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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for standing by. Welcome to the Sprint Fiscal Fourth Quarter 2015 Conference Call. During today's conference call all participants will be in a listen-only mode. Following the opening remarks, the conference will be open for questions.

I would now like to turn the conference over to Mr. Jud Henry, Head of Investor Relations. Please go ahead, sir.

Jud Henry
Head-Investor Relations

Good morning, and welcome to Sprint's Quarterly Results Conference Call. Joining me on the call today are Sprint's President and CEO, Marcelo Claure; and our CFO, Tarek Robbiati. Before we get under way, let me remind you that our release, quarterly investor update and presentation slides that accompany this call are all available on the Sprint Investor Relations website at www.sprint.com/investors.

Slide two is our cautionary statement. I want to point out that in our remarks this morning, we will be discussing forward-looking information that involves a number of risks and uncertainties that may cause actual results to differ materially from our forward-looking statements. We provide a comprehensive list of risk factors in our SEC filings which I encourage you to review.

Turning to slide three. Throughout our call, we will refer to several non-GAAP metrics. Reconciliations of our non-GAAP measures to the appropriate GAAP measures for the quarter can be found on our Investor Relations website. In addition, I would like to mention that all references to customers or connections in our remarks represent results or expectations for the Sprint platform unless otherwise indicated.

Let's move on to earnings for our fourth fiscal quarter of 2015 on slide four. Sprint's net loss in the quarter was $554 million or $0.14 per share compared to a net loss of $224 million or $0.06 per share in the year ago period. The decline is primarily due to some charges in the current period, including lease exit costs of $126 million primarily related to the shutdown of legacy WiMAX service as well as an $81 million loss from asset dispositions primarily related to cell site construction costs that are no longer recoverable. Adjusting for the aforementioned items, net loss per share would have been relatively flat year-over-year. On a full year basis, fiscal 2015 net loss of $2 billion improved over $1.3 billion compared to the net loss of $3.3 billion in fiscal 2014.

The year-over-year improvement is primarily related to higher asset impairments and associated tax benefits in the prior year, partially offset by higher lease exit costs and litigation costs in the current year. Lastly, although Clearwire's financial results are now consolidated with Sprint and included in today's presentation, its standalone quarterly financial results will be available on our website in the next several weeks as required by its debt covenants.

I will now turn the call over to Marcelo.

R. Marcelo Claure

President, Chief Executive Officer & Director

Thank you, Jud, and good morning, everyone. This was a very special quarter for Sprint as we surpassed both Verizon, AT&T in postpaid phone net additions for the first time on record. Fiscal year 2015 was a transformational year at Sprint and we made good progress on our plan to return Sprint to profitability, bolster the free cash flow, subscriber growth and network parity. I'm pleased about the momentum that Sprint is building across all aspects of our transformational plan.

We generated positive operating income in fiscal 2015 for the first time in nine years, driven by consistent quarterly operating revenues and continued momentum in our cost reduction efforts with a $1.3 billion improvement year-over-year in cost of services and selling, general and administrative expenses. Now we're focusing on delivering even more expense reductions in fiscal 2016 to further improve the profitability and cash flow of the business.

Our full year postpaid phone net additions were the highest in three years and improved by nearly 2 million year-over-year. At the same time, we had our best-ever postpaid churn for its fiscal year in the company's 20-year history in wireless and the biggest year-over-year improvement in churn in over 12 years.

I have read analyst reports and media articles concern about our liquidity and our upcoming debt maturities. Well, we now have over $11 billion of currently committed liquidity thanks to successfully executing both device and network financing transactions in April. In addition, we have rolled out LTE Plus service in over 200 markets and our network is performing better than ever for both voice and data according to leading third parties, RootMetrics and Nielsen.

Lastly, we have attracted new talent to Sprint over the course of the year to build a world-class management team. In addition, we recently rolled out a new regional sales structure that I'm confident will improve this result as we move into 2016.

Turning to slide six. Sprint continued to build momentum in subscriber growth in 2015 with a specific focus on the most profitable areas of our business and postpaid phones in particular. We had 447,000 total net additions in the quarter which brought us to nearly 2.7 million total net additions for the full year and an improvement over fiscal year 2014.

Full year postpaid net additions of more than 1.2 million were the highest in the last three years and improved by nearly 1.5 million compared to net losses over 200,000 in the prior year. Most importantly, in the highest profit contribution category of our business, our postpaid phone net additions of 438,000 for the year were also the highest in three years and improved by nearly 2 million year-over-year when compared to the losses of over 1.5 million postpaid phone customer last year.

The fourth quarter's phone net additions of 22,000 marked the third consecutive quarter of growth in our postpaid phone base. Improvement in our postpaid phone trends is partially driven by the year-over-year growth in phone gross additions in both the fourth quarter and on a full year basis.

In addition, we continued to make progress reducing our postpaid churn which was the lowest full year postpaid churn rate in Sprint's history at 1.61% and improved by 48 basis point year-over-year. This speaks to the continued improvement in our network and consumer value proposition as well as the higher quality of customers we're now attracting.

Furthermore, in our continuous efforts to provide you with additional transparency into the key drivers of our business, we're now disclosing postpaid phone churn as well which was also the lowest in company's history at 1.52% for the year and improved by 52 basis points year-over-year. We're putting a greater focus on phone churn going forward as it has the greatest impact on our profitability.

Specific to the fourth quarter, postpaid churn of 1.72% was the best for fiscal fourth quarter in Sprint's history and our phone churn was only 1.56%. I do want to call out two important drivers impacting postpaid churn in the quarter.

First, we're seeing increased tablet churn due to significantly higher tablet net additions two years ago rolling off contract with less aggressive offers today given by a profitability-focused approach to our tablet offers.

