T-Mobile US, Inc. (TMUS) CEO John Legere on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release

EPS of $1.01 beats by $0.03 | Revenue of $11.06B (2.05% Y/Y) misses by $-268.75M

Earning Call Audio

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T-Mobile US, Inc. (NASDAQ:TMUS) Q3 2019 Earnings Conference Call October 28, 2019 4:30 PM ET

CompanyParticipants

Nils Paellmann - Head, IR

John Legere - CEO

Braxton Carter - CFO

Mike Sievert - President & COO

Matt Staneff - CMO

Neville Ray - EVP & CTO

David Miller - EVP, General Counsel & Secretary

Conference Call Participants

Michael Rollins - Citi

Simon Flannery - Morgan Stanley

Philip Cusick - JPMorgan

Jonathan Chaplin - New Street Research

Brett Feldman - Goldman Sachs

Craig Moffett - MoffettNathanson

Kannan Venkateshwar - Barclays

Colby Synesael - Cowen

Mike McCormack - Guggenheim Partners

Operator

Good afternoon. Welcome to the T-Mobile US Third Quarter 2019 Earnings Call. [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

Yes. Thank you and welcome to T-Mobile third 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.

Let me just 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 are subject to significant growth 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 transactions on July 30, 2018, we filed a registration statement on Form S-4 with the SEC related to the merger. The registration statement became effective on October 29, 2018, and it's available on the New T-Mobile website. It contains important information about T-Mobile and Sprint, the merger and related matters.

With that let me turn it over to John Legere.

John Legere

Okay. Thank you for that rousing opening, Nils. Good afternoon, everyone, and welcome to T-Mobile's third quarter 2019 earnings call and Twitter conference. We we are coming to you live from Bellevue, Washington. We've got a lot to cover today. You can see from the results that we just put out that we have not skipped the beat. We delivered another blockbuster quarter in Q3. We maintained our incredible momentum and posted record service revenues. In addition, we delivered a number of Q3 records, including record low branded postpaid phone churn, total revenues, adjusted EBITDA, net income, and free cash flow. We'll talk about these incredible Q3 results in a minute. But first, let me give you a quick update on our merger with Sprint.

We are very pleased that after an exhaustive review of the facts, the Federal Communications Commission voted to approve the merger on October 16. Now both expert agencies, the FCC and the DOJ have validated the merits of a T-Mobile and Sprint combination. As we work through the final steps of closing our merger, we remain convinced that the merits of the deal are even truer today.

It's important to point out that the target synergies, profitability, and long-term cash generation have not changed for New T-Mobile. We continue to expect that the merger will deliver more than $43 billion in synergy, while almost tripling our total spectrum holdings in low and mid-band. This positions New T-Mobile to become a nationwide leader in 5G, leapfrogging the competition in network capability and customer experience. This network capability will enable us to supercharge the Un-carrier strategy and aggressively take share from the predatory incumbents. New T-Mobile will support the creation of thousands of new jobs across America, net positive from day one, and deliver lower prices and unrivaled value on the nation's best network, transforming our customers' lives in ways we can’t even imagine.

Now, while the deal closing -- closing the deal has taken longer than planned, the silver lining is that we have had more time to prepare for the coming integration. We have detailed integration plans and we are preparing to start deploying Sprint's 2.5-gigahertz spectrum soon after closing. We're working hard to complete the final steps for the merger, and we remain confident and optimistic. In addition to the majority vote from the FCC, we received clearance for the merger from the DOJ in late July, upon entering into a consent decree that included the divestiture of all of Sprint's prepaid businesses and Sprint 800-megahertz spectrum assets to DISH, as well as supporting DISH's rapid entry into the wireless market. The DoJ consent decree is still subject to the final Tunney Act review, as most of you know.

Earlier this month, the State of Florida joined the DOJ settlement, and Mississippi and Colorado came off the state AG complaint. In total, 19 State governments, state AGs, governments and/or PUCs have now expressed their support for the merger highlighting benefits such as increased competition, rural coverage, jobs, affordability, and new wireless competition for fixed broadband access. On that note, 18 of 19 PUCs have given this deal the green light. We have a lot of leaders that recognize the benefits that this transaction will deliver for consumers in their state and beyond. Now, as you know, the state AG trial is set to begin on December 9. In the meantime, we continue to be open to and are having many discussions with the state AGs. We now expect the merger will be permitted to close in early 2020.

Now, let me dive into these blockbuster Q3 results. First, let's talk customers. 1.7 million total net customers joined the Un-carrier movement in Q3, up 117,000 year-over-year. That makes 26 quarters in a row that we have had more than 1 million total net customer adds per quarter. We added 754,000 branded postpaid phone customers, and continue to lead the industry in postpaid phone growth by a wide margin. We delivered these great results despite this being another competitive quarter in the marketplace.

Wireless customers want to do business with the company that treats them right and changes the rules of the industry in their favor. And this shows up clearly in our churn numbers as customers are coming and staying longer than ever before. We had a record low Q3 branded postpaid phone churn of 0.89%, down 13 basis points year-over-year. Not only is this a record low for Q3, we also beat AT&T for a fourth quarter in a row.

Our overall postpaid churn was 1.04%, which was also a record low for Q3 and was the best in the industry. In fact, we beat Verizon for a third quarter in a row and AT&T for a fifth quarter in a row. We had strong branded postpaid net customer additions of 1.1 million, supported by continued strong growth in postpaid other customers. Branded prepaid net customer additions were 62,000, up from 35,000 in Q3, 2018.

