

01-Aug-2018

Sprint Corp. (S)

Q1 2018 Earnings Call

CORPORATE PARTICIPANTS

Jud Henry

Vice President-Corporate Strategy & Head-Investor Relations, Sprint Corp.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

John C. B. Saw

Chief Technology Officer, Sprint Corp.

OTHER PARTICIPANTS

Batya Levi

Analyst, UBS Securities LLC

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Jonathan Chaplin

Analyst, New Street Research LLP (US)

Jennifer M. Fritzsche

Analyst, Wells Fargo Securities LLC

Matthew Niknam

Analyst, Deutsche Bank Securities, Inc.

Brett Feldman

Analyst, Goldman Sachs & Co. LLC

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Colby Synesael

Analyst, Cowen & Co. LLC

Amy Yong

Analyst, Macquarie Capital (USA), Inc.

Scott Goldman

Analyst, Jefferies LLC

David Barden

Managing Director & Senior Telecommunications Equity Research

Analyst, Bank of America - Merrill Lynch

Michael I. Rollins

Analyst, Citigroup Investment Research

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for standing by. Welcome to the Sprint Fiscal First Quarter 2018 Conference Call. During today's conference call, all participants will be in a listen-only mode. Following the opening remarks, the conference will be opened for questions.

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

Jud Henry

Vice President-Corporate Strategy & Head-Investor Relations, Sprint Corp.

Good morning and welcome to Sprint's First Quarter Conference Call. Joining me on the call today are Sprint's President and CEO, Michel Combes; our CFO, Andrew Davies; and our CTO, Dr. John Saw.

Before we get underway, 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 2 is our Cautionary Statement. I want to point out that in our remarks this morning, we will be discussing forward-looking information which 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.

Throughout our call, we'll refer to several non-GAAP metrics, as shown on slide 3. Reconciliations of our non-GAAP measures to the appropriate GAAP measures for the quarter can be found on our Investor Relations website.

Lastly, to provide additional clarity regarding the adoption of the new revenue recognition standard in our quarterly results, we have included reconciliations and qualitative disclosures in the tables that accompany our release and Investor Update. The impact of the revenue recognition standard resulted in a reduction of wireless service revenue offset by an increase in wireless equipment revenue as well as the deferral of commission expenses. For the remainder of this call, we will discuss results excluding the impact of the accounting change to provide a clearer comparability with prior periods, unless otherwise noted.

I will now turn the call over to Michel to provide you an update on our results.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

Thank you, Jud and good morning, everyone. I am pleased to share with you our fiscal first quarter results which show our continued momentum as we focus on executing our operational plan as I transition to CEO. While Marcelo has been busy in Washington sharing the significant merits of our transformative transaction to combine with T-Mobile.

As a reminder, this combination will accelerate the U.S. leadership opportunity to rapidly bring the best national-wide 5G network to market with the breadth and depth needed to fuel a giant wave of innovation and disruption throughout the entire marketplace including rural America. In addition, the pro-consumer strategy will see U.S.

consumers and businesses get immediate benefits with an incredible set of amazing and innovative service offerings at lower prices in areas well beyond the traditional wireless business. The combined company will put America first and [ph] force a (03:15) competition to invest [ph] and to bet off (03:18) consumers while accelerating the creation of jobs and supporting business opportunities for the U.S. economy.

Getting back to our operational performance, I am excited to share with you our fiscal first quarter results on slide 4. First, we reached a major milestone by delivering sequential growth in wireless service revenue for the first time in more than four years. We generated the highest adjusted EBITDA in more than 11 years. Meanwhile, we delivered net income for the third consecutive quarter and operating income for the tenth consecutive quarter.

Furthermore, we delivered positive adjusted free cash flow for the fifth time in the last six quarters. At the same time, we balanced growth and profitability to deliver retail phone net adds for the sixth consecutive quarter. In addition, our network continued to improve as demonstrated by both Ookla Speedtest data and PC Magazine, which shows Sprint's network was the most improved of any national carrier in terms of average download speeds.

Turning to slide 5, we delivered retail phone net adds for the sixth consecutive quarter with continued growth in both postpaid and prepaid. Our postpaid net additions were 123,000 in the first quarter and our phone net additions of 87,000, marked the 12th consecutive quarter of growth.

We maintained the same level of postpaid phone gross adds year-over-year despite slowing industry switching decisions. Postpaid churn of 1.63% improved year-over-year for the first time in nearly two years. Meanwhile, postpaid phone churn of 1.55% came in better than we had guided last quarter. This quarter including 71,000 net migrations from prepaid to non-Sprint branded postpaid.

In addition, our business segment continues to have strong momentum with phone gross adds, up year-over-year for the ninth consecutive quarter, delivering postpaid phone net adds from business for seven consecutive quarters.