The second driver is also an intentional impact driven by maximizing profitability and that is limiting the number of late payment arrangement the customers can make. By holding the line and churning out these customers, we expect to improve our operating cost through fewer cost of care and lower bad debt with little or no impact to revenue. Had we not made this decision, our postpaid phone churn would have been relatively flat sequentially, and our postpaid phone net adds would have been higher in the quarter. However, it was the right thing to do as we remain focused on our long-term strategy to grow profitable.

Sprint is now much stronger competitively when you look at slide seven. We improved postpaid phone net additions year-over-year for the sixth consecutive quarter. In addition, we also deliver more postpaid phone net addition than both AT&T and Verizon in the quarter for the first time in record.

Turning to prepaid and wholesale on slide eight. Prepaid net losses for the quarter were 264,000 compared to net additions of 546,000 a year ago, driven by increased competitive intensity in prepaid as well as fewer promotions from Sprint's prepaid brand as we prioritize higher profit areas of growth. However, it is important to understand that we did create positive value contribution from our prepaid segment in the quarter as a result of our profit-based approach, as our higher margin Boost brand did have positive net additions in the quarter and for the full year. While our losses were in areas we are de-emphasizing such as pay-as-you-go space, we're also in the process of relaunching our Virgin brand this year with a much stronger value proposition.

In addition, we have entered into an agreement with i-wireless that will combine Assurance Wireless and Access Wireless, the second and fifth largest providers of wireless lifeline services, to become a stronger competitor in the marketplace. The partnership in which Sprint would retain a 70% interest combines two great operators in the lifeline space and would leverage Sprint's strong proposition as a network provider with i-wireless national distribution strength with Kroger.

Sprint Assurance employees will become part of the combined business which will operate under the name i-wireless and will be led by i-wireless management. This allows Sprint to focus on our core prepaid brands, Boost and Virgin. Lastly, our wholesale business continued to grow for the eleven consecutive quarters with net addition of 655,000, a 33% increase over a year ago. For the full year, our wholesale business grew 16% year-over-year, delivering over 2.7 million net additions.

Now let me update you on our progress on the network on slide nine. Our network is performing at best ever levels and we're delivering on our goal of providing a network that delivers a consistent reliability, capacity and speed that our customers demand. Our new LTE Plus Network is now in 204 markets across the country and takes advantage of a rich spectrum position coupled with technology enhancement like carrier aggregation to create wider channels producing more capacity and faster speeds and smart antennas providing better cell edge performance.

I'm also pleased that we recently added New York City to the list of LTE Plus market with the rollout of carrier aggregation across the metropolitan area. You can see the power of our LTE Plus Network in the Mobile Performance data from Nielsen which shows that Sprint network is delivering the fastest LTE download speeds month after month when compared to Verizon, AT&T and T-Mobile. Nielsen looks at how real customers are actually experiencing the network by using crowd-sourced data that is always working uninterrupted in the background which is much different than other sporadic test out there. In fact, according to Nielsen, Sprint has delivered the fastest LTE download speeds in New York since February as we rollout carrier aggregation for New Yorkers and customers throughout the five boroughs.

Sprint is delivering the fastest download speeds in many markets across the nation, including Chicago, Houston, Las Vegas among others. In addition, we are already rolling out devices in the market that support three-channel carrier aggregation, including the new Samsung Galaxy S7, and Sprint has demonstrated speeds of over 300 megabits per second in recent lab testing on the device. While we're already [ph] sitting (11:35) the base with capable devices, we expect to rollout three-carrier aggregation in the network in early 2017.

We're also seeing improvements in the overall quality of our network as you can see by the results from independent mobile analytics firm, RootMetrics, across 125 market in the second half of 2015. Sprint maintains third place overall, ahead of T-Mobile, while moving up to an outright number two finishing goal performance, ahead of AT&T and T-Mobile, thanks to the continued expansion of our low band 800 megahertz spectrum and continuous optimization of the network. As we look at the result of RootMetrics testing through the first 84 markets in the first half of 2016, we can see the continued improvements in peak quality measurements.

Sprint has won more first and second place overall performance awards during the second half of 2015 testing. We have also seen our first place awards for reliability nearly triple since the last testing and have received more than 15% increase in number of call awards, all while continuing to increase the number of speed and data first place wins as well.

Customers across the country tell me that reliability is the most important thing to them, and that is where we're improving the most. However, the reality is that the network performance gap has closed materially. And while Verizon might still score the highest in some markets, Sprint now scores highest in some markets as well, and the difference in reliability between Verizon and Sprint is now less than 1% based on the latest testing from Nielsen. This means that the big lead that Verizon had in the past has largely disappeared.

Looking to the future on slide 10, we're proud of how our network is performing today across our nearly 300 million LTE POPs and we continue to make progress in our densification strategy, focused on improving the cost and performance of the network. This includes bringing LTE Plus to even more market and further unlocking the power of our deep spectrum position.

No other company has the spectrum to unlock the power of carrier aggregation like Sprint does. We are very encouraged by the early progress on the densification plans which has primarily been focused on site acquisition activities like zoning and permitting for our small cell deployment. We are already getting approvals coming through the pipeline and are beginning to construct sites.

Our customer experience has improved as our 2.5 GHz footprint has grown over the last two years. And now we cover approximately 70% of our LTE POPs. Our customers have further benefited as we rolled out carrier aggregation and we plan to continue to add to their five to our LTE footprint. The best part of this is that this will be a progressive build whereby the customer experience will only improve as each incremental site comes on air. We now expect a disruption to their service from existing sites.

Turning to slide 11, our densification and optimization plan is also building the foundation for 5G. We are participating in the development of the global 5G standard, and we're collaborating with our partners and other companies on the 5G opportunity. We view our 2.5 GHz spectrum at the low band spectrum of 5G and Sprint is well-positioned for 5G with the spectrum holdings of more than 160 MHz of 2.5 spectrum on average across the top 100 U.S. markets, giving Sprint more high band capacity than any other carrier in the United States.

We look forward to leveraging our deployment experience and working closely with our vendors to expand the use of 2.5 GHz and higher band spectrum as we evolve to 5G. In fact, we would leverage the Copa America soccer tournament to demonstrate the 5G capabilities using millimetric band radius to deliver 4K streaming of soccer content at two Copa America stadiums in June working with both Nokia and Ericsson.

