Q1 2019 Earnings Call

Company Participants

- J. Braxton Carter, EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER
- John Legere, Chief Executive Officer
- Michael Sievert, PRESIDENT AND CHIEF OPERATING OFFICER
- Neville R. Ray, Executive Vice President and Chief Technology Officer.
- Nils Paellmann, Vice President Investor Relations and Head of Investor Relations

Other Participants

- Amy Yong, Analyst
- Brett Feldman, Analyst
- Craig Moffett, Analyst
- John Hodulik, Analyst
- Michael Rollins, Analyst
- Mike McCormack, Analyst
- Philip A. Cusick, Analyst
- Ric Prentiss, Managing Director
- Simon Flannery
- Unidentified Participant
- Walter Piecyk, Analyst

Presentation

Operator

Good afternoon. Welcome to the T-Mobile US First Quarter 2019 Earnings Call. Following opening remarks, the earnings call will be open for questions via the question line or via Twitter. (Operator Instructions) I would now like to turn the conference over to Mr. Nils Paellmann, Head of Investor Relations for T-Mobile US.

Please go ahead sir.

Nils Paellmann {BIO 3438408 <GO>}

Yeah. Thank you very much. Welcome to T-Mobile's first quarter 2019 earnings call. With me today are: John Legere, our CEO; Mike Sievert, our President and COO; Braxton Carter, our CFO; and other members of the senior leadership team. And we read the disclaimer, during this call, we will make forward-looking statements that include projections and statements about our future financial operating results, our plans, the benefits we expect to receive from the proposed merger with Sprint and other statements that are not historical facts.

Such statements are based upon the current beliefs and expectations of our management and 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 Annual Report on Form 10-K and our quarterly report on Form 10-Q.

Reconciliations between GAAP and the non-GAAP results we discussed on this call can be found in the quarterly results section of the Investor Relations page of our website. In addition, in connection with the proposed transaction on July 30, 2018 we filed a registration statement on Form S-4 with the SEC related to the merger of the registration statement, became effective on October 29, 2018 and is available on the new T-Mobile website, contains important information about T-Mobile and Sprint. The merger and related matters.

With this, let me turn it over to John Legere.

John Legere {BIO 1729754 <GO>}

Okay. Well done Nils. Good afternoon everyone, welcome to T-Mobile's first quarter 2019 earnings call and Twitter conference, coming to you live from Bellevue, Washington. T-Mobile is off to a fast start in 2019, and I could not be more excited about the state of our business and the opportunities ahead.

We have a lot to cover today, so let's start with our incredible results. The two carriers reported earlier this week, and one of the big cable giants reported this morning, so most of the cards around the table for Q1, and I have to say, I really like our hand. In a quarter where Verizon had 44,000 postpaid phone losses and AT&T lost 55,000 postpaid phone customers for a total combined loss of 99,000. Comcast added 170,000 below expectations, I might add, and even with Charter and Sprint left to report, T-Mobile still took an estimated 88% of the industry's postpaid phone growth.

We also put up a customer growth number that accelerated year-over-year, extended our streak of more than 1 million total nets per quarter to six years, and delivered an all-time, record low postpaid phone churn result of 0.88%. By the way, that churn number is better than AT&T and within 4 basis points up Verizon's.

On top of that, we delivered our best ever Q1 financial results. So, if I sound a little fired up about my team and about my business, it's because I am. I've seen certain comments recently about our business; can the momentum continue, can they keep their eye on the ball and manage the business while planning for a massive merger, can they take care of customers and deliver incredible results? My friends, the answer is yes.

I'd also like to give a big shout out to our incredible employees who made all this possible. There are a lot of numbers to unpack, so let's dive right in. First, let's talk customers, we added 1.7 million total net customers, extending our winning streak to 24 quarters in a row, with more than 1 million net adds, and we added 656,000 branded postpaid phone customers, capturing an estimated 88% of the expected industry postpaid phone growth, including cable, and delivering almost 4 times more postpaid phone net additions than Comcast, the next closest competitor.

In fact, we expect to be the only major wireless carrier with positive postpaid phone net adds this quarter. And our growth in postpaid phone nets accelerated year-over-year, despite lower industry switching volumes. We also had strong total branded postpaid net additions of over 1 million, once again, supported by continued strong growth in wearables. These wireless customers are coming and staying longer than ever before.

In Q1, we had all-time record low branded postpaid phone churn of 0.88%, down 19 basis points year-over-year. Not only is this an all time record low, it's also lower than AT&T for the second quarter in a row.

Branded prepaid net customer additions were 69,000 and we're pleased with our performance in the quarter. Next, I've got to highlight our very strong financial results; total revenues increased by 6% year-over-year to $11.1 billion, a record high for Q1. Service revenues hit record highs, reaching $8.3 billion growing by 6% year-over-year, and branded postpaid revenues grew by 8.3%.

We hit a record high adjusted EBITDA of $3.3 billion, up 11% year-over-year with a 40% adjusted EBITDA margin. Net income was a Q1 record of $908 million, up 35% year-over-year and fully diluted EPS came in at $1.6 up 36%.

Our momentum continues to be fueled by investments in new geographies, underpenetrated segments and customer care and we're not stopping there. We continue to make moves that lay the foundation to increase competition in a converged 5G world, and as we join forces with Sprint. First, we launched our home Internet pilot, we expect to deliver speeds of up to 50-megabits per second initially and paving the way for a 5G experience of up to 1-gigabit per second. If ever there was a business that could use a good uncareering, it's this one.

No annual service contracts, no hidden fees and no equipment costs, sound familiar. You probably also notice, we took a next step in the TV space with the launch of TVision Home. This product starts as an upgraded and rebranded Layer3 TV launching in eight big cities, but core to our strategy is that TVision will be mobile-based and work with apps, hardware and services that people already use, so we will have more to say about TV later this year.

