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TMUS.OQ - Q1 2022 T-Mobile US Inc Earnings Call

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## OVERVIEW:

Co. reported 1Q22 results.

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## PRESENTATION

### Operator

Good morning. (Operator Instructions) Today's call is being recorded.

I'd now like to turn the conference over to Mr. Jud Henry, Senior Vice President and Head of Investor Relations for T-Mobile US. Please go ahead, sir.

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**Jud Henry** - *T-Mobile US, Inc. - SVP of IR*

Good morning, everyone. Welcome to the T-Mobile First Quarter 2022 Earnings Call. Joining me on the call today are Mike Sievert, our President and CEO; Peter Osvaldik, our CFO; as well as other members of the senior leadership team.

During the call, we will make forward-looking statements which involve 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. Our earnings release, investor fact book and other materials that accompany our Q1 results as well as reconciliations between our GAAP and non-GAAP disclosures can be found on the Quarterly Results section of the Investor Relations website.

With that, let me turn the call over to Mike.

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**G. Michael Sievert** - T-Mobile US, Inc. - President, CEO & Director

Okay. Thanks, Jud. Hi, everybody. Well, what an exciting time right now at T-Mobile. We have a lot to cover, but we'll keep our comments brief this time so that we can get right to your questions.

We just celebrated the 2-year anniversary of this merger. We delivered another exciting outperformance in Q1 to kick off 2022. We're in the home stretch of our accelerated integration. And we're raising our guidance for the year across the board based on the momentum that we see in our business.

It's hard to believe that it's already been 2 years since we closed our merger with Sprint. I'm incredibly proud of what we've accomplished as we have consistently exceeded not only our own targets, but also Wall Street's expectations.

One of the cornerstones of our merger advocacy was that we would lead the U.S. into the 5G era. And I don't think very many people anticipated what we've already achieved in just 2 years. We now cover 315 million people with 5G. That's 95% of all Americans. And our 5G geographic coverage with dedicated low-band spectrum is more than Verizon and AT&T have combined, which both, by the way, are still largely sharing spectrum with their LTE networks.

Perhaps our greatest impact though was to awaken the industry to the transformational performance of mid-band spectrum for Ultra Capacity 5G. We already cover 225 million Americans, and nearly 85% of all T-Mobile customers with these game-changing experiences. We caused others to pivot from an apparent willingness to leave fast 5G to a select few customers within arm's reach of a millimeter wave site. And now we see them greatly increasing their investments in mid-band spectrum and deployment. They are trying to chase us but only to realize they will be and are years behind T-Mobile.

Pre-merger, we laid out a plan to realize massive synergies from our scale and efficiencies only to raise our run rate synergy expectations by 25% after closing the merger. We're delivering these synergies bigger and faster than expected to the benefit of our shareholders.

And synergies are ramping up even further this year as we're approaching some of our biggest milestones, including moving the remaining customers off the Sprint network in the next couple of month just over 2 years from merger close. And we're also on track to upgrade or decommission substantially all of the Sprint sites this year, less than 3 years from close. We've been selectively decommissioning sites since the merger close. And as of Q1, we've decommissioned roughly 1/3 of the 35,000 targeted sites, with the big push coming in the second half of this year. Remarkable execution by the team as we pulled these milestones forward by more than a year.

At the Un-carrier, we're committed to use our 5G leadership and synergies for the good of consumers and businesses, eliminating the biggest pain point in this industry where customers were forced to make trade-offs between network quality and value. As the only national wireless provider with a clearly articulated and differentiated growth strategy, we have led the industry in postpaid customer and service revenue growth in the 2 years since the merger closed. In that time, we've delivered roughly 2 million postpaid account net adds, and 11.5 million postpaid net adds, including an industry-best 5.3 million postpaid phone net adds.

We were also the only national wireless operator to deliver double-digit growth in both service revenue and core adjusted EBITDA over that period. And we accomplished this while building the foundation for sustainable growth platforms across enterprise and government, smaller markets in rural areas, prime consumers in the largest 100 markets and bringing real competition to broadband.

We've unlocked new experiences for consumers, like the first truly unlimited 5G plan with Magenta MAX. And we've established T-Mobile as the fastest-growing broadband provider, bringing a better product and value proposition to over 40 million potential households and already serving over 1 million customers, just a year after our commercial launch.

We are carrying this momentum right into 2022, delivering another industry-leading quarter of both customer and financial growth in Q1 built on the incredible momentum of our Magenta brand.

We added 348,000 postpaid account net adds, our highest Q1 ever and the highest reported in the industry yet again. As I've said before, this measure of our total billing relationships is the best barometer that we're winning the switching decisions in this industry. While others appear to be leaning into adding lines to their base, we are focused on growing the number of customer relationships and then deepening them over time across our products and services.

And we delivered our highest Q1 postpaid net adds in 8 years with an industry best 1.3 million. That's more postpaid nets than AT&T and Verizon combined. This includes 589,000 postpaid phone net adds. Our postpaid phone churn dropped by a whopping 17 basis points from Q4 to just 0.93, the industry best improvement both year-over-year and sequentially. We were the only national wireless operator to improve churn year-over-year as our competitors saw their churn increase. This integration-driven churn improvement really matters because our phone gross adds were the highest in the industry yet again in Q1. In fact, if the Sprint churn was the same as the Magenta churn, postpaid phone net adds in Q1 would have been closer to 900,000.

And I couldn't be more excited about high-speed Internet, where we had 338,000 net adds and I expect will be the fastest-growing broadband provider in the industry for the second consecutive quarter. Demand just continues to build from dissatisfied suburban cable customers to underserved customers in smaller markets and rural areas.

Our Net Promoter Scores continue to improve quarter-over-quarter and, are now more than 3x the average NPS scores for cable customers. The best part is we're just getting started bringing the Un-carrier to broadband. So stay tuned for what we have in store next.

Magenta MAX continues to see great adoption from customers, which is helping to drive strong ARPU and ARPA trends, and we still have lots of room for further growth. With the trends that we're seeing, we now expect postpaid phone ARPU to be up roughly 1% in 2022.