Next, I've got to highlight our record financial results. Service revenues hit all-time record highs reaching $8.6 billion, growing 6% year-over-year, and branded postpaid revenues grew 10% year-over-year. Total revenues grew 2% year-over-year to $11.1 billion, a record high for Q3 despite lower equipment sales. We hit a Q3 record high adjusted EBITDA of $3.4 billion, up 5% year-over-year. Net income was $870 million, a Q3 record high, up 9% year-over-year and fully diluted EPS came in at $1.01, also up 9% year-over-year. And net cash provided by operating activities was $1.7 billion, and free cash flow was $1.1 billion both Q3 record highs, up 91% and 27% year-over-year.

Okay, let's talk network for a moment. If you may have heard the news that Neville announced last week that he and his engineering team have been running at an incredible pace building out our initial layer for 5G. In fact, we announced that we are accelerating the build-out and plan to launch our foundational layer of 5G nationwide this year. Our 600-megahertz spectrum will be the foundation for our 5G network, and it's live in nearly 8,300 cities and towns and 48 states in Puerto Rico. This deployment covers 1.4 million square miles and 200 million POPs today.

We now have thousands of 5G ready towers and cell sites capable of lighting up 5G on our 600 megahertz spectrum, and no other 5G signal will be a strong or as reliable. More than 26 million devices that are 600 megahertz compatible are already on our network today. We plan to launch 5G on 600 megahertz on a nationwide footprint of more than 200 million POPs with compatible smartphones, including the recently announced exclusive

One Plus 7T Pro 5G McLaren later this year. This network will be the foundation of 5G coverage layer for New T-Mobile, part of the overall layer cake of available low, mid and high band spectrum for 5G that will be a game-changer for consumers. New T-Mobile's nationwide 5G will be able to cover more people in more places and work indoors and out unlike Verizon and AT&T's current 5G networks, which can be blocked by things like walls, glass, and leaves, and this is all while we continue to expand our 4G LTE network coverage and deliver industry-leading performance.

We've caught up to AT&T and Verizon, and now have 326 million Americans covered with 4G LTE, nearly 99% of the U.S. population. And we now have 311 million Americans covered by low band spectrum, both 600 megahertz, and 700 megahertz combined. So needless to say, we continue to make great progress on our network and can't wait to get 5G into the hands of consumers.

We spent the better part of the last seven years changing wireless for good. And with the network capabilities of New T-Mobile, we're going to take on carrier to an entirely new level. So I think it's time we start sharing some of what we mean by next level. I won't say any more today, but please mark November 7, on your calendars, because we are going to announce our first Un-carrier move for the New T-Mobile, sharing some of our plans and commitments for the future. That's right, New T-Mobile, Un-carrier 1.0. November 7, stay tuned.

Okay, to wrap up; I couldn't be more excited about our performance this quarter. We continue to work towards closing our merger with Sprint and do so without skipping a beat in our business performance. Q3 2019 was another blockbuster quarter for T-Mobile and our unprecedented momentum continues as we gain postpaid phone share and deliver record financial results. Our increased guidance shows that we remain confident in our outlook for 2019. Circle November 7 on your calendar. You won't want to miss it.

Okay, time to ask CFO, Braxton Carter, to take us through the financials and our guidance for the remainder of the year. Braxton?

Braxton Carter

Thanks, John. I continue to be so excited about the prospects for New T-Mobile as well as our continued operational excellence.

Let me get into some of the financial details of the quarter. Net income amounted to a Q3 record of $870 million and diluted earnings per share was a $1.01, both up 9% year-over-year. Net income benefited from higher operating income and lower interest expense. The effective tax rate amounted to 27% for Q3. For 2019 as a whole, we continue to expect an effective tax rate in the range of 25% to 26%. Note that net income and EPS were fully burdened in the third quarter by the Sprint merger-related costs of $128 million and $0.15 per share after-taxes, respectively. These costs $159 million before taxes are excluded from adjusted EBITDA. Adjusted EBITDA amounted to a Q3 record of $3.4 billion, up 5% included leasing revenues of $142 million versus a $176 million in the prior year.

Recall that adjusted EBITDA in Q3 2018 benefited from a $138 million of hurricane-related reimbursements net of costs. The adjusted EBITDA performance is a reflection of strong cost management, especially for SG&A. Cost of services as a percentage of service revenues increased by just 50 basis points year-over-year despite the continued rapid rollout of 600 megahertz spectrum. As expected, there was a significant sequential ramp in cost of services due to this roll-out.

SG&A as a percentage of service revenues decreased by 30 basis points year-over-year despite the increase in merger-related costs. Excluding the Sprint merger-related costs, SG&A decreased by 150 basis points year-over-year despite the headwind of $83 million from the amortization of commissions from the new revenue recognition standard relative to last year. Free cash flow increased by 27% year-over-year to $1.1 billion due to a 91% increase in net cash provided by operating activities, partially offset by an 11% increase in cash capex to $1.5 billion. Free cash flow in Q3 included $124 million of merger related payments. Excluding these merger-related payments, free cash flow would have been $1.3 billion.