And we continue and launched innovative new products for customers too, just last week we introduced T-Mobile MONEY a no-fee, interest-earning mobile-first checking account for the millions of under-banked Americans tired of bank fees. As more and more Americans manage their money in their smartphones, we saw an opportunity as the un-carrier to address another consumer pain point, and create a new value proposition. Also, we continued to expand our 4G LTE coverage and deliver industry-leading network performance, our network now covers approximately 326 million Americans with 4G LTE.

And now, we have 600-megahertz and 700-megahertz low-band spectrum deployed to 304 million people across the country. In terms of 4G LTE speeds, for 21 quarters in a row, we delivered the fastest combined average of download and upload speeds. Our engineering team is hard at work, building the foundation for America's first real nationwide 5G network with an aggressive build-out of 600-megahertz spectrum, which we expect to be ready next year, as well as millimeter wave.

Our 600-megahertz LTE deployment is on equipment that's 5G ready, and we continue to make incredible progress since getting our hands on the spectrum. Almost 3,500 cities and towns and 44 states in Puerto Rico alive with LTE on 600-megahertz today, well ahead of expectations, and we have 40, 600-megahertz capable devices in our line up today, including the new iPhones.

We plan to launch 5G on 600-megahertz, as soon as we have compatible smartphones in the second half of this year, and if our merger with Sprint is approved, we will get access to unmatched available mid-band spectrum for 5G, which will result in a uniquely powerful 5G network with 8 times the capacity by 2024 of the combined standalone versus today and 15 times average speeds by 2024 versus today.

We've certainly watched Verizon's 5G launch experiment on millimeter wave spectrum in tiny pockets of two cities with interest. Not surprisingly, customers are having a hard time finding a signal, and probably not just because Verizon won't publish a coverage map and I won't even get into that trickery AT&T is using with customers on 5GE, while they both are pursuing 5G BS. We think 5G should be for everyone, everywhere. Having 5G on 600-megahertz in terms of coverage and adding Sprint's spectrum for broad capacity will be a true game changer and will turn new T-Mobile into the undisputed 5G leader, not only in the US, but around the world. We remain very confident in our outlook for 2019 and it's reflected in our guidance that Braxton will review in a minute.

Okay. Let me give you a quick update on the progress of our pending merger with Sprint. Nearly one year ago, to the day, we announced our groundbreaking merger. We spent the last 12-months, sharing our story and laying out the facts and proof about how the new T-Mobile will deliver the nation's first broad and deep nationwide 5G network, supercharge competition in wireless and beyond, and create thousands of American jobs, starting on day one.

We continue to work through the regulatory review process and believe that we are in the final innings of a process that we have a great deal of respect for. We've completed a number of major milestones and we remain optimistic and confident that with the substantial facts and the record before them, the regulators will recognize that this merger is good for consumers.

We continue to have a productive dialog with both federal and state regulatory authorities, so I wanted to highlight a few milestones, since our last earnings call. On March 6, we made a filing with the SEC laying out our plans to bring competition to the home broadband market, with a target to serve 9.5 million US households by 2024. On

April 4, the SEC resumed its non-binding shot clock, which now stands at day 143 which is currently expected to conclude on June 3.

At the state level, we've received 16 of the required 19 State Public Utility Commission approvals, including the New York PSC. We are making progress in the process with the California PUC, having reached an agreement with the California Emerging Technology Fund on April 8.

On January 30, we announced plans, following the closing of the merger to build five new T-Mobile customer experience centers, creating at least 5,000 American jobs. We've announced three locations today, including Overland Park, Kansas, Greater Rochester area or Upstate New York and Kingsburg California area. I can't wait to create the new T-Mobile and truly take it to the entrenched players in wireless, cable and beyond.

Make no mistake, opponents of this transaction are desperate to maintain the status quo. All to the detriment of their customers and for their own benefit. New T-Mobile will be the number three wireless player, with the number one network, and will aggressively compete by giving more to customers, all while asking them to pay less.

On the regulatory front, I'm pleased with the progress we have made on our merger and the process so far, and I still expect regulatory approval from the DoJ and the SEC in the first half of this year. Okay. To wrap up, I couldn't be more excited about our performance in Q1, 2019 and our guidance shows that we expect our momentum to continue in 2019. The combination with Sprint means that we'll be able to create a future that is even more exciting for American consumers.

Okay. Braxton, you're going to take us through the financial results, the details of our guidance. So, let's take a closer look.

J. Braxton Carter {BIO 4363971 <GO>}

Hey thanks, John and I'm so excited to be here for another amazing quarter at T-Mobile. Net income amounted to $908 million and diluted earnings per share at $1.06 up 35% and 36% year-over-year respectively. Net income benefited from higher operating income and lower interest expense. The effective tax rate amounted to 24.5%, the tax rate was lower in Q1 due to higher excess tax benefits related to our equity compensation and lower state taxes.

For 2019 as a whole, we continue to expect the effective tax rate in the range of 26% to 27%. Note that net income and EPS were fully burdened by the Sprint merger-related costs of $93 million and $0.11 per share, after taxes respectively in the first quarter. These costs are $113 million before taxes are excluded from adjusted EBITDA.

Adjusted EBITDA amounted to a record $3.3 billion, up 11% and included leasing revenues of $161 million versus $171 million in the prior year. The adjusted EBITDA performance is a reflection of strong cost management. Cost of service, as a percentage of service revenue decreased by 170 basis points year-over-year, despite the rapid rollout of 600-megahertz spectrum. The year-over-year decrease was primarily due to lower lease expense associated with adoption of the new lease standard and lower regulatory program costs, offsetting the higher costs from the network build. While cost of services decreased this quarter, we still expect significant increases in future quarters due to the ramp up in our 600-megahertz build-out

SG&A as a percentage of service revenues increased by 110 basis points year-over-year. Excluding the Sprint merger-related costs, SG&A decreased by 30 basis points year-over-year, despite the headwind from the amortization of commissions from the new revenue recognition standard, relative to last year. Free cash flow decreased by 7% year-over-year to $618 million, primarily due to a 41% increase in cash CapEx.

