Company Name: T-Mobile
Company Ticker: TMUS US
Date: 2018-02-08
Event Description: Q4 2017 Earnings Call

Market Cap: 50,308.76
Current PX: 58.88
YTD Change($): -4.63
YTD Change(%): -7.290

Bloomberg Estimates - EPS
Current Quarter: 0.681
Current Year: 3.160
Bloomberg Estimates - Sales
Current Quarter: 10402.643
Current Year: 43120.280

Q4 2017 Earnings Call

Company Participants

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

Other Participants

- Simon Flannery
- Philip A. Cusick
- Jonathan Chaplin
- Matthew Niknam
- Brett Feldman
- Michael I. Rollins
- John C. Hodulik
- Craig Eder Moffett
- Ric H. Prentiss
- Amir Rozwadowski
- Amy Yong

MANAGEMENT DISCUSSION SECTION

Nils Paellmann

Financial Reconciliations

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

John J. Legere

Business Overview

Welcome to T-Mobile's Fourth Quarter and Full-Year 2017 Earnings Call and Twitter Conference coming to you live from the Big Apple

It's hard to believe but it's been five full years since I called BS and declared war on the status-quo of the wireless industry

It was January 2013 at CES when I broke the news that T-Mobile is going to take a stand against the stupid, broken, arrogant industry and we have

Fast forward five years and we see a very different picture

Un-Carrier and Customer Count

- The Un-carrier has absolutely changed wireless for good, and our customer and financial growth reflects that
- We went from approximately 33mm customers at the end of 2012 to nearly 73mm today
  - Think about that
- We increased our customer count by over 39mm customers, more than double, all while Neville and his team turned a lagging 3G network into a blazing fast 4G LTE industry leader with a commitment on the books to launch the first nationwide 5G summary – network
  - And the story continues
- We already took the mystery, the start of the mystery, for Q4 away by dropping our incredible customers results at the Citi Conference in January

Financial Results

Revenues

- So, let me concentrate on the outstanding financials
- We posted record results across the board in 2017
- Service revenues grew by 8.3% to over $30B in 2017
- Q4 was our best quarter ever with $7.8B
- By the way, we remain the only growth company in U.S. wireless
- Total revenues grew by 8.3% to over $40B in 2017, and again, Q4 was our best ever with $10.8B

Net Income and EPS

- Net income broke records too, with $4.5B in 2017, up 211%
- Fourth quarter EPS was $3.11 per share, or $0.61, excluding the one-time tax gain
  - Braxton will provide you with some more details on the impact of tax reform in a minute

Adjusted EBITDA

- Adjusted EBITDA amounted to a best ever $11.2B, up 5.4%, and that included $201mm net impact from the hurricane
  - Fourth quarter adjusted EBITDA was a Q4 record of $2.7B, up 4%, including a net hurricane impact of $53mm

Operating Results

Impact of Hurricanes

- Speaking of hurricanes, I want to take a moment to commend our teams for the recovery efforts

- Puerto Rico was particularly hard, and I had a chance to visit the island and witness the situation firsthand in December
- While the recovery on the island still has a long way to go, T-Mobile's business recovery has been nothing short of remarkable, and today, 97% of our cell sites are back on air, 86% of our retail stores are open
- In December, our stores in Puerto Rico had their best month on record
- There's still a lot of work to do, but I couldn't be more proud of what the team in Puerto Rico has accomplished
  - And we will continue our own recovery efforts and are committed to do what we can to help the island fully recover

FCF

- Okay, back to these great financial results
- Based on our very strong FCF, we initiated a share buyback program in December of 2017
- As of February 5, we have bought back 12.3mm shares for a total of $783mm

Postpaid Phone Net-Adds

- So, let's talk customer results
- Now that all of our competitors have released their results, I get to deliver the verdict
- With 891,000 postpaid phone net-adds in Q4, we captured more than twice the postpaid phone net-adds of our next closest competitor, Verizon, more than three times AT&T, and almost five times Sprint
  - This strong result was supported by our lowest ever Q4 postpaid phone churn of 1.18%, down 10 basis point y-over-y
- With 1.9mm total net-adds, we have captured over 1mm net-adds for 19 quarters in a row
- Also, we captured more than 5mm total net-adds for the fourth year in a row with the 2017 total coming in at 5.7mm

Network and Distribution

- 2017 was also a transformational year for our network and our distribution footprint
- We further closed the coverage gap, widened the speed gap and built nearly 2,800 stores this year alone
- At the year-end, our network coverage reached 322mm POPs, exceeding our original target for 2017
- In typical T-Mobile, or shall I say Neville style, we are off to a running start on our 600 MHz rollout
- At year-end, we were live in 586 cities and towns in 28 states, already covering 300,000 square miles, and this pace will accelerate even faster in 2018
- We already had launched two compatible phones during the holiday season, and we expect more than 12 new smartphones in 2018 to be 600 MHz capable

Download and Upload Speeds

- Download and upload speeds continue to accelerate

- In Q4, we were the first U.S. wireless provider to exceed 30 Mbps average download speed threshold according to crowd-sourced third-party data with a blazing fast 31.6 Mbps average
- And OpenSignal, the global standard for measuring consumers' real-world mobile network experience, named T-Mobile as the winner in five – count them, five categories in their recent report
- Nearly 6B tests from actual customers of every major wireless network shows that T-Mobile's network is the fastest in the industry and that T-Mobile customers get an LTE signal more often than AT&T, Sprint and even Verizon

Store Expansion

- Our network expansion has enabled our store expansion
- In terms of the store rollout, we opened nearly 1,500 new T-Mobile stores and more than 1,300 net new MetroPCS stores in 2017, and we're far from done
- Our outlook for 2018 calls for 2mm to 3mm branded postpaid net customer additions and adjusted EBITDA of $11.3B to $11.7B
- We also increased our three-year CAGRs for FCF

Distribution Expansion

- 2018 would be our best year yet
- We've got a number of initiatives underway that will enable us to achieve our goals and raise the bar for our customers, and we'll do it all on a network that's second to none. 2017 was only the beginning of our expansion efforts
- As our network expands, so too will our retail presence as we look to bring the Un-carrier to every corner of the U.S. in every segment of the market
- I already covered our incredible distribution expansion and we'll build on that in 2018 with an emphasis on greenfield markets; places that the Un-carrier hasn't had a presence before, places where customers have only had a choice between bad and worse

Focus on New Customer Segments

- We'll also continue to focus on new customer segments
- Our Unlimited 55+ plan was a massive success and we think there is some great upside in other segments too
- Of course, T-Mobile for Business remains a huge opportunity as more and more business and government customers of all sizes see the benefits that only T-Mobile can deliver
- Remember, we only have a 2% to 3% market share in enterprise, so there's lots of room to run

Layer3 TV Acquisition

- Our Layer3 TV acquisition closed in January and is a major step in taking Un-carrier beyond wireless
  - This move represents a progression in our video strategy, which began with Binge On, was strengthened with Netflix On Us and will expand further with Layer3 TV's management, technology and content relationships,

which will enable us to bring the Un-carrier philosophy to video

Future Opportunities

- We continue to believe that content is moving to the Internet and the Internet is going mobile, creating multiple opportunities for T-Mobile to continue disrupting the existing landscape for the benefit of consumers everywhere
    - And to ensure that we deliver on our commitment to customer experience, we're working hard to simplify and completely transform our business with digital
- Customers want simple and they expect end-to-end integration
- A digital transformation drives efficiency in all aspects of our business and allows us to deliver personalized customer experience at scale

