legacy Sprint churn on the phone side, and it was twice everything T-Mobile churn. And what's the bogie here? Can you get it down the T-Mobile levels what's realistic? And then just a quick one for Braxton and I don't know if you have it or not, but do you know the pro forma cash position of the Company while closing -- net of all the closing fees and so forth? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Well, I'll take the first one. And yeah, Brett, it's, as you know, the number one driver of churn for any carrier and particularly for Sprint is network, and that's what drives people away more than anything. Network and then the second one is value. And then you bumped those two key drivers of churn up against the value proposition that we're building, we're building the best network at the best value. No one's ever been able to offer that before. The lowest prices and the best network. And those are why we people churn or none. That's it. Those are the top two out of two. So I can't predict for you how fast that will don on Sprint customers as we start to give them at their incredible rate plans the best network in the country, but they're going to turn out. Because of this merger to be some of the smartest shoppers this industry has because we're not going to force them to change their rate plans. We're going to honor those rate plans. And yet, we are going to serve them up the best network that this industry has ever seen. And so we're starting to see some benefits of that already. And people like it. So that's great, but we've got a lot of work to do.

To your point about rate plans, we don't think we have all that much tuning up to do. It turns out that the differences between Sprint ARPU and T-Mobile ARPU don't have much to do with the fact that Sprints' prices are higher, it has to do with artifacts like T-Mobile has more lines per account, and therefore, more add a lines on average than Sprint does, and different penetration of business and different numbers of unlimited customers, other artifacts, but not really a dynamic that would suggest that Sprint's prices are higher.

So I can't wait to get at it. As we talked about, we're going to start to unify this summer under one T-Mobile flagship brand with an integrated retail fleet and integrated brand and we're going to do everything we can to get that network experience tuned up for Sprint customers faster than they expect. And I think we're going to like what we see from all that.

A - J. Braxton Carter {BIO 4363971 <GO>}

Hey, Brett. On the pro forma opening cash or the actual cash for new T-Mobile, we had $7.5 billion after paying all merger-related expenses on 4/1. We have a $4 billion undrawn revolver fully in place five-year. So a total of $11.5 billion of liquidity, amazingly, two years -- two and half years ago when we modeled the opening balance sheet, we modeled $11 billion of liquidity, including a $4 billion revolver. So we're actually $0.5 billion ahead.

And I want to point out, it's a great question. With the financing in place and the opening of liquidity, we have a fully funded business plan to do everything that we need to do to get to run rate synergies. And you heard Mike talk about our enthusiasm about acceleration of synergies, which also means some acceleration of cost to achieve, but getting those unlocks quicker and especially in COVID-19, we are laser-focused on acceleration of these synergies to offset some of the impacts that we're seeing just given this unprecedented crisis for the world.

Q - Brett Joseph Feldman {BIO 3825792 <GO>}

Thank you.

A - Michael Sievert

So let's go over to Twitter, since this is the Twitter conference. And again, you can send us questions #TMUS or @Mikesievert. Neville let's bring you into the conversation. Walt Piecyk has a question. Actually, it's two questions you might address simultaneously. Walt says, what percent of macro have 2.5-gigahertz in the city Neville? I assume he's talking about New York. And then Ronald @Ronald_809_ I love this one, because again, we launched last night. Okay. We launched last night in New York City, the first example of our full layer cake. Hey Neville, when will the New T-mobile layer cake expand to fully cover NYC. Like The Bronx, Queens, Staten Island, didn't you read parts of Brooklyn. So how about it, Neville?

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

I wish I could say what will happen this week. But yeah, so both questions, I mean we're just getting started, but we're delighted to make the start. I mean, we are literally as Mike said earlier on, we're five weeks into this combination with Sprint and we're already deploying. So I think coming out -- we were determined to come out of the blocks super quick. I don't see many folks anticipated we would be deploying the 2.5 gig spectrum so quickly, but we have made a start and we're starting in big cities.