As we had flagged in our last earnings call, we expect CapEx to be front-end loaded this year. Also, free cash flow in Q1 included $34 million in merger-related cash costs. Excluding these merger-related costs, free cash flow would have been $652 million. Branded postpaid phone ARPU amounted to $46.07, in Q1, down 1.3% year-over-year.

The decrease was primarily due to a reduction in regulatory program revenues from the continued adoption of tax inclusive plans, a reduction in certain non-reoccurring charges and the growing success of new customer segments and rate plans, including T-Mobile for business as well as the impact on the ongoing growth in our Netflix offering partially offset by higher premium service revenues per subscriber, and a net reduction in promotional activities.

The impact of the ongoing growth in our Netflix offering decreased postpaid phone ARPU by $0.27 year-over-year. For full year 2019, we still expect branded postpaid phone ARPU to remain generally stable compared to the full year 2018 with a range of plus or minus 1%. Even with the year-over-year ARPU decrease, growth in branded postpaid revenues accelerated to 8.3% in Q1 compared to an 8% growth in Q4. This was partially offset by branded prepaid revenues, which decreased 0.7% due to slower customer growth and the impact of promotions.

In terms of customer quality, our results in the first quarter continued to be strong. Total bad debt expense and losses from sale receivables were $108 million or 0.98% of total revenues compared to $106 million or 1.01% in the first quarter of 2018. So, let's get to 2019 guidance; we expect branded postpaid net customer additions to now be between 3.1 million and 3.7 million, significantly up from our prior guidance of 2.6 million to 3.6 million.

This guidance takes into account our long-term strategy to balance growth and profitability, a continuation of the lower switcher volume we've seen in recent quarters, in our pursuit of growth adjacencies. We expect adjusted EBITDA to be in the range of $12.7 billion to $13.2 billion, unchanged from prior guidance. This guidance takes into account leasing revenues of $600 million to $700 million in 2019.

It also takes into account our network expansion, and particularly the 600-megahertz and 5G rollouts. Pre-close merger-related costs are still expected to be $350 million to $500 million in 2019 depending on timing of the potential close. For Q2 alone, we expect Sprint merger-related costs of $200 million to $250 million, a significant increase from Q1. These costs will be excluded from adjusted EBITDA that will impact net income and cash flows. We target cash CapEx of $5.4 billion to $5.7 billion, excluding capitalized interest, which is expected to amount to approximately $400 million in 2019. This is also unchanged from our prior guidance. CapEx will continue to be front end loaded with Q2 expected to be a slight step down from Q1 levels.

Finally, we expect free cash flow to increase at a three-year CAGR of 46% to 48% from full-year 2016 to full-year 2019 unchanged from our prior range. Our free cash flow CAGR guidance does not assume any material net cash outflows from securitization going forward, and it excludes merger costs from a cash basis.

Well, let's get to your questions. As during last quarter's earnings call, I would ask you to focus your questions on our operational results. Also, we cannot answer any questions related to the current millimeter wave auctions, due to the quiet period around these auctions. You can ask questions via phone or via Twitter. We'll start with a question on the phone.

Operator, first question please.

Questions And Answers

Operator

Thank you (Operator Instructions) We'll take our first question from Philip Cusick of JPMorgan.

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

Two, simple ones if I can. Mike, can you talk about where we are in the process of expanding the 4G network and distribution into areas where you don't have 700-megahertz spectrum and then Braxton, can you talk about just simply what was EBITDA growth (inaudible) for ASC-606 and lease accounting. Thank you.

A - Michael Sievert

So, on the first one, I think we've reported in the past, we've done a major distribution expansion and has generally followed the expansion of the network, it's fairly agnostic to low-band versus mid-band. What it looks at is whether or not in that marketable area, we have sufficient coverage and enough households to be able to get two wall indoor coverage, and if we have enough households in that area with very high quality coverage, then we launch distribution and that can be through low-band mid-band or a combination there of. And so the POP coverage flows and then the distribution coverage flows.

We've now got distribution coverage to well north of 265 million people, and that's a big milestone from when we started talking about this a couple of years ago and told you about geographic expansion and that's two things, number one, the geographic expansion is starting to work, because this is an initiative that we've been talking about for some time.

We told you, it takes 12 months to 18 months for those stores to become productive, we're starting to see some of the results of that which is just terrific. And second, there's a lot of runway left; as we create more and more conditions where that's the case, particularly in the context of the new T-Mobile, where we can create a game-changing experience in more rural areas, there's lots of runway left in both scenarios.

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

Can you help fill in some of the impact there, Mike, for this quarter or for the last few quarters?

A - Michael Sievert

Only to say it's contributing. And that it takes 12 months to 18 months for those stores to start producing and that our experience has been that the most productive expansion investments we've made have been in greenfield areas, pretty intuitive. Small towns, suburban fringe, those areas have out produced the expansions we did to add density in the urban cores. Our urban cores are our most productive areas by far, but of course there's cannibalization effect as you add distribution density in those areas.

And so, from a future investment standpoint, you'll probably see us focused more on suburban fringe and greenfield markets.

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

Yeah Phil. I think, one of the things that we really pride ourselves is transparency and providing investors with all those tools to truly understand the underlying momentum of the business. The new lease standard is fairly de minimis to the overall results and RevRec certainly has several moving items with it, but not overly material. I would just point you to our Q and to our fact book for a quantification of those items.

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

Thank you.

A - John Legere {BIO 1729754 <GO>}

Okay. Operator?

Operator

Thank you. We'll take our next question from Michael Rollins of Citi.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks. Two, if I could. First, if you could talk a little bit more about what you're seeing on the ARPU front and the competitive environment for pricing more broadly. And second, can you give us an update on how you're thinking about bundles within the category, especially in the context of your current Netflix promotion and what you're starting the launch with Layer 3? Thanks.

A - Michael Sievert

So, a couple of things. One is, overall this was another quarter of pretty good competitive intensity and everybody has different lens on it. I can tell you that in a quarter where we think we took 88% of all of the postpaid phone net adds and help to drive AT&T and Verizon, both into negative territory, it shows that whether it's -- you define it as a more modestly competitive quarter or whether you define it as a more intensely competitive quarter, I would imagine it sure felt intense over there at those places.