Innovative Customer Care Model

- Our innovative customer care model is delivering remarkable results and getting T-Mobile recognition from Nielsen and J.D. Power
- The whole customer experience ecosystem benefits if we get digital right and we have already been making tons of progress
- As I've said in the past, none of this would be possible without our network
- It's our foundation and we expect to maintain our position as the fastest-growing network in 2018
- By the end of the year, we're targeting total population coverage of 325mm and geographic coverage of 2.5mm square miles
    - We'll accelerate our 600-megahertz rollout in 2018, while laying the foundation for the country's first nationwide 5G network by 2020, and this is just the start
- As you can tell, we're incredibly confident in our future
- Our 2018 guidance shows that we have no plans of letting up

J. Braxton Carter

Financial Results

Tax Reform

- 2017 was another year of outstanding financial performance executing on our strategy of balancing growth and profitability
- Let me start with tax reform
- Tax reform will be very beneficial to us, both through lower tax rates, as well as the immediate expensing of CapEx for five years

EPS

- The one-time gain due to the write-down of deferred tax liabilities in Q4 2017 amounted to $2.2B

  - EPS, excluding this one-time gain, was $0.61
- The new normalized P&L tax rate is estimated to be 24% to 25% for 2018, a significant decline from our prior effective tax rate
- As a result of tax reform, we don't expect to be a material cash taxpayer until 2024, compared to 2020 previously
- We expect positive impact on FCF from 2020 to 2027 of $6.5B to $7B
  - Additionally, we do not anticipate any permanent interest expense disallowance in the future

Adjusted EBITDA

- Adjusted EBITDA in 2017 amounted to $11.2B, or $11B excluding spectrum gains, and leasing revenues of $877mm
  - This is at the top-end of our guidance range of $10.8B to $11B, which, itself, has been increased twice during 2017
- Note that reported adjusted EBITDA included a net impact from the hurricanes of $201mm in spectrum gains of $235mm in 2017
- Adjusted EBITDA performance is a reflection of the strong cost performance, especially cost of services which declined by 80BPS as a percent of service revenues in 2017, excluding the impact from the hurricanes
  - SG&A also declined by 40BPS as a percentage of service revenues in full-year 2017, again excluding the impact from the hurricanes

FCF

- FCF amounted to $2.7B in 2017, an increase of 90% over $1.4B in 2016
- This was driven by the increase in net cash provided by operating activities, which was $8B, up 30%
  - Partially offset by a higher CapEx, $5.2B, up 11%

ARPU

- As expected, prepaid phone ARPU remained generally stable in 2017
- ARPU amounted to $46.97 in 2017, a decline of 1.1% compared to $47.47 in 2016
- Excluding the impact of the hurricanes, ARPU amounted to $47.06 in 2017, a decline of 0.9%
  - This was impacted by the dilution from promotions targeting family plans in new segments
- With regard to 2018, we continue to expect that ARPU for the full-year will be generally stable, compared to 2017
  - This does not include the impact of the new revenue recognition standard

Customer Quality

- In terms of customer quality, our results in Q4 were very solid
- Total bad-debt expense [indiscernible] (15:33) from sale receivables were $147mm, or a record low of 1.37% of total revenues, compared to $190mm, or 1.86% in Q4 2016, even with the significantly higher customer base

- Total EIP receivables, classified as prime including EIP receivables sold, reached 54%, up both sequentially and y-over-y

2018 Guidance

Branded Postpaid Net-Adds

- Let me now come to our 2018 guidance
- We expect branded postpaid net-adds to be between 2mm and 3mm
- You know our game plan
- As we perform during the year, we will adjust this guidance as we demonstrate the growth that we're showing

EBITDA

- The guidance also takes into account our desire to balance growth and profitability, the lower switcher volumes we've seen in recent quarters and our pursuit of growth adjacencies, which we expect will afford us the opportunity to be less promotional in existing markets
- We expect adjusted EBITDA to be in the range of $11.3B to $11.7B, not including the impact of the new revenue recognition standard
- This guidance takes into account an expected decline in leasing revenues in 2018, our target is $600mm to $700mm in 2018, compared to $877mm in 2017
  - As well as our buildout of low-band spectrum including the accelerated rollout of 600 MHz, driving up cost of services by $300mm to $400mm y-over-y
  - This investment will provide a tremendous growth opportunity for years to come and sets the stage for a nationwide 5G network
- The new revenue recognition standard will increase adjusted EBITDA by another $0.2B to $0.5B for a total range of adjusted EBITDA of $11.5B to $12.2B

CapEx and Free Cash File Flow

- We target cash CapEx at $4.9B to $5.3B excluding capitalized interest
  - This includes expenditures for 5G deployment
- Finally, we expect free cash file flow, defined as net cash provided by operating activities minus cash CapEx, to increase at a three-year CAGR of 46% to 48% from full-year 2016 to full-year 2019, up from the prior range of 45% to 48%
- During the same period, we expect the underlying net cash provided by operating activities to increase at a CAGR of 16% to 18%, up from the prior-range of 15% to 18%
  - These increases are after considering the impacts of the approved $1.5B stock buyback

Impacts from Adoption of New Revenue Standard

- Let me be clear that our guidance is on the basis of accounting standards as of December 31, 2017

- On top of that, in 2018, we expect the following impacts from the adoption of the new revenue standard:
  - Total revenues up $0.3B to $0.5B
  - Net income up $0.2B to $0.4B
  - Adjusted EBITDA up $0.2B to $0.5B
- We expect postpaid phone ARPU to be negatively impacted from changes in revenue allocation under the new standard
  - In addition, the adoption of the new cash flow standard will result in a reclassification of cash flows
- In Q1 2018, we plan to redefine FCF to reflect these changes and prevent cash flows on a consistent basis for investor transparency
  - And of course, there'll be a full reconciliation

QUESTION AND ANSWER SECTION

<Q - Simon Flannery>: You talked a lot about 5G and the 600 MHz rollout. There's been a little bit of an arms race during this earnings season to get out first, discussions about the low-band, high-band and so forth. So, John and Neville, it'd be great to just get a perspective of where you see the 600 MHz fitting into that ecosystem. And I think you've also expressed a lot of interest in the 3.5 GHz as well. And then John, maybe – or you can give us some updated porting information quarter-to-date. Thank you.

<A - John J. Legere>: Okay. Well, I'll – let's do this. At the risk of losing the entire hour and a half, I'll start the 5G item and give it to Neville, and then he can come, throw it back to me. But Simon, I think your definition of it as an arms race portrays some of the mass confusion that the market in the United States must have about what 5G is, what its opportunity is, when it's going to be delivered.

And I thought one of the pinnacles of that was – you remember, this is one Super Bowl after the Super Bowl that Lowell McAdam's predicted that you would sit at the Super Bowl and have the massive impact of 5G waving over you as your world was permanently changed. And I think Alexander Graham Bell McAdam in effect took a 5G tablet and used 28-gig spectrum to go to a hotspot in the building and make a call, which is not even as cool as being able to do broadband access replacement.

But it was basically hilarious to see him staring at a tablet saying, "Hello! Can you hear me?" This is clearly not what 5G is. It's not the timeframe where it's going to be. And I think one of the big problems we have is AT&T and Verizon, in particular, who have lost or never had competitive network, are now trying to recapture the network brand by defining 5G in something that's only attainable by them.

So with that, I'll go to Neville because this item is one of the most important educational phenomenons because clearly, 5G will bring gigantic benefits of spectral efficiency and faster speeds and longer battery life, 10x, 20x in these categories, as well as the ability to connect millions of devices. But it will be in all-spectrum bands and it will be over time and it will require some of what we got a glimpse that the government was worrying about, which is people need more spectrum. They need siding help. They need a lot of push for the country to succeed in this. And it may even drive industry structure questions. So it's a great topic, but it sure as hell, isn't a 2018 arms race. And with that, Neville, take a quick shot at it and send it back to me and I'll give porting numbers beyond your wildest imagination.