Now, let's discuss prepaid, where we delivered 3,000 net adds in the first quarter which marks the sixth consecutive quarter of net adds in prepaid. Prepaid churn improved year-over-year for the eighth consecutive quarter and was the lowest in more than three years. Boost continued to have strong momentum with nearly 200,000 net adds before migrations to postpaid, driven by growth in gross additions for the fourth consecutive quarter and continued year-over-year improvement in churn. This strength in Boost was partially offset by losses from other prepaid brands.

Turning to slide 6. We continued to make good progress in our Next-Gen Network deployment to position Sprint to have an LTE network with the coverage, speed, and capacity to provide customers the Network Built for Unlimited. By building a strong foundation in LTE, we then paved the way for an innovative 5G network to take the customer experience to a whole new level.

As I have said previously, we remain full steam ahead on our Next-Gen Network deployments during our merger process and we continue to build momentum in the first quarter.

First, we upgraded thousands of our existing macro sites to add LTE on 800 MHz, 1.9 GHz, and 2.5 GHz to sites that lacked those bands previously, as we work to deploy all three of our spectrum bands to provide improved coverage and capacity across our footprint. We now have 2.5 GHz deployed on nearly two-third of our macro

sites, compared to only half our sites just a few quarters ago, and expect to complete the substantial majority of our tri-band upgrade by the end of fiscal 2018.

In addition, we have deployed thousands of outdoor small cells in the quarter and now have more than 15,000 small cells on air. This ramp of small cells is delivering significant improvement in coverage, capacity and time on LTE to improve the customer experience.

Also, we have already distributed more than 260,000 Magic Boxes to businesses and consumers across the country. Customers who have a Magic Box are enjoying significant improvements in indoor and outdoor coverage as well as an increase in average download speeds of 200%.

These network improvements, particularly the expanded footprint of 2.5 GHz spectrum on both macro and small cells is delivering performance improvements as seen in Ookla Speedtest Intelligence data. For example, Sprint showed the largest percentage increase year-over-year of any national carrier in average download speed and is number one for fastest average download speed in 100 cities more than AT&T, and the only carrier to improve year-over-year in the total number of cities.

Likewise, PC Magazine recently published its Fastest Mobile Networks report and acknowledged Sprint as the most improved carrier with an 87% increase year-over-year in average download speeds. The other carriers are not standing still, but our significant network investments, spectrum resources and cutting edge technologies will help us continue to improve our network.

We are deploying innovative 5G technologies such as Massive MIMO as we prepare to launch the first 5G mobile network in the first half of 2019. Massive MIMO radios are software upgradable to 5G NR allowing us to fully utilize our spectrum for both LTE and 5G simultaneously while we enhance capacity even further with 5G and begin to support new 5G use cases. We now have a few Massive MIMO sites commercially on air in a few markets and are seeing very promising results, including speed improvement of over 300% while also increasing coverage and [ph] cell-edge (10:05) performance.

Sprint's priority is mobile 5G and we expect to provide commercial services and devices by the first half 2019. Most importantly, as we look ahead, it's clear that our proposed merger with T-Mobile will deliver an acceleration of an even greater 5G network with the breadth and depth that we could not do on our own.

Furthermore, on slide 7, Sprint is the industry's pioneer of Unlimited plans and we just made our Unlimited plans even better to provide customers the Network Built for Unlimited best price. Sprint has listened to customers and it's clear, people want more from their wireless carrier. In addition to Unlimited data, talk and text, with a great price, wireless users are looking for additional features like HD streaming and entertainment services all on a reliable network.

Two weeks ago, we launched new plans that give customers more choice to find the Unlimited plan that fits them. Unlimited Plus is a feature-rich plan that includes Unlimited data, talk and text with more mobile hotspot data, TIDAL premium music streaming and Hulu HD streaming, and additional global roaming options, all at the industry's best price. Meanwhile, Unlimited Basic is perfect for customers who may not need additional features but would still want Unlimited talk, text and data, and Hulu at great value. In addition, we launched Unlimited Military, designed especially for veterans, active duty and reserves of the U. S. Armed Forces. We also offer an Unlimited plan designed for people over age 55 that provides exceptional value with Unlimited 55+.

And this is only the start. Sprint intends to continue to tailor plans so that customers can get the best choice for them. We recognize that while we still offer the best price for Unlimited in the industry, these pricing changes could pressure gross adds as they are less promotional than previous offers. However, we are proud that our base can now enjoy the same great value for Unlimited that new customers receive. We have foreshadowed these pricing changes in the recent quarters and we feel it is important to balance growth and profitability as we significantly increase the capital investments in our network.

Turning to slide 8. We are driving the digital transformation of our company. Taking \$6 billion of cost out of the business in four years is an amazing accomplishment. However, we like the scale of the other wireless carriers in the industry, so we need to further optimize our cost structure which gets harder and harder, unless we innovate by leveraging digital capabilities and employee advanced analytics and artificial intelligence in our operations.

