REFINITIV STREETEVENTS

EDITED TRANSCRIPT

TMUS.OQ - Q4 2022 T-Mobile US Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 01, 2023 / 1:00PM GMT

OVERVIEW:

Co. reported 4Q22 results.

REFINITIV

CORPORATE PARTICIPANTS

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

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

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

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

Michael J. Katz *T-Mobile US, Inc. - President of Marketing, Innovation & Experience*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

David William Barden *BofA Securities, Research Division - MD*

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

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

Peter Lawler Supino *Wolfe Research, LLC - MD & Senior Analyst*

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

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

PRESENTATION

Operator

Good morning. (Operator Instructions) I would 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.

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

All right. Welcome to T-Mobile's fourth quarter and full Year 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 this call, we will make forward-looking statements, which involve 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 documents related to our results, as well as reconciliations between GAAP and non-GAAP results discussed on this call, can be found in the Quarterly Results section of the Investor Relations website.

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

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

Okay. Thanks, Jud. Hi, everybody. As you can see, we're here in New York City with the whole senior team, and I am very much looking forward to talking about 2022 and a look ahead to what, I think, is going to be an even more exciting future.

2022 was a record year for our company. It was our best year ever. We welcomed more customers to the Un-carrier than ever before in our history, and we translated this customer growth to industry-leading financial growth, finishing with a strong Q4. Our T-Mobile team delivered at or above the high end of our guidance across the board.

2022 was also the biggest investment year in our history. By accelerating these investments, we rewrote the competitive dynamic on network competition for good and laid the foundation for a highly capital-efficient run rate business beginning this year.

When I took responsibility as CEO almost 3 years ago, I spoke to you about an opportunity we saw that if we could execute well, we can position T-Mobile to be the first company in our space to simultaneously offer the best network and the best value, breaking a decades old forced choice on consumers and businesses.

While the results are in, with the latest network awards, and we've done it. T-Mobile is not only the 5G leader, but now the overall network leader, and this opens big growth pathways for our future. Along the way, we successfully completed the Sprint customer migration and network shutdown faster than planned, while also delivering industry-leading growth in both customers and cash flows through our differentiated and profitable growth strategy. And we launched our most ambitious ESG initiatives ever.

Our financial outcomes allowed us to accelerate our network deployments and begin share repurchases earlier than planned. And looking ahead to 2023, we're very confident in our differentiated strategy. In fact, we're on track to meet or exceed all of the aspirations for this year that we shared with you way back at our Analyst Day in early 2021. I'm excited to talk more about all of this today, and let's start with our merger integration.

Back when we closed the merger, few people would have thought that we could shut down the Sprint network faster than planned and deliver the lowest churn in our history at the same time, but that's exactly what our team did. We moved all Sprint customers off the network and completed the decom of Sprint sites, all within 2.5 years.

And not only that, we had our best postpaid phone churn year in the company's history at just 0.88, and we were the only one in the industry to deliver year-over-year improvement for full year 2022.

Diving into network. While T-Mobile has been the clear 5G leader for years, we can now say that T-Mobile has the best overall network in the United States. That is a big statement. For the first time ever, T-Mobile won a clean sweep across every single overall network category in Ookla's recent report.

And recent data from OpenSignal and umlaut also show T-Mobile as the clear leader. With over 12 billion data points across these network coverage and performance tests, the facts show T-Mobile is the new network leader.

And this brings with it an exciting new opportunity. Convincing people that this 30-year forced choice between network and value is gone when you choose T-Mobile. This is no small task, but our results show that more and more people are beginning to notice, and they're choosing T-Mobile.

In fact, our results in '22 demonstrated how differentiated and effective our growth strategy really is. Kind of feels like deja vu. When I think back to this time last year, and everyone was worried about what would happen when industry growth began to normalize. And I sense that's top of mind for everyone again as we enter 2023.

Well, it didn't show up immediately last year. The industry did see lower year-over-year growth in the second half. And guess what? Our unique ability to offer customers both the best network and the best value across multiple new and underpenetrated segments of the market led to T-Mobile's best growth year ever, with 2 of our best quarter since the merger coming in the second half, even as market growth began to normalize.

We posted a record 1.4 million postpaid account net adds, the highest in company history and the highest reported in the industry once again. We're winning the highest share of switching decisions in the industry through our core growth strategies. And we delivered our highest-ever postpaid net adds of over 6.4 million, above the high end of our recently raised guidance. This included our highest postpaid phone net adds since the merger with an industry-leading 3.1 million.

We've explained it before. Our strategy is differentiated and durable because it's driven by taking share in places where we're massively underpenetrated relative to the competition and where we now have the winning hand, including T-Mobile for Business, where we just delivered one of our highest ever phone net add quarters in Q4.

And we're clearly having an impact on the incumbents, as you can see in Verizon's highest-ever business churn in 2022. In the top 100 markets for consumer, we're winning with prime network seekers who increasingly recognize that T-Mobile offers the best combination of network coverage and capacity for their needs and at a lower cost.

We're only beginning to tap into this new opportunity. And in smaller markets in rural areas, where we're bringing a better value proposition and a better network to new geographies we really didn't play in before, we're capturing a win share of switchers in the high 30s, which says a lot because in many of these places, we're only just getting started.

In addition, we added 2 million high-speed Internet customers in our first full year since our commercial launch. In fact, T-Mobile had more broadband net adds in '22 than AT&T, Verizon, Comcast and Charter combined. This is a powerful new phenomenon for our brand, in addition to being a good business.

And not only did we deliver industry-leading customer growth, but our focus on profitable growth translated into industry best financial performance, with core adjusted EBITDA up 12% year-over-year and free cash flow up 36%.