<Q - Simon Flannery>: Thank you.

<A - Neville R. Ray>: You've covered most of it, John. Just real quickly, Simon, to fill in. I mean, obviously, you mentioned 600 megahertz. We had a massive success in the spectrum auction last year. $8B worth of spectrum increased our holdings by 39% as a company. So we've been really, really busy putting that spectrum to work. You heard from John in the opening comments. We've already put a footprint down at 300,000 square miles on 600 megahertz. That's three times the size of the UK, twice the size of Germany, bigger than France, to put it into perspective. That's a lot of territory on spectrum that we just got into our hands.

And to your question on 5G, the hardware that's hitting the ground is 5G capable. And so we've been very clear from the outset that we'll launch 5G services in 2019 leveraging 600 MHz, and we'll do that when the software is available, which will be early in 2019, and when the handsets are available, so smart phones are available, which will be H1 next year.

In addition to that, on the millimeter-wave side, not to forget, we have 200 MHz of millimeter-wave spectrum across 100mm POPs in the U.S. and in key urban environments like New York, LA, Miami, and we will start to deploy that capability towards the end of this year. And again, smartphones will be coming on board in H1 2019, and that will be in those dense urban areas where you want to start maximizing speed and capacity.

So we've got great bookends on the low-band. The low-band spectrum will do many of the things John talked about on smartphones. It will also open up this massive set of opportunities on 5G in the Internet-of-Things space where you can connect to everything that can be connected. Sensor networks, massive connectivity, very, very low-battery life. So that's a really exciting space that we intend to be extremely active in, and nobody can match us at this point in time on that low-band capability in 5G. So that's going to be really, really exciting space for us.

And I think, this year, just on Verizon and AT&T, I think Verizon doing everything they can to back out of the dead-end street on fixed broadband displacement using millimeter-wave. It's a pre-standard system. They'll have to rip and replace almost everything they've put on the ground between now and the end of the year. That's why the ambition is so small. And so not very excited about that.

And then AT&T – I finally thank them for joining our camp, saying 5G is really about mobility for the devices they're going to bring on this year, probably, in 39 GHz. It's just going to be kind of a broadband device and mobile puck. So realistically, the race is on for 5G. It's going to hit the mobile space. It's going to be there in H1 2019, and we're going to be really busy and really relevant.

<A - John J. Legere>: So, Simon, H2 your question, which I can also have the – I'm watching a flurry of tweets come in from Walt Piecyk, which is wonderful because I hear he has no voice from losing his voice at the Eagles game. And I'm not sure it was true, but I heard he was one of the three people that punched a police horse, so I'll have this be one of his answers.

So porting – postpaid phone porting – postpaid porting is really a fascinating look underneath what's happening competitively, and it shouldn't surprise you that the trend has been as follows. The overall postpaid porting in Q3 for T-Mobile vs. the industry was 1.53 to 1, which in Q4 was 1.68 to 1, which so far in Q1 is 1.73 to 1.

And on each carrier – let's just pick a couple because there was a small sigh as AT&T announced their numbers, and people were thinking, oh, woe is me. The porting with AT&T in Q3 was 1.71, in Q4 it was 1.83, and so far in Q1 it's 1.84.

Let's touch Verizon because that's always fascinating. Q3 1.6., Q4 1.7., Q1 1.91,. Sprint, its Q3 was 1.24, Q4 was 1.45, and right now it's about 1.4, so relatively stable. So steady as she goes with T-Mobile, and let's just remember that the 891,000 postpaid phones we took in Q4 – that happens to add up to the 430,000 that Verizon had, 280,000 AT&T had and 180,000 that Sprint had.

But for the year, we took 2.82mm of the 3.6mm, and let's remember that AT&T lost 570,000 postpaid phones for the year, counting the 280,000 that they bought and stuffed in their bag and defined as something that really impacted their margin and profitability, which is certainly not something they can do too many times. So that's the competitive landscape. I'm not sure what it is between all those characters, but it's steady as she goes for T-Mobile.

<Q - Philip A. Cusick>: Let me just follow-up on that. Can you talk about the industry strength in postpaid this quarter and the year, including Comcast, the industry up about 15% in postpaid, and your thoughts on the sustainability of that? And do you think it's a coincidence that industry prepaid adds have slowed at the same time? Or is there a reason that customers are shifting upward?

<A - John J. Legere>: I think, Phil, I would say we, as well as you, were a little bit surprised, because you generally think you know the size of the industry pool and the anomaly this quarter was the AT&T numbers, which I hope you're all still digging into. We, obviously, publish very explicit information about the migration from prepaid to postpaid, which is a tremendous feeder pool. Our 149,000 prepaid nets we felt was very strong part of our 855,000.

The anomaly, of course, is AT&T, I believe, is the only carrier that I ever heard of that actually has postpaid-to-prepaid migration as well. So that's another item. They don't really make it easy for you to see. And this competitive items for AT&T was kind of funny, because think about this: a lever that AT&T feels like they can pull is that they tell the customer base that for a limited time only you can get unlimited without having to take DIRECTV, that's kind of a lever that works for them.

It's amongst their base, and so when they ultimately released the shackles of DIRECTV and do a BOGO without a porting requirement and an add a line, that's a costly temporary way. And I don't fully understand all of what they did, but, again, it's a blip. They announced it as something that they acquired. It sounds like window dressing to me. And, frankly, I continue – and I'm sure you all are too, but you're just being polite – to be astonished at the lack of success or ability to enter wireless in any scale by the cable players. The 180,000 adds in that base at a year cost of $412mm with a stated intent to grow similar in that range for another year and lose a total of $1.2B, that's kind of an admission that the MVNO contract sucks and nobody's interested in a Wi-Fi phone and we're just going to sit on our hands and decide what to do later, but it's very irrelevant. And I would assume Charter will be irrelevant squared. So I'm not sure I understand that anomaly in the industry, but I think it wasn't that big of a blip. And all I know is our trends, our postpaid, our prepaid was kind of in line with what we thought would happen.

<Q - Philip A. Cusick>: Well, let me follow up. This is a lower postpaid guide for adds than we've seen in the last couple years. And, Braxton, it's funny you're already talking it up a little bit, but are you building in some maybe cable-gets-more-aggressive cushion?

<A - John J. Legere>: No. First of all, I think last year we forecast 2.4mm to 3.4mm. Is that originally [indiscernible] (32:23)

<A - J. Braxton Carter>: No. The original guidance matched exactly what we just [indiscernible] (32:26)

<A - John J. Legere>: Okay. So this is – I always expect a windfall of – yes, they're low guiders. Remember, we've never missed anything. We like that trend. Golf is won or lost on the first tee and we're negotiating strokes here, so we like this guidance, but I would say the furthest thing from my mind is any concern about the impact of cable. First of all, I think they're incompetent and they don't belong in wireless without having owner economics. 500 stores across the country, telling people in Manhattan your closest store is in Long Island is crazy. An MVNO doesn't work. Wi-Fi is not a way to play this game.

And I think from a standpoint of their impact, I think their impact will be to grab customers sideways from the other big monoliths. I think Verizon and Comcast are going to try to pick each other's pockets. I mean, I think Verizon's enthusiasm about doing their 5G tablet calls at the Super Bowl are that they're praying to have some sort of broadband access capability to the home to compete with a Comcast. So no, I don't see any impact to us at all. And, yes, we are very conservative on our guidance and let's see how you feel about that conversation a year from now.