We continue to ramp our mix of sales for digital with postpaid phone gross adds in digital channels, increasing over 50% year-over-year. This includes enhancements to both the Sprint the website and smartphone app to make the shopping experience simple and intuitive.

Likewise, we continue to improve our interactions with customers for chats and even more importantly, we now perform more than 10% of chats with virtual agents using artificial intelligence. We are also utilizing advanced analytics such as network QoE, that we have shared with you previously, in more of our operational processes including resource allocation and customer experience initiatives to drive greater efficiency.

In addition, we have implemented a similar metric called [ph] Service Joy (14:13) to provide statistical analysis of customer service to drive our business decisions and how we improve our customer interactions.

We plan to continue to drive digital across the business both operationally as well as culturally to continue to innovate how we run the business with maximum efficiency. As I now turn the call over to Andrew to take care of our financial results, I just want to say how excited we are to have Andrew on board. I am amazed at how Andrew has quickly built relationships within the company and brought many great ideas to the table in such a short period of time. No doubt from his many years of CFO experience with wireless operators around the world. Take it away. Andrew?

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

Thank you, Michel. I'm very excited to join Sprint after such a remarkable turnaround and to be part of the next chapter of Sprint's journey. As Jud mentioned in his opening remarks, for better compatibility, I'm going to discuss results based on prior revenue recognition standards beginning with revenue on slide 9.

Consolidated net operating revenues were \$8 billion for the quarter. Wireless service revenue of \$5.6 billion in the quarter, declined 2% year-over-year but grew sequentially for the first time in more than four years as ARPU trends in both our postpaid and prepaid businesses have stabilized. These trends give us confidence that we can deliver year-over-year growth in quarterly wireless service revenues by the end of fiscal 2018, excluding the impact of revenue recognition changes.

Postpaid ARPU of \$44.57 grew sequentially for the first time in nearly five years. And again excluding the impacts from revenue recognition changes, we expect postpaid phone ARPU to grow slightly on a sequential basis as we move through fiscal 2018. This will be driven by a combination of base customers rolling off promotions and increasing their monthly spend with us along with higher acquisition ARPU based on our recently launched

Unlimited rate plans. Prepaid service revenue of \$1 billion grew year-over-year from the third consecutive quarter, mostly due to continued customer growth within our Boost brand.

Now, let's turn to profitability on slide 10. We continue to execute on our cost transformation in the quarter as we realized about \$100 million in net reductions year-over-year in combined operating expenses across cost of services and selling, general and admin expenses, when adjusted from \$93 million of merger-related costs that were included in total SG&A expenses.

Cost of services of \$1.7 billion in the quarter was down \$21 million year-over-year mostly due to lower wireline network expenses. SG&A costs were \$1.9 billion in the quarter. When adjusted for merger costs which has not been included in the adjusted EBITDA results, SG&A was down \$83 million year-over-year mostly due to lower bad debt and marketing expenses. We remain focused on our cost transformation and continued to expect the net year-on-year reductions in cost of service and SG&A for fiscal 2018 to be less than \$0.5 billion.

While gross year-on-year reductions are expected to exceed \$1 billion, we are making strategic investments including several Next-Gen Network initiatives and the expansion of our retail distribution for both prepaid and postpaid that would better position us for future growth.

Adjusted EBITDA of \$3.1 billion for the quarter was the highest in more than 11 years and improved by 8% compared to a year ago. Operating income was \$623 million in the quarter marking the tenth consecutive quarter of positive operating income. Adjusting for the approximately \$135 million of merger and other non-recurring costs this quarter and a net benefit of approximately \$350 million from certain non-recurring items in the year-ago period, operating income would have been broadly stable year-over-year.

Moving to slide 11. The first quarter marked the third consecutive quarter in which the company generated net income. Net income of \$24 million or \$0.01 per share for the quarter compared to \$206 million or \$0.05 per share in the year ago quarter. The current quarter included \$93 million or \$0.02 related to merger and integration costs as well as \$42 million or \$0.01 of severance and lease exit costs, while the year-ago period included the non-cash benefit of \$0.07 related to spectrum swaps, partially offset by other non-recurring expenses. Normalizing for these items, our net income would be relatively flat year-over-year.

I'll now turn to slide 12 on CapEx and free cash flow. Network cash capital expenditures were \$1.1 billion in the quarter, relatively flat year-over-year and up \$350 million sequentially as we ramp up our Next-Gen Network initiatives.

Net cash provided by operating activities of \$2.4 billion improved by \$500 million year-over-year, primarily due to growth in adjusted EBITDA and favorable changes in working capital. Adjusted free cash flow which has been positive for five of the last six quarters was \$8 million in the quarter and down \$360 million year-over-year, mostly due to consciously lower net proceeds of financings related to devices and receivables as we have sufficient liquidity.