The investments we've made in 2022, including in our cybersecurity capabilities, showed up in a critical way a few weeks ago. I want to take a moment to address the recent cyber incident. After address -- identifying a criminal attempt to access our data through an API, we shut it down within 24 hours. And more importantly, our systems and policies protected the most sensitive kinds of customer data from being accessed.

We take this issue very seriously. While I am disappointed that the criminal actor was able to obtain any customer information, we are confident that our aggressive cybersecurity plan, working with the support of some of the world's experts, will allow us to achieve our goal of becoming second-to-none in this area.

Before I wrap up, I want to touch on some of the ways we're building a more connected and sustainable future. Nearly 3 years ago, we launched our digital divide initiative called Project 10Million to bring connectivity to underserved students nationwide with free or highly subsidized service, and I am proud to say we're now more than halfway to achieving our goal. To date, we've provided $4.8 billion in services and connected more than 5.3 million students, and we're not slowing down.

We're also working hard to create a more sustainable future, recently committing to our most ambitious sustainability goal yet to achieve net-zero emissions across our entire carbon footprint by 2040. This makes T-Mobile one of the only 4 Fortune 100 companies to do so.

Our work in this space is being recognized, including being named in the top 20 of JUST Capital's 2023 rankings, which measures companies against metrics that matter to our communities, including environmental impact, where we ranked #1 in our industry.

Okay. Let me wrap up with some comments on 2023 and what's ahead. With these record results, we've clearly shown that our differentiated strategy has lots of room to run. And I strongly believe that this will prove to be the case, even as industry as a whole is seeing moderating growth and potentially a challenging macroeconomic environment.

In fact, it may be especially true in that case as our unique high-quality positioning is proving remarkably well suited to the times. We believe 2023 will also be a year in which we begin to see the payoff in terms of EBITDA and massive cash flow expansion, of years of work, on merger integration,

synergy attainment and the most ambitious network build in U.S. history, all of which are mostly behind us now, and an ongoing differentiated profitable growth, which is durable results in front of us. I could not be more proud of this team and our employees, and I am so excited for all that's ahead in 2023 and beyond.

Okay. Peter, over to you to talk about our key financial highlights and our guidance for 2023.

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

Awesome. Thanks, Mike. As you can see, our 2022 results highlighted our strong execution in accelerating the merger integration, while leveraging our network leadership to deliver industry-leading growth in both traditional postpaid and broadband customers.

This translated into industry-leading postpaid service revenue growth of 8% in 2022. We delivered core adjusted EBITDA of $26.4 billion, up 12%, and reaching a record high and at the high end of our recently raised guidance. We realized approximately $6 billion of synergies in 2022 or roughly the total run rate synergies expected in our original merger plan in 2018.

Our strong margin expansion also unlocked rapid free cash flow growth, which grew at an industry-best 36% year-over-year to $7.7 billion, and that's even after funding our peak CapEx year in 2022.

This strong financial performance allowed us to commence our share buybacks ahead of our original 2023 time line. We repurchased 16.5 million shares for $2.3 billion in Q4, bringing the cumulative total repurchased to 21.4 million shares for $3 billion in 2022. This is such an exciting start to this opportunity to deliver significant shareholder value.

So let's talk about how our great execution and investments in '22 set us up for another strong year of growth in 2023. We expect total postpaid net additions to be between 5 million and 5.5 million, reflecting continued focus on profitable growth as we execute our differentiated growth strategy, even while expecting total industry net additions to be down versus 2022.

This guidance assumes roughly half of postpaid net adds coming from phones. That profitable growth leads to core adjusted EBITDA that is expected to be between $28.7 billion and $29.2 billion, or up 10% at the midpoint based on continued growth in service revenues and merger synergies and above our Analyst Day guidance for 2023. This excludes leasing revenues of approximately $300 million as we transition substantially all remaining customers off device leasing by year-end.

Our merger synergies are expected to further ramp to between $7.2 billion to $7.5 billion in 2023, approaching a full run rate synergy target from our Analyst Day a year ahead of schedule.

And thanks to great execution by the teams, we not only delivered accelerated synergies, but now also expect higher run rate synergies of approximately $8 billion in 2024, of which approximately $2 billion is avoided cost, which is consistent with the amount expected at our Analyst Day.

With the major integration work now behind us, we expect merger-related costs, which are not included in adjusted or core adjusted EBITDA, to be approximately $1 billion before taxes and is expected to be front-end loaded with roughly 40% expected in Q1. This is expected to be the last year of material merger-related costs from a P&L perspective.

And just as we have highlighted at Analyst Day, cash payments related to merger costs have underrun the P&L recognition to date and are expected to invert and be between $1.5 billion to $2 billion for 2023, with almost half of that total heading in Q1.

Net cash provided by operating activities, including these payments for merger-related costs, is expected to be in the range of $17.8 billion to $18.3 billion. We expect cash CapEx to be between $9.4 billion and $9.7 billion as we deliver a capital efficiency unmatched in our industry on the back of our network integration and 5G leadership.

I would expect this to be a bit more weighted towards the first half of the year. Our capital efficience and data-informed customer-driven coverage approach guides us as we continue to enhance and further expand our network.

Together, this results in expected free cash flow, including payments for merger-related costs, to be in the range of $13.1 billion to $13.6 billion. This is up approximately 75% over last year, thanks to our margin expansion and capital efficiency, and does not assume any material net cash inflows from securitization. And this also represents a free cash flow service revenue margin multiple percentage points higher than peers.

