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PRESENTATION

Operator

Good afternoon. (Operator Instructions) I would now like to turn the conference over to Mr. Jud Henry, Senior Vice President, 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 First Quarter 2023 Earnings Call. Joining me on the call today are Mike Sievert, our President and CEO; Peter Osvaldik, our CFO; and 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, I'll turn it over to Mike.

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

Okay. Thanks, Jud. Hi, everybody. Well, welcome to the call. And as you can see, we're coming to you live from Bellevue, Washington at our headquarters, and I'm here gathered with a great group of our senior leadership team as we share with you some terrific results that we are posting today to kick off 2023.

And I'll start by saying our results for Q1 continue to demonstrate that no matter the competitive environment, our unique formula of offering the best network and the best value continues to produce best-in-class outcomes. We again led the industry in postpaid and broadband customer net adds while continuing to deliver the best profitability growth. And our consistent focus on reliably translating customer growth into industry-leading postpaid service revenue growth and unlocking substantial cash flow gives us the confidence to raise our full year guidance just 1 quarter into the new year.

Now I'll also say Q1 was a quarter of celebration at T-Mobile. I am so proud of how our now 10-year history of more than 20 Un-carrier moves have transformed this wireless industry and more recently, broadband for the benefit of customers. And as you often hear us say, we won't stop.

So we announced last week our latest Un-carrier move with Phone Freedom, a move aimed to free customers and other wireless providers locked into those 3-year contracts, while they're subjected to relentless pricing changes and gotchas. We continue to make it easier for customers to come to T-Mobile and switch to T-Mobile for peace of mind, knowing that with price lock, we won't raise their price for talk, text and data.

And now with New in Two, a part of Phone Freedom, they'll be upgrade-ready in 2 years because 3 years is too long to force customers to wait.

Here's kind of a crazy sort of fact to get your head around. AT&T reported the lowest postpaid phone churn in the industry this quarter. And yet quantitative research states that their customers have the highest self-reported likelihood of switching away. Their customers report being almost 50% more likely to switch than Verizon's or T-Mobile's customers. The lowest churn, but the highest apparent dissatisfaction. And to me, that means one thing. Their customers are trapped and we're here to solve it. And that's what our latest Un-carrier move is all about. That's what Phone Freedom is all about. And it's the way we've been designing our groundbreaking Un-carrier moves for a full decade now.

And as you know, we hit another milestone this month, the 3-year anniversary of our merger. We're wrapping up an integration that many have deemed, and I think will conclude that it is, the most successful merger in telecom history. And most of all, we're celebrating what it was always about, the dream we had of leapfrogging from last place in the 4G era to leadership in the 5G era, smashing the biggest pain point of all by finally giving customers in this industry both the best network and the best value from the same provider. And you know what? We did it. And we did it ahead of schedule, meeting our commitments and unlocking massive value in the process.

And yes, we brought about a new level of competition to this market and a 5G network to America that would not have been possible without this merger. And that makes customers and businesses everywhere, the real winners.

Speaking of network, another round of results are in, and our team is again celebrating wins as the largest, fastest and most awarded 5G network as well as the best overall network for the second quarter in a row according to Ookla. And this is not just a snapshot in time. It is a durable network lead. And I'm confident that Ulf and team in his new role as President of Technology, congratulations, and thank you for stepping in to lead us, will continue to keep us ahead in this race over the next years with our great spectrum assets in both depth and breadth deployed rapidly and our rapid execution of our unique process called customer-driven coverage, and finally, continued leadership in implementing advanced technologies such as stand-alone 5G and multi-carrier aggregation.

All of these things, importantly are contributing to the best capital efficiency in our sector. All of these strengths, coupled with our unique opportunity in underpenetrated markets are what enables a differentiated and profitable growth strategy that separates us from the competition. And you know what, we showed that again in Q1.

We added 287,000 postpaid account net additions, the highest reported in the industry once again. And that means we're winning the switching decisions in the market because this looks at it at the account level. And we had postpaid net additions of 1.3 million, more than AT&T and Verizon combined. This included postpaid phone net adds of 538,000.

We won a higher share of net adds year-over-year even as the industry continues to moderate, just like we predicted we would in previous calls. Our increased share was driven by our strong phone gross adds as well as being the only national wireless provider to improve postpaid phone churn year-over-year.

Our consistent approach to profitable growth continues to deliver right on and sometimes even above our ambitious plans. And that's even as the competitive landscape continues to shift and evolve.

In recent quarters, we've seen cable giving away free first lines that don't, by the way, appear to be incrementally pulling from existing customers and incumbent providers but definitely are driving their ARPUs down.

We've seen AT&T and Verizon significantly outspend us in media advertising. I mean Verizon alone spent almost 60% more than T-Mobile in Q1. And we continue to see, as I mentioned earlier, others lean into expensive, long-term device contract offers to lock up their customers, while T-Mobile was the only ones who improve churn year-over-year and have the lowest upgrade rate. Improving churn, but with the lowest upgrades, that's because our approach is not to slam customers with expensive unwanted upgrade contracts to tie them down for 3 years.

Customers genuinely choose to stay with T-Mobile for the network, for the value proposition and for the experiences. And you know what, that's how we want it to be.

You've heard us say before, our strategy is differentiated and durable because it's driven by taking share in the places where we continue to be underpenetrated relative to the market, but where we now have new permission to win. This profitable growth playbook and the momentum we saw in Q1 is exactly what gives us the confidence to raise our postpaid net add and financial guidance for the year.

A perfect example of this, T-Mobile for Business where we just posted one of our highest ever phone net add quarter in Q1 with the lowest business phone churn in our history and we're profitably taking share with more business account net adds and more business phone net adds than Verizon in the quarter.