Here is fun stat for you all. If you look at the square miles of just what we launched in Philly and we built and put that on air inside really the 30 days of March for the deal, but if you look at the square miles footprint in metro Philly, it's approximately 2 times, 2.5 times the entire footprint of Verizon's millimeter wave 5G on a nationwide basis. So they've been rolling this 5G thing out they say for I don't know two years, but in a month, I mean, we more than doubled the footprint.

And yeah I mean mid-band 5G versus millimeter wave and we're just going to kill it from a coverage perspective. So we're moving -- we're moving quickly in the key markets, in the Northeast, that's a big focus for us. I'll give a shout out obviously to my team, to the Ericsson guys, who have done a great job making this happen, and more importantly, as we look forward, we will launch and build-out and lay 2.5 gigahertz spectrum across thousands of sites in 2020.

We are off to a great start benefiting from that work from last year which we did at risk, and the rollout of 2.5 is going to move super, super quick. So we managed through

COVID to deal with permitting delays, et cetera. Obviously, our teams are working with safety and their health as a paramount and primary concern, but the federal air [ph] cover, we have as a critical service provider has been key.

We actually built over 1,000 sites this last month of April, rolling out new spectrum onto those sites and our plan is to ramp very heavily which we move into this month of May, and on through the year. So lots of 2.5 gig coming, New York, Philly all of the Northeast markets very much in our sites, as most of the major metros across the US. So a lot more moves to come and we'll keep everybody posted.

New York just end up as Mike said, and Ronald asked, and there were folks running around in New York looking and testing of that. I assume observing social distancing and shelter in home protocols, but I saw some stuff on social with 600 even 700 megabit per second speeds. And so this is with a very limited volume of 2.5 gigahertz spectrum rolled out at this point in time 40 to 60 megahertz, and remember we have secured with the combination with Sprint about 150.

So we have a long way to go in terms of the performance capability, but what we have on the ground is just incredibly exciting. So key to our deal and key to tat consumer experience that we're going to roll out aggressively as we move through the balance of this year.

A - Mike Sievert {BIO 2140857 <GO>}

Neville, while you are on a roll, I asked this at some risk and peril, because I know you're enthusiastic. But I responded to Bret's question a little bit by discussing the roaming situation and we're getting questions now on the site. Could you tell us more about what's the roaming experience like for Sprint customers? How much of it is happening? And roaming itself is kind of a funny term because they're all our customers, but we're essentially using roaming technology while we operate two networks. Can you just very briefly touch on the day-to-day experience that Sprint customers are experiencing now that we've turned that up so extensively?

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

Yeah. Absolutely. Again, in terms of momentum and integration work, I mean Kudos to John Saw and Abdul Saad and the team. I mean, we've turned up nationwide LTE roaming across all of our sites effectively on 4/1 day [ph] closed. So all the work that ahead of time to make sure that could happen. And what does that mean, it means that Sprint postpaid customer base when they -- wherever they fall off the Sprint network, be that in a rural geography or an in-building location in Manhattan or wherever it might be, they can now see the T-Mobile network. And we know that network churn was a key driver of the overall churn within Sprint and we're seeing big uptake. I mean on a weekly basis, we're seeing approximately around 10 million unique roamers, I don't like the term roamers, but Sprint customers now leveraging the T-Mobile network.

So that's more than a third of the postpaid phone subscriber base that we have with Sprint. So a lot of uptake. And then just within the last week or so, we've activated and provided access for nationwide 5G on our low-band and that footprint is growing every day 250 million POPs. We just launched the Bay Area. I mean, so that footprint, which is the foundational layer to the layer cake of that 5G strategy, that's growing like a weed. I mean, the teams have been knocking out of the park, building out 600 and our Sprint customers with a 5G capable phone and now getting access to that footprint too. So lots of dimensions, very, very focused on making sure that all of our Sprint customers get the best they can from that combination of the Sprint and T-Mobile network.