Turning now to taxes. We expect our full year effective tax rate to be between 24% and 26%. And finally, as we continue to execute our strategy of winning and expanding account relationships, we expect full year postpaid ARPA to be up approximately 1% in 2023, as we continuously win and then deepen our account relationships.

Altogether, we expect 2023 to be another year of profitable growth and even greater free cash flow expansion as we continue to extend our network leadership and further scale our differentiated growth opportunities.

And with that, I will now turn the call back to Jud to begin the Q&A. Jud?

QUESTIONS AND ANSWERS

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

All right. Let's get to your questions. (Operator Instructions)

Operator

Our first question comes from Craig Moffett with SVB MoffettNathanson.

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

So 2 questions, if I could. One is you've now had a number of announcements about dabbling in the wireline market. I wonder if you could just talk about your wireline ambitions and maybe bridge from that into the role that you think FWA plays in making bundled offers. Is that something that you need to have nationally? And if so, how do you think you get there on the wireline side?

And then second, just a financial question for Peter. I wonder if you could just talk about the pacing of share repurchases. I understand that there's some debt paydown that was always expected to come first. Now that we're sort of well into the repurchase segment, what does the pace of that looks like over the next year or couple of years?

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

Well, I'll start, Craig. Let me start by telling you a little bit about how we view the convergence space. And obviously, to the premise of your question, we are competing very ambitiously in this space with more new broadband net additions in 2022 than the rest of the industry combined. So we're very happy with our position, and it has lots of room to run for years to come.

But on the other hand, the larger question is whether or not we're doing this for offensive reasons or defensive reasons. And our view is that the market has shown that customers will accept bundles, but it's far from certain whether bundles are something that they will require.

And so we're not interested in convergence because we feel like some flank is exposed that we have to protect. We're interested in convergence because we have a lot to offer. And we have a great brand, a great capability, a great team, great distribution and the ability to add value to the space as you're seeing in our present success in home broadband through 5G.

So we're very interested in the space. But I'll tell you, we haven't decided whether or not that would translate into augmenting that strategy with a wireline approach. But if we did, it would be because it's a good business, not because we feel like there's some flank that we have exposed that we need to protect.

And so while we haven't made a decision about it, I can tell you a few things that we've decided not to do, and I think that's important for people to understand. I personally have no interest in having some kind of major change to our strategy as a company or the financial outcomes that will flow from that strategy or the shareholder remuneration that flows from our financial outcomes.

We're on a mission to become the best in the world at wireless, and we're pursuing that mission ambitiously and so far very successfully. That is the place where the future lies and where we want to be. And I'm interested in delivering all of the financial outcomes that we promised you, that flow from that business plan, and the shareholder remuneration and share buybacks that flow from that, and we're not interested in something that would cause a material change in any of that.

Secondly, because of that, I think we've looked at it and said, if we got involved, we would do it most likely with partners. It would make -- it would just be smart to do it with partners versus by ourselves, and that means whether it's purely through a partnership or if we have an ownership stake of some type -- of some kind, it would be off balance sheet and, again, would not be at a level that would have a material change in terms of who we are.

And then finally, as I said, we'd be interested in it if it's something that we could add value and make the market better for customers and make some money doing it directly for the merits of the business, not necessarily for the merits of how it would attribute to wireless.

And that's because consumers are sort of voting with their feet. And so far, we haven't seen a benefit to convergence that really translates into consumer value beyond just a discount. And there are plenty of ways to deliver customers' discounts when you have the superior assets in wireless, superior balance sheet in wireless, the best overall network and a tradition of a brand that delivers outstanding value. So hopefully, that helps clear that one up.

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

Yes. And then on share buybacks, Craig, I think the important thing is that the strategy hasn't changed other than, of course, the ability with the financial performance of the company to initiate those earlier. And so we couldn't have been more excited to get that first $14 billion through Q3 approved, and you saw we delivered $3 billion of that in 2022.

We continue to have line of sight to the up to $60 billion. And so nothing's changed with regards to the strategy. We're very excited about the cash flow generation of the business and the flexibility that, that provides.

If you think about shaping, of course, I'm not going to talk the about day-to-day or week-to-week shaping for natural reasons. But of course, you've got the growth of core EBITDA coming throughout the years, which gives you financial flexibility. As you know, we're very prudent in just the leverage target that we've set overall. But again, nothing has changed with respect to the strategy. Very excited about the free cash flow generation and the shareholder remuneration that affords.

Operator

Our next question comes from Philip Cusick with JPMorgan.

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

I wonder if you can dig into the business growth a little bit. What type of contracts are you signing? Are we -- what's sort of enterprise versus SMB mix? And where do these customers tend to come in on ARPU?

We've heard about some free heavy discounting that you've done to win some big contracts. And as it goes to that, as we think about our POP up 1% this year, should we think of ARPU more like flat? Or does that start to drift a little bit lower year-over-year?

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

We'll start with Callie on what we're seeing and then switch over to Peter on ARPA.

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

Okay. Thanks, Mike. So in T-Mobile for Business, as Mike mentioned earlier, we continue to build very strong momentum, which is driven by our 5G network leadership, combined with award winning customer service model.

In Q4, we continued to grow our service revenue. We delivered one of our highest-ever postpaid phone net add performances. We recorded our lowest postpaid phone churn since the merger with Sprint, and we grew our voice ARPU. In fact, we grew phone net adds every quarter in '22, and it's having an impact, as you can see in Verizon's business trend, which was its highest ever levels in '22. And their business phone net adds declined sequentially for the last 3 quarters. We've also achieved 5 consecutive quarters of business Internet growth.