Let's now move to our latest outlook for fiscal 2018 on slide 13. On a reported basis, we are increasing our outlook for adjusted EBITDA to \$12 billion to \$12.5 billion. This is slightly higher than our original projection as we've now completed our assessment of the impact of adopting the new revenue recognition standard.

Excluding the impact of the new revenue recognition standard, we continue to expect adjusted EBITDA to be in the range of \$11.3 billion to \$11.8 billion. We also continue to expect network cash capital expenditures to be \$5

billion to \$6 billion in fiscal 2018 with higher spending throughout the rest of the year as we continue to ramp up Next-Gen Network initiatives and prepare for the 5G launch in the first half of 2019.

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

Jud Henry

Vice President-Corporate Strategy & Head-Investor Relations, Sprint Corp.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of John Hodulik with UBS Securities. Your line is open.

Batya Levi

Analyst, UBS Securities LLC

Q

Great. Thank you. This is Batya Levi for John. Can you provide an update for the free cash flow guidance for the year? I think your original outlook was about \$1 billion losses or better? An update based on the trends would be great. Thank you.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

Andrew?

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

A

Yes. Okay. Thank you, Michel. So, I think we're off to a good start for the year. We – broadly positive on a – for the first quarter, nearly \$250 million sequentially. We're positive for five in the last six quarters. But as you alluded to in your question, we do still expect to be negative on a full year basis driven, obviously, by the increased network investment and the focus on the Next-Gen Network. So, no change to be clear.

Batya Levi

Analyst, UBS Securities LLC

Q

And does that also include factoring of the receivables? So, when you look at it sort of like a simple free cash flow, how should we think about that number?

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

A

Yes, it does include factoring of the receivables. And again, the amount of that which we intend to do for the year would be broadly compatible with what we did in the prior period.

Batya Levi

Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Philip Cusick with JPMorgan Securities. Your line is open.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

Hey, guys. Thanks. Starting with service revenue growth. Do you think that this inflection is sustainable and that we can expect growth sequentially from here?

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

Well, good morning, Phil. So, as you've seen, we have [ph] foreseen (22:59) for this quarter strong service revenue, which is up sequentially, and down 2% year-over-year. Yes, I believe that it's sustainable, that's what we have said previously in the previous quarters. So, meaning, that we expect that this revenue to continue to grow from a sequential point of view in the next coming quarters and we are still targeting an increase year-over-year by the end of the year.

Which means that we are exactly on track with what we had mentioned, that's driven the by the fact that in the past few quarters we have been able to stabilize the base. Thanks to the net adds positive that we have delivered. And second, we start to have the benefit of our customers exiting promotions, as well as the new offers that we have put in the marketplace which are more rational and more rich in terms of ARPU.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

Understood. And on the cost side, SG&A was a lot lower this quarter. How much of that was accounting changes versus the low promotional level? And then, finally, versus sustained cost cutting?

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

Andrew?

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

A

Yes. Look, I think, the major driver is just the transformation program and the focus on sustainable cost cutting. And that will continue throughout the year, as I discussed earlier on. I mean, clearly, there is a marginal benefit to SG&A from the impact of the new revenue recognition standard. I think, from memory, it's just under \$100 million, it's about \$80 million, to be clear, for the quarter is the beneficial impact on costs versus the do-nothing basis on the old standard. So, clearly, the major drivers are, as I mentioned, start with the focus on the transformation programs.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

Once again, just to add on the costs. So, completely on track with what we had mentioned, which is to continue to push on cost reductions in order to be able to invest in our strategic initiatives. We still see a lot of potential there in different areas such as channels [indiscernible] (25:23) compensation, wireless access optimization, lower bad debt, marketing spending. And on top of that, as Andrew alluded to, we have really started major program in

terms of digitalization of the company, which is the new way to reduce costs even further. So, I feel pretty comfortable on our ability to continue to push costs down and in order to fuel our investments in our future.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

Okay. If I can follow-up, Andrew, every new Sprint CFO that I remember has come in with a new cost cutting plan. Can you talk about your experience in Vodafone? And how it applies here? And what your priorities are coming in? Thanks again.

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

A

Yeah. I think my experiences particularly, I suppose, when I was CFO at Verizon Wireless are more relevant to address right now. I mean, as Michel mentioned, I'm also a firm believer in the use of digitalization both in terms of process improvements, driving out the need for certain parts of physical infrastructure, et cetera, and also the use of analytics to identify areas where processes can be approved.

And then, when it comes to the discretionary side on the spending, I have a strong belief that you should be spend the money as though it was your own money. So, kind of – and that served me pretty well where we took out several billion dollars of costs in the three years when I was CFO at Verizon Wireless.

Philip A. Cusick

Analyst, JPMorgan Securities LLC

Q

That helps. Thanks.