Branded postpaid phone ARPU amounted to $46.22 in Q3, essentially flat both sequentially and year-over-year. We expect branded postpaid phone ARPU in full-year 2019 to be down approximately 0.7% to 0.9% compared to full-year 2018 within our generally stable envelope. This implies a sequential and year-over-year decline for Q4

2019. This decrease was driven in part by a reduction in the non-cash, non-reoccurring benefit related to data stash as a majority of impacted customers have transitioned to unlimited plans. In terms of customer quality, our results from the third quarter continued to be outstanding. Total bad debt, expense, and losses from sales of receivables were $102 million or nine -- 0.92% of total revenues compared to $128 million or 1.18% of total revenues in the third quarter of 2018. Bad debt in the third quarter included certain one-time benefits and we expect a seasonal uptick in the fourth quarter.

Now, let me get to our 2019 guidance. We expect branded postpaid net customer additions to be between 4.1 million and 4.3 million, up significantly from the prior guidance of 3.5 million to 4.0 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 $13.1 billion to 13.3 billion, increasing the midpoint from our prior guidance range of $12.9 billion to $3.3 billion. This guidance takes into account leasing revenues of $550 million to $600 million in 2019, unchanged from prior guidance. It also takes into account our network expansion, in particular, the 600 megahertz and 5G rollouts.

Pre-close Sprint merger related to costs before taxes are expected to be between $125 million to $150 million in the fourth quarter. These costs will again be excluded from adjusted EBITDA, but will impact net income and cash flows. We now target cash capex of $5.9 billion to $6 billion, up $200 million to $300 million from the high end of our prior guidance range. This includes capitalized interest, which is now expected to amount to approximately $450 million in 2019. The higher capex guidance reflects our rapid rollout of 600 megahertz setting the foundation for our accelerated plans to launch the first nationwide 5G network with more than 200 million POPs later this year.

We continue to 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 the prior range, even with the step-up in cash capex. The CAGR for the underlying net cash provided by operating activities is now expected to be 36% to 37%, up from 33% to 35%. Our free cash flow CAGR guidance does not assume any material cash inflows from securitization going forward and it excludes payments from merger-related costs.

Now, let's get to your questions. Please note that we cannot answer any questions related to the upcoming millimeter-wave auction, that's Auction 103, due to the quiet period around this auction. You can ask questions via phone or via Twitter. And we'll start with the question on the phone. Operator, first question, please?

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions] We'll take our first question from Michael Rollins of Citi.

Michael Rollins

Thanks, two questions. First, can you talk a little bit more about the sales productivity in the quarter, and if you're seeing anything different in terms of where the customers are coming from or what types of plans they're taking? And then secondly, with regards to the process with the state AGs, are there a couple of common pushbacks or concerns that you're learning about across the states that are involved with the litigation? And is there an opportunity for the Un-carrier 1.0 for the New T-Mobile to potentially address some of those questions or concerns? Thanks.

Mike Sievert

Sure. I want to take the productivity question first, and then the -- absolutely, I'll jump in with just a quick overview, Mike. No big changes here. What's going on is you're seeing our continued progress into the suburbs, into the prime suburban families, into greenfield towns, and into segments like older Americans like military. And that has been a trend for the last two or three quarters, and you saw that continue. You also saw a record low Q3 churn. And as John said in his comments, this quarter, we were not only at the best levels we've ever seen for Q3, our overall postpaid churn when you look at the whole postpaid business which is not something we normally disclose, we focus more on phones, was the lowest in the industry, again, lower than Verizon, lower than AT&T. So that takes some pressure off the activation engine and you can see that start to translate into efficiencies in our business, which is terrific to see.

This morning, we doubled down on that same strategy, this time with a breakthrough new offer for first responders. And it follows our very successful mold of really focusing on military, which we've been at for quite a few quarters now and really winning hearts and minds, and I think doing great work for military families and saving them an incredible amount of money. Today, we turned our attention with that same kind of value proposition that can really make a difference for families for first responders. And we're really excited about that and continuation of our strategy of doing well by doing good. So that's the first one.

John Legere

Yes. On the second question, I can tell you, it's been a fascinating year and a half whether it's been in Congress or the Senate or FCC and the DOJ, and now the state attorney generals. We violently agree on all the things that are important -- all the things that are important to the states and violently agree of what the New T-Mobile can do. So, if you think about the federal agencies, they've now approved -- the expert agencies that have approved this deal, it's been about ensuring 5G investment and 5G build and rural coverage and broadband competition, concerns about pricing, concerns about the low end of the market. And what we've been able to do as you've seen recently with both Colorado and Mississippi is once you speak to these individual attorneys general about their state and the things that are important to them, they see that what they are concerned about is committed to nationally and can be tailored for them, so have been very good discussions and we continue to have those. They continue to center around 5G, and the build and pricing and around DISH as a competitive player, which certainly we have been very aggressive with the consent decree on positioning for that.

So, we feel very good about the conversations and where they're headed. And we feel very good and confident either in the process of a settlement or even going to trial and having the case seen well. And to your point, certainly the kinds of things that the New T-Mobile will signal that we will do, whether it'd be an Un-carrier move or the plans that will start to unveil, they are very powerful items of discussion with the states as well, because they answer the main question. So, it's all coming together in that fashion, stay tuned, good discussions continue, and as I said, we may -- we remain very optimistic and confident about the creation of the New T-Mobile. And yes, I think, November 7, might add a little bit to the conversation.