In addition, we continue to see our prime mix of credit apps increased on a year-over-year basis each quarter, showing that our network and our brand are consistently attracting the industry's best customers.

We continue to see good momentum in smaller markets and rural areas as we expand the reach of our distribution and network. The team is executing our precision playbook here to a T, coordinating the network and distribution build-outs to unlock new experiences community by community. We ended 2021 effectively competing in about 30% of households in these markets and will continue to expand to more than half of households in smaller markets by the end of this year.

Our new accounts from smaller markets and rural areas grew 40% year-over-year in Q1. And these markets are also a great example of where our high-speed Internet is helping to open doors for us to drive mobile penetration.

T-Mobile for Business continues to build mind share with enterprise and government customers on the strength of our network and our ever-expanding suite of products and services. We've built strong momentum across major verticals now, such as the financial sector, where we continue to expand the list of large multinational banks relying on T-Mobile for secure and compliant connectivity for their hybrid mobile workforce.

Our network performance has also been a catalyst for over 31st responder agencies to join T-Mobile just in Q1. We recently introduced the first 5G connected cars in America with Magenta Drive for BMW. And we continue to be on the leading edge of advanced 5G network solutions like mobile edge compute and private networks. I'm excited about building on our momentum with businesses in 2022 with our significant and durable 5G network advantage.

Okay. Let me wrap up. It's been a remarkable run in the first 2 years since our merger. We've unlocked better experiences for consumers and businesses by offering the best value and the promise of the best network for the first time in this industry's history. We've unlocked shareholder value through industry-leading growth in postpaid customers and service revenues while delivering merger synergies bigger and faster than originally planned. We're off to a great start in 2022 with a beat-and-raise quarter that not only led this industry in growth of postpaid customers, but also service revenue, core adjusted EBITDA and cash flows. And positioned us to raise our guidance across the board just 1 quarter into the year.

Our team is excited to carry all this momentum through the rest of '22, and I'll let Peter take you through our key financial highlights from Q1 and our increased guidance in more detail. Peter?

**Peter Osvaldik** - T-Mobile US, Inc. - Executive VP & CFO

All right. Thanks, Mike. As you can see, we started off 2022 with very strong Q1 results. Our industry-leading growth in postpaid customers and highest postpaid phone ARPU growth in the last 5 years resulted in the best postpaid service revenue growth in the industry, up 9% year-over-year. That strong service revenue growth, combined with our continued execution on our merger synergies, delivered year-over-year core adjusted EBITDA growth of 10% compared to the year-over-year decline in EBITDA that you see from others in our industry. That growth and profitability fueled higher operating cash flow even with higher merger-related costs and enabled us to deliver industry-leading growth in free cash flow of over 25% while accelerating our CapEx investments in the network.

So let's talk about how our great execution in Q1 set us up to raise guidance across the board for 2022. We now expect total postpaid net additions to be between 5.3 million and 5.8 million, up 300,000 at the midpoint, reflecting our ongoing focus on profitable growth with our Magenta brand as we continue our accelerated Sprint customer migration.

We continue to expect roughly half of postpaid net adds coming from phones for the full year more weighted to the second half, with the Sprint migration impacts more in the first half and expansion in smaller markets and rural areas building throughout the year. Consistent with Q1, this net adds guidance does not include the small subset of customers who will not migrate upon the sunset of the Sprint networks, which will be treated as a base adjustment.

As we began the CDMA sunset at the end of Q1, we took an adjustment of 212,000 postpaid phones, in line with what we had guided, as well as 349,000 postpaid other devices, which were largely low ARPU IoT devices. We expect to begin the LTE sunset at the end of Q2 and estimate a base adjustment of approximately 300,000 postpaid phones and between 700,000 and 900,000 lower ARPU postpaid other devices. The anticipated impact of these adjustments is relatively immaterial and fully incorporated into our core adjusted EBITDA and free cash flow guidance.

Turning to core adjusted EBITDA. We now expect full year 2022 to be between \$25.8 billion and \$26.2 billion, up more than 10% year-over-year at the midpoint, which is up \$150 million from the prior guidance, driven by our growth in service revenues and merger synergies and excludes leasing revenues, which we continue to expect to be between \$1.1 billion to \$1.4 billion as we transition Sprint customers off device leasing.

We now expect merger synergies to be between \$5.2 billion to \$5.4 billion, up \$150 million at the midpoint and weighted to the second half of the year, primarily as we unlock more network savings as site decommissioning accelerates. As a result of timing of synergies within the year, the impacts from the Sprint network onset and an expected slight sequential decline in wholesale revenue, we expect core adjusted EBITDA in Q2 to be similar to Q1 and then higher in the second half.

Merger-related costs not included in core adjusted EBITDA are still expected to be between \$4.5 billion and \$5 billion before taxes, primarily representing network activities. We expect slightly over 1/3 of the total to occur in Q2 and then taper off in the second half of the year as merger-related costs precede synergy realization.

Net cash provided by operating activities, including payments for merger-related costs, is now expected to be in the range of \$15.7 billion to \$16.1 billion, up more than 10% year-over-year at the midpoint which is up \$100 million from the prior guidance.

With the robust pace of our 5G deployment and network integration, we now expect cash CapEx to be between \$13.2 billion and \$13.5 billion, which is up \$100 million at the midpoint as we capitalize on growth opportunities and enhance the customer network experience.

Together, we now expect free cash flow, including payments for merger-related costs, to be in the range of \$7.2 billion to \$7.6 billion, which we raised \$50 million at the midpoint. This is up more than 30% over last year even with the higher levels of investment and does not assume any material net cash inflows from securitization.

We continue to expect our full year effective tax rate to be between 24% and 26%. And additionally, as we execute our strategy to continuously deepen our cap relationships, we now expect full year postpaid ARPA to be up 2%. As Mike also mentioned, we expect postpaid phone ARPU to be up approximately 1% for the full year, driven by continued customer adoption of value-add services, including Magenta MAX.