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

<A - J. Braxton Carter>: Phil, let me add, if you go back and look, the guide on the postpaid phone growth – postpaid growth is exactly the same this year as it was last year. And the game plan that we have done every year for the last five years is conservatively position the growth equation and a much higher aspiration built in to the adjusted EBITDA and for, now, going into the fifth full year, we've never not hit or exceeded our guidance. And consistently we have narrowed and, when appropriate, increased the postpaid growth as we demonstrate that growth during the year. So it's exactly the same thing, we talk about it exactly the same way that we have for the last five years.

<A - John J. Legere>: Color us not afraid of the cable inside out strategy. I mean, it sounds like being sheltered inside your house with a Wi-Fi connection and looking out in a gigantic United States and saying, hey, we're going to go cover that next. I'd rather be outside looking in.

<Q - Jonathan Chaplin>: Thanks. I'd like to pick up, John, on the comment you made briefly about changes in the industry maybe needing to precipitate a change in industry structure. With the sort of opportunities with Sprint looking like it's past, where do you see the opportunities for a change in industry structure, John? Is it the fact that cable's incompetent at acquiring subs and so they need to acquire you? In early last year you thought there was sort of, potentially, really good opportunities with Dish. Is that still an opportunity? Or are there other deals that you see happening in the industry to fix the industry structure?

<A - John J. Legere>: Yes. Good question. First, and I think I've been consistent on this all long, so let's just update my view. Nothing's off the table. Why would anything be off the table? Why would anything be past? The capabilities and the assets of all of us are the same with their strengths and limitations, the trends of the industry are going in the same directions, all content going to the Internet, the Internet's going mobile. So you can see.

And I think what happened so far is there was already a little bit of kind of waiting around to see what happens. Charter and Comcast agreed to not to agree to do anything for a year and let's hold hands and make believe we're not interested in wireless and see what happens with Sprint and T-Mobile. And Charlie's, for his 27th time, playing his hand out. I think the AT&T-Time Warner got a surprise extension; just put everything on a hold for a while. But my belief is that there is a huge pent-up bubble of logical things that need to happen for customers to be served.

I also believe that that five-minute flash scare that we were going to have the DMV of 5G networks run by the United States government was kind of a wake-up call of the magnitude that needs to happen for all of the players in the industry to get that infrastructure to be globally competitive for the United States.

So I think there's going to be policy action, there's going to be spectrum deployed, there's going to be siding assistance, and I think there'll also start to be, I believe, an industry structure analysis around the benefits of deploying such a scalable capability. So I think that changes the math of whether or not consolidation within players could be doable.

So, is there a possibility in the future that T-Mobile could do something with Dish? Or Sprint? Or U.S. Cellular? Or – yes. Is there a possibility that a Comcast or a Charter could do something with us or to us or around us? Yes. Will I believe some of that will happen? I believe all of that will happen. It's not a matter of if; it's a matter of when.

And I think there'll be more and I think there'll be – my belief is that the pace at which these things are thought about and are going on – and I'm not even going to touch content yet, I think it's actually accelerating behind the scenes and will – I think it'll – some of those things will happen sooner than most people think.

<Q - Jonathan Chaplin>: Thanks, John. A quick follow-up. Are some your comments about cable because you're a little bit bummed that they're rolling out 6G while you're only rolling out 5G?

<A - John J. Legere>: Yes. You know what? I thought Verizon had the lead on creating something that was fake. That 6G was the best thing I've ever heard. Now, you know, the only thing I'm shocked at is that Sprint didn't announce 7G the next day. Well done.

<Q - Matthew Niknam>: Just two if I could. One on the competitive backdrop. So I'm wondering is this more of a new normal in terms of your go-to-market with the more balanced approach to growth and profitability, just given that Q1 has typically been your sort of counter cyclical, pedal to the metal, a little bit more aggressive marketing? We have not, at least to date, seen much of a shift from you guys in Q1, so wondering what's changed potentially, if anything, in terms of addressable market?

And then secondly on tax reform, just given the cash savings, how would you tend to think about potentially accelerating network investment in 2018 vs. the current guide that implies more flattish trends? Thanks.

<A - John J. Legere>: Okay. On two front. I'll start, give it to Mike and to Braxton. But on the are we going to be competitive in Q1, the only thing I can say is it's only Wednesday, and pretty clearly, our game plan hasn't changed. And one of the things that I think you're onto, right, I think we've demonstrated very strongly is we are all about balancing growth and profitability, right?

And I think we do that very well, and I would say – I don't think this is more arrogant than I usually am – but we took 50% of the industry postpaid phones in Q4. And we absolutely could've taken more. I'm saying we – not that we chose that number, but we definitely chose how we would participate. And that's why these financials are so strong. We'll continue to play in that range. We took 80% of the year.

By the way, last year in 2016 we took over 100% of the postpaid phones in the industry. So, we'll watch this very carefully and balance growth and profitability, and you can see if in a quarter where we're focused on profitability, we have 891,000 postpaid phones, then I think we've got it dialed in pretty well. The FCF that we're going to start generating is phenomenal, and when you look at the 46% to 48% growth and you look at the ending year at $2.7B, we've got a pretty good machine going here that we're going to continue. So do you want to talk about offers? And then you can talk about the taxes.

<A - G. Michael Sievert>: Well, I'll just pile on one thing you just said. Matthew, another way to think about the fact that we took 50% of postpaid phone growth in Q4 is that we took the same amount of growth in postpaid phones as AT&T plus Verizon plus Sprint combined. And if that's balance, then yes. I think we're a balanced player, and we have been a balanced player all along.

This is an outstanding growth story, but unlike some companies who deliver an outstanding growth story, we're delivering the financials as we go along. And we're really excited about this massive delivery of cash flow and the fact that we were able to increase our cash will guidance yet again this quarter. So we're delivering as we go.

As for this quarter, balance doesn't mean we're going to sit on the sidelines. John showed you our port ratios have improved already vs. last quarter's excellent ratios vs. the competitors, and to your point, that's in a part of the quarter where we really haven't put our foot on the pedal yet. And you can certainly expect that we will.

<A - J. Braxton Carter>: Yes. So, Matt, I'm really glad you brought up the tax reform, but to answer your question specifically and then make a couple of additional comments, if you look back over the last five years, we've always met or exceeded our guidance. And we've never had a downward or negative revision to our guidance.

I think one particular thing about 2017 is for the first time ever you saw us raise EBITDA guidance twice during the year, and that was the first time that that had happened, along with the progression of our growth throughout the year. Our CapEx guidance for the year fully includes everything that we plan to do. If you look at the history there, we've always been right on guidance, sometimes close to the midpoint, sometimes up to the top-end of the guidance, but absolutely everything is fully embedded in what we anticipate from a CapEx standpoint.

And we've also consistently discussed that we don't see any large step function increase in CapEx when we look out into the future. It's been going up. It's been going up slightly every year, but Neville's always had a project. And as we complete these projects, significant dollars roll into the next project. And I think it's really innovative and really industry-leading that Neville's getting so far ahead on the 5G bill with touching the towers on the 600 megahertz. That's expensive.

And, again, that's fully included in here, but he's deploying the hardware that's 5G capable that all is going to take is a software upgrade when the standards get developed. So that foundation is being laid in. You've heard us talk about 25,000 small-cells in some of the most dense, most difficult-to-zone parts of the country. There's a lot of foresight that's happening here. And, historically, there's been a lot of foresight. Neville really pioneered laying a fiber backbone and interconnect and plays on the RAN well before other people were going down that path. The facts kind of speak for themselves.

But back to the cash, we have a mother-load of cash coming. The guidance – and I challenge you to find anybody who's growing cash like that within our sector or even more broadly in telecom, but what's happening between the 2017 and 2019 is almost $10B worth of cash generation. And with the push out of the NOLs due to the immediate expensing of CapEx, not only does our trend of increasing cash flow continue, we have a significant upside in value. And what it translates to is incredible financial flexibility. We instituted our first buyback based upon what we thought was really opportunistic, given where the stock's trading at vs. our views on future cash generation.