Looking at how we build that future on slide 12, we're focused on optimizing both the performance of the network as well of the cost to build and operate the network. Working with SoftBank, we're expanding the many tools in the toolbox today for maximizing network performance as well as the efficiency of capital and operating costs. With these tools, the cost to build and operate the densification site are expected to be materially less than our macro site built in the past. Everything we do is focused on putting more spectrum assets to work for our customer at the lowest possible cost. We're leveraging all forms of site structures, including existing public infrastructure, in order to densify our network and provide more capacity than any other wireless carrier in the U.S.

When you combine the growing diversity of tools in the toolbox with Sprint's ability to deploy its deep spectrum position through software-driven carrier aggregation, we believe there's an opportunity to materially improve the capital efficiency of the business while delivering better capacity and performance. We're confident that this densification and optimization strategy will deliver the expected capacity, speed, and coverage to position Sprint for network parity, and by unleashing our unique depth of spectrum we will be best positioned of all carriers for the growing data demands of the future.

Moving to slide 13, Sprint continues to offers the best price for data on a network that is better than ever before. You can see this reflected in the year-over-year improvement in both our postpaid phone gross adds and our postpaid churn. However, perception in the market still lacks reality on both account, and we believe there is more opportunity ahead for us. In addition, we're working to simplify the customer experience as well as the process for our sales reps, which is why we launched our Better Choice rate card in February to simplify our shared data plan and offer more data at better value compared to Verizon and all the carriers.

Furthermore, while no one has a better price for unlimited high-speed data plans among all national carriers, we did raise the price of unlimited for new customers three times this year and have increased the price of unlimited to our base as well. We expect to continue to raise the price of unlimited to maintain our improved profitability as data usage continues to grow. We focused on the customer lifetime profitability of all of our offers and growing our average billings per user, or ARPU. In fact, we expect to collect even more when you consider the residual values of leased devices that we can monetize at the end of the lease term. As this is not billed to the customer, it is therefore not captured in ARPU.

In fact, despite some analysts thinking we're sacrificing revenue with aggressive offers, we're actually very focused on growing our average billings per user. You can see this in the fact that we have grown our postpaid phone average billings per user every quarter this year with over 60% of our postpaid phone base already converted to unsubsidized rate plan, and by the fact that we have the highest estimated postpaid phone ARPU of all the national carriers.

We expect future growth to come primarily from better execution and accountability. With greater efficiency in our marketing spend and establishing a regional accountability model for the sales force, we're putting the resources closer to the customer in order to improve sales, productivity, and retention. You can already see that improved operating efficiency when you consider that we lowered our marketing spend 12% year-over-year, while increasing postpaid phone gross adds for the year.

Bottom line, we're focused on providing a competitive price to customers while still growing the average billings per users to drive profitability. Furthermore, we continue to maintain a selective approach to customer acquisition which is focused more on the quality of customers than the absolute quantity, as we look to maximize long-term value and progress towards sustainable free cash flow.

I will now turn the call over to Tarek to take you through our financial results.

Tarek A. Robbiati

Chief Financial Officer

Thank you, Marcelo. Moving to revenue on slide 14, consolidated net operating revenue was $8.1 billion for the quarter, and most importantly, has now stabilized at around $8 billion for the last four quarters. For the full year, fiscal year 2015 consolidated net operating revenues were $32.2 billion with the year-over-year decline primarily driven by the reduction in recognized equipment revenue related to Brightstar sourcing of some devices for indirect channels, as we have mentioned previously.

Service revenues of $6.6 billion for the quarter were down 8% year-over-year due to a higher mix of customers in the postpaid base now on rate plans offered in conjunction with device financing programs as well as lower Wireline revenues. Full year service revenues for fiscal year 2015 were $27.2 billion with the same year-over-year drivers as I just discussed for the quarter. More importantly, retail wireless services revenue and postpaid service revenues are stabilizing sequentially, underscoring the company's focus on improving the top line.

Wireless services revenue plus installment plan billings and lease revenues of $7.1 billion in the quarter increased 1% year-over-year. For the full year, wireless services revenue plus installment plan billings and lease revenues of $28.4 billion were up slightly from the prior year as well.

The Sprint platform postpaid average total billings per account was up 3% year-over-year to over $168 for the quarter and nearly $167 for the full year. Looking at postpaid phones specifically, postpaid phone average billings per user of $71.53 for the quarter increased 3% year-over-year while full-year phone ARPU improved to $70.77, continuing to grow the monthly cash flow stream from our customers.

Prepaid ARPU of $27.72 for the quarter increased 1% year-over-year, primarily driven by changes in the mix amongst our prepaid brands, with the higher ARPU Boost customers comprising a larger share of the prepaid base year-over-year.

Regarding our operating expenses on slide 15, we are focused on transforming the cost structure of the business to get to free cash flow generation. We realized $1.3 billion in net reductions in operating expenses in fiscal year 2015 across cost of services and selling, general, and administrative expenses. Cost of services for the quarter of $2.2 billion was down $136 million year-over-year, driven by lower network costs. For the full year, cost of services is better by over $200 million with network cost reductions partially offset by higher service and repair costs.

Selling, general, and admin expenses were $1.9 billion in the quarter and improved by nearly $400 million year-over-year, primarily driven by lower sales and marketing spend and reduction in general and administrative expenses. For the full year, selling, general, and administrative expenses are lower by almost $1.1 billion compared to last year. Cost of products of $1.6 billion for the fourth quarter improved by $276 million from a year ago, primarily related to lower upgrade volumes partially offset by leaseback payments to MLS.

For the full year, our cost of products are lower by $3.5 billion on a reported basis compared to last year, primarily driven by a higher adoption of device leasing options for which the associated cost is recorded as depreciation expense over the estimated life of the device. This is partially offset by $321 million related to losses on these devices for the year recorded in the other net line on the P&L, which also includes the upfront loss on the first transaction with Mobile Leasing Solutions in the prior quarter.