And finally, with the shutdown of the Sprint CDMA and LTE networks, certain wireline assets acquired in the merger will no longer support the wireless business, triggering an impairment analysis. As a result of the wireless network shutdown, we anticipate a noncash impairment charge in the range of \$400 million to \$500 million in Q2. The cessation of wireless traffic also enables monetization of certain wireless assets to the wireline assets, which were previously supporting the wireless traffic. Any cash monetization of these wireline assets would be recorded as gains in future periods if they occur.

Altogether, we see 2022 as another year of profitable growth and free cash flow expansion as we continue to invest in our network and the business. What I find most exciting is our unique opportunity to unlock significant free cash flow by delivering industry-leading growth in customers, service revenue and core adjusted EBITDA.

And with that, I'll now turn the call back over to Jud to begin Q&A.

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## QUESTIONS AND ANSWERS

**Jud Henry** - *T-Mobile US, Inc. - SVP of IR*

All right. Let's get to your questions. (Operator Instructions) All right. We'll start with a question on the phone. Operator, first question, please.

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### Operator

Your first question will come from the line of John Hodulik with UBS.

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**John Christopher Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Two quick ones, I think. First, have you guys seen any slowdown in sort of store traffic or gross adds in March or heading into April? We heard something like that from Verizon. I just want to -- doesn't sound like it given Peter's commentary about growth accelerating through the year.

And then similarly on inflation, any impact on your business from what we're seeing in the U.S. from higher inflation?

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

We've heard some of that, too, John, and not really, but I'll let Jon give you a little color on what we're seeing in retail and as we engage with the consumer. And then I'll come back and talk about inflation.

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**Jon A. Freier** - *T-Mobile US, Inc. - President of Consumer Group*

Yes, you bet. John, yes, we're not seeing any of that. What we're seeing is a great Q1, as we've reported, with 348,000 postpaid net accounts and 1.3 million total postpaid. And when you look at what we're seeing in March and April, we're actually seeing the seasonal benefits that you would expect and actually switching and improving on a year-over-year basis.

Remember, in Q1 of last year, that was the depth of the pandemic when people were kitty baring the door back in January and February of last year. And today, we're seeing the overall switching activity continuing to improve on a year-over-year basis. So when I look at traffic and I look at all the activity in the marketplace, I'm feeling really, really confident about what we're seeing.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

You can see that in both of our competitors having elevated churn in Q1 relative to the year ago period. It wasn't the case for us. Our churn is unfolding exactly as we've told you it would. It's driven by merger integration synergies. And we've achieved some really important milestones here on merger integration to where if you think about the customers that have transitioned, Sprint customers that are on the T-Mobile network, with all their traffic predominantly on T-Mobile, who have T-Mobile plans and T-Mobile device plans, those customers are the ones we've been telling you about the churn just like Magenta customers.

And those are now 37% of our base. So we brought a substantial minority across. And that was a big factor in driving a whopping 17 basis point sequential churn improvement in just 1 quarter, exactly unfolding the way we told you it would.

There's a lot of work left lot to do, obviously. 37% isn't 100%. That's going to take us some time. But it shows you that the thesis that we've been sharing is unfolding exactly as predicted.

Now as it relates to inflation, I'm not sure what you're getting at, but I'll talk about 2 things here, John. One is from a cost structure standpoint, as we've said in the past, our sector is actually somewhat insulated. Obviously, we need to watch labor costs and variable costs, but the vast bulk of our cost structure is in long-term contracts around things like tower contracts, backhaul contracts, technology contracts, those kinds of things that are generally fixed and finite and known over a multiyear period, which gives us some insulation from inflation effects.

I think the larger question facing our society is what will be the impact of inflation beyond consumers? And the answer is we don't know. Right now, there's a lot of consumer anxiety about inflation. And customers have stressed out budget. What we know is that T-Mobile is famous for being the value leader. We can save a family of 4 on postpaid \$900 a year, a year, every year, from switching to T-Mobile. And so as -- we'll have to watch what happens with consumer sentiment here, but if it is a difficult time, there's a real opportunity for us to stand up and serve more and more people as the value leader and we'll, of course, be ready to do that.

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**Operator**

Next, we'll go to Phil Cusick with JPMorgan.

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**Philip A. Cusick** - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

So speaking of inflation, AT&T is out there trying to signal prices higher and backed off a little bit on their promotions. I see your current promotions out there. Maybe talk about where you see your competitiveness versus peers and any ability to take price if needed over time.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

I'll start by saying our envelope of value leadership has been remarkably consistent over time. And so if you look at a multiyear arc, we offer the best value to postpaid consumers. That has been the case for the entire Un-carrier journey. And it's been about consistently the case in terms of the extent of that value leadership.

Now we're always introducing new promotions. But I want to be really clear. Our strategy as a company is about showing customers the remarkable value of Magenta MAX. That's our strategy. And you can see how it's unfolding in terms of customers self-selecting up our stack to buy our best products because they are the very best expression of the very best 5G network. And that is running on all cylinders, allowing us today with the

best values and with incredible promotions in the market to tell you about for the first time in the 10 years I've been here, an outlook of ARPU rising. And that was something we just did a few minutes ago for the first time in the entire decade I've been here on the strength of this strategy.

And so it really shows that we can have it both ways. We can have the best value in the industry, remarkable promotions, bring competition to this market like we always have, to no greater or lesser extent than in our past, while simultaneously showcasing the incredible value of our leading 5G network in the expression of Magenta MAX and attracting customers to that best expression.

So it's a really nice place to be. We like this market competitive. We know we're stewards of a healthy and vibrant marketplace that has room for all of us. But one thing is very clear. As it becomes less known, whether they're will be enough room for the Verizons, the new entrants, the cable companies, et cetera, it's very clear that our tailwinds of growth driven by our rational and well-articulated growth strategy is a real differentiator for us. And that's something that I think people need to understand as their -- investors, I know, are looking for growth, but they're also looking for reliable safe bets on growth. And that's what we strive to achieve quarter after quarter.

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**Philip A. Cusick** - JPMorgan Chase & Co, Research Division - MD and Senior Analyst

Maybe one more on revenue, if I can. You talked about wholesale revenue down a little bit in the second quarter. How do those wholesale relationships look at this point in terms of the runoff of Boost and TracFone? It seems like those are a lot more stable than we were worried about a couple of quarters ago.