Operator: Your next question comes from the line of Jonathan Chaplin with New Street. Your line is open.

Jonathan Chaplin

Analyst, New Street Research LLP (US)

Q

Thanks. I'm wondering if you can tell us how much of your base are wireless-only subscribers at the moment? If you have detail on that. And then, given how much capacity you're putting in to the network with all of the small cell densification and the Magic Boxes and the lighting up of 2.5 GHz, why not take the 50 gig cap on Unlimited up to something much higher and go after a bigger share of that wireless-only base? And then, along the same lines, I'm wondering if you can tell us how the deal with Altice is going and what your early learnings from that experience have been? Thanks.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

So maybe, John, you want to take the one on Altice. And then, I will take the two others.

John C. B. Saw

Chief Technology Officer, Sprint Corp.

A

Sure. So, Jonathan, with regards to the Altice, look, we are extremely pleased with the progress we have made with the Altice team. To date, we have deployed tens and thousands of [ph] trend mounts (28:29) of small cells with them. And the – what we have said in the past is that working with cable companies like Altice, would actually accelerate the zoning and permitting timeframes and that's absolutely true. We are able to install small cells a lot

faster with Altice than we have with more traditional wireless means. So, we are extremely pleased with the progress we have made.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

On your two first questions. So, first, we don't disclose data on wireless-only customers, but the data suggests that we see data continue to grow on our network from – coming from our existing customers. So, I give – and I give – that gives you part of the answer. Second, in terms of the cap 50 gig; first, you are right that we're improving the network. We recently raised this cap and, I guess, that we are best of the industry with this cap, so we believe that it's the right approach for our customers.

Jonathan Chaplin

Analyst, New Street Research LLP (US)

Q

Got it. Thanks.

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

Jennifer M. Fritzsche

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you. Two if I may. I wanted to ask about distribution. Thoughts there in terms of expanding locations and how you're approaching that? And then, secondly, I did want to ask about the millimeter wave spectrum option that's coming up in November. And maybe, John, thoughts there, if that's something you'd feel like it would be additive to Sprint's current spectrum portfolio? Thank you.

John C. B. Saw

Chief Technology Officer, Sprint Corp.

A

Sure. First on the distribution. We [ph] have forgotten (30:11) optimizing and explaining our branded distribution portfolio to lower our average cost per transaction while also [ph] enhancing (30:19) our digital capabilities as we have already alluded to.

Plan to add hundreds more Sprint and Boost doors in 2018, as well as updating more existing stores to be more productive and appealing. So, I think distribution is a reinvestment area that will better position us for the future.

As you know, we currently have 4,000 Sprint doors including nearly 80 that have been added so far this year. And we have nearly 8,000 Boost doors with other 200 doors which have been opened already year-to-date. So, we are completely, once again, on track with what we had presented as being our distribution strategy moving forward.

Terms of millimeter wave option, I – of course, we support the SEC decision to open [ph] several (31:16) spectrum bands above 24 gig including the November option for the 28-gig band. And soon to follow, the 24-gig band option for new mobile and fixed operations that will support 5G services in the future. And we see the upcoming option as an excellent opportunity to potentially supplement our existing 2.5 GHz spectrum portfolio for our 5G deployments.

Jennifer M. Fritzsche

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Your next question comes from the line of Matthew Niknam with Deutsche Bank. Your line is open.

Matthew Niknam

Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Thank you for taking the question. Just two, if I could. First on some of the pricing adjustments both to your new plans as well as maybe some of the fee increases we've seen over the course of the quarter. Can you talk about any sort of change you may have seen in terms of gross add flow or churn within your base thus far?

And then, secondly, just to go back to digital. Can you help us frame what the opportunity is? And I just want – really want to get it, what percent of your growth adds or activations right now are digital? Where could this go and maybe [ph] sizable (32:30) some of the cost opportunity there? Thanks.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

So, Matthew, on your first question in terms of pricing. So, as you know, on the one side we are running off promotions for our existing base customers. That's going well. We have implemented a dedicated team in order to manage that in a proper manner. And we are consistent with our plan there. So, nothing to report on this side. You've just seen the impact on our ARPU so it uplift in what was presented earlier on during the presentation.

And in terms of new Unlimited plans, of course, that's still early days. Meaning, that we have just introduced those plans in the past few weeks. We are quite excited by those new plans. Of course, those new plans are slightly less promotional than previous offers. So -but we still offer the best price for Unlimited in the industry. We are trying to balance profitability and growth. So, as expected, we have seen some pressure to gross adds with these new plans but we are also encouraged by the higher than expected [ph] take rates (33:50) on Unlimited Plus versus Basic. So, it's actually this play in between profitability and growth that we are trying to manage in a proper manner. And I am quite excited by what – by the first and early results.