A - Mike Sievert {BIO 2140857 <GO>}

Well, thanks, everyone. That's all the time we have. Thanks for joining us today. Operator, let's take the next question from the phone queue.

Operator

Thank you. Our next question comes from Michael Rollins with Citi.

A - Mike Sievert {BIO 2140857 <GO>}

Hi, Mike.

Q - Michael Rollins {BIO 1959059 <GO>}

Hi. Thanks. Good afternoon. Curious if you could just provide some additional color as you're approaching the mid-point of the quarter just in terms in this environment, a little more of what's happening in the sales activity and maybe the customer payment behavior, some companies have disclosed the number of pledges their customers have taken. And you mentioned earlier a cost for COVID-19 will be excluded from EBITDA. I think it was about $450 million to $550 million for 2Q. Could you just expand on what will get incorporated into those expenses? Thanks.

A - Mike Sievert {BIO 2140857 <GO>}

Braxton, let's start with you on what's included and how to think about the cost? And then maybe Matt and I can tag team on what we're seeing in the marketplace.

A - J. Braxton Carter {BIO 4363971 <GO>}

Yeah, absolutely. So Mike, we're really busting down the COVID guidance, you have about $350 million-ish of supplemental pay and pay time not worked, and we were paying hazard pay for some of the critical infrastructure that we had to put up and some amazing accomplishment of what happened in customer service. At the start of this crisis, everyone reported to a call center. Kelly has now well over 90% of our customer service reps fully connected in the home and not working.

But during that time period, we absolutely were paying hazard pay as well as supplemental pay to support and keep our team intact. That also happened in the retailer in dealer community. So that $350 million is really dissipating at this point. And as Mike said, we're significantly opening up distribution as the country steps out of this. And that won't be a significant reoccurring item.

The second item is facilities in cleaning and PPE, and that's roughly a $50 million ticket, very extensive protocols in place, extremely important to protect our people and to protect our customers in a very understandable and worthwhile expenditure.

The final item on here is a range on bad debt, specifically, related to the FCC pledge. All other bad debts, of course, are included in here, nor [ph] regular pay for people who are working. And that bad debt range is going to be somewhere in the $75 million to $125 million. What's happening is the inability to disconnect you're building up multiple layers of payments that need to be due. And at this point, this is our best estimate that we've seen -- that we were able to come up with about the ultimate cost of this pledge, which has now been extended through June 30 on our business. We are certainly taking mitigation items.

We got a significant number of customers that are paying. But we do have customers who aren't paying and thus we anticipate that additional bad debt. So that's really the breakdown for you on that. Any other questions before we go to the other part of your question?

Q - Michael Rollins {BIO 1959059 <GO>}

That's very helpful. Thanks.

A - J. Braxton Carter {BIO 4363971 <GO>}

You're welcome, Mike.

A - Mike Sievert {BIO 2140857 <GO>}

So yeah, on the second piece, we are a share taker, and a share taker likes a competitive environment with a certain amount of churn. Everybody has been home and churn itself has fallen quite a bit. And so obviously we like an environment where people are able and have less friction to being able to switch providers and notwithstanding that we've been competing very hard in finding really innovative ways to get that done.

So we were killing it in January and February. And then of course, things came to up to a pretty fast stop in March. We were quicker to execute slowdowns and shutdowns of our retail in March. We felt it was very important to be decisive, we're based here in Seattle, where the whole thing started and we took it probably more seriously than others did. So we moved faster and we may have been more effective in March than some. All that has equalized now, but Matt, why don't you give us a little color on what you're seeing. And then very briefly, I may ask John to talk a little bit about virtual retail and curbside and some of the things happening to mitigate market environment from, Matt Staneff