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**G. Michael Sievert** - T-Mobile US, Inc. - President, CEO & Director

Yes. I'll let Mike talk about it. First, I'll just give you some context. I know a quarter ago, we talked about reaching an agreement with DISH as a path forward, that's a real win-win for everybody, and that continues to be under review by the Department of Justice.

But I will say we've gone forward with DISH in a very productive way and they have with us, really finding a path forward and that's been nice to see for their customers and for all of our businesses. But obviously, we have a large and diverse wholesale base, and maybe I'll let Mike Katz tell you about what's happening.

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**Michael J. Katz** - T-Mobile US, Inc. - CMO

Yes. Thanks, Mike. As Mike said, we reached an agreement with DISH. We're waiting for the approval from DOJ. But both companies are operating as if the deal is in place, and that partnership has been going really well for us.

A couple of things that we talked about last quarter that you've seen come to fruition this quarter. One is we reached a wind-down agreement with TracFone, and you're seeing that roll through our numbers. We also reached agreements with -- extension agreements with Google, which is a large exclusive scaled MVNO that's in our portfolio. And a new MVNO agreement with Altice. So we're seeing new and expanded MVNO relationships in our portfolio. And we're seeing a lot of interest and a lot of growth from the existing companies in the portfolio taking advantage of the network capacity and the network capabilities. So it's a -- wholesale has been a really strong portfolio for us.

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**Operator**

Next question will come from the line of Michael Rollins with Citi.

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**Michael Ian Rollins** - Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

I guess first on the fixed wireless broadband side. Can you provide an update on the experience that customers are getting in terms of download-upload reliability, and what you may be seeing in terms of the early retention and satisfaction levels.



And then secondly, with the financial guidance up for the year, what are the circumstances under which T-Mobile could consider beginning share repurchases during 2022?

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

Great. I'll start on the first one and maybe ask Neville to pile in.

We're really delighted with what we're seeing here. I think this product has been a fantastic showcase of what the leading 5G network can really do. And we're now operating at scale with 1 million customers. Net Promoter Scores have risen again quarter-over-quarter, which is terrific to see now 3x the Net Promoter Scores of a cable company. Our download speeds meet the nationwide medians of cable companies.

And that's something most people wouldn't really appreciate. Our average usage is 300 to 400 gigs per month and yet we're able to serve that with rising Net Promoter Scores. We have a tail, 10%-ish or so, that are using a terabyte per month. And so these are normative figures that you would see in an industry with a product that's really driving satisfaction. Maybe Neville, you can talk about what's behind it and add any color?

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**Neville R. Ray** - *T-Mobile US, Inc. - President of Technology*

Yes. I mean they're great stats, right, when you look at how we are performing and competing in this broadband space. I think everybody said, what happens with 5G? Well, look at what we're doing with this in-home broadband experience. And 1 million customers now, 1 million, our first 1 million, the first 1 million. And so it's coming from just the powerhouse network we have. And I like to say we're just getting started on this 5G story. We're adding a lot of coverage. We're adding a lot of spectrum.

And the sheer horsepower that we can provide off this 5G network allows us to support this great and increasing and improving experience. So we're super proud about the performance we have. Customers are really enjoying this product. And to be honest, I'll say it again, we are just getting started in this space. We have an incredible 5G network with a lot of new spectrum to come in and be dedicated on this 5G capability. And the performance and capabilities are going to continue to expand and improve.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

And Mike, I think you know our basic game plan here. What's fascinating about this business is we are able to offer it nationwide now across 40 million homes and compete in a relatively even basis in all parts of this country because our go-to-market plan is based on an excess capacity model. And so we aren't dedicating large sums of capital to this business. Instead, our algorithms look at normal mobile usage that's rapidly growing because of the strength of our 5G network, and we expect will continue to rapidly grow. We also expect we will continue to take share.

We model all that forward and find the pockets where even all those extra customers and all their extra mobile usage won't soak up the capacity of this remarkable network. That's where we approve applicants for 5G home broadband. And so that's really interesting because you have that swallow capacity. And it's just the nature of a mobile network. Our spectrum coverage is relatively consistent and therefore our capacity can be relatively consistent. But mobile usage isn't.

Mobile usage is in some places and not others. You have to be everywhere to be competitive. Once you're there, you might as well light up all your spectrum. And so that's really the nature of this. And it allows us to have the economics to be able to go to market with a competitive offer for large swaths of the population and price it attractively and still make a return.

Okay. You had a second question about buybacks. I have lost the office pool came in on the third question. So Peter, please tell us what to say.

**Peter Osvaldik** - *T-Mobile US, Inc. - Executive VP & CFO*

Yes, absolutely. Mike, as you said, the momentum of the business gives us a lot of confidence in that opportunity that we expressed around '23 to '25 both the free cash flow generation and the potential for returns. But with regards to timing or starting or opportunity sets, there's really no update from what we shared with you last time that we have to share at this point.

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**Operator**

Next, we'll go to Jonathan Chaplin with New Street.

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**Jonathan Chaplin** - *New Street Research LLP - US Team Head of Communications Services*

I'm going to stick in a cheeky 3, if I may. So on fixed wireless broadband, just a follow-up on Mike's question., I'm wondering if you could give us some context on where the ads are coming from, and how much of a pull-through you're seeing for fixed wireless broadband customers who weren't previously T-Mobile customers and taking mobile from you?

And then you gave us some great color on how market shares are progressing in small markets in the rural. Could you give us an update on what's going on with market share in business and how you guys are tracking towards your objectives there?

And then finally, you mentioned monetizing the wireline network. Does that mean selling it? Or you just have excess capacity on the wireline network that you'll then be able to fill up with new wholesale deals?

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

Are you sure you don't want to ask you about top 100 or Sprint integration because that would cover all of the -- okay. Great, Jon, well, let's try to hit those in rapid fire. First on fixed wireless, maybe Mike, you can give us a little color on where the customers are coming from. And then Jon get ready to tell us about small markets and rural areas and what's going on there.