Michael Rollins

Thank you.

Mike Sievert

Thanks, Mike.

Operator

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

Simon Flannery

Great, thanks very much. A question on the 600 build-out, I'm not sure if Neville on, but just you've done $200 million, I think, Braxton had referred to capex being front-end loaded, so what's the pacing from here to get to $250 million and more over the next few quarters? Is this something where it's going to be slower to go and how should we think about the expectation there? And then Mike coming back to your comments on the first responder, could you just size that opportunity for us, what you have today and what you think the opportunity there is? Thank you.

Mike Sievert

Doesn't Neville at least get an attaboy for the $200 million…

John Legere

Already it's $250 million.

Mike Sievert

[Multiple speakers]…in Miami, yes. I know.

Simon Flannery

Yes. Congratulations, Neville. Yes.

Mike Sievert

Obviously, we're very pleased with the progress we've made on 600 megahertz. And it's really adding to this phenomenon low band footprint that we've assembled over the last three to four years. I mean, John referenced it 311 million people now covered with low band and then we continue to grow that number as we like that more and more of the 600 megahertz. And 26 million customers now with the 600 megahertz phone in their hands starting to really reap the benefits of a lot of new spectrum that we can bring to the U.S. consumer, both in LTE and 5G.

As we said many times, this is the foundational layer or the layer cake, with the New T-Mobile. As we combined with Sprint, it's critical to what we plan to do. With that fabulous combination, super excited about what we can bring. And so, to your question, yes, no slowdown on 600 megahertz. As we move into 2020, we obviously look to continue to build out that footprint across the nation. And remember, we have nationwide, I mean, fully coast to coast spectrum here that we can leverage, and it's a key part of the commitments that we've made to the FCC and many others in terms of our build-out of 5G services and LTE.

Big, big push on rural for us within this footprint. We've been building this thing almost from the outside in, because we have to clear broadcasters in the major metros that are sitting on that spectrum. With much of that work done now, we're ahead of the schedule materially compared to the original schedule that was put in place in partnership with the FCC three years ago, and so real great benefit coming through not just in metros, but across the country and specifically in rural. So, we're on it. We're building. We are building now, we're building through the quarter, and we'll be back at it again in 2020.

John Legere

And Simon, Matt Staneff is here our, Chief Marketing Officer. Maybe, Matt, you can talk a little bit more about the first responders.

Matt Staneff

Yes, great. Hi, Simon. So the way I like to think about the first responders' offer is that we're approaching this, the same way that we approach 55+ Unlimited Military. They're both segments in the marketplace that we don't have large share coming in; in fact we haven't had as robust an offering for first responders as we do now. Like we did with military, we came in with a very aggressive offer to serve those consumers in the marketplace, a way stronger and more compelling than what competition has. So we expect to see similar results on it. But I will say, there are less first responders in America than military and veterans. We won't see quite the same degree of business result on the whole, but to the segment, we expect to see similar outcomes.

Simon Flannery

Okay. Thank you.

Operator

Thank you. We'll take our next question from Phil Cusick of J.P. Morgan.

Phil Cusick

Thanks. Maybe we can talk about the network build, a little further, Neville. The -- some of the tower companies have been saying that you guys have been pulling back, which doesn't seem to fit with the speed of your deployment and the higher capex. Can you try and square that for me, first of all? And then can you give us any update on discussions with DISH around leasing that 600 megahertz, how should we think about that going forward? Thank you.

Neville Ray

Somebody want to take the DISH lease?

John Legere

Yes. You do the first part.

Neville Ray

Yes. So, Phil, on 600 megahertz, I mean we're ahead of plan, and we're very clearly ahead of the goals that we had at this point in time for the year. And any activity that's modifying or modulating in the field is just us working towards that capital envelope. You heard from Braxton, I mean we are above plan on cash capex for the year. So we've done a lot more than we plan to do inside 2019. And it just makes sense for us not to keep running at 1,000 miles an hour when we have these other considerations to take into account.

I said, we're still building, delighted to be ahead of plan and delighted that we can light up what will be the first nationwide 5G network here in the U.S. before the end of the year. That's a key opportunity for us as part of what we're going to do with the New T-Mobile here.

Mike Sievert

Yes. And let me add, Phil. You know, our long-term philosophy is that we deliver on the commitments that we make to all of our stakeholders. And threading that needle on a year-after-year basis, while also trying to bring the goodness of the rollout of the 600 megahertz as quickly as possible has resulted in more of a front-end loading a capex. You'll see similar trends next year. We are super excited, and we'll roll out our full guidance for 2020 on our year-end earnings call. But I would expect similar types of patterns just as we are deploying 5G and getting all the goodness of that $8 billion we have invested in the 600 megahertz.

John Legere

Yes. On the second part as the consent decree and the items have been disclosed cover, we are having discussions with DISH about potential leasing of some of the 600 megahertz spectrum. And frankly, it's a real opportunity for a win-win, or almost call it found money. And so it's a chance potentially for a revenue stream for DISH before their spectrum is used. And for us it can have a significant positive impacts to us if the price is right, especially from a standpoint of migration. So never say never, one thing that we become experts at in the last year is negotiating with DISH, and it's difficult process, but I think in this case, there is a real win-win possibility for both sides. And with that said, we're not done yet, so we'll keep you posted. But it's a good opportunity that we're both interested in.