We're talking about doing tuck-in acquisitions. We do have spectrum auctions coming that we certainly will be a participant in. Don't expect to spend anything like we did in the 600 MHz, but we will be players there. But all this translates into incredible potential in the future to do things like return cash to shareholders, have very strategic tuck-in acquisitions, continue the significant success based investments in the network. And that is the story and that's going to be the future driver of value creation. And it's all underpinned by the best network in the country, which is improving day by day and the incredible work that Mike's doing in innovation. And we got a lot of momentum, so we're very, very, very comfortable.

<A - John J. Legere>: Okay. Before we go back to the operator, I'm going to go into one of the Twitter messages from the T-Mobile IR handle. [ph] Bill Howe (47:40) has been an avid sender of messages, so we're coming your way. One of the many is as T-Mobile business ramps and contributes to the growth story, provide elaboration on penetration beyond small biz and into enterprise, go beyond line revenue onto different upsell services, et cetera.

So as we introduced in my comments, I'll turn to Mike, this is one of the significant growth areas for the company and not way in the future but right now. And there's reasons why the network has started to really be able to perform why enterprise and business customers are far likely to be able to test it and move to it than a consumer in an immediate fashion. But, Mike, why don't you talk about this one?

<A - G. Michael Sievert>: That's right. In fact, in some ways, our business success may be foreshadowing our ability to continue to generate consumer success, because a business sale is a considered sale. Unlike consumers, they actually take that product out and test it extensively before picking us and, man, are they picking us.

Just a few quick stats. This year in 2017 for the first time, over 20% of our postpaid net-add performance was in the business sector, which was a terrific step-up and in fact, outside of retail, which is where all of the development of larger business is built to the premise of your question, comes from our y-over-y growth and our flow was 94% in 2017 vs. 2016. So, it really shows that what – on the heels of this network expansion that Neville and team have pulled off, businesses are rushing in.

And what's interesting is we're also winning sort of torture test style customers. We're in four of the five big airlines of the biggest airlines. We're in four of the eight biggest technology companies. We're in 35 of 50 State governments now. 40% of the Fortune 1000 are at least doing some business with us and most are deepening their relationships. The biggest consulting companies in the world, the biggest hotel chains in the world. So people who really care about coverage and network performance are choosing us at record rates and it's nice to see.

And to the premise of your question, we're just getting started because we actually aren't deep yet in being able to offer a broad range of solutions to these customers and they're now coming for us asking for us to have a significant seat at a more strategic table with them. So, we're excited about where we sit.

<Q - Brett Feldman>: Braxton, you talked about the importance of balancing growth in the top line and growth in the bottom line. I was hoping you could talk a bit about where you see the primary levers of driving more operating leverage going forward. So for example, you're going to spend a little bit more on cost of services here as you build out 600 MHz. As you think out over the next few years, what are the big cost buckets that you can attack in order to continue to scale your margins as you scale your customer base?

And then Neville, kind of a follow-up question to Phil's, about the strength that we saw in the postpaid. You had unlimited as a lead product offer for several quarters now. I was hoping you could give us a little bit of visibility into the usage there. and I'm curious whether you're seeing any patterns that suggest people are using your unlimited plans as a replacement for fixed line broadband? Thanks.

<A - J. Braxton Carter>: Yes, so from a 600 MHz standpoint, we were very clear that there's going to be a step up in cost of service related to the geographical expansion of our network to create a commercial-grade quality coverage that supports the geographical distribution.

And when we look at our confidence in being a growth company for many years to come, Mike talked about the business segment, which has incredible opportunity for us but the other is the expansion to the – of our distribution to the other third of the country that we really haven't played in for the last five years.

And there's 100mm people there where we virtually have no penetration and it's going to be an amazing growth adjacency but there has to be some upfront investment to create that commercial grade quality to bring those customers on and then we'll significantly scale that investment over the next several years. And some of these early results are just astounding in these greenfield markets. And all of our expansion in the upcoming year is going to really be tied to these greenfield markets and it's going to be a tremendous opportunity.

And between the business and the geographical expansion of our distribution, it will allow us to actually be more efficient in the two-thirds and then the old way that we've always done business in two-thirds of the country. So it's going to create even a double whammy on margin expansion.

And let me put everything into context, we're still scaling our margins growing like we're growing. If our growth significantly moderated, you would see a massive explosion of margins. But this is an acquisition-based model. There's a cost of bringing the customers in and nobody is growing like we're growing. And that's a trade-off worth making, because it's that growth in the unlock of leveraging the fixed cost that we have in this business that ultimately give us the ability to close the gap on margins that both Verizon and AT&T, be it non-growth companies in wireless, achieve on a daily basis. And we're going to create a lot more terminal value.

But we've always had a philosophy of balance. We could have grown much, much more. You heard John say it in Q4. We've said that before on Q4s, but it really holds true on a year-to-year basis. We believe the right path to credibility and value creation is consistent execution of our strategy.

<A - Neville R. Ray>: Yes. Brett, I think if you look at our customer base, obviously we've had unlimited in the marketplace for a long period of time, and you saw the struggles of our competitors as they introduced unlimited in 2017.

We have the most satisfied customers in the industry, looking at any number of different benchmarks and consumer feedback studies. We have customers that consume the highest volume of data, and to boot, we have the highest performing LTE network. So we're the fastest network again in Q4 of 2017, at 16 quarters, I think, four years in a row where we've just been killing it on LTE.

And here's the fun piece. I'll just tie in some of the 5G stuff that came up earlier on. If we think anything that's happening from Verizon and AT&T in the 5G space in 2018 or 2019 is going to make one iota of difference in this industry, you're all mistaken. This industry is going to compete around LTE well into the next decade. That's where the majority of terminals and customers live today, and that's how it's going to be for a material period of time.

And so we're in this very, very strong position of strength with the best performing LTE network in the nation, and we've been working through how to expand and deal with capacity and growth on this network for a number of years. And we have a very, very rich pipeline not just to introduce 5G in the 2019 timeframe as we said at the beginning, but to continue to add to the capabilities and performance of our LTE network. So I'm very comfortable where we are.

The second part of your question, Brett, was about are the customers where we're their only connection to the Internet today, and sure, that's the case for many customers. Does that mean that we're committed to being a fixed substitution player? At some point in time maybe we'll introduce product lines in that space. But believe me, the millimeter-wave story and what Verizon has been touting and now AT&T has backed away from is plagued with challenges, and I think everybody has woken up to that.

28 GHz, the outside-in story, is extremely difficult, and it's somewhat ironic with Verizon who tout reliability as a poster child for it, supposedly, in the industry and yet, they're committing to trying to deliver fixed broadband in the most unreliable fashion known to man on 28 GHz outdoor-in. So it's going to be very, very challenging to really disrupt that space from a [ph] lot of (56:34) perspective in the way they're approaching with 5G.

But we're going to be very, very focused driving that LTE performance and strength. We're not taking one eye off the ball with what we're doing on LTE because that's how we will win over the next three years, and we will not miss anything on the 5G front.

<Q - Michael I. Rollins>: I was curious if you could help us on the capital allocation front and talk about your aspirations for investment-grade debt ratings? How that then works into a net debt leverage target range? And then finally, how you think about the pacing of buybacks and returning capital with respect to maybe staying somewhere within the range that you've set? Thanks.

<A - J. Braxton Carter>: Yes.

<A - John J. Legere>: Braxton, I just want to stop for a moment and acknowledge the fact that we're having this discussion about investment-grade. I just love the question. We should have a moment to cherish that. Okay. Go ahead.