On the consumer side, we're winning with prime network seekers in the top 100 markets who increasingly recognize that T-Mobile offers the best combination of network coverage and capacity for their needs. In fact, our prime customer base hit an all-time high again this quarter.

And in smaller markets and rural areas, we're now capturing a win share of switchers in the upper 30s, and that's in the roughly 2/3 of this geography where we're competing. This is great news because it's showing that our strategy here is very much on track.

In addition, we added 523,000 high-speed Internet customers as we have continued to grow our gross adds every quarter since we launched 2 years ago. I would expect that we added more broadband customers than AT&T, Verizon, Comcast and Charter combined for the fourth consecutive quarter. And not only did we have the highest net adds, but our focus on profitable growth translated into strong financial performance with core adjusted EBITDA up 9% year-over-year and free cash flow up over 45%.

Our Q1 results were just the latest example of how we have lots of room to run at T-Mobile and I'm confident in our ambitions for this year and beyond. One thing you've come to expect from this management team is that we are never satisfied. And you saw that again with our latest Un-carrier move to free customers from 3-year contracts and introduce new Go5G plans that offer even more value than before.

As proud as I am of what we've accomplished in our 10 years as the Un-carrier and in Q1 most recently, I am even more excited about what's ahead for T-Mobile. And I'm so thankful that all of you are on this journey with us. Okay. Peter, over to you to talk about the key financial highlights and our updated guidance for '23.

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

Absolutely. Thank you, Mike. 2023 is positioned to be another year of best-in-class profitable growth based on our Q1 results and the updated guidance I'll share with you in a moment.

Our continued increases in postpaid accounts and postpaid ARPA resulted in the best postpaid service revenue growth in the industry, up 6% year-over-year. Our disciplined focus on profitability resulted in a 9% year-over-year increase in core adjusted EBITDA, and we grew our core adjusted EBITDA margin by 270 basis points year-over-year while AT&T and Verizon were flat to down.

In addition, as Mike mentioned, free cash flow was up over 45% and unlocked the highest free cash flow margin relative to our peers. We expect our industry-leading free cash flow margin to be a durable and differentiated unlock of shareholder value going forward. This strong financial performance also supported our share buybacks as we repurchased 33 million shares for $4.8 billion in Q1, with a cumulative total of 59.4 million shares repurchased for $8.5 billion as of April 21.

It was also great to see our continued execution on profitable growth reflected in the recent rating upgrades from both Moody's to Baa2 and Fitch who recently upgraded us 2 notches to BBB+. These rating increases further strengthen our access to lower cost capital in the deep investment grade market.

All right. Let's jump into the details of our increased guidance for 2023. We now expect total postpaid phone net customer additions -- total postpaid net customer additions to be between 5.3 million and 5.7 million, up 250,000 at the midpoint, reflecting growth across all of our market opportunities. And we continue to expect nearly half of postpaid net adds coming from phones for the full year.

Our focus on profitable growth allows us to fund those higher customer net adds and still increase our core adjusted EBITDA expectations, which are now expected to be between $28.8 million and $29.2 billion. This is up 10% year-over-year at the midpoint based on higher service revenues and merger synergies, of course, 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 be between $7.3 billion to $7.5 billion in 2023, approaching the full run rate synergy target from our Analyst Day a year ahead of schedule as we build towards the recently raised run rate synergy target of $8 billion in 2024.

We continue to expect merger-related costs, which are not included in adjusted or core adjusted EBITDA to be approximately $1 billion before taxes. And we also continue to expect cash merger-related costs of $1.5 billion to $2 billion for 2023 as they have underrun the P&L recognition to date.

Net cash provided by operating activities, which includes payments for merger-related costs, is now expected to be in the range of $17.9 billion to $18.3 billion. We continue to expect cash CapEx to be between $9.4 billion and $9.7 billion, driven by a capital efficiency unmatched in our industry on the back of our network integration and 5G leadership.

We expect Q2 to remain elevated, just slightly lower than Q1 and then moderating in the back half of the year. Together, this results in higher free cash flow, including payments for merger-related costs, which is now expected to be in the range of $13.2 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 as I mentioned, this also represents a free cash flow to service revenue margin, which is multiple percentage points higher than peers. And based on the cadence of CapEx, I would expect free cash flow in Q2 to be slightly higher than Q1 and then ramp in the back half of the year.

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

All right. Before I wrap up, I want to give a quick update on the sale of our wireline assets to Cogent. The process is progressing very smoothly led by Dave and the team at Cogent and we now expect the transaction to close in early May.

On a quarterly basis, this will lead to approximately $125 million lower wholesale and other service revenue and approximately $175 million lower cost-of-service expenses with a nominal impact to SG&A. With the mid-quarter closing, we expect a partial impact in Q2 with the full quarter impact beginning in Q3.

So in closing, 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 profitable growth opportunities. And with that, I'll now turn the call back over to Jud to begin the Q&A. Jud?

QUESTIONS AND ANSWERS

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

Thanks, Peter. All right. (Operator Instructions) Operator, let's take our first question, please.

Operator

Our first question comes from Phil Cusick with JPMorgan.

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

Maybe we can start with the revenue per user. I think you said the same thing about ARPU this quarter that you did last, approximately up 1% in 2023. We've been looking at the Go5G plans, which were launched recently. Can you remind us of the path of customers moving to Magenta MAX, how long that took and sort of the -- and is that a good guide for the pace of the Go5G upgrades and how that drives that ARPU lift?