Phil Cusick

Thanks, guys.

Operator

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

Jonathan Chaplin

Thanks for taking the question. John, I think if you put your learnings or negotiating from DISH into a book, it will become a best seller. I think that'd be -- there'll be lots of other readers of that [ph]. A question for Braxton, actually. The -- with cost of service without the network investment you're making have been relatively flat. And what's driving the increase in cost of service? is that -- are you increasing your site count, is it more cells, or is it amendments you're making on a -- on existing sites as you put 600 megahertz up? And then finally, what's the trajectory of that over the course of the next sort of two to three years? Is there another increase similar to what we've seen next year if you do 5G, and then it flattens out, or there on a growing trajectory like this for a few years?

Braxton Carter

Yes, it's a great question. And the answer to your question is a little bit of all that. What we've done over the last couple of years and this isn't a new phenomenon about the absolute dollar increases in the cost of services. We rolled out the full geography of the U.S. and got to equivalency with AT&T and Verizon on geographical footprint. And now we're rapidly rolling out the 600 megahertz. Remember that Neville was visionary here once again and push the OEM and the ecosystem to develop a dual-banded radio that could boast -- address the 600 megahertz and address 5G with a software download as he was deploying the 600 megahertz.

We certainly have more work to do. You've heard the 200 million POPs, which is base for nationwide coverage, but obviously we have the spectrum, we have the wherewithal, and this rollout will continue in the upcoming year. And we'll give a really detailed guidance just as we have on the cost of service on both of the last year-end calls. But it's not a permanent step function change that's going to happen here when you're looking at year-over-year. We're in a period of unique investment, and I think we're doing it extremely efficiently and well thought out. And I want to thank Neville for that too because doing the 600 megahertz and going back and overlaying 5G and climbing those towers again would have been a very, very expensive proposition.

John Legere

I just pile on Jonathan, everything Braxton said, I mean, the key areas mainly...

Braxton Carter

The visionary partner.

John Legere

...the visionary partner, he mentioned to me -- yes, obviously. So the overlays obviously, we're hanging new radio and so that's a major driver of lease amendments and so on. We continue to do small cell work and material pace there. And the other piece is, we're upgrading a backhaul. We are building connectivity here for a 5G world. And so we've done a lot of work to get ourselves ready multi-gig circuits, I mean, making sure that our backhaul is there as the radio comes on board. And as we combine with Sprint and create this enormous traffic and supply capability into the market, we need to make sure it's not just a radio story, it's also that we have the end-to-end capability. And so backhauls another piece of after play, and making sure we're fully ready for the opportunity that we can bring now in 2020.

Jonathan Chaplin

I'm glad you explained all that Braxton, because I thought I heard somewhere in the original question towards I've never heard used together, Neville and slow down. And I don't think we'll ever hear those.

Braxton Carter

For everyone [ph].

Jonathan Chaplin

Thank you, guys.

Mike Sievert

Thanks, Jonathan.

Operator

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

Brett Feldman

Yes, thanks for taking the question. I mean, you're obviously racing ahead of your competitors in terms of deploying 5G coverage. I'm curious how do you plan to message the benefits of 5G to consumers? How is that going to change as you start to incorporate Sprint's deep spectrum portfolio? And then ultimately, are you willing to offer consumers incentives to try 5G on T-Mobile? Thank you.

John Legere

Just wanted to clarify, you said, we are racing ahead of our competitors in deploying 5G coverage. Was that -- can we just -- did I hear that right?

Brett Feldman

Correct.

Mike Sievert

Yes.

Brett Feldman

Yes.

John Legere

Actually, we've come up with a few ideas. First of all, we've decided to label it 5GE, and we've decided that no matter where we deploy our 5G, we're refusing to show it in maps. So outside of those two innovative ways. But yes, Mike, now would you want to?

Mike Sievert

Well, I'd say a couple of things. One is, I think you saw the power of when you can get your partners with the mainstream devices to adopt your technology as we were just talking about responsibly to the last question, how quickly that can benefit consumers, and you're seeing that right now with the 600 megahertz. We're delighted that our major partners with the big flagship devices, were able to get our 600 megahertz LTE technology on the devices last year, and as a result, we now have 26 million people with that technology in their hands. And I think that bodes very well for us as we think about our future in 5G, which again we have a big opportunity to get the ecosystem aligned.

And I don't think it's going to take incentives to get people to try T-Mobile 5G. They're going to move to it very enthusiastically. Our strategy is going to look -- so as John was just saying, our strategy is going to look so different from our competitors. They're doing -- in particular, Verizon is making a bet that people will want versions of 5G that work in some places, very limited places and don't work in most places versus a 5G that works nationwide and that were willing to back with maps. And that's the beginning of a journey to the premise of your question. When you combine it with where we're going in the New T-Mobile, the journey towards the only 5G network that is both broad as we're talking about at nationwide and everywhere, and deal with transformational capacity and speeds that really can change the use cases for our consumers in very profound ways.

It's a little early to predict all the applications and innovations. But I can tell you one thing as somebody that's been close to software, innovators are going to choose the network that's both broad and deep, that relies on having 5G everywhere. You're going to see use cases that are designed more to our way of thinking than to Verizon's way of thinking, which is that some people want 5G in a few places to be very high capacity and everywhere else, you'll be relegated to LTE. I don't think that will inspire the same kind of mobile innovation that we're going to see the T-Mobile -- the New T-Mobile network inspire.