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**Michael J. Katz** - *T-Mobile US, Inc. - CMO*

Yes. Thanks, Jonathan. As Mike said a second ago, because we're deployed nationally with fixed wireless, really the customers are coming from everywhere. You're seeing customers in top 100 where we are now providing a competitive choice to cable. You're seeing them in Smyrna, where oftentimes we're the only high-speed wireless alternatives in those communities. You're seeing good growth in business. So it's really across the board. And our growth is following the network expansion that Neville just talked about. So as the network expands and we have more capability, we have more sectors with capacity, we'll continue to see growth.

All of that combined puts us on a really good trajectory to the 7 million to 8 million customers we talked about in 2025. I think we're in a good pacing to meet that objective.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

Great. And Jon, and Callie, you get ready. And also not only has Jonathan been asking about it, but also Roger Entner is asking again about business, what's going on with market share? What kind of customers are we winning? But Jon, small markets in rural areas.

**Jon A. Freier** - *T-Mobile US, Inc. - President of Consumer Group*

You bet. So just to remind everybody, smaller markets in rural areas, everything outside of our top 100 market is approximately 40% of the U.S. marketplace. So we started this journey back in 2020 at 13% market share. And we finished at the end of 2021 at 15% market share. So in very short order -- percentage points in smaller markets and rural areas. And what you've seen in Q1 is a plan that's unfolding exactly like we expected, which is 40% up on the new accounts that we've established on a year-over-year basis in smaller markets in rural areas. So I'm feeling really good about that, the network expansion, the distribution expansion, bringing that winning formula that we're famous for in the smaller markets and rural areas.

We still have a lot of opportunity. When you think about what Neville and his team have done from a 5G coverage perspective, I mean it's just amazing that our 5G coverage geographical footprint in smaller markets and rural areas is more than the combination of AT&T and Verizon. We're 30% larger geographically than AT&T, 4x larger geographically than Verizon. So we're feeling really good about what we're doing there. People need choice in these areas. Of course, when you think about it, I've said this a couple of times, it really is in so many of these places to trip back to the 1990s with just a couple of choices. And when you bring real competition in these spaces, customers are choosing us at rates that we've expected and we're seeing today.

What's going on in business?

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**Callie R. Field** - *T-Mobile US, Inc. - President of Business Group*

All right. Well, listen, we gave ourselves a pretty bold aspiration to be at 20% market share in 2025. And I'll tell you, when share rates today, we're already on track. There's still room to run. We've got strong momentum in the financial sector. We're expanding the number of large multinational banks relying on T-Mobile for security, for compliance, for their hybrid workforce. Our network performance is a catalyst for over 31st responder agencies to join T-Mobile in Q1.

As Mike mentioned earlier, we launched our first 5G connected cars in the United States with Magenta Drive for BMW. We also launched TloT in partnership with DT which is a disruptive solution that allows enterprises to access seamless global connectivity. Customers like Biotronic, a leading global medical device company that uses TloT to monitor their patients all around the world. This was the ninth consecutive quarter of growth of over 200,000 connections in the public sector. One of our new customers is the U.S. Department of Treasury.

So we're seeing a lot of growth, really good traction. We've got a lot of work to do. We've got runway ahead of us. We're leveraging our 5G network advantage, enabled already to have active deployments in over 20 trials in advanced network services. So we're very excited about the growth potential that we see there above the plan that we've already stated that we would deliver.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

One of the things -- reasons I made my joke at the beginning is you were asking about all of our growth objectives. And before we ask Peter to wrap up on wireline, I just want to remind everybody that what you just heard from the team is that we are absolutely on track with the bold aspirations that we shared now more than a year ago with you as we laid out our multiyear plan on this business.

And what's interesting about us that makes us so different as a growth bet is that we have a rational, articulated growth strategy based on proven areas of underpenetration where we know we have opportunity, and where we are making down payments and are very much on track. And that's what investors should be asking us about. So I just want to make sure everybody is reminded that we have major underpenetrated opportunities in small markets and rural areas, 40% of this country where we've already grown from 13% to 15% share and we're tracking beautifully.

We have major underpenetrated segments in business, a huge part of this marketplace and probably growing in the wake of the pandemic where we're very underpenetrated and where Callie just reminded us, our present performance would get us to those multiyear aspirations. We articulated a huge opportunity in high-speed Internet and now 2 quarters in a row have showed you that we're the nation's fastest-growing broadband provider.

Our top 100 markets where we lead the industry are also a big opportunity. And you're going to hear us talking more and more about the growth trajectory that we see with prime consumers and quality seekers in the top 100 markets.

Despite our leadership, there are tens of millions of people in the top 100 markets who've never given T-Mobile a serious look because they want the best network. Now that we offer that, there's a huge opportunity for us to unlock there and you'll be hearing more about that.

And then finally, Sprint integration. I already told you that Sprint integration is a growth tailwind. If Sprint was churning like T-Mobile, we'd be at 900,000 phone net adds this quarter. And we're making the progress that we promised you with one of the biggest sequential churn reductions this industry has ever seen, our best one in 7 years, a whopping 17 basis points quarter-over-quarter, all on the strength of executing like we said we would on a major growth trajectory. So that's one thing I want to make sure to remind people about.

And then finally, big question was about wireline, what's going on there? What are the opportunities that we see? What were you really talking about?

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**Peter Osvaldik** - T-Mobile US, Inc. - Executive VP & CFO

Yes. Exactly, Jonathan. So yes, as we see the wind down of the wireless traffic when we shut down the LTE network, that does create capacity on the wireline side. And of course, from a customer perspective, we'll look at what's the right suite of products and services, particularly in the 5G era to serve all their needs.

But with the traffic going away, it does create some opportunity for monetization. So we'll rationalize things like buildings. We'll rationalize routes. And there's other things that have become quite valuable now in the form of, for example, IPV4 addresses that with the wireless traffic going away are potentially monetizable for us. So we'll look at the right suite of products and services and monetization opportunities to create the most shareholder value, as you would expect of us.