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

Phil, I'll start and maybe turn to Mike and Peter. First of all, we're really excited about this new lineup. But I want to point out a couple of things. One, Magenta MAX continues to be in the lineup. And so this is being added to Magenta MAX. And as we think about the price point represented by these kind of mainstream popular plans, we're going to be kind of thinking of it as Magenta MAX and higher. So that would include Magenta MAX, it would include the new Go5G Plus Plan kind of as a category. And what you see is -- our expectation is that, that run rate we've been seeing in that 60s will carry forward. And we've certainly seen that since the launch, and it was true for Magenta MAX all through Q1.

So really great to see that our popular plans are also our highest-value plans packed with the things T-Mobile customers are looking for. And maybe, Mike, you can talk about -- unpack that a little bit.

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

Yes. I mean, I think like Mike said, it's a great representation of the differentiation of our strategy, particularly as it comes to the way that we construct rate plans and do pricing because with Go5G and Go5G Plus, you see new plans that are incremental to our portfolio that really give customers choice. And with these plans, we packed in the most benefits that we've ever done in the plan with increased roaming in Mexico and Canada, which is the most popular destination for our customers, increased hotspot, which we're seeing utilized more, especially in a post-pandemic world where people are moving around and working everywhere and with Go5G Plus, the first plan, we're guaranteed in the plan, new and existing customers get the same deal on phones, not a promotion like you see from other folks.

So we're really bullish on these plans. The early response to them has been really good. One of the things I'll say about ARPU is ARPU is a mix-driven metric. And one of the things that you see with us, particularly with the success in some of the segments that we've talked about as being opportunities for us, whether it's business or 55-plus. The mix of our success in those segments is reflected in our ARPU. And it's one of the reasons why we look a lot at ARPA and we focus a lot on opportunities where we can attract customers and retain customers that demonstrate a really high CLV, like we see with business customers and like we see with 55-plus customers. So you'll see us continue to focus on those kinds of accretive value-creating opportunities in our portfolio.

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

Anything to add?

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

Yes. I think the only thing -- and Mike said it really well is it's such a mix-driven metric. And for example, on the segments that Mike spoke about, 55-plus brings in customers with CLVs that are actually above the average CLV, right? They may have lower ARPUs but very high accretive CLVs because that's how we really model everything and the growth that we're trying to drive, as you know, is profitable growth for us.

So on an ARPU-based metric, because of that mix shift, I'd probably expect it to be sequentially relatively flat. But yes, as you pick up some more mix of potentially 5G -- can Go5G Plus, everywhere here, then you could see some opportunity in the latter half of the year. But ARPA and accounts is really where the focus is to create that value expansion in the company.

Operator

Our next question comes from Simon Flannery with Morgan Stanley.

Landon Hoffman Park - *Morgan Stanley, Research Division - Research Associate*

This is Landon on for Simon. I'm wondering if we could start on the home broadband side. Maybe can you talk about how you're seeing churn in the different cohorts there and what your latest thoughts are on some of the fiber trials you've been running as well as the latest thoughts on a potential millimeter wave overlay on that front?

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

Yes, I'll start and then we'll see who wants to jump in. There's a bunch there. First of all, you're asking about our fiber trials. And I don't have a lot new to report there other than this is a team that, obviously, through our leadership in high-speed Internet on 5G is very committed to being winners in broadband. And so for us, being able to get involved, learn, understand what drives CLV, understand the service models, the technology models, et cetera. is something that's very important, and you see us continuing to do that.

We haven't taken any decisions beyond that other than anything we learn there is accretive to us being in this business, and you see that we are already in this business as a major player in the 5G variant.

As it relates to what we're seeing in the business itself, I'm very pleased. I mean Net Promoter Scores for this business continue to be higher than average cable and higher-than-average fiber in the country. So people love what T-Mobile is serving up to them. And that's important, and it informs the churn models, as you're saying. Now we have a very young base and so to your point, we look at it on a cohorted view and some of those aging customers from earlier, we really like what we're seeing in terms of their retention. So really pleased and you can see Net Promoter Score as kind of an indicator of that. Mike, why don't you jump in, anything else you want to share on that?

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

I would just say to Mike's point, as the customer base is growing as we're seeing more cohorts in the longer tenures, we are seeing sequential decreases in churn. And it really does start with what Mike said, this is a great product. It's a product that really -- that doesn't require any trade-offs from customers. It's got a great NPS. And you're seeing it pull heavily from cable. Cable is the biggest contributor to our customer base in this business. And we've built a model and a go-to-market process that now is reliably delivering plus or minus 500,000 customers a quarter, which gives us a lot of confidence in this number that we talked about a couple of years ago of us getting to 7 million or 8 million customers at the end of this planning period.

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

Okay. And Landon, last part of your question was about where do we go beyond our current model. And I want to remind everybody what the current model is before answering that because it kind of speaks to the opportunity here because others have side-eyed what we're doing and said, well, you know there's a limited opportunity to that, what they're doing over there. And we're like, well, right. I mean we've said that all along. We expect this to be a 7 million to 8 million unit opportunity the way we're doing it right now, which is essentially selling excess capacity on our network. So remember, the way this works is, we have created a nationwide mapping of every household in this country, mapped them to every sector on every tower and determined which sectors no normal amount of mobile wireless use will take up our rapidly expanding capacity. And that is where we approve applicants for high-speed Internet on 5G.

So we're essentially selling our excess capacity. We see that, that takes us into those high single-digit millions of households in the planning period. Now the question that you asked about millimeter wave is really part of a broader question that says, whether for millimeter wave or not, would we entertain the idea of a capital burdened 5G home Internet plan. And yes, we would entertain that. It would have to be smart. We'd have to have a way to make it capital efficient. We haven't taken any decisions on that.