For us, it was just another quarter of delivering what you've come to expect us to deliver, regardless of the condition, so I'm really pleased with that. And then Michael, you had a second question -- it was about bundling. Listen, bundling -- it depends on what you mean by bundling; if what you mean by bundling is that will give you a decent deal on the core product, only if you buy a bunch of other stuff, you don't really want, no, we're not going to do bundling, that's the game plan that AT&T pursues.

You can only get a fair deal, lot of the time depending on how they pulse their promotions on their core wireless product when you take a bunch of crap on satellite TV that you don't want. Now, on the other hand, if you're asking, are we going to plunge ourselves into home broadband with a disruptive offer in the new T-Mobile? Absolutely we are. Are we going to augment that with TV offers that range from full line cable TV replacement to more disruptive lower price offers, absolutely we're going to do that. Are we going to offer those in concert with wireless and create value propositions that are attractive to consumers? Yes, that's what the un-carrier does. So, it all comes down to what do you mean by bundling.

A - John Legere {BIO 1729754 <GO>}

Well, he was confused he was referring to what AT&T does, which is ongoing.

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

Hey Mike, let me add a couple of things on the ARPU. I think first and foremost, you're seeing very clearly that we're reiterating our guidance relating to ARPU. And if you look back the last two years, we've been at the low end of that guidance, obviously. And the underlying theory here with the un-carrier, we have much more terminal value unlock by not trying to monetize the existing customer base, but by scaling this business which we've done exceptionally well out over the last six years and ultimately that's what's creating value.

The progress in service revenues and the significant increases in service revenues, you would not be that if you had a strategy of monetizing and raising ARPUs, you're certainly going to have less volume, and the way that we translate that into profitability and then free cash flow, it's a much more powerful way to build the business and our strategy here is the same strategy that we've been executing really through the whole life of T-Mobile, but it's important to note that we're balancing it. There is always a balance between the growth and profitability and that's why, I think the guidance that we just reiterated today on ARPU is so important.

Q - Michael Rollins {BIO 1959059 <GO>}

Thank you.

Operator

Thank you. We'll take our next question from John Hodulik of UBS.

Q - John Hodulik {BIO 1540944 <GO>}

Great, thanks. Maybe two questions, first one of the growth initiatives, the home Internet anything you could tell us in terms of the details of the product in terms of whether or not it's more of a sort of urban-based or rural pricing or caps or any other details you can provide? And then secondly, there's been some recent filings from Sprint suggesting the company is going through -- is struggling more than they appear to, I would say to investors, did those filings suggest or temper your enthusiasm for the deal or does it suggest that the company may go through a rougher patch in terms of the integration,if you guys are able to close the deal? Thanks.

A - Michael Sievert

Yeah, on the first one, home Internet, think about it as a trial program. What we're doing is preparing ourselves for the new T-Mobile. The new T-Mobile has big aspirations in this space; 5G and that particular capabilities of this new T-Mobile network will allow us to go after 66% or 66 million, more than half of all households in the United States and eventually we -- our plan, as John mentioned is to win 9.5 million of those, that's a big deal. That will make us one of the biggest broadband providers in the country.

So, we have to get ready for it and get the learnings even in this 4G era under our belt. So, that's what's going on. It's really exciting. This is even today in 4G LTE, a 50-megabit per second service. And what we're doing is essentially allowing customers and in a capacity aware way. So, where we think we have the capacity to support very high quality services for them, we'll accept the applications and it's been very exciting. When they sign on, they save a lot of money and of course, there is no need for an in-home visit, no need to wait around all day for a cable tech et cetera. So, it's very exciting and we're looking forward to a lot more to come in that front.

A - John Legere {BIO 1729754 <GO>}

And I guess on the second question, I guess the only thing I could say, not specifically about any filings that Sprint has. but I can say in the one year since we announced the deal, in all of the work that we've done -- all the due diligence we've done, all of the integration planning that we've done our enthusiasm for the opportunity is greater than it's ever been. Our belief in the size of the synergy pool and the power of the network when you put them together, the impact on 5G for the country, the positive nature on jobs, the expansion into rural and in home broadband has gone up.

So, if you take all aspects of what we've learned and done in our diligence as well as our work with the SEC and the DoJ one year later, we're more enthusiastic and more excited about the coming together of these companies than we were one year ago.

Q - John Hodulik {BIO 1540944 <GO>}

Got it. Thanks guys.

Operator

Thank you. We'll take our next question from Simon Flannery of Morgan Stanley.

Q - Simon Flannery {BIO 1505834 <GO>}

Great, thank you very much. Neville, you had a blog post a couple of days ago talking about the importance of low mid and high-band spectrum, you've talked a lot about the mid-band importance. But can you expand a little bit more on the 600? I think you said you had some 5G devices later this year. On a kind of a go-to-market basis, what can we expect to see in terms of being a competitive 5G offering with the sort of spectrum position you have there and maybe John, you can just update us on the porting activity you've seen recently? Thank you.

A - John Legere {BIO 1729754 <GO>}

And I would just reintroduce Neville Ray as the adult in the 5G room.

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

Hopefully you enjoyed the blog, Simon. So a few words on the importance of 600-megahertz and just to try and enable folks to understand where we are. John provided a lot of stats on the 600 roll out, and I'd remind you again that as we're rolling out 600-megahertz we're using 5G capable radio. So, obviously, we're taking new software on a regular basis. The 5G coming in heavy and fast. But, here we are today, we've got over a million square miles of 600-megahertz LTE rolled out, we're across -- I'm working in 44 states and Puerto Rico, and we have over 100 million covered POPs on 600-megahertz LTE.

So, we've said that in 2020, we'll have a nationwide footprint on 5G, and as we look at our launch environment when we get to terminals in the second half of 2019, we're going to be lighting up an enormous footprint on 5G -- an enormous footprint on 600-megahertz.