A - Matt Staneff {BIO 20459281 <GO>}

Yeah. Thanks. Yeah. Mike for the question, as Mike Sievert just said, we saw a pretty rapid slowdown in our business, because we took these proactive measures around retail stores for the health and safety of our employees and customers in general. And the market had a pronounced decline right out of the gate. And what we're seeing in the marketplace right now is generally consistent with what you're hearing in the news and other places is that things are starting to rebound and things are starting to turn a corner. It was closed down and slow for quite a while in the first part of the month. We're seeing, generally speaking, some of the categories that you naturally would expect to react in a marketplace like this or to rebound faster, to talk about is the prepaid market, it's starting to rebound a little bit more. There's stimulus money in the marketplace, consumers are coming out and starting to shop again and switch.

And as Mike said, we really enjoy a marketplace where there is a lot of industry switching, and that's important for us to continue to grow our net adds as we move forward. So we're starting to see some signs that the marketplace is rebounding in areas I talked about, but we've got a long way to go to get back to normal levels of industry switching and consumer buying behavior as you see this thing [ph] out throughout the quarter.

We've also seen some particular strength in some of the other areas, public sector as an example, lots of students need connectivity, by learning and things of that nature. So, we've been pretty active in participating in those parts of the markets as well.

A - Mike Sievert {BIO 2140857 <GO>}

And we're not waiting for the market to just return to normal, we're changing how we operate. Jon Freier just very briefly about the rapid work we've done to change what retail means in this Company.

A - Jon A. Freier {BIO 19618133 <GO>}

Yeah. You bet, Mike. Thank you. And yeah, on March 16th. As most of you know, we took this big bold decision, one of the quickest decisions in our space to close the majority of our retail stores, about 80% of our Company-owned stores and rather than just kind of sit there on the sideline and just kind of let nature take its course, we went into action to take a number of our retail employees and convert them to virtual retail mobile experts, meaning that when you go to tmobile.com you can chat and then click a button and chat with an expert and be able to learn more about T-Mobile, be able to add lines to your account. We had a lot of people that of course in a remote learning environment in the virtual learning environment, a number of people had to take action to support those learning environments for children on that home.

So we wanted to continue to be there while our stores were closed. We saw a 500% increase in the number of people that we typically have in virtual retail by converting our mobile experts that typically work in stores to that virtual retail environment and continue to serve customers in that way.

And then also from a curbside delivery perspective, we didn't have that capability prior to COVID-19 and working with Cody Sanford and his product and technology team, we were able to kind of stand up this curbside delivery capability within all of our company-owned stores that we have up and running today. And that is, okay, I can continue to talk to T-Mobile through the app, through chat and be able to walk through the transaction and be able to pick that up at a store in a contactless kind of a way.

So I could be more proud of these capabilities. They got turned in rapid fashion to continue to serve customers. And I got to tell you our team in all of our stores, Callie Field's team and all our customer care, we've said this once and probably 1 million times. But let me just say the 1.1 [ph] million times, we just had the best frontline teams and the entire country, maybe on the face of the planet.

I just couldn't be more proud of the heroism of our teams to move fast continue to be there to serve customers and keep the business continuity of this Company going.

A - Mike Sievert {BIO 2140857 <GO>}

Terrific. Well, operator, let's go back to the phone for next question.

Operator

Certainly. Our next question comes from John Hodulik with UBS.

A - Mike Sievert {BIO 2140857 <GO>}

Hey John.

Q - John Christopher Hodulik {BIO 1540944 <GO>}

Hey. How you're doing Mike? Thanks for the question. I guess, first on the postpaid net adds guidance for 2Q for new T-Mobile, zero to 150,000 typically postpaid phones a subset of that number. So I know you don't typically guide to phones, but should we understand that now the stores are closed, then you guys might actually lose postpaid phones in the second quarter. And then maybe there's sort of some background in terms of what are your assumptions within that number in terms of bringing those stores back online?