We realized over $500 million of year-over-year reduction in cost of services and SG&A in the fourth quarter 2015 alone, with approximately $250 million of the expense reductions related to the early ramp-up of our fiscal 2016 transformation initiatives that I will now tell you more about.

Turning to slide 16, we are confident in our plan to achieve a sustainable reduction of $2 billion or more of run rate operating expenses exiting fiscal 2016, having already achieved half of the run rate reductions when you annualize the $250 million realized last quarter that I mentioned a moment ago. As we discussed last quarter, this $2 billion figure or more of exit run rate expense reductions will come from all areas of the business. We expect the bulk of the reductions will come from selling, general, and administrative expenses across a number of initiatives across sales, marketing, customer care, IT, and general and admin expenses.

Additional reductions are expected to come from cost of services driven by migrations from TDM to IP in the Wireline business, as well as lower roaming expenses in the Wireless business. In addition, we will realize benefits beginning in the first fiscal year quarter of 2016 from rent expense reductions resulting from the WiMAX shutdown. A small amount of the savings is expected to come from cost of products through better logistics and procurement.

I also want to remind you that to realize these run rate benefits, we expect some onetime transformation program operating costs and CapEx costs to be required. We recorded nearly $200 million of severance expense in the last two quarters for fiscal year 2015 related to these costs, and we expect most of the remaining transformation OpEx costs to be incurred in fiscal year 2016, while the CapEx costs will be split across fiscal year 2016 and 2017.

Altogether, there are several hundred initiatives underway that we are confident can deliver the $2 billion or more of run rate savings as we exit fiscal year 2016, building on the momentum that we have exiting fiscal year 2015 with 50% of the 2016 run rate savings already realized.

Now, turning on to slide 17. Our adjusted EBITDA was $2.2 billion for the quarter compared to $1.7 billion a year ago, with the improvement primarily driven by the expense reductions that I just discussed. For the full year, fiscal 2015 adjusted EBITDA was $8.1 billion, which is above the high end of our guidance and higher than the $6 billion in fiscal year 2014.

Operating income of $8 million for the quarter includes $258 million of various items, as Jud mentioned in the introduction, which largely offset the higher adjusted EBITDA, as well as higher depreciation expenses associated with a growing base of leased devices.

For the full year, Sprint generated operating income for the first time in nine years with $310 million, which was slightly above the top end of our guidance range. This included depreciation for leased devices of $1.8 billion for the year, which materially aligned with the amount of leasing revenue for the year.

Turning to CapEx and cash flows on slide 18. Cash capital expenditures worth $1.3 billion in the quarter as the year-over-year increase related to device leasing in our indirect channels was more than offset by lower capital spending on the network as a result of software-driven deployments of capacity through carrier aggregation. For the full year, cash CapEx was $7 billion including $2.3 billion related to leased devices with $4.7 billion related to the network and corporate investment representing over 17% of services revenue for the year.

Adjusted free cash flow, which now includes all net cash flows associated with devices, was positive $603 million for the quarter compared to negative $914 million in the year ago quarter. The year-over-year change was driven by the improved operating results that I discussed as well as lower capital spending. We received $725 million under our receivable facility in the quarter, while the year ago quarter had $500 million from the receivable facility and $200 million from spectrum sale. For the full year, adjusted free cash flow of negative $1.4 billion improved nearly by $2 billion compared to a negative $3.3 billion in the prior year.

It is important to note that we are now including the total net cash flows associated with devices as adjusted free cash flow to provide better comparability with prior periods and across the industry. These proceeds from service and equipment installment receivables are included in operating cash flow as a change in current assets as well as the lease-back payments associated with our first transaction with Mobile Leasing Solutions. We believe it is appropriate to include all proceeds and repayment associated with device leasing to ensure better comparability of cash flows.

In addition, adjusted free cash flow normalizes for any mix shift between EIP and leasing based on the definition of free cash flow. We have established a structure to better optimize the timing of device-related cash flows with Mobile Leasing Solutions, and we believe we are driving more prudent cash management than the subsidy model since more cash can be received closer to when we incur the cash outflow to the manufacturers and can generate better NPVs for the business.

Shifting focus to liquidity on slide 19. We ended the quarter with total general purpose liquidity of $5.7 billion, comprised of cash and cash equivalents of $2.6 billion, $3 billion of undrawn borrowing capacity under our revolving bank credit facility and $100 million of undrawn capacity under our receivable facility at the end of the quarter.

Since the end of the quarter, we successfully doubled our committed general purpose liquidity with three important transactions. As previously communicated, we completed the first sale and lease-back transaction related to certain existing network equipment, receiving $2.2 billion in gross proceeds. In addition, we executed the second lease-back transaction of certain devices with Mobile Leasing Solutions and expect to receive approximately $1.1 billion in cash. Lastly, we signed an 18-month senior unsecured bridge financing facility for $2 billion. In addition, we still have $1.2 billion in undrawn availability under our network vendor financing to be utilized towards the purchase of 2.5 gigahertz network equipment.

When you combine the operating expense reductions, our existing liquidity sources, anticipated future tranches through fiscal year 2016 on the handset LeaseCo and a potential sale lease-back of a small portion of our 2.5 gigahertz spectrum expected to be completed later in this fiscal year, we have a well defined liquidity strategy under way. We expect that we will have adequate sources to provide all the capital necessary to fund the business and repay the debt maturities due in fiscal year 2016.

Now let's look at fiscal year 2016 guidance on slide 20. As we communicated last quarter, we continue to expect adjusted EBITDA to be $9.5 billion to $10 billion driven by the significant cost reduction that I discussed in detail in addition to growing operating revenue supported by services revenues that we expect to begin to stabilize on a quarterly basis in 2016. In addition, we expect operating income of $1 billion to $1.5 billion in fiscal year 2016 as a result of the revenue and expense improvement I just mentioned. We expect fiscal year 2016 depreciation and amortization of $8.2 billion to $8.6 billion, including depreciation for leased devices of $3 billion to $3.3 billion with leasing take rates being similar in percentage terms of postpaid sales as we saw in fiscal year 2015 at roughly half of postpaid device activations.