I don't know if you want to share a little bit of our thinking or kind of what we see as the opportunity of, but the short answer of it is we haven't taken a decision on it, but of course, we're interested in it.

Neville R. Ray - *T-Mobile US, Inc. - President & Strategic Network Advisor to the CEO*

Well, thanks, Mike, and great question, Simon. And I would say that our 2.5 spectrum that we're using today is serving us so well because we have so much excess capacity. We are moving now from 200 -- this quarter, we're reporting 275 million POPs covered by this mid-band spectrum. And we're moving towards 300 million coverage by the end of the year, giving us new opportunities also to serve other HSI opportunities.

Then I would say that we're always looking at millimeter wave when we are doing trials and testing but it's limited in reach and we have to remember that it's limited in reach, and we will put it into an economic formula over time to see if it makes sense to pursue it.

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. Mike, maybe a couple of questions. First just on the competitive environment. You mentioned Verizon has been a little bit sort of louder from an advertising statement. I think from a promotion standpoint, too, and Comcast, we had some success with their sort of free line offer similar to what Charter has been doing. Just how would you characterize the competitive environment in wireless as it stands today? And sort of what gives you the confidence to sort of raise the postpaid numbers as we look into the rest of the year.

And then on the buyback, a bit higher than we thought, and you're sort of pretty far along on the authorization, should we expect the buyback to slow through the year as you bump up against that existing authorization?

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

Great. So competition and buyback. I'll start on competition and then turn to Jon Freier. I would say it's competitive out there. And that being said, I've probably done 50 of these calls for T-Mobile, and that's been the case for all 50 of them. It's competitive out there. And we've made it more competitive through the creation of this version of T-Mobile. What I said in my prepared remarks is that we have demonstrated time and time again that regardless of the competitive milieu, we find our way through to accretive profitable growth, and that's because our strategy is so differentiated. So I'm not going to repeat all that here, other than to say, of course, it's really competitive.

I find the industry a rational level of competition, even the competitors you talked about have been pulsing in and out. Some of the offers have been eyebrow raising but they pulse in and out. I think to me, it feels competitive and rational and we look at our differentiated strategy. And what we have within our control and we see our way through to increasing our overall guidance for the year. But maybe tell us on the ground, Jon, what your team is seeing as we compete last quarter and this quarter.

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

Yes, you bet. So yes, like Mike said, it is a competitive environment, but that's nothing really new for us. And we're seeing -- continuing to see real solid demand out there. When you look at our overall traffic, when you look at the interest, we're seeing incredible demand that you can see, obviously manifested in our Q1 numbers.

And even so far in Q2, we're seeing really strong demand. And like we said earlier in our prepared comments, not only strong demand as a whole, but strong demand around prime customers and the fact that we had our highest mix of prime customers. We're continuing to see a very healthy activating revenue number in terms of new accounts switching to Magenta MAX and now Go5G Plus and since we even launched that on Sunday, we're seeing really good numbers kind of an early peek into what's happening there.

And then I would just tell you, too, from what's happening in the marketplace is, again, our differentiated position in what we're doing in smaller markets and rural areas. And one of the things that we talked to you about in 2021 at Analyst Day was we had this ambition to move from 13% share of households to 20% by the end of 2025. And what we're really excited about is that we're already halfway there. We're now at 16.5% in terms of our share of household position. So more than halfway there or halfway there, but in less than half the time over that planning horizon.

And when you look at what we're doing relative to others, it's really coming down to 4 things in smaller markets, rural areas. One, is we're building out this -- the markets out there with network and distribution. We're now playing in 2/3 of smaller markets in rural areas, 140 million people, 50 million households, 40% of the U.S.

Two, we're really unlocking switching and getting switching moving. Last quarter, I told you that switching was up 350 basis points on a year-over-year basis. We're sustaining that with now postpaids win share in the upper 30s.

Three, is when you look at what's happening with high-speed Internet, we talked about that just a few moments ago, but that's a new front door for us that gets -- even before people are thinking about switching mobile, we can get into the household as a catalyst for customers to be thinking about moving their mobile services into T-Mobile from AT&T, Verizon, et cetera.

And then lastly, what we have that's different in those particular markets is we have a dedicated and focused team where we're building out hundreds of stores about a little bit more than 400 stores since we've started this venture out in the smaller markets and rural areas.

So when you look at what's happened under the ground, strong demand really getting after it in 40% of the U.S. from smaller markets and rural areas. And then when you look at the overall health and the quality of the customer that we're talking to, it's never been better.

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

So it's been 2 years, and we've made our way halfway from 13% to 16.5% market share, and we're only really competing in 2/3 of the space. It's just been this rapid-fire deployment, and it's -- you should be so proud of what's happening there.

Jon, at the risk of filibustering your competition question, I have one more thing. I feel like we shouldn't answer a question about competition unless we talk about cable. And we're a very competitive company. So one thing I'll give our team a little bit of credit on is that we have pretty good diagnostics and telemetry on what's going on in the marketplace. And so we're able to kind of see what happens with each of the competitors as the quarter unfolds. And I can make a couple of predictions for you.

You saw it in Comcast numbers this morning, very strong. Charter had a blockbuster quarter, we think, in phone net additions and we saw that unfolding through the quarter. But one of the things we try to do when we sort of make out -- at least for us, when we make our operating decisions is we try to figure out, well, what's behind it and double click into it. And what we see going on is that, for example, in this big number, they're about to report, about 75%, we think, of the uptick from prior normal levels, let's say, a year ago, are in non-parts sort of printed net adds, like drop you a free line in the bag or kind of low-calorie net adds.