And one question for Neville. Could you talk about the deployment of the 600 megahertz spectrum, you guys -- you got from DISH? I'd imagine that as you deployed with your LTE network. What kind of performance are you getting from that extra spectrum? And any thoughts on your outlook in terms of your ability to secure that on the longer-term basis? Thanks.

A - Michael Sievert

Okay. I'm going to try to hit those pretty fast. So first of all, on the first piece. No, we expect postpaid phones to be positive, not negative. And we're seeing nice trends develop. So we gave the guidance that we gave. I'm very hopeful that we'll see strength through the rest of the quarter. The -- and it does assume that we continue to see some increasing momentum slowly happening through the quarter as social distancing ebbs a bit, but it doesn't assume a wholesale change in customer behavior.

We would assume that June would have more going on than May and May more than April, but not step changes. And Neville, do you want to hit the second one very quickly?

A - Jon A. Freier {BIO 19618133 <GO>}

Let me take that real quick too, John, you know our playbook, and our playbook has not changed. We are conservative in the way we position to the Street. We got an impeccable track record of doing what we said we were going to do and nothing has changed about that. Neville?

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

Yeah. So, thanks, Jon. We doubled our speeds. I mean, I think that the additional 600 was great at the time the country and our customers needed it during COVID-19. We've obviously extended our pledge commitment. We are working with many of those 600 providers to see if they will extend, I'm hopeful they will and continue to enable us to better serve our customers during this period.

So more capacity and more speed, it's exactly what was needed and allowed us to deal with a lot of peaks and increases in traffic that we show on the network during a very difficult time.

So a big shout out and thank you to the FCC and Chairman Pai, and also the holders that loan this spectrum. As I said, we're hopeful they'll extend a little longer with us as the pledge continues.

Q - John Christopher Hodulik {BIO 1540944 <GO>}

All right. Thanks, guys.

A - Mike Sievert {BIO 2140857 <GO>}

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

Operator

Certainly. Our next question comes from Philip Cusick with JPMorgan.

A - Mike Sievert {BIO 2140857 <GO>}

Hey, Phil.

Q - Philip A. Cusick {BIO 5507514 <GO>}

Hey, guys. Thanks. Congratulations again on getting the deal done. And Mike, on your promotion, which is great. First, Braxton, so your EBITDA was stable from 1Q 2Q at T-Mobile. The guide would imply Sprint EBITDA ex-leasing [ph] about $1.4 billion to $1.5 billion. So about a $6 billion run rate, which is about what we expected, maybe a little lower. Do you expect to restate EBITDA now that Sprint's doing from this methodology or is this guide a good way to look at the run rate going forward?

A - J. Braxton Carter {BIO 4363971 <GO>}

Yeah, it's a great question, Phil. We are in the process of aligning over 200 accounting policies that are disparate. And you can be informed on the significant items in the pro formas that we've put out. So we know the material ins and outs and those are certainly embedded in here, but there's a lot of miscellaneous stuff that we're working through.

We also have the very significant exercise of the purchase price allocation. And what assets, how do we value the assets, are going to create differences that are not known at this point throughout the geography of the income statement.

We don't anticipate any material deviations from the purchase price accounting meal, on the EBITDA numbers that are already baked into this guidance. But what we haven't worked through is all the valuation of the assets, including capitalized lease devices, things like the wireline business, so on and so forth and that can create some issues when it comes to what devaluation and what the depreciation run rate is. But we're not providing net adds or EPS.

But there will be changes that come out of this. We also have significant KPI alignment to the T-Mobile policies. And in our disclosures, as you pour through everything, you will see that we have specifically mentioned that there will be significant adjustments to the Sprint subscriber base. And until we finish that work, we're not in a position to quantify it, it will be significant, it will be reductions in multiple categories. And of course, that will have impacts on various KPIs, as we're looking at the business. Hopefully, that's helpful.

Q - Philip A. Cusick {BIO 5507514 <GO>}

That is helpful. But as I -- just to go back to the guidance. Since you're putting out guidance on total EBITDA and on ex-leasing, is it fair to say that any of the changes that you mentioned wouldn't be enough to push it outside of this range that you've given?