We remain focused on maximizing our capital efficiency as we execute our densification and optimization strategy and utilize the expanded toolbox of various cost efficient coverage and capacity options. In addition, there is a great opportunity to leverage our deep spectrum position to improve the network with very little cost on existing sites. This plan will enable us to reduce capital intensity of the business and lowering capital expenditures year-over-year.

We previously communicated earlier in fiscal 2015 that we expected the three-year capital spend to be less than $15 billion over fiscal year 2015 through 2017. Having just spent roughly $5 billion of that in fiscal year 2015, we now expect capital spending over fiscal year 2016 and 2017 in aggregate to likely be less than the $10 billion remaining under that prior expectation.

We are continuously evaluating the timing of capacity spending and tracking the expected timing of densification sites being constructed. At this time, our best estimate of expected cash capital expenditure in fiscal year 2016, excluding indirect channel device leases, is approximately $3 billion as non-network expenditures are expected to decline year-over-year and more of the cash outlays related to the network densification are expected to be incurred in fiscal year 2017. Our deep spectrum position and densification using lower cost deployment options are also expected to improve overall capital efficiency. We expect to provide further updates on these activities as we progress through the year.

These results reflect the improving operating and capital efficiency of the business as well as our relentless focus on generating free cash flow. We expect adjusted free cash flow in fiscal year 2016 to be around break even.

However, I would note that if we are able to materially grow sales volumes in 2016, it could impact the achievement of that goal. But we'll take that any day of the week as that would provide greater future revenues and cash flows.

Thank you. I'll now turn the call back to Jud to begin the Q&A.

Jud Henry
Head-Investor Relations

Thank you, Tarek. In just a moment, we will begin the Q&A. Tanesha, please inform our participants on how to queue up for the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Brett Feldman of Goldman Sachs.

Brett Feldman
Goldman Sachs & Co.

Q

Thanks for taking the question. You've done such a good job of pulling so much liquidity into the business over the last couple of weeks, and I think a lot of investors had assumed that one of the key points of that is it would have positioned you to accelerate capital investment and bring the network more competitive more quickly. And so I'm curious about the decision to go ahead and push some of the capital into 2017. And if you're going to be doing that, then maybe if you could give us just a walk-through of what the priority uses of this new liquidity is going to be.

And then just one quick follow-up question. For your adjusted free cash flow guidance for the year of about free cash flow break even, what are you implicitly assuming for net proceeds from device financing? Thanks.

R. Marcelo Claure
President, Chief Executive Officer & Director

A

Hi. It's Marcelo. I'll start answer your question, then I'll pass it on to Tarek. One of the things we have to realize is that our network is performing quite well today. So, therefore, we're going to continue to make the necessary investments in our network. We're still fully committed to our densification and optimization strategy, including tens of thousands of small cells and more macros, while at the same time, we're continuously looking at ways to deliver the benefit at a lower cost based on various radio access equipment and structures that we have available. We have not changed our strategy at all and we're going to continue to invest.

The reason why we might push some of the CapEx to the following year is that this is dependent on the approvals that we get from municipalities and others for the new structures that we have applied for leasing and permitting at this point in time. So, therefore, nothing has changed. We're committed to build a great network. Our network is performing at record levels as you've been able to see. And we wanted to make sure that we had the proper liquidity in order to meet the obligations. So, therefore, we went ahead and we did the transactions that you're well aware of.

So I'll pass it on to Tarek, so he can give you a little more light on the adjusted free cash flow.

Tarek A. Robbiati
Chief Financial Officer

A

Brett, I think the second part of your question related to the assumptions we had on device financing.

Brett Feldman
Goldman Sachs & Co.

Q

Yes.

Tarek A. Robbiati
Chief Financial Officer

A

If you go back at slide 19 in the presentation deck, the references in the chart pertaining to MLS points to raising $2 billion to $4 billion in device financing during the course of the fiscal year 2016. So that should help a little bit on our free cash flow, but remember also that we have payments to make as those facilities are relatively short term, and so on the whole, our free cash flow guidance includes the benefits and the impacts of device financing.

Brett Feldman
Goldman Sachs & Co.

Q

Great. Thanks for that color.

Operator: Your next question comes from the line of John Hodulik of UBS.

John Christopher Hodulik
UBS Securities LLC

Q

Okay. Thanks. A couple questions. First, maybe for Tarek, the service revenues are down a little over 7%. Have we seen the worst of that given some of the other metrics that you're seeing? And if not, when do you expect that to inflect?

And then from a sub standpoint, looks like marketing spend was down about 12%, I think you guys reported, but you saw some nice growth in gross adds. Do you expect that trend to continue? Or is it – and really what's driving that? Is it the cut-your-bill-in-half or do you talk about just trying to get a sense for how we should expect the subscriber trends through the year? Thanks.

Tarek A. Robbiati
Chief Financial Officer

A

Sure. Thanks for the question, John. I'll take the first one in relation to services revenue and I'll hand over to Marcelo for the question related to marketing spend. With respect to services revenue, if you really look underneath in the detailed pack that we sent to all the analysts and investors, we feel that services revenue is starting to stabilize and there is evidence of that when you compare the sequential dynamics of services revenue growth from Q3 to Q4. As our churn continues to remain at those levels, which are low, we expect service revenue to bottom up from here moving forward. Marcelo?

R. Marcelo Claure
President, Chief Executive Officer & Director

A

Right. So your first question is the marketing expense. So we are determined to basically reduce all the waste, any waste that exists within the business and we've been able to reduce our marketing expense by 12%. And as a matter of fact, we expect to even reduce it even further while maintaining on growing our net adds. I think you've seen that we have a dramatic shift as it relates to handset net adds which is where we're putting most of our focus.