Some of our key wins in strategic verticals we found in the airline industry, where we've won 9 out of 10 major airlines, growing our base with these customers by over 15% in Q4 alone. In the health care industry, we welcomed to Ensign, who is a nursing company, who's deploying our mobility as a service solution to their 25,000 employees.

In banking, large financial institutions are fast adopting our multiline solutions. We won 2 new logos in Q4 for a total of 24 accounts. In the public sector, we welcomed Chicago PD, Harris County, Dallas ISD.

And even in our Advanced Network Solutions category, we signed on Formula 1, where we'll, for the Las Vegas Grand Prix, be providing powering their operations and ensuring top performance speeds. And we also welcomed Vail Resorts, the largest mountain resort operator, where we're working together to provide innovative guest experiences, helping meet their sustainability goals and enhance resort operations.

And if you want to know why we're winning, it's not a race to the bottom. It's not a bid for the lowest rate or pricing down. We always treat our customers first. And in a modern workplace where CIOs are focused on productivity, digital transformation, these are more considered sales. And therefore, it matters that we have a 2-year head start in 5G network leadership. It matters that we deploy customer-driven coverage, and we're differentiated as a superior network and unparalleled service model.

I'll hand it over to you, Peter.

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

Yes, yes. Let me just add to that. I think what you heard Callie say is we're competing on quality, by and large, and ARPUs are rising. They rose in 2022 in the business space. And to the premise of your question, they're lower than consumer, but they rose in 2022 because CIOs are picking us because we have the best network and the best solutions. And they're interested in what we can bring in 5G that our competitors are behind on. And so that's, I think, very much to the premise of your question.

As we go forward, one of the things to keep in mind is that even though business ARPUs are lower than consumer and always have been, and there's no structural change happening there, these are very good. The cost to sell in that area is lower, longevity, so there's plenty of reasons to like that business that are different from ARPU. That's why you've got to be careful about ARPU as a guiding metric for the profitability of the business because it's not.

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

Yes. Absolutely, Mike. And with your question, we're definitely not anticipating ARPU to be down on a year-over-year basis. In fact, I'd say, probably, our guide right now would be generally stable, and that's primarily the mix-driven metric, as we just said, the continued success in T-Mobile for Business, for example, being a mix-driven metric, first responders or segmentation approach.

But there's been just a tremendous amount of tailwind. We continue to see strength in Magenta MAX take rates in Q4. So as you get further into the year, there's potentially opportunity that we could even see some increases over that. But I'd say, right now, generally stable with potential upside later in the year, and we'll see how that develops.

Operator

Our next question comes from John Hodulik with UBS.

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

Great. Two quick ones, if I could. First, I guess, following up on the business market question. Could you give some details on the rural market strategy? In the past, you've talked about where you are from a sort of spectrum deployment and distribution standpoint and sort of how well you're doing in terms of penetrating that market.

And then on the CapEx guide, about $9.5 billion, is this a sustainable level? And for Neville maybe, could you give us a sense for sort of what you have in store for the network in '23? Maybe update us on sort of the spectrum deployment at 2.5, what you're thinking for C-band and the other spectrum deployments as we look out to '23 and beyond would be great.

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

Thanks, John. Those are 2 great ones. First, on smaller markets in the rural areas, and I'll hand it to Jon, I am so pleased with what's happening here. We set out to do something we hadn't really done at scale before a couple of years ago, and 2022 was a pivotal year to do all of that at scale.

We moved from 30% to 60% of the marketplaces where we're really competing, what we -- I think we've explained to you before what we call internally license to play or better. And in those places, the numbers have been great.

So maybe, Jon, you can give a little bit of color on how all that's going and maybe even some numbers to back it up, and then we'll switch and talk about what's going on with the network.

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

Yes. Like Mike said, from 30% one year ago to 60% where we'll keep hitting it. Just to remind everybody the size of this market. This is 140 million people across the entire country. It's 50 million households. It's 40% of the U.S. in terms of how we define smaller markets in rural areas, which is everything outside of the top 100 markets.

But this overall business, it's been so fun. My heritage is I started out 25 years ago selling into rural market, bringing cell phone service into rural markets, and it's been so fun to actually bring usable Internet service, whether it be in your home or the mobile service in these rural markets. So it's a very, very fun adventure so far.

And I've got to tell you, our switching is up 350 basis points on a year-over-year basis. And when we look at where we're competing, again, 60% of the markets across all small markets, rural areas, we're on right on the heels of Verizon of taking over the leadership position in share of port ends across the entire market. So it's been a lot of fun.

When we look at what's happening, too, with high-speed Internet, that's a new front-door opportunity for us in smaller markets and rural areas. About 1/3 of our total HSI, high-speed Internet, net adds were coming out of smaller markets and rural areas, and that's been a big catalyst for us in these particular geographies to be that front door in that consideration.

But when you look at -- Mike has been talking about this for a while in terms of not having to make the choice between a great value and a great network, that's never been more important, particularly in these areas that have been underserved for the last 25 years and certainly in the last 10 years from a mobile Internet perspective. So we're having a lot of fun doing it.

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

And to see shares switching well into the 30s, given that a lot of these places, we really just started. I mean, we have less than a year of experience, and that shows that those customers have a resonance with our brands and with our story, and they want in. So we're very pleased with these markets and consumers, and the markets are responding.

Sure thing. Let's go back -- sorry, Jud, the second part of his question was CapEx, the one that (inaudible) this year.

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

I almost forgot that network.

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

Yes. So let me just stop.

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

(inaudible) where the answer is yes, $9 billion to $10 billion is our run rate. That was also what are we getting done without lying, '23 and beyond.