On your second question, Matthew, which is digital. We don't disclose the absolute figures. I guess that Andrew just said in his introductory remarks that digital gross adds were up 50% year-over-year and I see still a huge potential both for gross adds and upgrades. When I compare, for example, the U.S. market with some more advanced digital market such as Europe, there is a huge potential there. So, I strongly believe that for a company like Sprint, leveraging digital is a great move.

As you have seen, we have tested our digital capabilities during some quarters leveraging the digital channel to introduce some new types of promotions just to make sure that we understand how this digital channel does work and does react. And there, once again, we are seeing a good traction. Yet yesterday, we launched a specific promotion on devices on digital only. And once again, we've seen a great traction there. So, good – great potential ahead of us leveraging more digital capabilities.

Matthew Niknam

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Your next question comes from the line of Brett Feldman with Goldman Sachs & Company.

Brett Feldman

Analyst, Goldman Sachs & Co. LLC

Q

Thanks for taking the question. As you highlight on slide 7 of the deck, most of your Unlimited plans now include free content and that's similar to what a lot of your competitors are doing. Now, that you've had this content bundle in the market for a while, I was wondering if you could shed some light on what type of benefits do you think you're seeing. So, for example, do you have tangible evidence that customers are actually moving to these plans specifically because of the content that's included? Do you actually see high engagement with that content from those customers? Is there any evidence that they churn at lower rates? Just something to help us understand if the cost of including the content in the bundle is starting to pay off in terms of your subscriber relationships? Thank you.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

Well, I guess, that it's kind of a market practice first and that has appeal for the customers. That's the reason why we have decided to revamp our Unlimited value proposition. We have always been a first-mover in that space. We were the first to introduce Unlimited value proposition in the U.S. So, now, we have – we are expanding it from call, text and data to content and services because we think that it resonates to our customers.

As you have seen, [indiscernible] (36:46) meaning that we have Hulu in all our plans that we have TIDAL on the [ph] eye of (36:53) price point, so in order also to drive customers from Basic to Plus. As far as Hulu is concerned, because Hulu was introduced earlier on and has been offered for free to all our new and existing customers on Unlimited data plan, We have seen good initial reception from customers so that's based on real results. And so, we believe that it's a great way to add value to new and existing customers. So, we think that's – it has positive impact, both in terms of uplifting our customers to the [ph] IO (37:35) plans and also in terms of reducing churn.

Brett Feldman

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Simon Flannery with Morgan Stanley. Your line is open

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Good morning. A question for John, if I could. I think you talked again about launching 5G in the first half of 2019. Can you just update us on where you are on devices and equipment? And what is the kind of initial use case? Is it going to be kind of a supercharged cell phone or is it going to be fixed broadband? And then, maybe you can also update us on the roaming implementation with T-Mobile?

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

So, maybe just one comment before I turn it John. Just to reiterate that it's clear that Sprint's priority is mobile 5G and we expect to provide commercial services and devices in the first half of 2019. We are making good progress in that direction. And, of course, we are building the building blocks in order to be able to unlock this proposition and continue to – the discussion with all our partners to be ready for first half. But maybe John can give you a little bit more color.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Thanks.

Q

John C. B. Saw

Chief Technology Officer, Sprint Corp.

Yeah, Simon. So, with regards to 5G programs, we are very excited and pleased with the testing results we're seeing. The linchpin for Sprint to launch 5G is Massive MIMO. And from the very early results that we have seen with the sites that we have deployed, we are seeing the expected benefits with some pleasant surprises in terms of how much it improved the [ph] uploading (39:18) performance and the coverage size. And so, we actually have sites today carrying life traffic now. So, things are moving fairly quickly. A lot of upgrades with 2.5 GHz now have moved to Massive MIMO based on the results we're seeing.

A

So, early optimism that is going to be good for our 5G build, and every Massive MIMO site that we add is going to be 5G-ready or 5G-capable. So, that is certainly good news. When it comes to roaming, we have just started turning up sites with T-Mobile to initiate roaming with them. So, too early to tell, but we have already started turning up sites with them.

Simon Flannery

Analyst, Morgan Stanley & Co. LLC

Okay. Great. Thank you.

Q

Operator: Your next question comes from the line of Colby Synesael with Cowen & Company. Your line is open.

Colby Synesael

Analyst, Cowen & Co. LLC

Great. Thank you. Two questions if I may. First off on CapEx. You obviously started off light for the year. Just wondering if you could just talk about the trajectory as you go through with your expectation that CapEx should build up gradually as we go through? And was the lower CapEx for this quarter expected or where there some delays that prevented you from spending more?

Q

As it relates to my second question, postpaid phone net adds, you've mentioned, a few times now, potential pressure on gross adds. Is it your expectation that we'll see postpaid phone net adds remain positive as we go through the fiscal year? Thank you.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

So, on the first question, Andrew?