If you look at it year-over-year, we've had a swing of close to 2 million units where we lost 1.5 million the previous year and we added 438,000. It's also important that I think we're managing our marketing spend very efficiently as due to the fact that I think this quarter we were the – T-Mobile and ourselves, we're the only carriers that were able to be handset net add positive. We're going to continue to look at marketing. We're going to continue to look at sales expenses and we're going to continue to look at every single expense that we have in Sprint to continue to lower our cost of doing business, while at the same time growing our base of customers that we serve.

John Christopher Hodulik
UBS Securities LLC

Q

Okay. Thanks, guys.

Operator: Your next question comes from the line of Philip Cusick of JPMorgan.

Philip A. Cusick
JPMorgan Securities LLC

Q

Hey, guys. Thanks. Can you walk through your cost cutting plans from the fourth quarter OpEx level? I think that slide 16 implies another $250 million. Can you walk through where some of those buckets are going to come? Thank you.

R. Marcelo Claure
President, Chief Executive Officer & Director

A

So I'm going to give you a general overview, and then I'm going to let Tarek get into the details. As you saw this year, we were able to take $1.3 billion of cost out which is basically what we had committed and even a little more. And our goal is to exit this coming year with an additional $2 billion of run rate cost savings. So Tarek is going to walk you through the different areas that we're focusing the cost takeoff for this coming year.

Tarek A. Robbiati
Chief Financial Officer

A

Okay. So, Philip, as you were referring to your question to your – the figure of $250 million reduction, this is the run rate benefit out of Q4 2015 into fiscal year 2016. And so as we always said to the market, we are targeting $2 billion of run rate saving, exiting fiscal year 2016, so that you all in the analyst community can calibrate your projections over the next couple of years. So this $250 million points to effectively us having pretty much locked in 50% of our annualized $2 billion run rate saving target. Now, more specifically as to the areas of where those cost reductions would come, they are essentially falling in two main buckets, SG&A and cost of services. We also see some improvement in cost of products, the third bucket, but main buckets of the cost reductions are the [ph] heart (43:02) OpEx cost in selling, general and admin expenses and cost of services.

Specifically, I think there is a great opportunity to drive productivity in sales. In marketing, Marcelo spoke about waste. We are all over that. In customer care, we think that we can be really reducing the cost of our customer care without deteriorating the service. In IT, we think there is opportunity to reduce our hardware and software maintenance. And there is overall across the company a real opportunity to drive better labor efficiency. And when you look at the cost of services bucket, the two main areas where we can realize cost reductions are in the wireline space. We're going to move away from TDM links which are expensive, migrate those onto IP links. We'll have lower roaming costs as we have renegotiated certain agreements. And also we benefit from the fact that the

WiMAX network has been shut down. Therefore, we incur less ongoing cost moving forward. So I hope this gave you sufficient color, Philip.

Philip A. Cusick
JPMorgan Securities LLC

Q

That's helpful. Thank you.

Operator: Your next question comes from the line of Amir Rozwadowski of Barclays.

Amir Rozwadowski
Barclays Capital, Inc.

Q

Thank you very much, and good morning, folks. I was wondering if we could touch upon the prior question around cost cuts. You had mentioned, Tarek, that half of the cost cuts have been achieved which seems to give you comfort around achieving your run rate target for the year. How should we think about opportunities for further reductions beyond the $2 billion target? I mean is there opportunities to continue reducing costs? And then I have a follow-up, if I may.

R. Marcelo Claure
President, Chief Executive Officer & Director

A

Amir, so I'll take it, and then I'll let Tarek again get into more of the details. We got to get people to pronounce your last name correctly. We are determined to basically continue to take cost out of the business. And I think this first phase, we've done a good job of taking I would say the lower hanging fruit cost in the business. And the second phase is one that is a lot more transformational. It involves how our digitalizing our business. It involves our increasing the amount of sales that we do on the digital channels. It involves in providing a lot more digital care than we do today. So, therefore, the cost will be substantially lower. It involves in terms of we've completely redefined and we've taken a lot of cost out of roaming expenses inside the U.S. We will continue to do that, as for overbuilding in areas that we used to be paying hundreds of millions of dollars in roaming to other roaming partners. We've looked at the utilization of different forms of backhaul and microwaves. So there's a lot – we have a lot in the pipeline. It also involves optimizing our sales channels to make sure that we are taking customers to channels that are less costly in order for us to bring more customers and renew our customers.

So, we have a pipeline. We're in the middle of a transformation journey which we have over 750 initiatives that are reviewed on a week-over-week basis. And pretty much, we are determined to basically run this business on the most efficient basis. What we've shown you so far is the commitment that we have in fiscal year 2016, but you can be assured that we have other plans to continue this going forward to 2017 and 2018.

I don't know, Tarek, if you want to give him a little more details.

Tarek A. Robbiati
Chief Financial Officer

A

No, I think, Marcelo, you covered it really well. I would simply say there is a lot more scope for cost reductions beyond fiscal year 2016. We have the 700-plus initiatives in flight as we speak. It's all about transforming our business. Sprint is a company that has scale. Now, that we have stabilized the revenue, there's a great opportunity to reduce costs.

The question for you is in the longer term, how do you forecast that cost reduction potential to be? I'd like to point to our EBIT guidance and how much we are going to be closing the gap with the competition around the EBIT metric. And moving forward, we see further upside beyond the guidance that we had given. So, we'll update you and the market as we go along, but our cost reduction plans are very well-advanced and we feel comfortable around that.

Amir Rozwadowski
Barclays Capital, Inc.
Q

Thank you very much. And then just a quick follow-up on the cash CapEx outlook for the year. It seems as though the way we should interpret this is, this is a bit of a deferral of CapEx. So, an expectation for a pick-up from the $3 billion into the following year, is that the right way to think about things?