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

Thanks for the question, John. We're coming off what has been a historic year for network investment in this company. I mean, we had an accelerated spend in 2022. And you can see in Mike's opening comments the results that are coming from that. Our 5G leadership is just not disputed in the marketplace.

So that's now translating to overall network leadership, which is just tremendous progress for the business and affords us a series of great growth opportunities as John just outlined [enrollment] across many other parts of the country, too.

So as we look at sustainable level in '23, we're in a great place because we've got the integration effectively complete last year. That was a massive effort, but we're ahead of schedule there. And as we look at the build program on 5G and overall network, we just took great strides.

Today, we announced 265 million people now covered with our ultra capacity footprint in the U.S., and that number will be at 300 million people covered with our ultra capacity footprint by the end of this year. So we continue to expand that great powerful 5G service across the country. 300 million is a number that neither of our major competitors have even considered announcing a target to reach or to achieve.

And in addition to that part of your question, John, we continue to pile in spectrum assets on 5G. I mean, we're a 5G business. We're trying to commit a spectrum, our entire portfolio to 5G as fast as we can. Why? Because it's delivering just a tremendous experience to our customers.

So that spectrum position today, we have 150 megahertz thereabouts dedicated to 5G across our markets. That's, I think, currently more than AT&T and Verizon combined having the 5G space. And that number, we've said, we're targeting 200 megahertz just on mid-band spectrum by the end of this year.

And so we've recently talked about how we're not just deploying 2.5 gigahertz. We're also adding powerful PCS spectrum in the space, that's a big part of the program, as we move through in 2023. You asked about DoD and C-band spectrum. We have some great assets there, probably a 2024 deployment plan for us as the opportunity to leverage and deploy that spectrum cleans up with the FAA, et cetera. But 200 megahertz on mid-band is going to be an industry-leading proposition long before we get to those spectrum assets.

So delighted with the progress. I mean, the 5G network is just unbeatable today across all markets in the U.S. The recent benchmarking clearly demonstrates that. But I think more exciting for the business, and especially for the network team, is this overall network leadership, something that we've been working way on for, as Mike referenced, decades and now is in our hands. So a lot to do. '23 will be a continued busy year for us, but the plan is to extend on network leadership.

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

One of the things you can take away, John, from what Neville just said is that this network leadership story that has emerged has lots of room to run. We said 3 years ago that we had jumped out in front on 5G, and we were at least 2 years ahead of our competitors. And I quoted, in 2 years from now, we'll still be 2 years ahead of our competitors.

And that's exactly what has unfolded. If you listen to Neville's statistics, he told you that we're already, as you know, at 265 million people covered by ultra capacity. Neither of our competitors has stated the goal to be there anytime in the next 2 years. In fact, they've stated to go for the end of next year, 2 years from now, that's less than that.

And yet, we're not stopping there. We're on our way to 300 million people this year. But to me it's -- actually, the more exciting part about the future testing you heard from Neville is going from 130 megahertz deployed of mid-band, 150 overall, 130 in mid-band to 200. That's a massive capacity expansion that's happening because that's not just factors on the experience you get every day.

So far, our medium speeds are 5x faster than just 3 years ago. Our Magenta MAX customers, and you know how popular Magenta MAX is, they're using 30 gigs a month. These are big advantages versus our competition. Home broadband, where we're generating more net adds than the rest of the industry combined, has lots of room to run.

And so -- and that's all on the heels of this massive capacity that's not just in the network, that's still coming, and within the run rate of the $9 billion to $10 billion in capital per year.

Operator

Our next question comes from Simon Flannery with Morgan Stanley.

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

Mike, you teed up my question. You said you've got lots of room to run on fixed wireless. Some of the competitors critique the product around limitations on capacity, on speed. So perhaps, now you've got a base of customers, you've seen the behavior over a couple of years now.

What were the learnings? How much market share do you think this product can take? And what's your ability to continue to expand the footprint to continue to expand the capacity of the network? And then maybe just a quick word on macro. You talked about some concerns. Are you seeing anything on payment patterns or any other cautious behavior yet?

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

Great. Well, first on broadband, it's kind of stating the obvious. When somebody who is a fiber provider, so as you know that product is not as good as our product. It's kind of like the people at Ferrari pointing a finger at the world's best-selling car, Toyota saying, "We're faster. We have the faster car." Yes, but Toyota is the world's best-selling car, and that's because -- and if you look in the case of T-Mobile 5G home broadband, because it's perfectly suited to what people want.

And although it has less overall potential for capacity than a strand of fiber, which is patently obvious, it's radically simple. It's low cost. It's transparent. It's portable within tens of millions of households. And it has the speed and capacity that allows people to do what they want.

And therefore, their net promoter scores are some of the highest in the industry, 10 points higher than fiber, 30 points higher than cable. And most of our customers are coming directly from cable, not just from rural areas or unconnected places or DSL.

And so it kind of demonstrates that we've got a product here with the right mix of services to meet people's needs. Lots of room to run. When we launched this product, we talked about 7 million to 8 million homes. And as you can see from our numbers, we're tracking beautifully to that.

And the question now is where do we go from here. And I gave comments before about whether or not we're looking at ways that could augment that strategy. Of course, we are. But that's because we have a winning product and massively expanding capacity to support it.

One of the things to keep in mind is that economically, this unlike fiber and cable, this product so far is not burdened by amortization of capital and the cost structure, right? So we're able to take the capital that we deployed from mobile and find places with excess capacity and market broadband there. And those places are rapidly expanding, even though we have millions of customers on board now soaking some of it up.

We're moving our eligible homes from 40 million to 50 million, and that means that there's 50 million homes out of 140 million nationwide, where if tomorrow morning you applied for service, we'd say yes. And so that is a big footprint. And we think the product is beautifully suited to the times.