<A - J. Braxton Carter>: Yes. What's really interesting, Michael, is we just did $5B debt raise, timed very, very well in the marketplace where the spreads are basically already investment-grade, regardless of the ratings. And the eight-year money and the 10-year money, if you look at the 10-year we're within 50BPS of where AT&T raises their 10-year money at and a little bit higher, a little bit wider spread with Verizon but well within 1 percentage point of where Verizon raises their 10-year money. By any – no question or any measurement, that essentially already is an investment-grade item.

We're de-levering a little bit, we call it $1B worth of bonds at the beginning of the year, so our gross debt is going down. With the improvements in the fundamentals of the business and the cash flow, we continue to expect that we will be IT-rated at some point in the future. But that really isn't a goal to have those ratings this year or necessarily next year. It's more of a midterm aspiration. I talked a little bit about this on the investor call that we had on our debt raise. It's really kind of a medium-term aspiration and what really matters is how do we execute in the market vs. what our actual rating is.

I can tell you that we have not changed our capital policy. It's still three to four times. There's times we'll be below it, there's times we'll be up in that range depending on just what's going and what inorganic opportunity is out there in front of us, but it all points to incredible flexibility.

And as we get closer to that true investment-grade ratings for Moody's, S&P and Fitch, we will certainly have to do a revision in that targeted leverage policy as part of that ratings upgrade but that's not the focus, again, this year or next year. That's really to come in the future.

I talked a little bit about the amazing cash story here. And if you look at our forward multiples as a percentage of cash flow even as to what we've guided, let alone what you're going to see in 2020, 2021, 2022, we're a very, very affordable stock as compared to other comps that are out there. And that's why we're doing the buyback at this point. It makes a lot of sense to invest back into our stock when we know what the potential is and the confidence that we have of the value creation that's going to be here.

And to that point, not only are we doing it, DT is doing it. DT is providing no shares to sell related to the buyback and they've said that they are going to actually be buying our stock. Now, it's up to them to announce when that's going to happen and how much that's going to happen, and when the time's appropriate they will certainly put that out there. But with this amount of cash generation, we do think that there's going to be significant opportunity in the future to do additional buybacks and that's going to definitely be part of our strategy going forward.

<A - John J. Legere>: Okay. And before we move to the next question on the phone, I'm going to take a couple that are coming in. It's real easy one here. Comes from [ph] Robbie (61:54) which says, I'm thinking about switching. How is T-Mobile service?

Hopefully you're listening to this call. T-Mobile service is incredible. My email is john.legere@t-mobile.com and I will personally help you move from god-awful whatever place you're at.

Secondly, there's a number of questions coming in that are asking for some update on what are our plans around the closing of the deal of Layer3 TV, which is really something to say. So, Mike, why don't you just give a couple of minutes on that and then we'll move back.

<A - G. Michael Sievert>: Yes. Thanks for all the interest. Most of the questions are tell us your plans, which of course we're not able to do that. Last time we talked about this we said we would be coming out with something in 2018 and that's the case.

But this market is just fascinating. Customers are leaving traditional linear TV at historic rates, 2% and 3% in some categories per quarter. And younger people 25%, 35% per year declines in some categories and so – and there's a reason for that.

It's like you're – where you really live your digital life, your phone, your tablet, it's like it never met your TV. And the eyeballs are moving to phones for a reason because everything is more engaging in a mobile and social fueled world. The videos come at you in a way that draws you in. And then you sit down in front of your great big TV panel and you pick up a plastic remote control and you get a program guide and it's no wonder people are fleeing that.

I got news for you, young people don't hate 4K panels with HDR video quality. What they hate is what's being served up to them on those panels and how antiquated it is and how non-engaging it is compared to the highly-targeted social and mobile fueled content that they can get on their phone. So we're bringing those worlds together and I'm excited about what it'll look like. I can't give you all the plans yet, but stay tuned. This is about bringing the Un-carrier philosophy to this marketplace, because people aren't getting something that's engaging to them on those TVs. It's not connected to their mobile life and their phone well enough. And by the way, the business practices of these companies, both cable and satellite, are appalling. Arguably, they're worse than wireless was when we launched the Un-carrier in 2013.

<Q - John C. Hodulik>: Maybe I could just follow up on a couple of other things and, Mike, your comments there and maybe connect the dots a little bit. As mobile 5G gets rolled out and you guys are using the 600 megahertz spectrum, which propagates very well and moves through walls very well, and you're digesting Layer3, I mean, can we expect as that mobile fabric gets rolled out a sort of wireline replacement service for both broadband and video? That's number one, especially sort of given the much lower cost per bid that you guys will be generating with that new infrastructure.

Number two, it sounds like you're using the 600 megahertz spectrum as the primary fabric for 5G. AT&T recently sold a decent-size chunk of – or all of their winnings in the auction to largely private equity investors. Why weren't you interested in that spectrum, especially since they sold it effectively at cost? So that's number one. And then, number two, just some follow-up on ARPU. Was there much impact from the Netflix promotion and maybe sort of what you really expect to see as we adopt the new rev rec standards? Thanks.

<A - G. Michael Sievert>: With the Internet TV question, I mean, one of the things that makes our approach to video and TV different is that it only requires an Internet connection. And as you know, we launched into this with Binge On. We made it better with Netflix On Us, but the infrastructure that our customers need to be able to enjoy video on their mobile devices and ultimately in their homes is an Internet connection, something that ultimately we are a bigger and bigger and more important player in. We are a major broadband company and 5G only takes away further the distinctions between wireless and wireline that have traditionally been in place. And so as a major provider of Internet services, it makes sense that we provide access to the content that Internet is most famous for, which is video content. So we're excited about that.

<A - John J. Legere>: I'll start, Neville, on this. It sort of reminds me like when I was young and if I did something bad I would like throw a rock through a window and my mother would say, why did you do that. And I said, well, [ph] Dave (66:47) did it. And she would say, that's not a good reason. I sort of feel that way when you say, well, AT&T did something stupid. Why didn't you do that?

By the way, why didn't Verizon, who is really strapped for spectrum, show up for the low-band auction? Why didn't Comcast stay in? These are dumb strategic moves. AT&T is completely directionless right now and attempting to change their whole business out of the wireless industry into something else. So I don't think we can look at these

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short-term. We love the low-band spectrum that we got. We love its use right now. We love it as a base for 5G.

That's not all we're going to do in 5G. By the time 5G is fully deployed as an industry, it will be in every spectrum band and we will be participating in a lot of ways, either through acquisition of spectrum, acquisition of companies, mergers and consolidations. There's so much going to happen here, but I think we can talk about what does it mean for us right now. What are we going to do in the 600 MHz, what capability will that bring? But that's no more the full portfolio of capability of 5G than [ph] Alexander Graham Bell McAdams' (67:58) tablet is. I mean, it's a big game. Neville, [indiscernible] (68:00).

<A - Neville R. Ray>: Well, I think you covered it again, John. I mean, I think you have to ask AT&T, Mike, why we weren't engaged in that 600-megahertz opportunity that recently appeared. And so they did very badly in the auction and they've offloaded spectrum that they really didn't know what to do with, because they didn't buy that much. But, I mean, history will tell us, I mean, I think huge mistake from Verizon and AT&T to miss out on an opportunity to put fresh greenfield spectrum in their hands for 5G.

And that's what we're going to go do with it, and we bought a boat load of it. And so that's the opportunity they missed out on. Can they do much more in the low-band space over the next two to three years? It's going to be really, really difficult for them. So them offloading that spectrum didn't necessarily surprise me. Did they ask us? Well, not really, so.

<Q - John C. Hodulik>: Got it.