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**G. Michael Sievert** - T-Mobile US, Inc. - President, CEO & Director

Okay. Terrific. Before we go back to the phones, obviously, we've got questions coming in on Twitter. We usually get interesting ones from Bill Ho. I see one want to hear Neville about network. It looks like we're up again in 5G reach out to 315 million people. Where is that really going? And where are we on ultra capacity 5G? Can you forecast for us what to expect there because that's the real game.

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**Neville R. Ray** - T-Mobile US, Inc. - President of Technology

Yes. Love the question, Bill. It's 315 million on our 5G footprint today. I mean, say, the headline, again, 95% of all Americans are covered with T-Mobile's 5G service, more coverage than AT&T and Verizon combined. That's something to sink in.

But I love your question is about where do we go from there? I almost want to say we've got to give the competition a chance. We're so far in front. You're asking what happens at the end of '23 and beyond. And of course, we will continue to expand and improve the quality of this network.

We've said 300 million people from the 225 million today will be covered with 5G Ultra Capacity. And so that's our end of '23 target. That's way over and above anything that AT&T and Verizon have stated around their ambitions on mid-band rollouts. I think the outer edge there is 250 million. So we're going to be providing way more coverage.

But the other piece, Bill, is a lot more spectrum. And so today we have more dedicated 5G spectrum than AT&T and Verizon combined in play. And really, we have just started on that rollout of mid-band and even low-band 5G spectrum. So over the next couple of years, a lot more spectrum coming.

The last part of your question was about what's happening with speeds. Are we hitting kind of the 300 to 400 megabit per second speeds that we planned and anticipated. Yes, we are on that mid-band footprint. And that mid-band footprint is going to get bigger and stronger. The lanes are getting wider and faster. We're hitting more and more parts of the country. Many of those opportunities that Mike and Jon just outlined, where we are bringing a massive multi-lane 5G freeway to town. This is going to be an incredibly exciting journey over the next couple of years.

And of course, we won't stop there. We'll continue to improve and enhance the network, but I don't have any stats to give you above 300 million yet on Ultra Capacity.

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**G. Michael Sievert** - T-Mobile US, Inc. - President, CEO & Director

It's very interesting what's happening here. You've heard us say before that we see that we're 2 years ahead in the 5G race now. And 2 years from now, we'll be 2 years ahead in the 5G race. And that's not a quip, that's not a competitive quip. That's actually an aspiration that we take very serious. And you just heard Neville say that by the end of this year, we'll reach 260 million people with Ultra Capacity. That's an aspiration that Verizon has by the end of '24, except only 250 million. But by the end of next year, we'll be at 300 million. And what's interesting is our goal is that in many places, it's not just to have 300 million people deployed, but in many places to have fully 200 megahertz of 5G dedicated spectrum. That's remarkable in terms of what we can do to change customers' experiences on smartphones, to serve enterprises, government customers and, of course, broadband and other new applications.

And so that's our aspiration. We take it very seriously. And one of the things you should judge us on is, have we been through over and over and over again to the things that we said we would go do. Because we've been very clear-eyed about this strategy for many years, and I think that consistency is something that people should acknowledge.

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**Operator**

Next question will come from the line of Craig Moffett with MoffettNathanson.

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**Craig Eder Moffett** - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

I'm going to stay with this topic of rural markets for a minute. You've talked about this being 40% of the country. And I think last quarter, you gave some interesting color on how you can even further segment that 40% of the country into areas where you've already introduced retail stores and presumably come in behind low-frequency spectrum with some mid-band filling in some of the denser areas of those otherwise non-dense markets.

Could you just sort of talk about the segments within the 40%? Sort of how much is left that is sort of truly greenfield, I guess, in the sense that you really haven't gotten there yet with a real retail presence? And where even that 15% market share that you talked about may be quite a bit lower? And then in the areas that are a little more mature within the 40%, what that looks like?

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**G. Michael Sievert** - T-Mobile US, Inc. - President, CEO & Director

Absolutely. I'll start and then I'll ask Jon Freier to jump in and maybe Neville as well. I'll remind you of a couple of things that we've said in the past and something I said in my prepared remarks.

What we do for this 40% of the country, we call it our precision playbook. We've divided that segment of the country into 775 submarkets. And what we do is study our relative competitiveness. And so it starts with the network. Is our network every place people in that local area need for us to believe that we have all the factors of success required to win market share. Now this is observable because we are #1 in many places in this country. We know what it takes. And we take that same observable logic, and we apply it now to places we were never highly competitive.

And what we've said in our upfront remarks is that we believe we are competitive across about 30% of those places, the POPs represented by those places. And that will be competitive across about 50% by the end of this year.

Now I'll guide you. There are some layers of competitiveness. That's sort of our base level and above. And there's levels that we can get to above that. But we measure that number because what we see is when we have that level of competitiveness, what we call right to win, we are able to see win shares in line with our aspirations such that we know that the price that we promised you is within reach. And that's really important. So again, we're in those 30% of POPs where we already have a right to win, we are winning. And so that gives us a lot of confidence in this strategy. We'll be at 50% by the end of this year.

And maybe, Jon, you can talk about what's going on as we enter each of these markets, what formula we bring to make sure that we get the win share that's required for us to grow our market share.

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**Jon A. Freier** - T-Mobile US, Inc. - President of Consumer Group

You bet. So that's what Mike just said in terms of really staying focused on this overall cocktail and proven recipe of success when you think about network readiness, distribution entry and then really bringing this differentiated localized marketing to the markets to go in and drive choice and consideration of some of those things.

The other thing, too, that I don't think I've mentioned is that we took an opportunity last year to reorganize a huge portion of our company around smaller markets and rural areas. So I've got teams all across the country that are focused on the top 100 markets and exclusively on the top 100 markets. So you think about right here in New York City, L.A., Chicago, Dallas, those teams are focused on those markets.

And then also we took a big portion of our team and focused them on smaller markets in rural areas. So for example, if you're in Washington State, we got a team that's focused on greater Seattle, Tacoma and then another team that's focused on rural Washington state, driving the commercial success that we're looking for in those particular areas.