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

I can speak to the question on the macro environment. From a consumer perspective, no, we're not seeing it. Of course, this is an area where we're very cautious. But when we think about just Q3 to Q4, we actually saw a little bit of improvement in voluntary churn.

And bad debt was exactly what we laid out in Q2, stable on a percentage of revenue and, in fact, actually lower than AT&T or Verizon on those metrics. So it's something we're looking at and making sure we would closely monitor.

As we said, this could also be a moment of opportunity for us because as a consumer set, to the extent that you're pressured from a recessionary perspective, from an inflationary perspective, it might make you consider a lot of categories of spend and wireless being one of those.

And any time you create the consideration moment, you go look around. And again, this is the time where not only the 5G leadership, but has translated into overall network leadership, coupled with that value proposition just being a fabulous time, and it could be a tailwind for us. So again, looking there and making sure we're cautious, but nothing we're seeing right now gives us cause for concern.

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

We're making sure our company is ready for all scenarios. I mean -- but the fact that we saw bad debt moderate from Q2 when inflation first spiked and surprised consumers last spring, both Q3 and Q4 were lower than Q2. Involuntary churn was actually lower in Q4 than Q3. Our bad debt rates are lower than AT&T or Verizon, showing the quality of our customer base, which has always been a question people had, especially after the Sprint merger.

And so we're side-eyeing the future like everybody else, but we take it as far from a foregone conclusion that very stressful economic times are coming. We're prepared if they are. We're financially prepared. And as importantly, we're prepared to serve American consumers that, in that situation, may be questioning whether they ought to be having a great network at a better value.

And we're ready to stand up and serve them if they start questioning whether or not they should be saving money in this category because we are uniquely positioned with our high-quality value positioning for economic times like what might be coming. And so we're ready in other case, but the emphatic answer to the question is, no, we are not seeing it.

Yes. So Jud, should we go -- in between here, should we go up to -- you guys can't see this, but we always have screens pointing at us with Twitter questions, and we'd like to open it up. And I was going to have you call out a couple, but there's one that's from (inaudible). So there, you win, they win (inaudible).

But it's actually a really good question. It kind of goes to something we've been talking about, which is what's T-Mobile doing to maintain its industry-leading growth given cable starting to build momentum in the telco space.

And we talked about convergence earlier on. And it's interesting to me that we keep getting this question. We saw cables results coming. I talked about them in Q4. And I would just tell you that it looks to us like cable, who's been in the run rate now for a long time, has had a recent uptick.

It looks to us like you're seeing lots of transference in terms of net adds that add to the category, additional adds being printed, et cetera, for customers, new phone numbers being created, people coming over from prepaid as a dynamic. But what's interesting is you see that recent surge in growth from cable, and this is interesting.

At a time when every 1 of the 3 wireless incumbents experienced better-than-expected churn, so churn was better than expected. For us, it was falling. AT&T was falling in Q4 as well versus a year ago. And at the moment when cable has -- for some -- well, it didn't surprise us, but for some, a surprise uptick in net adds.

And that should kind of tell you a little bit about what's going on. For me, we look at it as sort of as you would expect. Since this is a contact sport, it's sort of us against everybody else, right? And so if I look at the second half of the year, what's interesting is T-Mobile was able to deliver 17% more postpaid phone net additions in the second half of this year versus last year, while the rest of the industry, Verizon, AT&T, Charter and Comcast combined in wireless, delivered 19% less postpaid phone net additions in the second half of this year versus '21.

So in terms of our separation from the market at a time when people ask us about cable, we're doing better and better. Jud, any -- one more on Twitter before we go back.

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

Not yet. Let's go back to the line, and we'll keep watching. Great.

Operator

Our next question comes from Jonathan Chaplin with New Street Research.

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

You gave really great context on sort of what the market size is for rural and small markets, and the fact that you've moved from 30% of that market to 60%. I'm wondering if you can give us a little bit more context around the business market in terms of, like, how your market shares have progressed over the course of this year and what you see the size of the overall market being.

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

I mean, one of the things you heard from Callie before is that Q4 was one of the best net add quarters ever in our history. So we're really comfortable with where this is -- how this is shaping up. And one of the reasons for that is there are long sales cycles in this market. And we've been at this 5G story longer than anybody else.

CIOs are very interested in more strategic engagements than they were interested in a couple of years ago. And now we're in those conversations, but we're way down the pike in them. So we're very comfortable with where we are. We're competing extraordinarily well. And to your market share question, we're very much on track for the Analyst Day aspirations that we shared with you.

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

Mike, can you give us the mix of business in fixed wireless broadband? .

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

You mean should I disclose that right now as a new fact? Actually, I don't think we did. I'm kidding, but I don't think we did.

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

We haven't. I think what we've said is it continues to be the majority from consumer, but you're seeing continued uptick in the business side, as just Callie mentioned in growth there. So we see a lot of room to run on the business side as well and, obviously, continued room in the consumer space.

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

I did see some notes on that. They kind of got it wrong. It said maybe business is what's surging in that area. The business is doing well, but it's the overwhelming majority for us is consumer in that space, yes.

Operator

Our next question comes from Brett Feldman with Goldman Sachs.

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

So you've been able to sustain very strong postpaid phone net adds throughout the merger integration, despite those results being burdened by elevated churn related to those integration activities at certain points in time. And I know it sounds like -- it seems like a lot of that is behind you, but I'm curious how you think about the levers to drive churn lower from here.

I'm wondering if there's actually any residual benefits from the integration we haven't seen yet. I don't know how important the remaining billing migration maybe to churn. And maybe just at a higher level, what type of churn outlook is embedded in your postpaid phone -- your postpaid net add estimates for this year?