And we have a lot of spectrum, as you point out, we were incredibly successful in the auction, which seems like yesterday, but was two years ago and we intend to put down a very large three four-land highway across the US with 600-megahertz, and I think it's going to be in stark contrast to the pockets of 5G that are out there today very, very limited from AT&T and Verizon.

And Verizon, maybe doing more cities, but it seems to be a handful of sites in very urban environments with very limited range. And we're not sitting there just throwing rocks at millimeter wave. We believe in millimeter wave, but -- and we will launch millimeter wave services ourselves, but I can tell you now the software is not mature. We continue to work with the same equipment and software as the Verizon guys have decided to launch and even have the goal to ask their customers to pay $10 more a month to access wherever they could find it, I believe they pulled that back today -- they've pulled back the $10 price hike they were trying to force on people.

But compare and contrast tens of millions of covered POPs with 5G to handfuls, that's the excitement and scale of what we look to do with 5G, not in 2020 but in 2019, and as soon as we can get those devices onto and into our customers' hands, we will.

A - Michael Sievert

I'll just editorialize. I've been doing this a long time. I've never seen a team move as fast to deploy spectrum as -- an affluent team that moved on this 600. We think that we are now across 3,500 cities and towns and 44 states in Puerto Rico, a million square miles of territory with 600, and all of that already 5G compatible. When we talk about being the first one to be nationwide, next year, a lot of times that's defined as 200 million -- maybe we'll march past that.

But here we are, in April, of 2019 already having accomplished that kind of a milestone. It's amazing.

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

And the second half of the question, I'll just -- I'll be brief on, one of our age old pieces of data that we report each quarter even though postpaid porting is a piece of data, that's just a small part of the way we look at our business, but a very positive one. It was about 1.89, call 1.9 for the quarter, up 20 basis points year-over-year. So, that should answer that part of the question.

Q - Simon Flannery {BIO 1505834 <GO>}

Great. Thank you.

Operator

Thank you. We'll take our next question from Craig Moffett of MoffettNathanson.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi, thank you. Neville, if I could I'm going to stay with the spectrum related questions for a minute. First, in John's comments when he was talking about the speeds that you could achieve with your 600 network -- correct me if I'm wrong, but I think that was , including the 2.5-gigahertz spectrum just based on the roll out of -- on the 600, what kind of speeds do you think you can deliver with your 5G network on your existing spectrum? And then, in the event that the merger didn't provide you with the 2.5-gigahertz spectrum, how do you think about satisfying the need for additional mid-band?

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

Yeah. So, a bunch of questions within the question there Craig. I mean, clearly there's nobody more excited in the room than me around what we can achieve with the combination of Sprint and T-Mobile in the new T-Mobile, and I talked a link there about what we can do with 600-megahertz, and obviously, you know as we like to think about just on a standalone basis, [ph] lighting up 30-megahertz nationwide on top of the assets that we've deployed today.

So, speeds are absolutely going to move from the 30, 35 averages that exist in the network today, into the 60s and 70s. Peak speeds are going to move well north, probably not quite doubling where we are today, but into the hundreds of megabits per second, that's achievable right as you combine and aggregate the 600-megahertz with the mid-band spectrum that we have.

So, that's a very interesting proposition, but it pales in comparison to what we can do with the new T-Mobile and the roll out that we can achieve with 2.5-gigahertz and especially the amount of spectrum -- mid-band spectrum that we can push into 5G, early, and address this need of mid-band 5G, which the rest of the world is running with Craig as you know.

Here in the US, we have this mid-band dilemma, we can solve that with a combination of T-Mobile and Sprint and really move forward with a tremendous 5G experience with breadth and depth and all of the data and the fact points that John pointed out earlier in the messaging. So, that's the piece I'm focused on; obviously on a standalone basis, it's a different world, but then that's us and AT&T and Verizon and everybody else trying to figure out, how do we move to that next level of performance with 5G in a world where the mid-band spectrum that's needed to really drive that, it is not coming from auctions or from other sources in any real time frame, that's comfortable for anybody.

But the combination of T-Mobile and Sprint creates that mid-band opportunity in a way that cannot be created in the US marketplace, over the coming years. That's what's so unique and exciting about the opportunity, and Craig that's where I spend my time. I'm thinking about that piece; I know we've got a very strong network, I'm adding a lot of 600-megahertz of new spectrum to the asset that we have, so, a lot of confidence there. But the excitement and the thing that we long for and look forward to, is this combination with Sprint.

Q - Craig Moffett {BIO 5987555 <GO>}

All right. Very clear. Thank you.

Operator

Thank you. We'll take our next question from Jonathan Chaplin of New Street Research.

Q - Unidentified Participant

Hi guys. It's [ph] Avaiz Delmont for Jonathan, two if I could. First, how do you think about a potential deal structure where it's really focused on the network side and maybe the separate retail assets continue to exist. And then, on the standalone company, I mean how low can churn go and should we still think about you guys eventually reaching those old Verizon like 70 basis point churn numbers or is there some other benchmark you're looking at?

A - Michael Sievert

I can start with the second one, we don't guide on churn, but I can tell you in the context of the new T-Mobile, we have -- there is no reason to believe that ultimately when you have a superior network to Verizon, better customer service than Verizon and lower prices than Verizon, that we shouldn't be able to ultimately achieve churn below Verizon's, and in this quarter we were 4 bps away from them and below AT&T for the second quarter in a row, and that's just where we are today as standalone T-Mobile. So we're really excited about the prospects.

We see an ongoing improving trend here as the network continues to be built out, as well as we make continued progress in under penetrated segments, some of which churn at lower rates, like older Americans, like large enterprises and so there's room left to go.

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

And on your first part of your question, I think it's hard to be clear. This deal, as structured we believe is pro-consumer and pro-competition, and as the regulators continue and finish their review process that will be approved. So, you're referring to alternate universes or structures that I have no reason to think about at this point in time. I feel very good about the deal as it structured and as it's being reviewed.

Q - Unidentified Participant

Got it. Thanks.

Operator

Thank you. We'll take our next question from Brett Feldman of Goldman Sachs.