A

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

Yeah. Thank you, Michel. Look, so, network cash CapEx was just about \$1.1 billion in the quarter. That was up \$350 million sequentially, and relatively flat year-over-year. I mean, the prior year's Q1 had a little bit of timing impact from a cash perspective from the prior quarters or 4Q 2016 that carried into it. We continue to expect, for this entire fiscal year, that network cash CapEx will be in the range of \$5 billion to \$6 billion as we continue to execute on all of our Next-Generation Network initiatives.

A

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

On your second question, so, first of all, just to remind you with the fact that we have delivered 87,000 postpaid phone net adds in Q1, which is the twelfth consecutive quarter of growth. Mentioned that, moving forward we were trying to adjust in between adds and profitability. And I just said that by introducing new pricing plan, of course, we have a bit of pressure on gross adds, but we manage that with churn improvements as well. And so, you can obviously expect Sprint to remain net adds positive for the year.

Colby Synesael

Analyst, Cowen & Co. LLC

Q

Thank you.

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

Amy Yong

Analyst, Macquarie Capital (USA), Inc.

Q

Thanks. Two questions, I guess, first following upon the churn improvement that we saw this quarter. Was that largely a function of network improvement? And I guess as you shift toward a more disciplined approach on the promotional side, what kind of expectations should we have on churn?

My second question is, if you comment on cable competition, obviously, Comcast has been gaining some momentum in wireless. Charter's expected to launch or have launched already. Wondering if you could comment on the impact of cable to your subscriber base? Thank you.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

So, first on churn. Postpaid phone churn of 1.55% was down 30 basis points sequentially and up 5 basis points year-over-year. We have a sequential decline which was mostly due to seasonality which is similar to Verizon and AT&T. We did see a slight year-over-year increase, but of course this is sequentially the seasonality impact.

We'd expect seasonal increase in fiscal Q2 2018 to be bigger than last year due to customers rolling off promotions. But moving forward, we are confident that 2018 will be the peak, as I have already mentioned it in the previous results announcement; and expect churn to improve year-over-year in 2019 as we deploy our network plan, so – which has been referred to different [ph] location (44:13) this morning; and continue to improve the customer experience. So, we are right in our journey there in order to deliver what we are committed to deliver from a churn perspective.

In terms of cable. It's clear that while it is a natural evolution for cable companies, as well as devices are how people are increasingly consuming content and actually seeing the Internet, still early, but the two largest cable companies are making a serious effort by combining assets, resources and expertise to compete effectively in wireless. They are real in this domain. So, we are keeping our eye on them as you can expect.

Amy Yong

Analyst, Macquarie Capital (USA), Inc.

Q

Thank you.

Operator: Your next question comes from the line of Scott Goldman with Jefferies. Your line is open.

Scott Goldman
Analyst, Jefferies LLC

Q

Hi, guys. thanks for taking the question. I guess, returning to the pricing in promotional activity. During the quarter, you ran a pretty quick promotion, the \$15 offer for sort of a more value proposition product. Wondering if you can just qualify what impact of that eight- or nine-day run may have had on your results? And more importantly, what you learned around that more value proposition there? And then, just a follow-up on the new Unlimited plans, and you talked a little bit about what that might mean for gross adds, but given where the pricing is today, wondering if it's still your intention or goal to maintain your share of gross adds going forward? Thanks.

Michel Combes
Chief Executive Officer & Director, Sprint Corp.

A

So, on promotions there are probably two questions in your question. There is significant competition in the market around devices and also on service pricing. So, we are responding accordingly in promotions either way to respond to a competitive [ph] mood (46:13) from our competitors. And so, you can expect that we will leverage or use promotions from time to time in order to boost our position in the market. Most specifically, on our Kickstart offer that you were referring to. Kickstart was a very limited time promotion which was offering a bare-bone, Unlimited plan with an extremely low cost. It was only in the market for a week. So, was not a material driver of results for the quarter.

We did see a very high price mix for the offer so – which was interesting. But this was really to test our digital capabilities. So, that's why it was really short time, allowed us to really figure out whether all of our digital set up was moving in the right direction. And based on that, I mean, we have now our two books in order to be able today to do some additional promotions when needed, and most likely on the handsets rather than on services.

In terms of new Unlimited plans, so, as I have alluded to, I guess that we are pretty excited by our new Unlimited plans, and it seems that our customers do feel the same. We have now a range of Unlimited plans so which are more tailored to the needs of our customers. Meanwhile, it's clear that we have slightly increased our pricing points, but we remain, by far, still the most aggressive player in the market in terms of Unlimited value proposition. We have quite, let's say, room of maneuver in order to position our offers and remaining quite competitive. We have maintained, in the last eight quarters, a share of gross adds of 18% to 19%, when our market share is closer to 12%. And I think that this level of share growth adds is right level moving forward in the next coming quarters.