And so we try to kind of adjust for that when we make our operating decisions as to how fast to run and where and how to compete because they're really -- it's kind of a quantitative easing happening in the marketplace. There's just new adds being printed that don't appear to be coming from any of the incumbent players. So it's kind of important to adjust for all that, at least for us, as we make our operating decisions. It looks to us about 75% of the uptick has been those kinds of nets.

So you actually asked 2 questions -- your second question was about the buyback. And let me say a couple of things and I'll turn it over to Peter. I wouldn't read too much into how fast we're going, and I cannot make any predictions for you as to how that will play out in the future. I could just tell you that generally speaking, we're going fast because we think we're getting a relative great deal on the stock. And it's not normal for management to talk a lot about valuation. But since you've hired us to conduct this buyback on your behalf, we have to make operating decisions with an idea in mind about whether or not we're getting a relative value and our team thinks and our Board thinks it is.

And so we have authorized moving quickly because we look at this rapidly developing cash flow picture and a lot of people are increasingly valuing T-Mobile on our value relative to cash production, and we see a lot of potential ahead for a diminishing opportunity for us to be able to grab shares at these share prices. And so we're moving really fast. I cannot predict for you, though, what that means going forward. Obviously, we're going to take it one step at a time.

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

Yes. The only thing I'd add, Mike, is, of course, we -- I'm personally very excited about how it's gone. And while we can't speak about anything more than the $14 billion target, that's been approved by the Board, remember, what allows all of that is the cash flow generation of this business, as you've mentioned. And frankly, both with regards to the longer term and the underpinning of that opportunity for up to $60 billion in share buybacks through just the end of 2025, and here we are in 2023 already. Remember, this machine and this free cash flow production continues into '26 and beyond.

But the one thing I look at is that is the underpinnings that allows the shareholder return machine to go. And you just saw us once again raise what was already ambitious guidance for the year based on our confidence just a quarter in. So in that regard and how the share buybacks are progressing, I'm very pleased.

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

Okay. We better keep moving.

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

We gave you quite an answer there, John.

Operator

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

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

I'm going to ask 2 questions as well, if that's okay. The color you just gave us on small markets, some of the progress you're making on market share is super helpful. I'm wondering if you can give us exactly the same context for business in terms of where you are in share? And any color you can give us around sort of the number of business accounts or business lines you have would be super helpful.

And then on the Phone Freedom plan which looks like it really has the potential to unlock trapped customers, as you suggest. Can you help us understand what the impact of that is on EBITDA expectations for the rest of the year? You've got, on the positive side, obviously, you're pushing people into higher ARPU plans. But then presumably you trigger a higher upgrade rate, and so that's a cost against it? And how do those 2 things net together in the guidance?

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

Okay. Sounds great. Well, let's go first to Callie. I'll just say she's going to give you exactly what you asked for, which is some color on what's going on, but probably not what was behind what you asked for, which is lots of racking and stacking of market share numbers and things like that. We're moving really fast here, and we want to keep it competitive as to some of the details. But maybe tell us what you're seeing in the marketplace.

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

Thanks, Mike, and thanks, John, for the question. You know we have a long-standing goal to be the growth leader in business. And I'm really pleased to see that we're making very nice progress towards doubling our market share. We're growing in customers and in revenue. And we're taking share from AT&T and Verizon. In fact, in Q1, as Mike mentioned in his opening remarks, our business account growth, our phone net adds and our phone churn were all better than Verizon. And while AT&T reported declines in FirstNet quarter-over-quarter, we saw a 2.5x growth in Connecting Heroes.

So we're winning and we're winning across every segment. In Enterprise, we were selected to be the exclusive partner nationwide for AAA to develop roadside connectivity using partners like Dialpad with a collaboration tool and in our phone solutions. Siemens Energy selected T-Mobile, their exclusive partner, UPS, Oracle, Vail Resorts. These are all companies that are choosing T-Mobile because of the quality, the value and the performance of our network.

In the government space, I'll add, I'm actually really proud of the team for the work that we've been doing with Veteran Affairs. The VA just selected T-Mobile as a primary partner for 9 years with over 50,000 phone lines as well as to create health care 5G solutions in the vertical. So we're very excited about that.

In SMB, what I can say in SMB is that we've seen net positive port trends versus Verizon for 4 quarters straight in a row. So it's great profitable rates, great CLVs competing not only like I said, on the best value, but also a superior product and experience. And you know businesses buy because they've tested the product. And we surpassed the competition.

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

It could be a little bit of a canary in the coal mine for us, too, because of that fact, that last fact that you just shared, Callie, that businesses aren't going so much on brand reputation. They actually check out the phones, like sometimes hundreds of them before making these decisions and compare us head-to-head. And so businesses through their testing know that we now have the best network. And we do get questions about, "Well, how are you going to keep competing if the incumbent guys just keeps slashing their prices to hang on to those customers?" And what is missed in that dialogue is that that's not actually the only factor going into this decision process. I mean businesses have corporate liable lines for a reason. They want to take responsibility for this connection because it's mission-critical. And we can save them some money. I mean we're the Un-carrier but they're picking us because we're the best network. And that's been a breakthrough that I would say was not the case the same way a couple of years ago.

So you're hearing a lot of optimism there. One thing we did here as we listened in, were some in the industry is kind of saying, hey, there's a sort of a sector decline happening, lots of layoffs, companies aren't interested in business lines anymore. There's sort of a pause going on. That is not our experience, and you can hear that in the optimism of what Callie is saying.

Okay. Your second question was about Phone Freedom and what's going on there. So maybe we'll start with Mike and then there was a particular EBITDA outlook question associated with it.