Q - Brett Feldman {BIO 3825792 <GO>}

Thanks for taking the question. You obviously had a pretty strong phone net add number in the quarter. I think what was interesting, not just that you achieved it on such a low churn, but obviously you didn't need to have as high a level of gross adds in order to hit that. And I was wondering, if you could just sort of talk through around that, meaning, did you choose to be less aggressive in the market, because your churn had come down so much and you said this is a great opportunity to grow, but to do it with more operating leverage or was the opportunity the market just a little less attractive to you and it just sort of worked out, that you still ended up having a great add number if you understand what I'm trying to get to?

A - John Legere {BIO 1729754 <GO>}

Sure Brett. Our strategy all along, Braxton said this for years, I think, so I'm just repeating something he's probably told you in the past, which is every quarter since we've done this, we could have grown at a faster rate than we actually grew. What we always do through the quarter, as we make real time game day calls, as to what do we need to do to be able to deliver on the aspirations in our business plans, and we always keep growth and profitability in balance, because we've been at this long enough that we believe that we need to be making financial progress at the same rate we're making customer growth progress, so that our shareholders are benefiting from all this growth.

And so that's different than saying we were deliberate or thoughtful and advance and -- or held back or something like that, it's just saying day in day out, we certainly have levers we could do that would grow faster, but we're achieving our business plan which is balanced, financial results and customer growth results.

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

I think we've said it many times, and when you look at six years of adding more than 1 million customers, all the time, rooted in, a brand that's unparalleled right now. The brand, the people that network, the customer care experience, the value proposition; it's sort of like, if you look at each quarter, we're able to step up to the plate, and it doesn't matter if they throw a curve ball or slider or fastball, we adjust and we knock that ball out of the park, and I think we're very proud of the various ways that the markets have been described by our competitors, yes that our focus on our customers and on our business consistently delivers with the right shareholder value. So, we're very proud of that.

Q - Brett Feldman {BIO 3825792 <GO>}

Thank you.

Operator

Thank you. We'll take our next question from Ric Prentiss of Raymond James.

Q - Ric Prentiss {BIO 1534273 <GO>}

Thanks, good afternoon guys. I want to go back, John you had mentioned the California Emerging Technology Fund had signed on with the deal, can you talk to us a little bit about what they found interesting in the deal and what they wanted to see from you guys, as far as, what the deal might entail to help make California see success in it ?

A - John Legere {BIO 1729754 <GO>}

Is there any content you want to say on that Mike?

A - Michael Sievert

Yeah. Anybody can pile in. We were able to reach agreement with them some weeks ago, and they're looking at the public interest in the state around issues like, will you really build this network? Are you going to make investments in under-served communities in this state? What does the picture look like on jobs in the state, and so they're trying to take a broad lens on public interest benefits and make sure that we put our money where our mouth is.

And so, we're able to reach agreement about making investments in the state that benefit, particularly, less advantaged consumers in the state and we also made firm commitments about what kinds of investments we would make in the network in order to accomplish the public good that this merger talks about, which is a broad and deep 5G network. It has more capacity and therefore serves Californians better and drives prices down. So, those were the general topics that we were discussing.

A - John Legere {BIO 1729754 <GO>}

I think it's been at a fascinating year and you talk about California, but the discussions with California, very similar to the discussions that we've had with every constituent, including the Senate and the Congress and you enter an environment where the strongest proponents of the deal, or those opposed to the deal are talking about the exact same issues, and they are relative to, will you build the network out, what will the 5G network deliver for the country. What will happen with prices, what will happen with the offer set, what will happen to rural America, will you really enter in home broadband, what will happen with jobs?

And all of these are things that, in our filings, in our business plans under oath and testimony, we have clearly stated benefits and in some cases with the states we'll work individually with them on the items that are very important for them.

So, a lot of constituents involved, but all of the questions and all of the concerns are easily answered by a transaction like this that has so much pro-competitive and pro consumer output and sometimes, it's just a matter of explaining that and if need be, which we're perfectly willing to do in many fashions, commit to it.

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

If I'd just add one dimension and just underline the statement on rural, and that's clearly been something of intense interest and how this deal can better serve the rural Californians and bring really great wireless service and true home broadband competition, that's been an area of intense dialog. And I think, as we've said, very excited about those opportunities and not just in California, but across the nation.

A - John Legere {BIO 1729754 <GO>}

I think the fun part Neville would say, when we have the opportunity to not just talk about the full, integrated new T-Mobile, but when we have an opportunity to discuss pieces of it, to discuss with rural America, specifically about them and their piece discussed with the State of California. This is truly the most exciting thing that they could hope for and so it's not a matter of trying to hide anything, it's such a compelling proposition for every component of this country and for the country in general. The conversations have all been not just good, they border on exciting.

Q - Ric Prentiss {BIO 1534273 <GO>}

Great, thanks guys.

Operator

Thank you. We'll take our next question from Amy Yong of Macquarie.

Q - Amy Yong {BIO 16207054 <GO>}

Thanks. Maybe, two questions if I could; first on service revenue, which grew nicely this quarter. How do we think about that trend going forward? I think, industry-wide it seems like that number is decelerating throughout the year. And my second question is back on the bundle, can you talk about TVision Home and your eventual plans for it? I think the price points that came out were a little bit high versus the comments that you just made. Thanks.

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

Yeah. On the service revenue Amy, again it's a testament to the fantastic momentum this business has from a growth standpoint. Be it any seasonal quarter, be it an intensely competitive quarter, be it a quarter where certain people aren't quite as intense, we day in and day out deliver significant growth in service revenue, which is one of the key foundational principles of the strategy that we're driving, and that's in the context of the ARPU guidance that we've given, generally stable plus or minus 1% and that trend will absolutely continue in all expectations.