Scott Goldman
Analyst, Jefferies LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of David Barden with Bank of America Merrill Lynch. Your line is open.

David Barden
Managing Director & Senior Telecommunications Equity Research Analyst, Bank of America - Merrill Lynch

Q

Hey, guys. Thanks so much for taking the questions. Just first, the churn obviously ticked down, there were seasonal reasons there as well. But historically, Marcelo has kind of articulated a view that you were willing to have higher churn at the expense of trying to be more promotional while kind of keeping the base on legacy

plans. And now that you've opened up the plans to both the existing base and new customers, is there a expectation that you can kind of have greater retention as well? Is this a churn exercise as well as a kind of a – and an ARPU an exercise?

And then, the second question was, I guess, for Andrew. In the guidance, it's been adjusted for the accounting, could you kind of give us how much lease depreciation is expected for the coming fiscal year and has that changed as a result of the new accounting treatment? Thanks.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

So, Andrew, you take the second. I will take the first.

Andrew Mark Davies

Chief Financial Officer, Sprint Corp.

A

Yeah. So, on lease depreciation. I think we've not really disclosed how much we expect that number to be for the full fiscal year. I mean, what I would say is the lease depreciation number itself would not really change massively as a result of the new rev rec standard, right? Because if you are leasing the device, conceptually, you're already accounting for it in the way that the new standard would require you to account for it, if you were subsidizing and doing kind of installments billings, right? So, the lease depreciation impact of the new standard is pretty agnostic.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

Okay. So, as far as the first question is concerned – concerning our new value proposition. So, we have elected to offer our new plan to the existing base. I would say, for one major reason, it's something which is now quite natural in the industry. I guess, that most of the carriers are doing the same in order to make sure that their existing customers can benefit from these new pricing plans.

We are able to do that because, of course, we have [ph] varied slightly (50:57) our pricing. So we have less risk of [ph] approve (51:00) dilution within our base. And so, I expect that by doing this move, which is a friendly move for the base, that will have also some positive impact on our churn moving forward. So once again, always the same [ph] ID (51:14) to balance profitability and growth.

David Barden

Managing Director & Senior Telecommunications Equity Research Analyst, Bank of America - Merrill Lynch

Q

Great. Thanks for that.

Operator: Your next question comes from the line of Michael Rollins with Citigroup Investment Research. Your line is open.

Michael I. Rollins

Analyst, Citigroup Investment Research

Q

Hi. Thanks and good morning. If you were to look at the postpaid phone net adds in the industry on an LTM basis over the last few quarters, the industry has seen a pickup in the amount of total phone adds. And I'm curious as you look at what's going on in the industry and with your own results, what do you think is driving that increase in postpaid phone adds? And do you think those trends are sticky as you look out over the next one to two years of where these postpaid phone business may grow at? Thanks.

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

A

Well, I guess there are probably two major reasons at stake. One is, natural continued extension of the postpaid penetration within the base, meaning that more and more customers even if we are – the penetration rate is already high in the U.S., there still some potential to increase it, so that's one.

Second is, I think that we have seen also some forms of migration from pre to post in the past few quarters. Meaning that as the postpaid pricing become more attractive and more affordable for new categories of customers, you have seen this pre to post migration. And just, for example, for Sprint, as you know, we had introduced a program to reward tenured prepaid customers with access to postpaid financing offers under their respective brand and that, for the quarter, has generated migration of 71,000 customers from pre to post.

But we – I think that it's those two things. One which is continued penetration of smartphones and phones within the population; and the second, this shift from a pre to post when postpaid become more affordable. So, do I believe that it's sustainable? My answer is yes.

Michael I. Rollins

Analyst, Citigroup Investment Research

Q

Thanks very much.

Jud Henry

Vice President-Corporate Strategy & Head-Investor Relations, Sprint Corp.

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

Michel Combes

Chief Executive Officer & Director, Sprint Corp.

So, thanks, Jud. I want to thank everyone for joining us today, and, of course, supporting Sprint. Our first quarter results demonstrate continued execution of our plan, delivering customer growth, profitability and improved network performance all at the same time.

We continue to deliver retail phone net adds, growing both our postpaid and prepaid customers. We improved profitability, delivering net income for the third consecutive quarter and operating income for 10 consecutive quarters with our highest adjusted EBITDA in over 11 years.

In addition, we are aggressively executing our Next-Gen Network deployment to deliver a Network Built for Unlimited while building the foundation for our mobile 5G network by deploying game-changing 5G technologies this year such as Massive MIMO.

We continue to enhance our value proposition, and continue to transform our cost structure and customer experience with digital and advanced analytics. I am so proud of what we have accomplished as a team as we transition both the CEO and CFO roles, while simultaneously supporting a merger integration process. Thank you and have a great day.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.