T-MOBILE US INC (TMUS) Earnings Report: Q1 2016 Conference Call Transcript

The following T-MOBILE US INC conference call took place on April 26, 2016, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Nils Paellmann; T-Mobile U.S.; Investor Relations
- John Legere; T-Mobile U.S.; President & CEO
- Braxton Carter; T-Mobile U.S.; CFO
- Mike Sievert; T-Mobile U.S.; COO
- Neville Ray; T-Mobile U.S.; CTO

Other Participants

- Simon Flannery; Morgan Stanley; Analyst
- Amir Rozwadowski; Barclays Capital; Analyst
- Brett Feldman; Goldman Sachs; Analyst
- Phil Cusick; JPMorgan; Analyst
- Matt Niknam; Deutsche Bank; Analyst
- Mike McCormack; Jefferies LLC; Analyst
- Michael Rollins; Citigroup; Analyst
- Walter Piecyk; BTIG; Analyst
- John Hodulik; UBS; Analyst
- Jonathan Chaplin; New Street Research; Analyst
- Craig Moffett; MoffettNathanson LLC; Analyst
- Rick Prentiss; Raymond James & Associates, Inc.; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the T-Mobile US first quarter 2016 earnings call.

(Operator Instructions)

I would now like to turn the conference over to Mr. Nils Paellmann, Head of Investor Relations for T-Mobile US. Please go ahead, Sir.

Nils Paellmann (Investor Relations):

Good morning. Welcome to T-Mobile's first quarter 2016 earnings call.

With me today are John Legere, our President and CEO; Braxton Carter, our CFO; and other members of the Senior Leadership team.

Let me just read the disclaimer. During this call, we will make projections and statements about the future performance of the Company which are based on current expectations and assumptions. Our Form 10-K includes risk factors that could cause our actual results to differ materially from the forward-looking statements.

Reconciliations between GAAP and the non-GAAP results we discuss on this call can be found on the Investor Relations page of our website. Let me now turn it over to John Legere.

John Legere (President & CEO):

Good morning, everyone. Thank you for that exciting introduction, Nils. And thanks for joining us. Welcome to T-Mobile's first quarter 2016 Un-carrier earnings call and open Twitter conference.

We're coming to you live from New York City. You know we like to keep this interactive, so we'll have up to, as I've said before, 90 minutes for this call to cover as much Q&A as possible. We'll take questions via Twitter and on the phone. We're again providing a live video stream so, Braxton, be sure you smile, so you can watch all the action behind the scenes on YouTube. For fun, we are also filming today's event with a 360-degree camera and we'll share highlights from that exciting item later in the day.

A few weeks ago, we celebrated the third anniversary of Un-carrier. Three years since we started our consumer revolution in the wireless industry. Our approach from the beginning has been to put the customer first by listening and then solving their pain points. While we still have a lot of work to do to keep fixing this broken industry, the results show that the strategy is working. We started the year with a strong Q1. We continue to lead the industry in net customer additions, but we're also likely to come in way ahead of the pack in service revenue and adjusted EBITDA growth.

Let me share a few highlights from the quarter. Our 2.2 million total net adds in Q1 marked the 12th consecutive quarter with over 1 million net adds and six of the last seven with over 2 million. We added more than 1 million branded postpaid customers. That is the seventh consecutive quarter over 1 million. In Q1, we added 877,000 branded postpaid phone net customers. For those of you that may be keeping score, that's nine quarters in a row that we've led the entire industry in postpaid phone additions. Now, while not all competitors have reported yet, it sure looks like we will capture all of the industry's postpaid phone growth again in the first quarter.

And, in prepay, where we have the industry's biggest and best prepaid brand with Metro PCS, we added 807,000 new customers, setting a new record for T-Mobile since our combination with Metro PCS.

This, by the way, represents an 11-fold increase in branded prepaid nets year-over-year. It's not easy to grow both sides of the business, that being prepaid and postpaid phones, but we've been able to do that, just that, for nearly three years in a row. That's right. T-Mobile is the only wireless provider to deliver positive growth in both postpaid phones and prepaid for the last 11 quarters. By the way, no one else has been able to do that for more than a year.

Porting ratios tell the same story. Q1 marked the 12th quarter in a row, that's three years running, with overall positive postpaid porting ratios. And we've now had over nine quarters in a row where T-Mobile has been positive against every major carrier. Think about that for a minute. Every major carrier.