R. Marcelo Claure
President, Chief Executive Officer & Director
A

The right way to look at this is I think we're coming from an advantaged position that few come to realize. Most of the heavy investment was done doing Network Vision in which we were setting the foundation to have a pretty solid network. And you're seeing the results today out of which, if you look at RootMetrics ratings, we're already number two in voice, surpassing AT&T. If you look at Nielsen, we can claim that we have the fastest speeds in the country.

So I would call this, this is phase one. Phase two is a massive densification of our network in which we're doing it a bit differently. The traditional way Network Vision was done and many of the network build-ups have done is you basically outsource a deployment and you go to the traditional tower companies and you spend several billions of dollars.

What we're doing now, we're doing things a bit different. We have a very clear densification strategy and what we're seeing leveraging big data is we're actually figuring out where is the exact point in which we got to put additional structures in order for us to better serve our customers. And then we're going and seeing what is the least cost way to actually put the structure and it's a combination of going to tower companies, in many cases, it's a combination of putting our own monopoles, of using small cells, of using femtocells. And a lot of this are depending on getting approvals from the different municipalities or different cities.

Although we have today is we have an estimate that we intend to spend around $3 billion of CapEx this year. In the case that those approvals come faster out of which so far we're satisfied the way they are coming, we will be spending potentially more than $3 billion. If these approvals get delayed, then we will move us forward. But what I want to make sure we leave it clear is there's not an intent to basically defer CapEx into fiscal year 2017.

Basically, we want to spend as much as it's necessary in order for us to provide a good experience to our customers and continue with densification of our network. So, as you know, when you're building things different in a way that hasn't been done, in which you're leveraging on a spectrum that requires tens of thousands of structures, it's a little harder to predict the actual CapEx. But we'll be happy to keep you updated on a quarterly basis when we report our numbers.

Amir Rozwadowski
Barclays Capital, Inc.
Q

Thank you very much for the color.

Operator: Your next question comes from the line of Jennifer Fritzsche of Wells Fargo.

Jennifer M. Fritzsche
Wells Fargo Securities LLC

Q

Hi. Sorry. Thank you for taking the question. Two, if I may. Can you talk a little bit about the leasing success rate? Some of your competitors have somewhat dramatically shifted away from that, and if you can kind of walk-through the advantage you think you have versus some of the other national competitor who've taken this initiatives.

And then secondly, very good performance on the postpaid handset churn. I just wanted to see if those customers you are getting, are they – do you sense that they're coming more to save on their bill or are they coming more to, sort of, like data freedom, for lack of a better word, more of the irritant factor where you're more limited on some of the other carriers and going – spending the same amount with Sprint but just getting higher data. Thanks very much.

R. Marcelo Claure
President, Chief Executive Officer & Director

A

Thank you. So, let's talk about leasing. Leasing is something that Sprint was the first carrier to take to market in a massive way. We believe leasing is a competitive advantage because it basically provides customers the ability to don't pay for taxes upfront on the value of the phone and basically amortize it over the time of the lease. It allows for customers to come in into a device at a lower price. In many cases, we allow for customers to basically upgrade every year. So, we feel extremely comfortable.

A big amount of our sales today are on leasing and we're going to continue to push to basically try to move as many customers as we can on lease. The reason why we take lease is the fact that we have a very close partnership with our sister company, Brightstar, out of which, as we've said in the past, they are the world leader in terms of reselling used devices and refurbishing leased devices. But we love what we're doing as it relates to leasing.

Secondly, is we are going to get millions and millions of used phones back, basically from iPhone Forever and Galaxy Forever. And we have reached agreements with different OEMs to basically allow us to bring these phones back into the Sprint ecosystem, refurbish them with a warranty from the OEM, and basically put them back through our Sprint brands or prepaid brands, and we believe that is going to give us a competitive advantage as we go to market.

As it relates to the customers that we are attracting, we're attracting a combination of many different customers. I mean, to shed some light, on April alone, in a very, very competitive market as you can see, we were reporting positive against the industry. So, if you add all carriers combined, we were reporting positive. But we're attracting customers from all three carriers, and customers are coming from a variety of reasons. One is, there's a lot of word-of-mouth in terms of the performance of our network. We're performing a lot better than what people expect, so that's always good. People are coming because they like to save money, and you save money two different ways. You take a lower rate, which we're seeing less of that and we're seeing customers actually take on a higher rate, which basically gets them more data.

And I think more importantly is there has been a lot of talk as it relates whether we're being irresponsible bringing customers at 50% off, and that's absolutely not the case. We're tremendously disciplined in the way we price – we do our pricing. And the best way to evaluate that -- if you look at the average billing per user, that has actually grown 3% year-over-year. So, yes, we attract some customer maybe at a lower cost, but at the same time, we've been very disciplined at increasing the price of unlimited to customers as the usage of unlimited goes up.

So, we intend to continue to grow our average billing per user which today sits at $71.53, which is up 3% year-over-year, and if I'm not mistaken, it's among the highest, if not the highest, among all national carriers.

Jennifer M. Fritzsche
Wells Fargo Securities LLC

Q

Great. Thank you, Marcelo.

Operator: Your next question comes from the line of Amy Yong of Macquarie.

Amy Yong
Macquarie Capital (USA), Inc.

Q

Thank you. Two quick questions. So, first on churn and keeping that low, can you talk about some of the retention efforts that you're putting in place? And now that you have a regional sales structure in place, can you talk about perhaps some of the net add strength that we should see at the back half of this year? Thank you.

R. Marcelo Claure
President, Chief Executive Officer & Director

A

All right. So churn -- I think we've had a good year of churn. I mean, any time you have the lowest churn in company's history for I think six consecutive quarters, that is definitely positive. And what that tells you is that customers are coming and they are basically liking and enjoying the service that we provide. Also, you're going to see us put a lot more focus on handset churn. For whatever reason, two years ago, we had some pretty aggressive promotions in tablets, but right now we're paying the price for it, and that obviously has stopped. And where we've put most of that focus on the company is focusing on handsets, and the reason why the customer [indiscernible] (55:10) value to handset in many cases is 10 times higher than that of a tablet.