<A - J. Braxton Carter>: On your final question on the ARPU, one of the things we pride ourselves is giving more transparency on our results than any other wireless carrier that reports. And on the rev rec there will be a negative impact on ARPU. We really haven't quantified it, but more importantly what we'll do throughout the year is show ARPU on a pre-standard and post-standard basis so you will fully understand the impact of the new revenue standard on ARPUs.

And Netflix is a contra revenue where a lot of the Un-carrier things that we do do have a cost component to it that typically shows up in the cost sections. Because of the construct of our contract with Netflix, it is contra revenue. It is decretive to ARPU, and it's just really an accounting geography issue.

It is a piece of the equation. We're calling it out. It will grow in the future as our penetration in Netflix grows. But there's a lot of puts and takes to ARPU, both positive and negative, and it's something that we're very focused on. And we're reinforcing that we expect generally stable ARPU, and compared to everybody else, that's a great position to be in.

<A - John J. Legere>: Okay. Before we go back to the questions on the phone, there are a number of other items coming in, and I'll just lump one together. It has a lot to do with updating our distribution, which we touched lightly in the expansion, and the numbers are staggering.

Again, when I kind of poke fun at somebody with limited distribution, you have to understand two big trends are taking place at T-Mobile. One is that the network is now moving to covering virtually the entire United States. And we had an effort underway in the last 15 to 18 months to migrate the distribution to start to catch up, and what we said and what we've done is we covered an additional 30mm POPs with our distribution. So, we now cover about 260mm.

And in 2017, we opened 2,800 new doors. That was 1,300 Metro, 1,500 T-Mobile. And just to update you, we now have 5,300 magenta doors and 11,100 Metro stores, or 16,400. That's a staggering ability to touch customers.

We also opened some phenomenal ones that may sound counterintuitive, but we opened several signature stores which have been highly successful. And most recently we opened a, right on the Las Vegas strip, two-story beautiful store that is driving tremendous amounts of interest in our company.

And as we move into 2018, the distribution expansion will be two things. One is the stores that we opened in the last year, they don't get up to speed yet. So it will be well into the end of this year before those stores are fully productive.

And then the amount of stores – I don't think we announced a number yet this year, but it's focused on greenfield. It's focused on places where the network is deployed where there is no competition. That sad little town that just has Verizon, or maybe Verizon and AT&T and they hate them both. And when we open the door in those towns, the mayor comes out. There's marching bands, and people just march right into our store and move over to us. So that's kind of where we are. But 16,400 doors – that's a gigantic barrier to people who want to touch this many customers, and we're not done.

<A - Neville R. Ray>: Imagine showing up – it's absolutely amazing the response when you show up to a town where only Verizon and, let's say, U.S. Cellular have been offered in the past. And that's a big focus for us over the next year.

And this is actually pretty related to a lot of the discussion we've been having around the cost profile of the business and around ARPU, because remember, all of this production that we are delivering in terms of record EBITDA and record cash flow is in a world, where we were in 2017 the fastest growing retailer in the country with a massive store expansion that's not yet producing financial results and that's very exciting.

The other aspect of this is as it does produce gross add flow, it reduces, as Braxton said in his remarks, some of the requirement for the [ph] Nth (73:53) amount of promotional intensity in our urban cores. And that's also important for our ARPU development. So, this is a great thing for us and our future potential. And this year's going to be an exciting year.

<Q - Craig Eder Moffett>: John, I wonder if we could go back to the Layer3 discussion for a second. Can you just talk about in general, what is the benefit of owning your own video distribution vs. sort of playing Switzerland and providing whether it's Netflix that you already do, or all services agnostically? What's the need for having your own aggregation service like Level3?

<A - John J. Legere>: Yes, is this still [ph] Craig Moffess (74:55) or did you put Craig Moffett on the phone? Craig, listen, I think your question is dead in the center. And I would say as of now, we are playing Switzerland. What we've done with Binge On and what we've done with Netflix On Us.

And again, we haven't completely announced what it is we're going to do. And I would say as you think about the personalizing of the video experience for a user of a mobile device and the understanding of all the different ways that that user acquires and uses their social media and their various over-the-top capabilities and the ability to create platforms that allow them to seamlessly decide what they want to watch and how they want to navigate through it, through the smart phone capability as a leverage point. We haven't stated anything yet into that, how much we need to own in order to do that.

So I think your question's good. We tend to agree with the position. We haven't ruled out what we will do in content but when we talk about what we're trying to create as an experience. And we talk about Layer3, that we've made it clear most of what we acquired for them is talent and technology, along with some content relationship ownership. And we like their business, we'll continue to use it, but we're creating something that we haven't announced yet. It is totally new and different and I would say leans in the direction of what you're talking about.

<A - Neville R. Ray>: It's actually a great question because we're so different than your cable company. Your cable company actually cares whether or not the content you spend your time with is a traditional cable channel or OTT content. They care a lot because they're defending a massive castle of financials that they're able to deliver from you subscribing to these cable channels. We just want – to us, the magic of the Internet is that you can have everything. And so being able to take a Switzerland position is something that, frankly, we don't see enough of in the marketplace and we think consumers would appreciate it a lot.

<Q - Ric H. Prentiss>: Yes. First, on the transparency side, I appreciate the 2018 guidance both before and after the new revenue standard, that really helps. But maybe capture, John, before he heads out. You mentioned 5G a lot on the call, can you help us understand what the use cases are on 5G? Is it content? Is it advertising? Is it IoT? Is it all of the above? We're all hearing about 5G arms races and what you guys are doing, but what should we think of as far as what the business cases are to get revenue from 5G?

<A - G. Michael Sievert>: Let's tag team on that one. But Ric, we're really excited about the potential that we see and for us it starts with mobile. I talked a few minutes ago about how the traditional distinctions between what you can get on a mobile device and what you can get on a wireline broadband connection are falling away with each passing generation. In fact, even with LTE, we believe we are the only Internet connection for a significant minority of our customers who have no other Internet connection. And the potential to deliver more and more of their time, their needs, their requirements through wireless in 5G is a massive opportunity. And in fact, there's some speculation that a little bit of the postpaid volume we're seeing recently is from a phenomenon of people dropping expensive broadband delivered through wires out of their portfolio. So there's a lot of potential there.

But probably the more exciting potential is the ability of the technology to deliver massive connectivity to millions and millions of devices simultaneously with dramatically-changed battery usage profiles, which really is going to unleash this Internet-of-Things concept that people have been talking about for three years, but that has been stubborn in coming along. The idea of sensors built into everything that are very low cost last for years and years at a time and enhance your life through connectivity.

And when the smartphone came out, we were picturing possibly music. We were picturing browsing, e-mail. We could've never predicted Uber. And so the potential that 4G LTE and smartphones brought, we can now talk about sensors. We can talk about massive connectivity, but we really can't conceive of how developers and innovators will completely deliver on that promise. We know that it's a step change forward in the performance and that will be here with not-only the connectivity, but the solutions that help those innovators bring their technology to market.

<A - J. Braxton Carter>: Let me just pile on right, Neville. So clearly, 5G is going to ride along with LTE, as you look through the next four, five, six years. And in the smartphone space, just doubled down on Mike's comments. It's really going to enhance the experience on the products and devices that we've seen and become familiar with and open up new ways to use those, supported by faster speeds and lower latencies, so much more responsive devices and devices that can consume media and content at a higher pace with greater resolution. I mean, that whole space is really going to open up. And I think that's the most exciting space. It's in the mobility domain of 5G. Then, the IoT opportunity is enormous. We're very well-positioned with our low-band assets to really see that space explode and all the use cases that Mike talked about.