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

Yes. Like I mentioned before, Phone Freedom kind of had 2 big components to it. One was the rate plan Go5G, Go5G Plus which, Jonathan, as you indicated, has this benefit of upgrade built into it. And then the second thing, which I think is also an important input to the second part of the question you asked is we launched a promotional program called the Easy Unlock. And what the Easy Unlock -- the insight it's really going off of is both what Mike talked about in terms of the dissatisfaction that AT&T customers have. 50% more reports that they want to leave their current carrier than in Verizon and T-Mobile. And when they want to leave, it's incredibly difficult, both because of long-term contracts but also because they have the most customer unfriendly unlock process in the entire industry. And what we wanted to do is make switching incredibly easy. And that's what we did with that program. And I think that's one of the things that will really help us unlock the switcher pool a little bit, which when we know happens, T-Mobile is the disproportionate winner.

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

Yes. And with regards, Jonathan, to the EBITDA guidance, I mean, frankly, even at year-end, we had already assumed a certain level of opportunity here. Customers were clearly telling us, especially through the back half of last year that they are looking for what this best value, best network combination can provide in the form of Magenta MAX at the time. And so that was an inspiration that we said we were going to pack an even more fully featured plan out there. So I'd say all of the revenue assumptions around this as well as customer acquisition leading to high CLVs is all packed into core EBITDA, the guide that we provided to you. I know there was also a question on social around -- well, how does that impact the contract asset and frankly, to say that was -- the contract asset went up sequentially from Q4, but that was really some of the promotions that we had in place and continued into Q1 as well as some of the business promotions.

But in the current core EBITDA guidance that we put out there, there's an assumption actually that the contract asset will decrease to quite an immaterial net impact for the year, and again, in the current guide that we gave.

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

Why don't we go over to the ones coming in on Twitter. So Ulf get ready, there's -- you're always popular, and your topic is always popular online. Let's see. I'll go to [Bill Ho], I want to talk about the network. And this is really about -- he's giving some stats here. But I think the question is really about, can you tell us about depth and breadth. So we have 275 million people covered by ultra capacity 5G mid-band, and we're going to 300 million. How easy or hard is it in these last 25 million or how easy or hard is it in the last 100 million and that's kind of interesting if you compare to where the competitors are right now and what's still ahead of them. But then in that, can you also talk about the depth, how much spectrum is where we're going.

Ulf Ewaldsson - *T-Mobile US, Inc. - President of Technology*

Right. I mean if we start with the breadth, we continue to build out, and we are now reporting the 275 million as you catch here, and we are -- have about 25 million to go. We're very confident that we're going to reach the 300 million by the end of the year. It gets harder and harder. And as a rule of thumb, I would say that it's about 3x harder for every 10 million that you add. So that's about how hard it gets.

And the reason is, of course, the geography of the U.S., where it's a very vast geography with a very high population density in some communities. So it's very easy when you start out and it gets harder and harder to do it. But we are very confident that we're going to reach that with the build plan that we have today.

When it comes to the depth of the network, it's just amazing how we continue to just move more and more frequency assets over from LTE to 5G. We today have 150 megahertz dedicated on our mid-band, which is giving us tremendous speeds. We've increased our speed advantage on the downlink speeds compared to competition in this last quarter. And we are actually going to end up the year with 200 megahertz of dedicated spectrum just on the mid-band. So it's just fantastic to see that journey moving forward with our tech team.

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

Which means with each passing day, the overall capacity of this network is rapidly expanding. And it's a fascinating thing when you listen to what Ulf says too, about how the easy part is that first 100-and-something million POPs, right, which generally corresponds to where our competitors are. And so we get questions a lot about, hey, you guys jumped out with a couple of year lead in 5G. Aren't they catching you? And hopefully, you can understand when you see where we already are and where we are at the end of the year. Now there's still years behind us because that last part is really difficult, and it's really important for the overall perception that a customer has about the brand. You have to be great outside the core urbans with a high-capacity offering for somebody to believe you have a high capacity offering. And that matters to them even if they don't leave that space all the time. So it's really important, and it's one of the many reasons why we have a durable lead. Okay. Should we go back to the calls?

Operator

Our next question comes from Brett Feldman with Goldman Sachs.

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

So you made an interesting observation when you were talking about churn. You pointed out that you had the best year-on-year improvement in churn. But you also noted that you don't yet have the lowest churn in this category. And that's interesting because you also noted that you have very large cohorts in your customer base and as a group exhibit a lower churn profile than comparable cohorts at your peers. So it certainly seems like there's an opportunity to keep driving churn down across the base. So when you look at the pockets of your customers where the churn profile is still elevated, why is that -- how do you think about how much of an opportunity that is? And is it actually part of your underlying business plan to continue driving churn lower? Or do you think you've hit some sort of plateau?

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

Yes. Thanks, Brett. Listen, I think we're at a fascinating sort of historical moment in the history of our company. If you think about it, we have spent 6 years on the chapter of our company comprised of dreaming about and then completing and then integrating the merger that would allow us to leapfrog AT&T and Verizon from being last place in the LTE era to first place in the 5G era.

And now we've generally gotten that done. We have the best network in the country. We have the best values, and we've generally completed that merger. And so now we have work to do to convince the American public that it's true.

And to me, I'm inspired a little bit by the journey of stand-alone T-Mobile that did achieve the lowest churn rates in the industry, even without the advantages of the network strength. And so now you see us really focused on prime customers. We have the highest prime rate in the history of our company right now. You see us focusing on business customers. You see us focusing on travelers, some of the best customers in the industry now waking up more and more to the fact that T-Mobile is the best choice for them. And that's a journey, convincing the country that what's true is true, will take some time.