And what we've seen is that when you focus teams and give them the kinds of tools that they need to go drive the commercial success we're looking for and all of the accountability, we're beginning to see real traction around that. And what that does, too, is it creates an overall kind of feedback loop and listening system within our company so that we can go and take further action where we have more network that we need to really kind of dial in, in a particular area. If we need more marketing in a particular area, the network is really good, but we need a little bit more investment from a market perspective, we get that real feedback.

When you have a team that's focused on a total geography, including the top 100 markets, almost always the top 100 markets take that focus because of the tonnage of the population in those areas and on the established muscle memory.

And so that's a big part of our formula that we are executing today that we put into place last year and something that's proven to be really successful. And like we talked about, too, when you look at this accelerated build-out of what's coming, thanks to Neville and his team, with not only extended range 5G, but that Ultra Capacity 5G and the majority of the growth that's going to be happening in terms of covered POPs, it's going to be in smaller markets and rural areas, that's one more big reason why we need to be organized the way that we are to drive the playbook that we've laid out for you.

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**G. Michael Sievert** - T-Mobile US, Inc. - President, CEO & Director

A lot of times, our breakthroughs come from willingness to lead things in an unconventional way like with team of experts a few years ago, and Jon just told you about another big breakthrough management concept that we've fully implemented across the country that we think is a big part of our, I guess, now not so secret sauce.

Great. And by the way, so before we go back to the phones, Neville back to you. There's a question from Tech Life Channel, Techlife32, What's going on with those 10,000 new sites because 5G coverage is great, but what about coverage? So what's happening with our promised site expansion?

And while you're at, we did say in our prepared remarks where we are on decommissioning. This is the year of decommissioning. We expect to complete the task this year. Maybe you can give an update on how that's going, too.

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**Neville R. Ray** - *T-Mobile US, Inc. - President of Technology*

Yes, sure. Thanks, Mike. And let me build on both your and Jon's comments on SMRA. I mean back to the last call, our last earnings call, we talked about how this was the year where we were accelerating capital, and we were bringing in incremental investment into the plan in '22. And the big, big chunk, lion's share of that is focused on expansion of our coverage and our footprint. And so a big part of what we're doing is making sure as Jon is getting ready to roll in distribution and new capabilities into the smaller market and rural areas, we're making sure our coverage is second to none.

On top of the coverage, of course, Jon referenced this, we're adding this mid-band capability. So that we don't just have a great network, we have an incredibly strong network with 5G capabilities that our competition simply can't match.

And just to navigate through some of the stats we talked about earlier on, in many of these small markets and rural areas, AT&T and Verizon have no plans whatsoever to bring mid-band capability in 5G. So we're going in, putting in a very differentiated proposition and one that will stand the test of time. And so that share gain is getting started and moving. It's a super exciting space.

So we've always said 10,000 new sites is part of the plan as we combine the sets of assets together. And we're eating into that in 2022. We're a couple of thousand in, and we'll be continuing to build as we move through this year and next.

We're also upgrading a lot of Sprint sites that are critical to enhancing coverage and performance across the network. So we've always said north of 10,000 of those. We're about 1/3 of the way through that build. And so we're adding coverage in many, many dimensions, both in SMRA but also in core market areas. And inside top 100, too, where we're adding great sites for capacity in building all of those different aspects of performance.

And last but not least, Mike asked about reference decom. And so this is the year where we will complete all of the decom that we said we would do as part of combining Sprint and T-Mobile together. And we announced in the release, we're about 1/3 of the way through at the end of Q1 on the 35,000-site decom ambition. And that number is accelerated, and it will accelerate heavily as we go through Q2 and Q3. We want to get the lion's share of that done earlier in the year, this isn't all going to happen in Q4, and we're making great progress and, I'd add, as we see declining churn.

And so the work and the intense work across the entire business to manage the customer experience as we navigate and work through decom is extraordinary and going very well. And we're incredibly confident about our ability to execute and complete this integration in advance of the time frames that we talked about prior.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

Neville and his team are very busy. This is, as you know, the peak capital year in our business plan. And we have teams that are upgrading literally hundreds and hundreds of sites every single week. In a year, we're going to simultaneously reach 260 million people with Ultra Capacity 5G while completing the shutdown of the Sprint network well and ahead of our schedule. So it's a -- and we're very much on track. And it's fantastic to see the team's execution in every part of this country.

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**Operator**

So next, we'll go to Brett Feldman with Goldman Sachs.



**Brett Joseph Feldman** - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

And this is actually sort of a follow-up to what you guys were just discussing. So we look at your results for the first quarter and your cost of service, excluding merger-related costs, actually downticked a bit despite the fact that you had, I think, a new tower lease in place, despite the fact that you still had the CDMA network up and running, I think, for essentially the entire quarter. And as Neville just pointed out, you still have the large majority of the decommissioning in front of you but of course you're also still investing.

So I guess the question really would be, how should we think about the opportunity and the pace of further improvements in that cost item throughout the remainder of the year? And maybe at what point would we expect to see the full synergy benefit of having completed the network projects in your cost of service line item?

And then just a second question. The comments you made before about the excess Sprint churn and how it affected your postpaid phone net adds. It sounds like that headwind has diminished a bit from what we saw in the second half of the year. I'm wondering if that's a signal that we are indeed through the peak pressure associated with that. And then just as an update on that, if you can give us some insight as to what the churn profile that legacy Sprint cohort looks like as they continue to make the migration fully over to T-Mobile.

**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

Great. I'll start with the second one and then hand it to Peter on the first one. We are delighted with what we're seeing this year on Sprint customer response to everything happening on the network and service and plan front. And you can see it in our results.

So one of the things we -- I mentioned a little while ago is that right now, we're substantially complete with about 37% of the customers, bringing them what I'll call all the way across. Now the vast majority of our customers are on the T-Mobile network now, almost all their traffic is on the T-Mobile network now. We'll be moving to shut down the Sprint network this year. But we have a lot of work to do to make sure that the customers come across with T-Mobile plans, T-Mobile phone plans, no remaining leases on their line and all of their traffic on the T-Mobile side.