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

Yes. First of all, yes, on integration, there's more room to run. But principally, I think most of the room to run comes from value, network, service, brand. And look, we've been through this journey. We drove the Magenta brand to the best churning brand in this industry. And I certainly won't be satisfied until T-Mobile blended postpaid is the best churning brand in this industry.

And that shows you we've got some room to run because while we're the most improved, we have a great price, we're not the best yet. And so that's where we're going. That's the goal. And it is, of course, there's some room to run on integration. But we're not separating it for you anymore because it's very hard to chop up at this point.

All the customers are on the destination network. Some of them are on the destination biller. It's not that determinative anymore as to which biller you have because we try to make that biller sort of very opaque to you and not transparent. You're called T-Mobile in many cases. So it's just hard to chop it up now.

But yes, there's still room to run to get people settled into fantastic rate plans, both on their device as well as on their service, and to feel very cared for with clear transparent services. But I'd say the bigger opportunity is our worst to first game plan that we know how to execute, which is give people a great deal, give them Un-carrier moves that allow them to voice that deal and express it and advocate for T-Mobile.

Give them the best network, bar none. Give them a fantastic path to great devices. Give them a brand that's famous for caring for them and the best customer service in the industry. That's why our net promoter scores are the highest in the industry, and I expect that to translate to the lowest churn by the time we're done.

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

If you don't mind, if I could ask a churn follow-up question. Where are you in understanding the churn profile of your fixed wireless base, either just as a standalone broadband customer or perhaps the impact it has on your mobile churn to the extent it's bundled?

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

We're really happy with it. What we do with any business is we age it into cohorts and look at it sort of based on people that have been with us 1.5 years, people that have just been with us a few weeks. And what you see is what you -- exactly what you would expect, which is the more aged cohorts are settling into a beautiful pattern.

We have the youngest broadband base in the industry because we went from nothing to 2.5 million subscribers all in the last few months. And so we have to really break it down to understand it. And when we do, we're very pleased.

And one of the things that happens as a dynamic on this business is that the barriers to trial, therefore, the cost to us of encouraging that trial are totally different than wireline. We're not sending some truck to your house to dig ditches or drill holes in the side of your house and all kinds of

cost. We're letting you take home a modem and router and give it a shot. And if you love it, you wind up sticking with it. And if not, there's sort of a no harm, no foul relationship. Let's try it again in a year. That wasn't perfect for you right now because we're pouring capacity into this network.

And as long as we treat customers really well, and they gave this a shot, and we were transparent with them that -- as to whether or not it would work, the vast majority keep it. But a small portion of people that don't doesn't really wind up costing us anything. So the dynamics of early churn in a business like this are totally different than traditional broadband is one of the things that makes it a better business model.

Operator

Our next question comes from David Barden with Bank of America.

David William Barden - *BofA Securities, Research Division - MD*

So I guess, the first question would be for Peter. If you could kind of step us through the guidance and the changes from the Analyst Day outlook from $28 billion to $29 billion, what's changed to move your midpoint expectations up? And then from the free cash flow original guidance of $13 billion to $14 billion, what's moved your midpoint down? And what are the moving parts in between those 2 things?

And the second question would be, Mike, what would be your appetite to proactively reach out to SoftBank within the confines of the stock buyback program and clean up this 48.8 million share issue that seems to be keeping for whatever reasons, and I understand the lockup and everything. But it seems to be keeping T-Mobile stock from going north of $150. Is there an appetite to just get rid of that and just make sure that, that's not a headwind for the stock on a go-forward basis?

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

Those are both great questions, Dave. Let's start with EBITDA and cash flow, as you could just eliminate all the headwinds and tailwinds since the early 2021 kind of give us a high level.

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

Yes.

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

But we're the only one still talking about our 2021 guidance. And we're talking about pulling into the stations feeding it. And that should say a lot about our business plan and the integrity of it. But it is actually quite different than what we were expecting in terms of some of the shaping of it inside.

Peter, maybe you can give some color.

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

Absolutely. When I just think, Dave, back to Analyst Day and what's happened since then, you've certainly seen a tremendous amount of incremental profitable growth than what we see. And then you saw the ARPA trajectory grow, you've seen high-speed Internet and the tremendous growth that we've had there and the ability to accelerate synergies.

On the flip side, of course, the world has changed a lot since then, and inflation is one of the elements that's impacted a lot of companies. For us, we've been a lot more insulated than others, and we've talked before around why that is with our ability, early on after the merger, to walk down major categories of costs during a time when the negotiation looks a lot different in low interest rate environments and low inflation rate environment.

So there's a lot of the kind of puts and takes and why you see us now being able and confident to express a guide that's actually above Analyst Day.

When I think about just the shaping of the core EBITDA, throughout the course of the year, what you're going to have, of course, is continued profitable growth and continued synergy unlock. And one of the things that's assumed in the core EBITDA guide is the wireline sale close somewhere around midyear, and that's a little bit of a drag on core EBITDA. So as I think about like Q1 probably in the approximately [6.9] range and then continue to unlock throughout the course of the year on core EBITDA.

And then how I think about from there to free cash flow, really, free cash flow in 2023 has a few onetime items that you need to consider. And first and foremost is we're actually now in '23 achieving what we've been talking about for a long time now, which is the highest conversion of service revenue to free cash flow in the industry, despite these kind of few onetime things that I'll highlight.

One is merger-related expenses, and I spoke in the prepared remarks around $1.5 billion to $2 billion. And that's a little bit higher than we assumed at Analyst Day in terms of total merger-related expenses by about $400 million, and that gives you now an incremental unlock up to $8 billion in total run rate synergies. So that's one.