But let me tell you this, our goal -- the answer to your question is, yes, our goal is to have the lowest churn in the industry on postpaid phones. And we already have it on prepaid. We're going to have it on postpaid phones. Of course, we should. I mean we have the best network and the best prices. That means we should have the lowest churn. And so we've been through this worst to first journey before we stand-alone T-Mobile. We're kind of midway through it with the new version of the company and full of optimism about where it can finally land.

Those big sort of quarter-by-quarter kind of merger-driven lurches forward are mostly behind us, right, because the integration is behind us. So now it's that hard slog just like we showed you we could do when we were stand-alone T-Mobile.

Operator

Our next question comes from Michael Rollins with Citigroup.

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

Two questions. First, going back to the customer unlock opportunities, where is the industry and T-Mobile on eSIM capabilities? And is this a topic that's important to helping you propel unlocks and switching opportunities?

And then just secondly, do you have visibility on whether or not DISH will exercise its option to buy your 800 megahertz spectrum? And if they don't, what is the next steps for T-Mobile with respect to that spectrum band?

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

Great. I'll start with the DISH one, and then give Mike a chance to think up and answer on the eSIM one.

No, we don't have visibility into it yet. DISH asked for an extension in the decision. We didn't object to that of about 60 days. And the way our consent decree works is it's entirely up to them. We're here to support them. And so we'll wait to hear what they decide. I'm in touch with Charlie. So as I learn more, we may engage and be able to be helpful in that. But it's -- the way it works is it's entirely up to them. And so if they want the spectrum under the terms of the consent decree, it's theirs. And if not, the way it works is that it would go to auction and it would maybe be in the hands of someone else. And so we'll wait and see how it all unfolds and we're here to support whatever decision that they make.

On eSIM, this is fascinating how this has all happened across the industry, and there hasn't been that much discussion about it. One of the limiters has been this phone locking phenomenon that we're talking about with Phone Freedom because what happens with an eSIM is on a locked phone, even though that second SIM is available, if the phone is locked, you still can't use that second SIM very easily. And so there's been some barriers to the friction coming out of the system, the way eSIM may be promised.

But we're big fans of it. You saw us a few months ago, introduced great switching capabilities for you to actually try our network on the second SIM if your phone allows that. That's been a lot of fun for people to be able to test drive our network. But Mike, maybe you can give some color on what we're seeing.

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

Yes. I was going to say something really similar. We're big fans of eSIM, really, for 2 big reasons. One, we think it's a much better customer experience. You don't have to deal with plastic and switching in and out of your phones every couple of years when people are upgrading. And for a company that wins when switching happens, eSIM does make switching easier. And we've tried to take advantage of that with the technology that Mike mentioned earlier, where we launched an app where you can easily test the T-Mobile network side by side with your incumbent network on the same phone. And when you're ready to switch, you can just do it in a couple of clicks.

So we're fans of eSIM. We're really supportive of it, and we're optimistic that it will help accelerate even programs that we talked about today with that Phone Freedom.

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

Okay. How about Twitter? [Roger Entner] want to talk about T-Mobile for Business. I think we hit most of that, unless you want to provide any color on what we're seeing with HSI in T-Mobile for Business. And then a separate question about -- with our new Go5G plans, they are raised prices, do we think that will impact our subscriber growth. And I'm glad you asked that because no. And in fact, the way we kind of did this is we added these plans and that won't be immediately obvious to everybody, but we added them. So if you present at retailer online, you can still get Magenta and Magenta MAX. But these new plans in the early days, now that we've put them out there, they're really turning out to be very popular. And so I'm not worried even notwithstanding the fact that they're being added, I'm not worried at all. These are going to be really popular plans because we design them right to the needs that we're hearing customers want in the marketplace.

And this is really an interesting thing because we called it Go5G for a reason. Our 5G customers are using massive amounts of data on our network. And people say, what's the killer app of 5G? There are a lot of killer apps of 5G, but one of them is usage on your smartphone, which if you have T-Mobile and Magenta MAX or now Go5G plus, you have massive connectivity and customers are soaking it up. And that's a real differentiator for us. And so we want to play into that advantage and encourage that kind of usage because once they see what their phone can do, they're not going to want to live without it. And we're already seeing that now at scale with millions of customers at Magenta MAX or above.

Okay. So let's go back to the phone, Jud.

Operator

Our next question comes from Craig Moffett with MoffettNathanson.

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

Two questions, if I could. One is I want to stay with the DISH theme for a minute. It's becoming more and more openly discussed that DISH may eventually be a liquidation story. If that were to happen and if the FCC were willing, how much appetite do you have for more spectrum?

And it sort of leads into my second question, which is just with respect to 5G, the new applications have been somewhat slower to develop than might have been expected. I wonder if you could just update us on 5G usage growth and how quickly the consumption of network resources is proceeding with 5G. And if that is the differentiator you had hoped and expected it to be given your spectrum and network advantage.

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

Yes, on the first one, and I'll turn to Mike for the second one. On the first one, Craig, I'm not going to answer it because my friend, John Stankey did kind of did answer it, and I think he was very unfairly misquoted. He gave an innocent answer to a hypothetical kind of along the lines of any time there's spectrum, of course, we're interested. And there are all kinds of headlines whether he wants to buy a DISH's spectrum.

Listen, first of all, I'll say, I think it's a little premature question too. I don't count DISH or Charlie out very easily. I've known him for a long time. So I think it's a premature question. But then finally, it raises a larger issue. And if you reframe it this way, which is, does this wireless industry have enough spectrum over the long haul for American competitiveness. I'd say never. Always there's an opportunity for more. And that speaks to public policy.