A - J. Braxton Carter {BIO 4363971 <GO>}

We got an impeccable track record here. And we are conservative in the way that we guide. And but we fully believe that it's a material representation or we wouldn't have given that.

Q - Philip A. Cusick {BIO 5507514 <GO>}

Great. And then just last thing, if you quickly, I didn't hear you quantify the numbers of subscribers in the FCC pledge category. Can you give out to us?

A - Mike Sievert {BIO 2140857 <GO>}

Yeah. We did -- we -- I was just going to jump in. We didn't quantify it, but that's because we work with every customer, a big piece of how we operate is. And this may be different for us than some of our competitors, because part of our core competency is working with people on very tight budgets and who occasionally have difficult circumstances and a part of our normal is having to deal with every customer and find a way to meet their needs. And we've carried on doing that.

Callie Field and team have carried on doing that, while having to move 15,000 people to work from home, 92% of our workforce. And so we're honoring the pledge and it's costly. I'm not trying to say, it's not incremental it is costly. But it's hard to count every individual customer, because a big part of this is you treat those customers, and we're not going to disconnect them, but we are going to encourage them not to stack up bills that they can't afford and to make sure they're on a product and service that they can afford. And our team of customer care heroes are just fantastic at that. And they've stepped up and found new ways of working under Callie's leadership. I'm so proud of them.

But it's very difficult for us to quantify in those kinds of numbers. What we have done is make sure you understand the total potential financial tally.

Q - Philip A. Cusick {BIO 5507514 <GO>}

Sure.

A - Mike Sievert {BIO 2140857 <GO>}

Hey. Let's do -- let's do some -- let's go to Twitter, and then two more from the phone and just fair warning for everybody, I will have to step away for the last few minutes of the call Braxton will be emceeing for us, but I don't want to ignore Twitter. And for example, Bill Ho is asking about enterprise. Looking ahead to integrating and ramping up, T-Mobile business group, Mike Katz, Mike Sievert what's the thinking on enterprise segment growth and competition? Is it low hanging fruit?

By the way, we keep talking about day one being mid-summer. We're talking about consumer for that part. Mike Katz and his enterprise team have already achieved day one integrating an entire combined Sprint and T-Mobile selling force behind one value proposition under the T-Mobile brand. That was achieved just this week. We're getting off to the races. I'm really proud of what the team is doing and how fast they are forming to capture this opportunity. And Mike, I don't know if you want to very briefly give a little bit of color on what you're seeing.

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

Yeah. Thanks, Mike. Yeah, I think one thing that's important is as standalone T-Mobile, we already have a lot of momentum coming into the -- coming out of the integration. We had record quarters in enterprise and in large government for the last couple of years every single quarter. So a lot of momentum, so now this larger now integrated team has a lot to work with. And this trade-off that Mike talked about at the beginning of the call, customers historically having the trade between great network and great price and service experience. That is as important to enterprise customers as it is to consumers.

And what we're seeing so far as we interact with enterprises is they really, really responding to that. And I think the timing for it couldn't be better as we are in the middle of COVID and big macroeconomic impacts as a result of COVID. We're seeing many enterprises going through big cost transformation exercises including that what they spend and how they structure their spend in this category and we think that positions us for a lot of opportunity considering that AT&T and Verizon control 90% of the revenue in the enterprise space.

So we think it's a big, big growth opportunity for us and we're really well-positioned post-merger.

A - J. Braxton Carter {BIO 4363971 <GO>}

Okay. Next question, please.

Operator

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

A - J. Braxton Carter {BIO 4363971 <GO>}

Hey, Jonathan.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks for taking the question, Braxton. Hey. How is it going? Braxton, is this your last earnings call we get you on?

A - J. Braxton Carter {BIO 4363971 <GO>}

Mike, are you still on?