John Legere

I'm going to take one or two of the questions that are coming in and -- because it's still -- one of them steering in the -- right in the face. And Walter [ph], I have to say, I don't know why, but I'm looking at your new Twitter handle @WaltLightShed, and I just keep thinking of at @BuzzLightYear. I mean -- it's something I don't know why. I think that's kind of cool. But I'm going to kind of touch on one of your questions. There is a question came in, no comment about extension of Sprint merger agreement in TMUS press release that expires on Friday. And I would give you this feedback, Walt, that Sprint and we are currently focused on working very diligently to complete the last remaining steps to be able to close the merger in early 2020. And I think that says everything that we need to say about that date. Let's see.

Do you want to take Bill Ho's -- Bill has been a diligent center in -- of questions, and it's -- last time we take one is, interesting question about prepaid, maybe. Yes. So one of the questions that Bill sent in is, for many quarters, prepaid seems to have lost its competitive edge and big growth, talk about the landscape and any changes in prepaid strategy.

I'll just say something brief and Matt, if you want to pile on. It's not so much that prepaid has lost something. It's -- I think that postpaid has been growing at the expense of prepaid and that's probably great for the industry overall. So these things aren't really two different things. They are just two parts of one industry that has very positive trends that are fueled as much as anything else by the strong economic conditions that we're seeing. More people are qualifying for postpaid and therefore you're seeing postpaid grow at the expense of prepaid.

The other dynamic is we've seen over the last year and a half cable entrants have come in and they have also chipped away at the prepaid market and added to the postpaid side. Two years ago, there were no cable net adds. Now, when you take cable and you add up the three major players, they had more net adds reliably than Verizon, the second most of anybody, except T-Mobile. So that's another dynamic that has caused postpaid to grow at the expense of prepaid.

Matt, anything to add there on industry dynamic?

Matt Staneff

Yes. The only thing I'll add on that one is, we've been pretty consistently growing our prepaid business in the face of these things, Mike talked about, our strategy is one of competing in every market segment and consistently taking share there. The other thing that I'll expand on is that -- the other thing that's been occurring is this long credit expansion. Credit scores are at record highs. We know customers are continuing to seek things like device financing etc. So I believe we're well positioned to continue to compete in this environment, as well as the environment changes in the prepaid space and postpaid.

John Legere

Okay. Operator?

Operator

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

Craig Moffett

Yes, hi. The Sprint was found by the FCC to be -- to have a large number of [Technical Difficulty].

A – Mike Sievert

Craig, we lost you. I don't know if you're still there.

Operator

Mr. Moffett, are still with us?

Nils Paellmann

Okay, let's go to the next one. We can come back to Craig, if…

A – Mike Sievert

And I was really hoping to complement Craig that before I even get my second cup of coffee out this morning, he had already come up with the tag line for AT&T's earnings, which is hope is not a strategy. And I found that to be amazing. And I am hoping that there is a similarly positively cynical thing that he has got in store for us. And I would bet $50, he was on an AT&T phone [indiscernible]. Okay, we'll come back to -- and, operator, I fear the next participant, but let's take the next question.

Operator

Yes, sir. We'll take our next question from Walter [ph] of LightShed.

Unidentified Analyst

Thanks, John. I'm going to start with Neville. The deal obviously has taken a bit longer than we all had hoped, I guess. So Ray, -- and this time, I think we're all expecting to be investing in that huge swap of 2.5 spectrum. So if this thing continues to drag on into early 2020 or perhaps you have to look at a plan B, if the deal isn't approved, where does that money go, which spectrum bands do you think will be first up versus the 2.5 spectrum? Obviously, you're going to continue to invest in the 600 megahertz, but which other spectrum should we'll be looking at in terms of your mid-band investments?

Neville Ray

I'm not sure my head even floats there, Walt, so it's all about -- there's only one plan and that's combining with Sprint. And as you said, -- I mean time -- in some ways, he has been our friend here because my team is more prepared than ever to rapidly roll out the 2.5 gigahertz radio and spectrum the Sprint has. And long pole in the tent was going to be jurisdictional processes. So we are in a position with deal closure, where we can start to rapidly deploy that spectrum. 600 megahertz as we said is the others -- the foundational layer. We've continued and we'll continue to work on our millimeter-wave story. But you know our spectrum mix, and as I said, it's all about combining with Sprint. That's all that sits in my head.

Unidentified Analyst

Got it. And then Mike, -- 2014 was obviously a huge year, and then if you go back to kind of the gross adds, the ebb, and the flow in terms of some years you're growing, other years it's churn. And obviously, in the last year, there has been this great churn improvement, getting your churn below T, obviously, you'll probably be under Verizon soon, but there is obviously some diminishing marginal returns and getting that churn lower. I mean, they're going to get it so low. So should we look at 2020? I mean you talked about this New T-Mobile Un-carrier thing. Should 2020 be a bigger gross add year? Or should we think about lower postpaid phone net adds as far as the trajectory going forward, just given that you kind of pull the lever on churn as far as we can?