And you also have to remember that when you're looking at it as a percentage increase, we're not comping periods where you had significant decreases, it's an ever-growing ever increasing amount of service revenue that we continue to lead the industry and quarter-after-quarter for many, many years and revenue growth. It's one of the real differentiated things about T-Mobile and with the strategies that are being deployed with the growth adjacencies T-Mobile for business, we're just hitting it on all cylinders and that's before we get to the promise of 5G and IoT and the amazing things that are going to come on that. So yes, our expectations are significant, sustained, long-term service revenue growth.

A - John Legere {BIO 1729754 <GO>}

I was just intrigued by the part of the question that was about industry decline in revenue -- service revenue growth when the industry outside of T-Mobile has been declining for three years or four years, so they probably have one quarter of something positive, but there is no other player that has sustained revenue growth outside of T-Mobile. Is there a second? You were asking about TVision, we're really happy to get this journey started last month and we are now in eight of the biggest cities across the country San Francisco, Philadelphia, New York, LA, Chicago, Dallas et cetera with a full cable replacement product is sort of where we're starting the journey, and that's 275 channels of high-def cable and 4K content and on-demand content, personalized DVRs for each person in the family, Amazon Alexa and Google Voice integration, social media integration, et cetera, et cetera.

And it's priced below what typical people at cable and satellite pay when their -- beyond that first promotional year. They're in year two of those multi-year contracts, where you sign up for something and it's low at first and then you get slammed, and we come in with fair, rational pricing from day one, it saves them money right away versus year two and beyond and those crazy contracts.

But, it's the beginning of the journey and we have a lot more coming in this space. Work in the integrated broadband space, because as I said, we're going after broadband in a big way and people need an integrated TV product in that space, so we're moving down that path and you'll see more working in concert with broadband.

And then mobile, and we think there's a lot of room in mobile in the OTT space, both through partnerships and through first-party offers from us, and we're very excited about that space, and as I said last time, we'll have more to say about it later this year.

So those are the next question, operator. We have a Board here full of questions that are coming in on Twitter. And I would just say two things about those. One is there is a question from [ph] Mike Dano who said, John and Braxton, would you mind keeping the call today to an hour because I've got some stuff scheduled, so I thought hit that one right off the bat, thank you for your depth of journalism there. And then, I bring that up only because 80% of the rest of the questions are all from Walt Piecyk.

So, unfortunately for us he's next in the queue, but he is also dominating our Board. So, I would say we take the next question, operator and then we'll wipe this full board of Twitter question off and move to the next, so operator, next question.

Q - Walter Piecyk {BIO 1510511 <GO>}

Thank you. We'll take our next question from Walter Piecyk of BTIG.

John, I'm just trying to help everyone else with their questions, so we don't get another [ph] FOREX question on this call. I just -- I want to go back to the gross add question because. Yeah, you can get churn lower and look obviously service revenue growth accelerated, you're trying to do this profitably and churn can go lower as you pointed out, I think Mike pointed out. But, I mean it's a question of how much lower it can get? So, at some point you have to look at the gross adds, right and part of the 600 investment in terms of the spectrum and the network, again, we didn't see the network expense this quarter, but I assume Braxton talked about this on the call about network expense going up.

Shouldn't we expect some type of return on those investments in the form of gross add growth and if not, and we're kind of diminishing marginal returns on churn, isn't this going to impact your ability to do exactly what you did this quarter, which was accelerate your revenue growth? That's the first question. The second one is for Neville. Neville you said in the comments you're bullish about millimeter wave spectrum. I'm just curious, if you can give us a little bit more color on that, what applications are you bullish, how far do you think the signal travels and when specifically do you think dynamic spectrum allocation can occur?

A - John Legere {BIO 1729754 <GO>}

So, (inaudible) up Walt. I think what you meant to say is 0.88% for churn is absolutely incredible, and pays huge dividends, but I'd also like to ask a question about gross adds. I'll turn that to Mike and secondly, you have to be careful Neville simultaneously said, he is bullish on millimeter wave, but bullshit on millimeter wave as an overall 5G strategy, so has clarify those two. Mike, why don't you start?

A - Michael Sievert

The essence of your questions Walt was, where's the return on all these investments and you asked in the context of gross adds, I'd answer it in the context of EBITDA, cash flow and profitability. This is another quarter of just blockbuster results on the EBITDA, cash flow and profitability front in excess of what people were expecting of us, and there's a reason for that because these investments that we're making translate into a brand that's strengthening and strengthening with customers that are more and more satisfied, telling their friends at increasing rates, staying longer to the premise of your question, and that's great for us financially, and that gives us optionality

And what we mentioned earlier to the -- in response to the earlier question is, we've got a plan that demands a certain amount of growth and we go chase it, and we get together every day and every week and we look at, are we trending to that and if not, we do some doing, and that's how we make our game day calls and generally speaking, our quarterly game plan, it's tuned to the kinds of results you've been seeing, and we go execute that plan, and with lower churn, we don't need the same number of gross adds in order to deliver those kinds of blockbuster financial results. Neville?

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

Let me pick up, so real quick, Walt. On millimeter wave, so, if you look at where 5G ends up right, you're going to need millimeter wave, you're going to need mid-band, you're going to need low band spectrum, and where does millimeter wave play well because of its limited propagation, and it sure is limited, right, doesn't penetrate walls and windows very well, doesn't go very far. I mean, we are deploying -- we're seeing -- you get much more than 500-feet 600-feet away from a small cell, you ain't really seeing much, right.

But that said, when you look at the capacity and the types of opportunities, we're thinking about delivering with 5G, millimeter wave can play well in those dense urban environments and places within those dense urban environments, but it doesn't solve the 5G story, especially not in the three plus million square miles of the US and that's where the need for mid and low-band spectrum comes in, and that's critical.

So said earlier, around the rest of the world is really looking to figure out, how do we go after this mid-band thing as we are with Sprint super, super-fast because it's way, way more economic to deploy mid-band 5G spectrum on an existing cell grid than it is to try and deploy, literally hundreds and hundreds of thousands of millimeter wave small cells to give you some form of contiguous coverage and experience.