And then, the industry is scratching its head trying to figure out this thing on fixed broadband displacement. And Verizon, as we said earlier on in the call, they're taking a run at that this year. Very small number of markets. It's proven to be a very, very tough case. I don't know how they're going to manage to sell this thing. Maybe they'll give it away to start with, unless there's economic benefit. I mean, watching Netflix at home on cable is going to look pretty much the same as watching Netflix at home on millimeter-wave service.

Apart from the millimeter-wave service, it will probably be less reliable. So it's going to be a challenging space, but that's unfortunately driven by primarily Verizon. It's been the most talked about use case in the 5G space. And I think quite frankly it's the most tedious and boring, but we're going to be playing very, very hard in that mobility and IoT space. That's where we really want to put our shoulders to the wheel and make some change start in 2019.

<Q - Ric H. Prentiss>: Make sense. Also SoftBank and Sprint talked about OneWeb and satellites getting involved in rural fixed wireless replacement. What are your thoughts as far as how satellites fit into the whole equation?

<A - G. Michael Sievert>: Unfortunately, I think Sprint needs all the help it can get, Ric, so.

<Q - Amir Rozwadowski>: Just wanted to dove-tail on some of the questions on 5G. Neville, you'd mentioned sort of some of the difficulties with some of the upper-band spectrum deployments, but we have seen you folks make some moves in terms of getting the government to free up some of those bands in the millimeter-wave bands in terms of trying to generate an auction in 2018. So I would love to reconcile that thought process with how you think about sort of the opportunity set as part of your portfolio and going after some of those upper-band spectrums in terms of delivering mobile services on 5G.

<A - Neville R. Ray>: So, I mean – don't get me wrong, Amir, on my comments. I love millimeter-wave spectrum, and we have a nice big hefty chunk of it today. As I've said at the beginning of the call, we'll start to use when smartphones become available in early 2019.

And we're encouraged by the FCC's actions around driving an auction. I wish it was going to be in 2018. I think it's probably going to be in 2019 and there will be like a 2 GHz plus bandwidth of millimeter-wave across multiple bands that will come up under the hammer in early 2019.

And we're going to be obviously very interested in that. Why? My reticence around millimeter-wave is making it work from an outside-in perspective and we've done as much testing as anybody else. It's really, really hard but you look at that spectrum deployed smartly in urban environments whether propagation is less of a concern in urban outdoor environments, it's got huge potential.

But it's not the only way to really enhance the mobile experience. We've already launched license assisted access, so this is unlicensed spectrum in the 5-gig band with LTE and the performance capabilities there we're seeing in markets like New York is very, very promising. And there's a lot of spectrum there.

So bottom line, when you look at this mobility experience, we're pushing together tremendous LTE. We'll do Massive MIMO this year. We're driving LAA very hard. We'll have 5G millimeter-wave coming on top. You put all those things together and then you can really start to push this mobile experience and that's our direction and plan.

The challenge on millimeter-wave is broader massive deployment and that's where you need low-band as your mobility anchor and also something else that we've been pushing very hard on. We need kind of more mid-band spectrum in the U.S. to support all of the competition and all of the opportunity that's out there. That's a little further out. That's the 3.7 through 4.2 gig band and that's probably into the next decade before we'll see that become available, but we have a lot of ways to really enhance the customer experience between now and then.

<A - G. Michael Sievert>: I would just add, Amir, the only thing we – the other thing we don't like about millimeter-wave is when it gets talked about by our competitors as the definition of 5G. As Neville just clearly laid out, 5G is a capability that will go across every band of spectrum and make every band of spectrum more spectrally efficient, more able to handle massive connectivity, more responsive with lower latency times, be able to be responsive to sensors with incredible battery performance.

These are things that will affect every spectrum band and we're starting with 600 MHz because we think an awful lot of these IoT use cases are going to require connectivity that's everywhere. I mean, if you picture sensors in people's clothing on their person going with them or agricultural solutions et cetera, et cetera, where massive numbers of sensors are out in the public you need to be sure that those sensors are going to be on the network. And that means starting with low-band.

So we're going nationwide, coast-to-coast, and we'll be the first one with the national 5G deployment because of that while our competitors just simply can't do that and since they simply can't do that, they equate 5G to millimeter-wave, which is all they can do in the early years.

<Q - Amir Rozwadowski>: That's very helpful. And one follow-up, if I may, on – Mike, perhaps on the expansion of your footprint and distribution. It sounds like qualitatively you guys are seeing some potential uplift in terms of subscriber momentum coming off of those markets where you have improved distribution. Is there any sense that you can give us in terms of market share on a relative basis? How you see that opportunity set shaking out relative to some of the strength that you've seen in some of the metro markets? Are we still at early stages vs. your target market? And how much is sort of your net-add guidance this year is predicated on achieving improved traction within those markets?

<A - G. Michael Sievert>: It is early days and the performance has been excellent, above our expectations. So we're really delighted with how this expansion has gone and part of it is because of probably unanticipated, pent-up demand in greenfield places, which was only part of our 2017 deployment. It really is amazing how communities have responded and how these stores are performing.

And you think it shouldn't be that surprising. We've spent all this money for years telling the world about Un-carrier on national television that's available in all three-thirds of the country, while only having distribution in two-thirds of the country. And that probably can be frustrating to people whose only choices are U.S. Cellular and Verizon. So when we show up, it's exciting.

We've had U.S. senators, mayors, marching bands to inaugurate our stores in their towns because of the difference it makes when T-Mobile and the Un-carrier value proposition arrives in town.

As John said, we've expanded over the last year and a half, two years from 230mm POPs fully covered by our distribution to 260mm. Now, the network Neville's built, already covers 322mm. So we've got room to run as we continue to expand our distribution to reach every American in the coming years

<Q - Amy Yong>: Maybe I'll sneak in two questions. So first, Sprint recently discussed how they fit in in the SoftBank ecosystem, and I was wondering if you can talk through your relationship with DT particularly as they kick up their stake in T-Mobile? And my second question is on operating leverage. Maybe talk us through margins for the year? I think most of us understand there will be some incremental cost associated with T-Mobile TV, but obviously you've also been gaining some scale. Thank you.

<A - G. Michael Sievert>: Yes. Just to start out – anybody can pile on – I just got back from Germany last week to attend the annual meeting that the management team there holds, and there are a lot of exciting opportunities to collaborate with DT. And this is a company that operates in, I think, 19 countries around the world, and in some cases more as a challenger like T-Mobile US and in some cases as the highly entrenched incumbent. And there's lots that we can collaborate on.

In particular as we look at 5G and IoT, we're excited about the potential to leverage the broader scale because DT, like T-Mobile US, is making big investments in getting ready for 5G and unleashing the talent of developers and innovators everywhere. So there's a great collaboration opportunity there.

<A - J. Braxton Carter>: And, Amy, we don't guide specifically to margins. We do expect continued scale with the business. Certainly there is an increase in OpEx relating to the geographical expansion that you noted, but with all that said, we do expect continued margin expansion as we leverage the fixed cost associated with our business.

<A - Neville R. Ray>: We're at a really interesting point in our history, right, where we're at the precipice of unlocking all this cash flow that Braxton laid out in detail. We've got record EBITDA, record cash flow, record profitability at a time when we're in the middle of a growth scale, and an awful lot of companies would have a trade-off between those things, growth or delivering on the financials. We're delivering both.

And what's interesting is we're covering the cost of massive investments that we're making in that record profits. In that record profits is already paid for the biggest retail expansion in the country that's not yet delivering financial results, a massive network expansion including laying in that 600 MHz nationwide across hundreds of thousands and eventually millions of square miles. We're paying for all of that right now while still delivering all-time record profits and growth rates that exceed all three of our competitors combined. So that's a good place to be.

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