When those things happen, churn is the same. And we have achieved that milestone now for about 37% of the Sprint base. And that's much higher than it was just a few months ago. And so you see the result in the sequential churn improvement because as more and more people achieve that level, more and more of them churn just like T-Mobile churn was. And that's what unfolded over the last quarter. And so that gives us a lot of confidence in our plan.

I want to make sure that people don't connect it though to something happening just 2 months from now. I mean when we shut down the Sprint network, it's not just the network traffic. The network traffic is already on T-Mobile. It's the whole thing, getting them migrated to the right plan, the right service structure and, importantly, getting them on a T-Mobile phone payment plan and making sure there's no more leases because those are sources of dissatisfaction. And that's where we're at 37%. It will take us some time to stepwise move through the base. But what we know is that when we do, they love T-Mobile on the other hand and they churn like the lowest-churning brand over the last 2 years. And so that's fantastic.

And then specifically to your first question, we'll turn it to Peter on the cost of services.

**Peter Osvaldik** - *T-Mobile US, Inc. - Executive VP & CFO*

Yes, Brett, absolutely. And you are seeing great scale, just as we promised it would unfold on cost of services. As you think about this year and the shaping, of course as you mentioned in Q2, you'll continue to have rapid investments as Neville and team continue to build these new sites, rebuild Sprint sites, while we'll continue to still have Sprint LTE cost.

So as I think about the year shaping, it's very much in line with the synergy commentary that I gave, that as we go through the rapid decommissioning and accelerated decommissioning and get through all of that by the end of the year, you'll see those benefits come out in cost of services.



In totality, of course, we're looking at 2024 to achieve the full \$7.5 billion of run rate savings. So that's how I think about the shaping for the balance of the year.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

It's nice to see things unfolding the way we predicted. We're very much on track for the \$7.5 billion. We increased the in-year synergy attainment with this guidance. And of course, that results in also an increase in cash flows to 30% year-over-year cash flows in the present guidance. So terrific to see that happening.

Listen, we promised you a 1-hour call. And so with apologies to those still in the queue, many of whom I'm really sorry we didn't get to because we love you, but we'll take the last question, operator.

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**Operator**

Certainly. We'll go next to Simon Flannery with Morgan Stanley.

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**Simon William Flannery** - *Morgan Stanley, Research Division - MD*

So great to hear the updated guidance on the net adds. If you look at the first quarter, it looks like the industry is probably going to do close to 2 million phone adds and there's been this concern about a deceleration in the industry growth. So it'd be great to get some perspective about what you're seeing and how you feel confident about not just your growth but also that the industry can sustain these sort of 8 million, 9 million type ad numbers that's sort of implied by what we've seen from the others so far?

And then just, Neville, anything to comment on supply chain availability of tower crews et cetera, given again some of the macro constraints we're seeing?

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

Let me start with Neville and supply chain, and then I'll wrap things up with an answer to your question, Simon.

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**Neville R. Ray** - *T-Mobile US, Inc. - President of Technology*

I'll be very quick, Simon. I mean we're in good shape. And based on the arrangements that we put in place with our OEMs and our tower crews. And of course, we have the advantage, we've been at this for some time now, whereas our competition is really just trying to get started, especially in AT&T's case.

So we're strong. Obviously, we are not sitting on our hands, and we are very, very closely managing supply chain. Our position does not come from inaction and just letting it happen. We're very engaged with all of our suppliers across the U.S. and both internationally. And right now, we're in good shape. And you can see in terms of the performance and growth on the network and the investments we're making.

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**G. Michael Sievert** - *T-Mobile US, Inc. - President, CEO & Director*

Simon, I'm glad you asked that because your question goes -- in my mind, it goes right to the heart of what a lot of people want to know about this sector right now. And I would characterize it really in terms of 2 important questions people have. One, is there room for everybody? What's going -- can this growth continue? What's going to go on when the growth slows down? And if it slows down, will it get unhealthily competitive? Those are the big questions, I think, on people's minds.

And I got to tell you, I'm not concerned about those questions. As I've said in the past, first of all, I think what we're seeing is some of that is happening in the dynamic right now out there. And in the very time frame when people are asking these questions, they're asking, "Hey, how are you going to navigate if things slow down?" We delivered 1.3 million postpaid net adds, the best in 8 years, more than AT&T and Verizon combined.

In the very time frame when people are saying, what about are things slowing down? How are you guys going to do if things slow down? And I love that you're asking that because it reminds everyone listening that this is a business with major underpenetrated growth opportunities that we are proving we know how to execute against. And that's why we reliably bring the performance quarter after quarter.

And to the second question people have, which is, isn't it going to get crazy out there if there isn't room for everybody? Which is I don't know, but I can tell you that the amount of competitiveness that we bring is consistent over time. We are the competition. We like it competitive. It's been relatively consistently competitive through our actions for years now. Customers and businesses are the beneficiaries. Right now, the cost per unit in this industry is lower for consumers and businesses than it's ever been, in a time when every other category has rising prices.

We're driving ARPU improvements without price improvement. And we're bringing a level of competitiveness to this industry that's so exciting for consumers and businesses while delivering on financial performance that we promised you and then some.

And so people have these 2 questions. Is there room for everybody? I don't know. That's not -- I'm not burdened with that. I can tell you that this quarter it looks like there is. Cables about to report, I think they had a healthy quarter. We're going to see nice numbers there. Our telemetry has usually been pretty good at predicting what to see there. But we delivered an 8-year Q1 all-time almost high. And that shows you that our growth strategy has integrity and it's reliable, safe, quarter-after-quarter growth that comes in just like we promised you it would. And it comes in with a healthy industry and a dynamic where T-Mobile can achieve its cash flow aspirations.

And so look, we like it. We look at the industry. We know we play an important role as stewards of a healthy industry and we think it's a healthy industry. And whether or not it's a healthy industry, it's going to be an industry that's healthy for T-Mobile.

So you got to think that in all the time that you have, we really appreciate you. Thanks for coming quarter after quarter with your great discussions. And we look forward to engaging with you more. Appreciate it.

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## Operator

And ladies and gentlemen, this concludes the T-Mobile first quarter earnings call. Thank you for your participation. You may now disconnect, and have a pleasant day.

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