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Mike, left. That's why I asked.

A - J. Braxton Carter {BIO 4363971 <GO>}

Hey, let me tell you -- let me put it this way that I was supposed to retire two years ago, I've extended three times we have nothing to announce today. Ultimately, whatever capacity, I love this Company. I'm not going anywhere, and in some form, I will definitely be part of the future. Just stay tuned for future announcements.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

You're rooting for a fourth extension. Just very quickly on the -- if you guys are getting the retail integration done by sometime in the summer. Does that mean there is about $1 billion in SG&A synergies that you should have captured by the end of the year?

A - J. Braxton Carter {BIO 4363971 <GO>}

We're not prepared at this point to really do quantifications. If you really listened to what we were saying about guidance, we are right now operationalizing accelerations of what original plans were, specifically driven by COVID. And quite frankly, Jonathan, we just need some time to work through it and then we'll be able to provide color, and that color we plan on providing in the second quarter earnings call, which will be the first new T-Mobile earnings call. And we're just going to have to wait at this point. I don't want to give you an estimate that's not fully baked, but we're very focused on that as we are on the acceleration of other synergies and that's all good news.

I want to reiterate, we are extremely confident that the opportunity is actually more than $43 billion. And some of our acceleration moves at this point, is only part of that. I mean to the extent that we can accelerate during this time period, is going to increase the NPV. But quite frankly, we got pressures because of as you're seeing. And we're super-focused on addressing those pressures and making up form and we got a lot of material here to work with.

Jon, do you want to add anything?

A - Jon A. Freier {BIO 19618133 <GO>}

Yes, Braxton. I will just reiterate exactly what you said. We're working that's really hard. And I think Mike Sievert had an opportunity to say that in the last couple of calls, that, one of the benefits of the transaction taken a little bit longer to finally getting approved and to cross the finish line, is that we've had a longer runway to plan. And that's exactly what we're seeing. We've had a number of discussions with independently-owned and operated operators around store closures.

We're working through that, have been working through that, have gotten through them very, very quickly. Also, we have a lot of integration, internal integration efforts that we're doing that we once thought that would be impossible because we're not physically together, we're having to do all of this work virtually, but I have just been incredibly pleased about the amount of interactions that we can do with the team virtually. We've got tens of thousands of employees across the country in retail between the two legacy companies that we're bringing together And that just gone incredibly well thus far in terms of how many people do the necessary training, getting people up to speed on installing our systems into the legacy Sprint stores, taking legacy Sprint systems installing them into legacy magenta stores, so that we can say yes, we can help you no matter if you're a T-Mobile customer or Sprint branded customer regardless of the store that you visit.

So we are in a really good place, call it six weeks, not even six weeks, five and half weeks into this integration effort after close. So we're very confident, we're moving fast we're ahead of schedule in terms of the discussions that we've had, we're very bullish on realizing our distribution-related synergies this year and we're looking forward to showing you some results (inaudible)

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks, guys.

A - J. Braxton Carter {BIO 4363971 <GO>}

Okay. Next question, please.

Operator

Thank you. Our next question comes from Jennifer Fritzsche with Wells Fargo.

A - J. Braxton Carter {BIO 4363971 <GO>}

Hi, Jennifer.

Q - Jennifer Fritzsche {BIO 1798427 <GO>}

Thank you for taking the question. Hi, guys. Thanks for taking the question. I wanted to ask maybe this is more in Neville's category. We've all been programmed to believe wireless needs wires and with that is strong fiber element. I think you said you're going to connect thousands of 2.5 sites this year. That required fiber and significant backhaul. How confident are you in partners [ph] or would you do what your competitors are doing and picking on inorganic fiber build? And then if I may, just your current thoughts on DSS capabilities, didn't seem like you were that positive last time we spoke on one of these calls, has that changed at all?