The other is the '21 cyber event. And remember, you saw us take a lot of the expense-related charges in 2022, but we anticipate the cash flow associated with the class action settlement to outflow in '23.

And then the last again is related to wireline, where, as you recall, we have an IP-related take-or-pay agreement. The first year after close is $350 million and then tapers down significantly from there. And so we're assuming about half of that flowing into '23. So that's how you kind of take core EBITDA down to free cash flow guide. And hopefully, that answered almost all the puts and takes.

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

Yes. I just love the question, by the way, Dave, because our guide on cash flow for next year is to have 75% year-on-year growth. And you're like, right. We have just a little more respect. And the answer is I hope so. Let's see what happens.

So -- and you had a second question about SoftBank. We -- obviously, we know the SoftBank guys very well. We talk a lot. We're in constant communication. But I wouldn't say there's a deal imminent, and there's a reason for that, which is people on both sides of a potential transaction believe that we're moving past [1 50] anyway. And so they don't have a lot of incentive to give us a deal or a discount because they think they're getting this event.

We've always planned for it. We've always believed -- the average analyst's target is [1 70] on this business. If you look at our rapidly expanding cash flow profile and the durability of our growth strategy, we think this event is probably coming.

So it doesn't feel like -- it feels like, for us, we would want to discount it. We were going to take that out, and they look at it and say, "Yes, but why would I give you a discount?" And so there's -- that's a little bit of color on it. So I wouldn't say a transaction is imminent, but I wouldn't say it's impossible either.

I think the operator cut you off. But yes, we know and thank you for that. It's awesome. Great.

And so looking over -- if we look at the Twitter, Bill Hull always has some great questions. T-Mobile, Jon Freier, Mike Katz, state of prepaid for T-Mobile, competitors, including MVNOs. And T-Mobile was the only net positive on prepaid. Others had losses. What's going on with prepaid? And also what's going on with the MVNO market?

Since it includes the MVNO market, I'll actually switch to Mike Katz. You can tell us a little bit about what's happening on prepaid.

Michael J. Katz - *T-Mobile US, Inc. - President of Marketing, Innovation & Experience*

Yes. Like Mike said, we're really excited about what happened in prepaid. We were the only one with positive gains. And I think, most importantly, we have and continue to have the #1 brand in prepaid with Metro. And we see the Metro growth being a big tailwind for us.

We also have a really healthy and robust MVNO set of partnerships, including big exclusive partners that also had significant growth over the course of '22 and in Q4. And we've got a diverse set of partners that both focus in unique distribution that we don't always fully reach with the T-Mobile brand and unique segments that also sometimes are underrepresented with the T-Mobile brand. So we feel really good about the portfolio of products and brands that are reaching the prepaid market.

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

I find it particularly gratifying that in an environment where there's lots of transference from prepaid to postpaid going on, and which has lasted longer than most people predicted it would last.

Our prepaid brand continues to be the strongest in the market and the only one that grew this quarter. That's fantastic because you have seen lots of momentum across the industry from prepaid to postpaid. Because of the economic times, people are qualifying for postpaid and continue to do so for -- to the premise of the earlier question about what we're seeing in the macroeconomic environment. And yet our prepaid brand remains this strong.

The lowest churn ever in our history on prepaid and the lowest in the industry was in 2022. And so this is a business where -- that has a great bond with its customers. They stick with it for a long time. They love Metro by T-Mobile, and it's a real source of strength.

Cool. Jud, is that -- does that take us to the end of the program?

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

It does. We can probably take one more question and then we got to hop it up. So operator, one more and then we got a call it a day.

Operator

So our next question comes from Peter Supino with Wolfe Research.

Peter Lawler Supino - *Wolfe Research, LLC - MD & Senior Analyst*

A question on postpaid phone ARPU. For many years, your ARPU model was flat to down annually, and 2022 is a fantastic year for ARPU, thanks in part to MAX. MAX sell-in still sounds really steady for '23. And so thinking about your outlook for flattish, I'm just wondering why we might not expect to see more growth in ARPU and maybe even a similar year to 2022 in '23.

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

A part of it is because it's early in the year, and it's not that clear where the dynamics of competition will be. If you look back to our multiyear Analyst Day targets, we actually thought back then, back to all the puts and takes, and Peter just kind of talked about this, that there would be much more going on, on sort of the service revenue ARPU side. And we didn't anticipate as much as what wound up happening on the device side.

And so we guided accordingly on service revenues and ARPU where we achieved the '23 service revenues last year, and ARPU growth was a big reason for that. But we had unexpected costs on the device side because the factors of competition sort of shifted.

So it's a little early to comment on ARPU. We do know that if there's an opportunity for growth versus just generally stable, it would be more in the second half than the first half, and there's lots of reasons for that. But we really like where this is.

The underlying dynamics on Magenta MAX are stronger. They're not moderating. They are stronger than they've ever been. But on the other hand, we're finding success with military, with seniors, with business and other things that could be dilutive to ARPU, but are fantastic on a CLV basis. And that's why we have to be careful about not getting people too hooked into ARPU.

ARPA, we're guiding for growth because we see lots of opportunity for customers to continue to double down on their relationships with us across the board, including new device types and including home and business broadband. So hopefully, that gives you a little bit of the puts and takes on kind of why it unfolded the way it unfolded.

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

Thanks, everybody, for joining us today. Again, I look forward to catching up with you again soon. If you have any other questions, please reach out to the Investor Relations and Media Relations team, and have a great day.

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

Thanks, everybody.

Operator

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