So we are going to see us report going forward handset churn, but more importantly, the way we manage the business is going to be on handset churn. And if you look at what we achieved, our fiscal fourth quarter phone churn was 1.56%, which was down 22 basis point year-over-year. So I am half satisfied with that. What I can tell you is that we have 20 different initiatives. We have set up a churn transformation office and we're basically not only doing the traditional things that telco does which is putting better [ph] save desks (55:47) and trying to convince customers not to leave you when they make that phone call, now we're proactively targeting customers. We're proactively targeting detractors, people who have expressed some sense of not being happy with us through different survey and we're tackling churn proactively.

So we've grown the team substantially, and the way I tell it to my management team is 50% of our time is dedicated to acquisition, acquiring new customers, but 50 – the other 50% is dedicated to basically retaining the current customers that we have, because the economics of current customers are much better than basically attracting new customers. We've also empowered the local, regional presidents, we have eight, we have divided the country into 18 regions in order for them to be able to take care of their customers, and we've given them the ability to communicate with their customers on a daily basis.

To give you an idea of the level of focus that we have is every member of my management team gets a notice every single time there is a detractor or somebody who had not enjoyed a good experience with Sprint, and we automatically call and take action with all those customers. So I can assure you that now more than ever you're going to see us put a lot of focus as it relates to continuously reducing our churn.

Amy Yong
Macquarie Capital (USA), Inc.

Q

Great. Thank you.

Operator: Your next...

Jud Henry
Head-Investor Relations

A

Tanesha, we have time for one more question, please.

Operator: And your final question comes from the line of Tim Horan of Oppenheimer.

Timothy Horan
Oppenheimer & Co., Inc. (Broker)

Q

Great. Marcelo, you mentioned a few times, you're focused more on profitability in the prepaid market. Can you just give us your thinking on the postpaid market, and I know you've been raising prices but is there other areas for you to, kind of, raise prices other than the unlimited and other steps that you can do, broadly speaking, on the pricing front? Thanks.

R. Marcelo Claure
President, Chief Executive Officer & Director

A

So we take a look at pricing on a holistic basis. What does that mean? I mean, we look at the combination of promotions that we're launching, such as the 50% off savings, combined with – or other existing choice – rate plans that we have and combined with our unlimited. So, we – basically what you do is you look at those three different possibilities that we have: our existing rate plans, our promotional rate plans, and our unlimited. And when you combine those, we do it in a disciplined way in order to make sure that the total average of the customers we're attracting is actually accretive and growing. I mean, that is how we look at pricing.

Obviously, I think the 50% off promotion has done what we wanted to do. The results showed that we've added more customers than what we've lost, while most of the industry have lost customers. And we're continuously evaluating what exactly makes customers come. One of the things that you're going to see us put a lot more effort into showing customers the value of our network and showing why our network has improved significantly, and it's a matter that as we see that network perception increasing, then therefore you don't need to discount your prices so much.

So you're going to see from now on a trajectory in which we don't need to discount as much in order to attract new customers due to the fact that our network is performing much better. So, in other words, as the network gets better, you're going to see our rate of discounting come down. Now, we're huge believers in a very simple concept, that that is a great product at a great price. So, we have no problem in terms of being price leaders, but you will see us basically make sure the gap is not as big as the one we be having now.

Timothy Horan
Oppenheimer & Co., Inc. (Broker)

Q

Thank you. And can you do that in conjunction with continue to add positive postpaid phone adds?

R. Marcelo Claure
President, Chief Executive Officer & Director

A

So it's been three consecutive quarters that we've added handset positive net adds, and I can tell you that we're determined to continue that. We have great plans for this year. This year, it's a combination of having a localization model with 18 regional presidents that are focused on increasing the conversion of customers that walk into our stores.

So, we believe we can continue to be handset net add, and obviously that's going to mark a difference on the revenue of the company as you see that we've completely turned losing 1.5 million handset customers to basically gaining 438,000. So, we're determined to continue with that trend. And I must tell you that in the, I think, 19 or 20 months that I've been CEO of Sprint, I have never seen a market as competitive as this right now.

For the first time in history, you have both AT&T and Verizon and offering $650 basically for customers to switch, which means there's no more contract. Every customer is open to switch, every customer has pretty much the right to switch. We have seen AT&T come back with unlimited. So, the market is as competitive as it's ever been, and at the same time, we continue to gain customers. So, we feel very good of where we stand today for future handset net add growth.

Timothy Horan
Oppenheimer & Co., Inc. (Broker)

Q

Thank you.

Jud Henry
Head-Investor Relations

Thank you, Marcelo. That's all the time we have for questions. But before we end the call, I'd like to turn it back to Marcelo for some closing comments. If you have any additional questions following the call, please contact the Sprint Investor Relations team. Marcelo?

R. Marcelo Claure
President, Chief Executive Officer & Director

Thank you and I want to thank everyone for joining us today and for your continuous support of Sprint. 2015 was a very important year in setting the foundation for the successful transformation of the company. I'm proud of my team for delivering most postpaid phone net adds than both AT&T and Verizon in the fourth quarter. That hadn't happened before, and improving our full-year postpaid phone net additions by $2 million year-over-year, by growing our gross additions and delivering the lowest postpaid churn in the company's history. I'm equally proud of the financial improvements we made by stabilizing operating revenue, [ph] letting (1:04:17) our operating expenses by $1.3 billion, generating positive operating income for the first time in nine years, and providing Sprint with $11 billion of committed liquidity.

Now, we have to build on that momentum to take our transformation to another level in 2016 and we plan to grow our EBITDA margins by taking out $2 billion or more of run rate expenses exiting the year and continue to grow our average billings per user to get to free cash flow breakeven while transitioning to a deployment phase of our network densification. So, thank you for your time again.

Operator: This concludes today's call. You may now disconnect.