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

So I'll hit these quick, Jennifer. So our model has been a leased fiber model. We generally do not build fiber to our sites, we let others do that and we get great prices from them for the services we need. And we've been scaling our backhaul for a 5G world for some time. And the performance we're seeing out at these sites for upgrading with just limited volumes in 2.5 spectrum today are all supported by multi-gig backhaul. And so we're in a very strong place on that. And our providers will continue to drive intense competition in that space with our model. So that looks to continue on.

On DSS, yeah, I think -- my comments last call seem to that's there a big discussion in the industry on DSS. And do I feel a lot better? Not really. I was very clear on that call that one vendor is trailing and they're still kind to trailing. So I think the -- some of it is DSS is going to happen. We've heard from our competition and similar to us something will happen this year. But the key message Jennifer is we're not dependent on DSS for our 5G rollout and our nationwide footprint is there already and it's growing at a tremendous pace as I mentioned earlier in the call.

And that's the way to roll out 5G with fallow spectrum, now having to share the spectrum with LTE users or between LTE users and 5G users. And our position, our wealth of spectrum provides us a wealth of their [ph] cover in terms of not having to be reliant on DSS. Now that said, we will deploy the technology, but it's still bumpy.

Q - Jennifer Fritzsche {BIO 1798427 <GO>}

Great. Thank you, Neville.

A - J. Braxton Carter {BIO 4363971 <GO>}

Okay. Operator, we'll take one final question here.

Operator

Thank you. And our final question today will come from Craig Moffett with MoffettNathanson.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi. I don't know whether we've still got Mike or not. But Mike, since you mentioned it on CNBC a little while ago. I'm wondering, if you could just walk through the walk so to speak of, how do you get to mid 40 -- sorry mid-50s margins over the long term in the merged company. Sort of where are the sources of the difference between your margins and say Verizon's or AT&T's today? And then how you close that gap to get to the mid -50s.

A - J. Braxton Carter {BIO 4363971 <GO>}

Yeah. Unfortunately, Craig, Mike had to leave. That guidance that Mike was talking about was really the same guidance that we rolled out and talked about during the pendency of the merger. And there is multiple aspects there. The first aspect, of course, is scale. When we look at the leverage on the fixed cost in this highly capital intensive business and analyzed our cost structures no versus whatever transparency we can get on AT&T and Verizon which quite frankly has been reducing with some other changes. We believe a huge part of that is scale driven. We believe that we're actually much more efficient in many parts of our cost structures and that scale piece of it is super important. Of course, with the completion of this merger, we had just had a significant increase on our scale. And this is a growth Company. And even though, we're in this crazy pandemic time period, we will continue being a growth company and our Q1 was on fire until we hit the early part of March and social distancing and everything that went in -- place just drove all the traffic to the only essential stop.

But as Mike said, this will be temporary. So we will continue to organically scale with the combined assets. And then the second part of the equation is really the efficiencies that we gained from the merger by shutting down the duplicate network, having a significant reduction in the overall fixed costs associated with this business is the second major component for massive margin expansion. And you've heard us have extreme confidence on this. And you've also heard on this call that we were doing everything we can to accelerate that. I mean, I'm just amazed that Neville has been able to make the progress that he has made with his team so quickly. And we will be giving you a lot more color and readouts as time goes on about how much focus and aggressiveness we're chasing these synergies,. And that's ultimately going to create a lot of goodness there.

Q - Craig Moffett {BIO 5987555 <GO>}

Thank you, Braxton.

A - J. Braxton Carter {BIO 4363971 <GO>}

You're welcome. Okay. I want to really thank everybody for tuning in. I hope everybody's families are safe. Our thoughts are with you during these very, very difficult times. And we very much look forward to the first new T-Mobile earnings call for the second quarter and sharing with you the first set of results and results of a lot of the things that we're working on here and it's going to be very, very exciting. Operator?

Operator

Thank you. Ladies and gentlemen, this concludes the T-Mobile US first 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.