Mike Sievert

Well, we'll guide on 2020 at the appropriate time. But just a couple of the broad trends, right. One, you're right, we've had some phenomenal tailwinds on churn. I mean, we now have churn that's better than AT&T's. Our churn is in line with Verizon's. If you look at total postpaid, it's actually below Verizon's. So we're arriving at that industry best. And that's not to suggest that the tailwinds are necessarily epic, but we have to be aware of we are arriving at industry best. Neville said $200 million on 600 megahertz, that leaves $100 million -- some million [ph] to go. And a lot of customers, 26 million have the handsets, a lot of customers don't. So there's lots of benefit on the network side, lots of benefit on the customer experience side that we can continue to bring to the fore.

The other piece is that we're experiencing structural low industry churn, which is both good and bad. We see the good side of it and that we don't have to spend so heavily on activations as many activations, but on the other hand, it decreases, our opportunity. And the good news is that we have the chance to win one way or the other. Take a potential 2020 with a 5G super cycle of phones and elevated switching and elevated upgrades versus today, if that were to happen, there'll be more gross adds in the market. And as you know, we are the net share winner in this market. And so, if there aren't structural reductions in churn next year, we can look to other parts of the growth equation like activations because the two happen to go hand in hand. So the real question is, how do we compete in the competitive millimeter [ph]; and as you saw, we took 48% of postpaid phone net adds this quarter. And as long as we can continue to manage both sides of the equation, churn and activations, then we'll be able to thrive, whether it's a low structural churn a quarter or a higher structural churn a quarter.

John Legere

By the way, I just want to point out that while he's asking multiple questions on the call, whilst typing in more questions online. Operator?

Unidentified Analyst

John -- again one on the line, John, because I want to sneak one last one on CPUC. If let's say, you get, New York and California on board, onboard, are you going to wait for the CPUC, or just before waiting for them?

John Legere

Go ahead, Dave Miller.

David Miller

It's my mic on here. Thanks for the question. No, we're confident that the CPUC approvals will be obtained in a timely fashion.

Unidentified Analyst

That was such a great loyal answer, thanks. I'm not sure relates to the question, but okay. All right. Thanks.

David Miller

All right.

John Legere

The timelines do look like they sort of line up.

Mike Sievert

Okay. I hear that Craig Moffett is back. Operator?

Operator

Yes, sir. Our next question from Craig Moffett.

Craig Moffett

Verizon wireless call dropped, sadly. I wanted to ask about Sprint. Sprint was found by the FTC to have a large number of fraudulent lifeline accounts and that could be as much as a $5,000 per account or per line penalty if it is found to be fraudulent, which I think could be up to about $4.5 billion. Have you learned anything new about the disposition of that inquiry at the SEC, and how might in -- and how might that in anyway affect the merger if there is in fact a significant liability?

John Legere

Yes. I think, Craig, what I'm going to have to say is that I'm not going to comment on another company's ongoing investigation that's not closed yet.

Craig Moffett

Can you just say in the -- as a hypothetical in the event that there is a liability would it affect the merger in any way?

John Legere

Yes. I think I'm not going to comment on this topic. Apologize for that.

Craig Moffett

Okay, fair enough.

Mike Sievert

Okay. Operator?

Operator

Thank you. We'll take our next question from Kannan Venkateshwar of Barclays.

Kannan Venkateshwar

Thank you. I guess a couple, first, when we look at the 5G go-to-market strategy, I mean there has been a lot of action recently around bundling video. Verizon this course announced the deal with Disney+. I think you guys have a deal with QB and Netflix, and you signed deals with Viacom. So when you think about video as a part of your overall strategy, could you just expand on how you're thinking about it, the plans with layer three going forward and how that fits broadly into your 5G strategy?

And secondly, from a deal perspective, is there something that would cause you to renegotiate the price outside of the question that Craig just asked, I mean, are there other variables we're thinking about from a price perspective when it comes to the Sprint deal? Thank you.

John Legere

Let's do a couple of things. I'll start that first comment and then Mike can give a more substantive discussion about video. I mean, I'm glad you brought that upfront because I would just -- I would start by saying there is absolutely no comparison for a offer of one year of Disney versus a lifetime Netflix. Length isn't the same, value isn't the same and certainly, the substance of the offers isn't the same. So I think it's not exactly a something other than the vice president of copy and paste at Verizon looked over at our Netflix, on us success and did a horrific job of creating it. And I don't know, last time I checked nine out of 10 people that watch Disney cartoons don't make wireless decisions. But the Little Mermaid will be a good one. But flattering nonetheless, we've seen this all throughout the Un-carrier journey, where we do something authentic, something bold, something permanent, it makes a big difference to people's lives. And then you see our competitors scramble to copy it. And that's certainly what you saw last week with Verizon. By the way, we think Disney+ looks like it's going to be a great service. This isn't a statement about Disney, this is a statement about how Verizon took something we're doing and did such a poor job copying it.

Mike Sievert

Or just by me.

John Legere

Yes. And -- so we'll have to see what happens there. But for us, it does indicate as people start to copy our moves, it shows that they understand that our moves are working. Since we made Netflix on us, one of our most famous Un-carrier moves a year and a half ago, it's been terrifically successful. And it's something that our customers love and that they believe we have a role in their video live and in their mobile video subscriptions, and in their consumption.