So, millimeter wave, we're starting to mature -- Verizon's just launched way too early -- I'm not sure what's up with those guys, they did the fixed thing, the WTS stuff that we call it, last year, it's been consigned to the trash can of history almost, before they'd even launched it. So, now they're back with 5G and are too early on millimeter wave and we're all seeing the awful propagation that comes from software and spectrum that's launched too early for real customer uptake and use, and it will get somewhat better right as new loads of software come in and the beam-forming and those capabilities are established in real, but they're not real yet, so that's part of the compounding problem.

So, real quick on dynamic spectrum sharing. So, what is that, that allows us, in a fixed block of spectrum to not just dedicate that spectrum to LTE or say 5G as we have through today, it will allow us to have a mix of customers supported in that in that block. So, super cool feature, something the industry has been working on for a while, it's coming next year, and obviously I pay close attention to the Verizon CEO's comments on this on that call earlier in the week.

But the fact of it is, it doesn't create any new spectrum. So, there's no magic capacity comes out of dynamic spectrum sharing, you have the same spectrum at the end as you started with. So, trying to pitch the dynamic spectrum sharing was how you would address the dearth of spectrum, you have for mid and low-band 5G roll out; those two things just don't compute and the technical folks understand that fully. Now, don't get me wrong.

Q - Walter Piecyk {BIO 1510511 <GO>}

But, Neville wouldn't that let them then deal with the coverage issues that they have today, in terms of 5G NR where they wouldn't need new mid-band spectrum, they could theoretically just flip it back and forth, use the mid-band to get the coverage that they're lacking with this millimeter wave deployment?

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

Well, they have to make a start somewhere on 5G, and the interesting piece is to get a dynamic spectrum sharing, you're deploying new radio. So, I am yet to hear anybody in Verizon declare that they are deploying new radio in low-band or mid-band, there's some very limited backwards compatibility on very recently deployed radio for DSS.

But, if you want to use DSS, you are effectively committing in the same breath to rolling out 5G in mid-and-low-band. I haven't heard that yet as a declared strategy from Verizon. I think it's the minimum and [ph] best set that they need to start with. Yes, it's going to help the introduction of 5G services for everybody, especially those that don't have spectrum and volume like we do. But in no way does that offset or match what we're looking to do with new T-Mobile.

We are going to dedicate tens into 100s of megahertz of spectrum in mid-band towards 5G that does not exist in the Verizon portfolio, and dynamic spectrum sharing, believe me, does not get you there.

A - John Legere {BIO 1729754 <GO>}

Also, I'd like to add -- thank you for asking an open-ended network question.

Q - Walter Piecyk {BIO 1510511 <GO>}

Sorry. All right. Thanks guys.

A - John Legere {BIO 1729754 <GO>}

One takeaway I take from that discussion is that it doesn't matter if the new technology is there that lets you aggregate 4G and 5G, the experience just isn't going to be great unless the mid-band layer is that 5G and that's what's so differentiating about the new T-mobile strategy. Okay. Operator, we're going to take one final question, please.

Operator

Thank you. We'll take our last question from Mike McCormack of Guggenheim Partners.

Q - Mike McCormack {BIO 5717983 <GO>}

Hi guys, thanks. And John, I love the biker jacket, you need to sell those in the stores. Anyway, Braxton, can you just sort of reconcile the sub guide improvement versus a non-EBITDA guide improvement, is that just reinvestment, is it being conservative. How do we think about that sort of conversion into EBITDA? And then secondly, I guess for Neville, maybe just reconcile your comments on the spectrum side, because you made it sound as though the primary and secondary markets won't come soon enough for you, and yet, right up there is a comment about looking at both of those avenues. And then lastly for Neville, just on the 600-megahertz build-out, what's the experience, sort of the number of towers or nodes required and certainly comparing that against what 2.5 might require?

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

Yes. So, to start out, you know our playbook and you know we are conservative in our guidance. You know, we have a history of stepping into higher and higher growth guidance as the year goes by and the deeper we get into the year, there's certainly opportunity and potential to step into higher EBITDA guidance.

From a pure reconciliation standpoint, we're not guiding by quarter, we're giving you an annual outlook and when you look at the acquisition costs associated with bringing those net adds on, anything you do in the tail end of the year, you're not going to get paid back. So, it's actually going to be decretive or dilutive to EBITDA. Now, on the other side, over-performance at the very beginning of the year certainly pays back during the year, so it's really the timing of when that happens, and again, we don't take it down to that level of granularity. But, I'll just go back to the same statement, I started with. We play a conservative playbook, everybody knows it, stay tuned and watch the further progression -- the development with T-Mobile as we go quarter by quarter.

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

Okay. Yes, super quick. Quick so on six -- reverse order, Mike. So, 600-megahertz deployment, I mean, we're not quite doing a one on one overlay, but we are deploying pretty heavily. So, there is literally 10s and 10s of 1000s of sites that will receive 600-megahertz, not all this year obviously. But, we are doing a very heavy deployment on 600.

On spectrum, you know, my comments are looking at -- if you look, again, what we can do with Sprint and T-Mobile combined and the new T-Mobile and how quickly we can commit very large volumes of mid-band spectrum to 5G, there's nothing on the primary, secondary markets that can match that. If you look at the auction environments, yes, the SEC is working hard on new mid-band spectrum, the CBRS coming, but it's got its sharing issues, it's a small volume of spectrum, rest of the world is pushing in 300-megahertz plus across three carriers, 100-megahertz apiece, open now, right.

If you look at Chinese market, Korea that's a lot of spectrum, and the only thing that comes close to feeding that would be the C-band, and as we all know that's several years out. So, the real opportunity -- the massive opportunity with our deal is to fill that spectrum gap, especially over the next two years to three years and bring material 5G with that breadth and depth of experience that mid-band can deliver that can't get delivered with the other assets.

Q - Mike McCormack {BIO 5717983 <GO>}

Great, thanks guys.

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

Okay. I want to thank everyone for tuning in today for another great quarter at T-Mobile, and we very much look forward to speaking with you again next quarter. Have a great evening.

Operator

Ladies and gentlemen, this concludes the T-Mobile US first quarter 2019 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.