The FCC lost its auction authority this year. And T-Mobile and others have been urging Congress to restore that. Because we need our strong regulatory body to be able to work with other agencies, create an ongoing long-term pipeline of spectrum for all the players in this industry so that we can continue to have connectivity in this country that's the best in the world. And I know the FCC feels that way. I presume my competitors feel that way. But I think it's very important that we get back on track with this and that auctions that are completed get put to use for the American consumer because there's work that's pending there. And that the FCC regains its authority quickly to be able to lead in this space going forward, the way they've done so well in the past.

And I think that's very important for our company, for our competitors, but also for American competitiveness.

Your second question is about apps and 5G. And it was sort of -- it kind of came out -- and I will say our competitors kind of led the way on this with a lot of hype and euphoria around 20 gigabit connectivity and millimeter wave, and it's going to change the world and we're all going to be kind of human cyborgs and stuff like that. And we kind of never felt that way. I mean early on, we went right to 5G is a much better, like 10x better at least 4G and that the killer apps are going to be smartphones at first, and they're going to be our ability to get after home broadband. And we focused on the mid-band asset. And eventually, the rest of the industry followed. We were right. And the average T-Mobile customer is getting 10x the connectivity that they got in 2018, 10x faster. That's amazing.

And so -- and what they're doing with it is amazing. And so that obviously is unfolding. But there's still the kind of side eye questions people get, which is where is all this augmented reality you said would come? And I'd say, well, first of all, our job is to create a great network, and we have the best in the country. And as hardware and software developers look to a network to create innovations around, I think they will choose T-Mobile. Whether they're moving faster or slower than predicted, doesn't directly affect our business that much. We need to be the network that they choose as they get inspired with massive connectivity, not just in fits and starts and parts of the country, but all across this country the way T-Mobile can uniquely provide. And that's why we work with developers the way we do. But the rate and pace they go, that's up to them. Anything to add?

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

The only other thing I'd add is that let's not forget about HSI because HSI, I do think is still one of the big killer apps for 5G that you're seeing play out right now. 3.2 million customers running their home Internet in their house over our 5G wireless network and using hundreds of gigs a month on average, both in the big top 100 markets, but also importantly, many customers in rural areas, some of which this is the first high-speed option that existed and it only happened because of 5G. So I don't think we can forget about HSI being one of those big killer 5G applications.

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

Operator, we've got time for one more question.

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

Oh, it's the last one, already. We were just getting warmed up.

Operator

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

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

The -- I guess the first question would be with the stock. The performance of the business has been great and the stock kind of just keeps bumping up against this $150 level. And I want to come back to this notion of the SoftBank top-up shares 48.8 million. Has there been any evolution in your thinking or conversations between yourselves and DT and SoftBank about using the remaining buyback authorization to simply clean that whole exercise up? It seems like it would be the most elegant and nondisruptive way to do it, and I'd love your comments on that.

And then the second question is, and I kind of know what your answer is, but I just kind of want to hear how you frame it which is that you originally for most of the states, not every state, pledged that you would not raise prices in T-Mobile for 3 years and that expired in April 1, 2023, and then you came out with your new Un-carrier plan. But it's within your toolkit now to be able to raise prices if inflation or other things happened. Could you kind of give us a sense as to how you think about that relative to kind of T-Mobile's brand positioning in the market?

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

Yes, sure. We maintain and have for the entire decade-long journey of the Un-carrier an envelope of superior pricing versus our benchmark competitors. And we intend for that to continue. Now as things shift and move, we maintain that envelope. And it's not a matter of sort of a static price or being dogmatic about price has always got to be static, but we always want to be a relative value. And we can do that sustainably because we have a great balance sheet, we have the right capital structure. We have the right spectrum structure and other advantages that allow us to continue to profitably have a pricing envelope superiority versus our benchmark competitors.

But as things move in the market with inflation or otherwise, of course, there's an opportunity for us to move along with those things. But we have the customers are North Star and our brand value proposition to take care of. That's why you have seen us so focused on offering higher value offers that customers self-select up to. And it really shows their love for our brand that when we put something out there like Magenta MAX or now Go5G plus, they flock to it. Our customers are buying up our rate card voluntarily in an era of inflation because they appreciate the value of what we're putting in front of them. That speaks a lot about the brand and about the covenant between us and our customers on this brand.

Okay. Your first question was about the Soft Bank true-up shares. And just to kind of remind everybody, there is this 48 million some shares that would trigger upon $150 stock price being at an average 45-day VWAP. And the short answer to your question is, of course, I mean, of course, we talk to them. They're a close partner of ours. We talk to DT all the time. We're aware of this question and this issue, but we have nothing to report. And so -- but I mean it's of interest, and it's not lost on us why you're asking the question. If there ever was to be a transaction, it has to be something that would work for everyone.

I will say this, in the earlier question about our buyback pace, we've already bought back more shares than this potential dilution event. And we intend to buy back a lot more shares going forward, should our capital program continue to support that as we've outlooked it would.

And so this is actually a fairly small potential event in the grand scheme of the shareholder remuneration that our cash flow production supports. And so anyway, with that, anything to add to? Anything to add to the whole show?

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

The show must go on. All right.

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

Well, we appreciate you guys. Thanks for tuning in and for asking all these questions. I am so proud of our team. It's a fascinating year. It was fascinating for us to watch how it all started and the different perceptions people have. But one thing I hope that you take away from us is that we are a team maniacally focused on delivering for you what we promised you we would do. And that's what we show up and try to do every single time. And I'm so proud that this was one more quarter where we were able to put down great results and outlook for you in 2023 that we're going to be proud of. So thanks for tuning everybody. See you later.

Operator

Ladies and gentlemen, this concludes the T-Mobile First Quarter Earnings Call. We thank you for your participation. You may now disconnect.