See, at the premise of your question, that has emboldened us as we think about the next steps in the strategy. We announced a strategic partnership with Quibi, the initiative formed by Jeffrey Katzenberg, and led by Meg Whitman, and we're very excited to be partnered with them. You mentioned our Viacom partnership, and they're plenty more opportunities, because in this world as it's changing, consumers are faced with an exciting world of OTT video, but a confusing one. And we have shown through Netflix on us that there is a role that they trust us to play in helping them choose, helping them authenticate, helping them pay for their video choices. And we think we've got a great strategy here. It's going to be mobile-focused. It's based on taking our T vision brand and really helping customers make great choices in this area and bringing them great value. And you see that right from the beginning of the strategy with Netflix on us itself.

Mike Sievert

Yes. And on the second part, not being invasive, but I'm sure you probably didn't expect us to really answer some of these questions. A couple of things are important with Sprint. We've been partners in this transaction for a long time, working side-by-side and in a very cooperative way. And we really are working diligently to close these final issues and get across the finish line and create the new T-Mobile. I would say that any of these items that pop up, any of these deadlines, any of these issues that come up as a partner, we have and will have discussions on the fairness associated with handling those. But that's certainly not anything that we'll kind of report on publicly. But they've been a great partner and if there are issues that we need to work together, we'll work together with them to solve those. And if we do have any items to announce, you'll be the first to hear.

Kannan Venkateshwar

Thank you.

Operator

Thank you. We'll take our next question from Colby Synesael of Cowen.

Colby Synesael

Great, thank you. Just one. Some of your competitors of late have been focusing on ARPU lift, whether that's come through other fees or it's come through the variety of different unlimited plans to which they offer. And when I look at your ARPU, really the last few years continues to come down. How important or a big of a focus is driving ARPU growth over the next year so for you, and how might you be able to go about doing that? Thank you.

Braxton Carter

Yes. You know Colby, it's -- the right way to look at this and we've talked about this numerous times in the past is we're pursuing a strategy of generally stable ARPU. And that's defined as plus to minus 1%. For the last two years, that's been minus 1%. We just gave guidance today that we're going to be less than minus 1% for this full-year. But it's a deliberate strategy, when we're doing things like segment penetration, that might be dilutive to ARPU, but increasing a higher CLV an MPV into the business. That's a trade-off well worth making. And I think we've demonstrated over the years that our consistent balance between growth and profit -- profitability in the generation of true significant ramping cash is really what drives the value here.

If we were a scale predatory duopoly, yes, that's probably what we'll be doing. That's not what we're doing. We have amazing unlock from a margin potential coming with continuing to scale this business organically or inorganically, and we're not going to stop. I mean it's long-term stated philosophy and I'm very pleased and proud of the team, how they are executed this year.

John Legere

I think Braxton, we've made a brand on providing more or less, and very -- we are in the wireless industry, I believe we are the reason why the duopoly are not consistently raising price in ARPU at their leisure as they always did. Some of the things that you refer to we will not do. We will not go add aimless taxes and fees simply to raise revenues or ARPUs, no trickery like the big guys are doing.

And I think if you look at the cable industry is an example of what happens when an industry is unchecked with the Un-carrier of the industry like we are. Pretty clearly if you look at the results of those players, what they're doing is they're losing video customers, buying wireless customers and gouging broadband customers because, in the broadband, they have no competition. That's what it looks like when you play that game. We look forward to going into that industry as well. But our role in this industry here is to make sure that AT&T and Verizon just can't indiscriminately decide to raise ARPU, and that's a role we'll play, a much more focused on that.

Okay. Operator, I think we probably have one more.

Operator

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

Mike McCormack

Hi, guys, thanks. John, maybe just a quick comment, you mentioned the cable operators had pretty good results this quarter, [indiscernible] very little price point. How you sort of view them as a competitor? And then I guess also on the competitive front, Verizon seems to have turned up the engine a bit in 3Q, and best we can tell 4Q, it seems like it's off to a pretty good start for them. Do you expect any change there; is there pricing going to create an impact on any other player in the marketplace to react to that? Thanks.

John Legere

Yes. I mean there's a lot in what you said, right. And then certainly the market responded well to some of what they saw from the cable players. But just to point out a number or two, right. So Charter had 276,000 net additions. They gained $192 million of revenue. But their EBITDA loss on that was $145 million and the free cash flow loss was $256 million. So that's what happened in their wireless. But of course, they were able to raise price on the broadband because of the lack of competition. All thesis too early to know, right? Their plans are targeted towards Optimum and Suddenlink customers, all 100 of them. And it -- so there is a price associated with that customer base slightly higher. So we haven't seen that yet. Certainly, we have a partnership in the New T-Mobile with Altice that Sprint does has as well. But I think it's too early to call.

One thing, it's not too early to call, is that both Comcast and Charter and I assume Altice have become significant factors in the wireless industry. And probably more so at the height of Verizon thus far. And you can see, if you really dug deep into Verizon's earnings, most of their increase in revenue came from a wholesale, which was probably driven by the success of their MVNO partners, the cable companies. So it's an interesting item. We ran right through this quarter. We take them very seriously. We think we've got some competitive advantages. And on Altice, too early to tell, but we'll certainly keep an eye on. Anymore – anything, Mike?

Mike McCormack

That's great.

John Legere

Okay.

Mike Sievert

Okay. Well, thanks, everyone for tuning in. We very much look forward to speaking with you at the end of next quarter in our full-year earnings, and we'll talk to you then. Thank you. Operator?

Operator

Ladies and gentlemen, this concludes the T-Mobile US Third 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.