You may have noticed, this was a quarter where the competition got more aggressive with bounties targeted at T-Mobile customers. From ETF offers of up to $650 to $350 EIP buyouts, anything to try and slow us down. Clearly, we have them rattled and it's a beautiful thing to watch.

It's definitely an interesting time to be in wireless. Verizon is on a spending spree to try and buy access to millennials via 1990s internet companies and they're spending tens of millions in ads directed at us, including their balls campaign and their Ricky Gervais commercials. When the schoolyard bully starts calling you out, you know you've arrived.

Unlike Verizon , AT&T's strategy is really clear, bundle everything. But read the fine print and surprise, their bundles require a two-year contract and prices go up in year two. Oh, and one of

AT&T's first big moves in a really long time was to offer unlimited data plans to DirecTV subscribers. They even bragged at an Investor Conference about signing up 2 million of their existing customers. Well done.

And Sprint. Did they really do focus groups and package it up as a listening tour? We saw how that went. Well, I think I'm just going to leave that one totally alone.

With all this happening across the industry, we're staying focused on our core business and seeing our momentum continue into the second quarter. We're seeing positive postpaid porting against all of our competitors trending in line to slightly better than Q1 with both AT&T and Verizon . And, we don't just win them, we keep them.

Our customers continue to stay with T-Mobile at near record levels. Branded postpaid churn, phone churn, in Q1, was down 13 basis points quarter-over-quarter to 1.33% and generally maintaining itself at the record low from last year's first quarter.

Like I said, we are delivering rock-solid financial metrics too. The numbers speak for themselves. We are rapidly translating customer growth into revenue and adjusted EBITDA growth.

In Q1, we delivered year-over-year service revenue growth of 13% and year-over-year adjusted EBITDA growth of 98.1%. Even excluding the spectrum game, adjusted EBITDA grew at an impressive 52%. Our continued success and momentum means we will keep investing to fuel growth with particular focus on the network buildout, growing our retail distribution and more on carrier moves.

Our aggressive network growth continues. We now have 308 million 4G LTE POPs covered and we are virtually on par with Verizon . We've had the fasted 4G LTE network for nine quarters in a row that produced speeds averaging 22 MB in Q1. Our deployment of extended range LTE in the 700 megahertz A-Block spectrum band, is way ahead of schedule. More than 340 markets are live, covering approximately 194 million and customers are seeing the benefits.

Now, we are far from done here. As I already mentioned on the last earnings call, we've entered into agreements to acquire a low-band A-Block spectrum covering another 48 million POPs. With these acquisitions, our low-band spectrum footprint will extend to 258 million POPs or about 80% of the US population. This spectrum is in cities like Nashville, Salt Lake City, Columbus and Jacksonville.

We intend to build out these additional areas as rapidly as we've built out the first 194 million POPs. Also, the upcoming incentive auction is a historic opportunity, as we have said before, and we plan to participate with a successful outcome.

Our network expansion creates an opportunity to grow our retail footprint as well. Today, we have 230 million people close to our brand of postpaid stores and we plan to grow that footprint to 260 million to 270 million, especially in suburban areas.

You didn't think we would stop our Un-carrier moves, did you? An Un-carrier move always makes me stumble. It has been three years since we launched our first Un-carrier move, and by the way, we have no plans to stop. Stay tuned because Un-carrier 11 is coming soon.

In summary, the first quarter was another great one for T-Mobile. 2016 is rapidly delivering great customer growth, outstanding financial results and creating value for our shareholders. Our customer momentum continues and it appears that we've delivered the best service revenue and adjusted EBITDA growth in the industry. Three years in, the Un-carrier continues to be a disruptive and innovative force in wireless and that's a good thing for American consumers.

Now, I will hand it over to our CFO, Braxton Carter, for our key financial highlights and an update to our full-year 2016 guidance.

Braxton Carter (CFO):

Thanks, John. Once again, I am so excited to share our strong financial results and, once again, update our guidance which we did every quarter of last year.

Let's start with the financial results for the first quarter. Our customer growth is translating into strong financial growth as we once again delivered industry leading metrics. Service revenues grew by 13% and adjusted EBITDA came in at $2.7 billion in the first quarter, up 98% year-over-year.

EBITDA, as already mentioned by John, benefited from a spectrum gain of $636 million. Excluding this gain, adjusted EBITDA increased by 52% year-over-year, and the adjusted EBITDA margin expanded from 24% to 32%. Adjusted free cash flow improved year-over-year from minus $422 million to minus $247 million. Net cash from operating activities almost doubled and was partially offset by higher cash CapEx. Cash CapEx was approximately $350 million, more front end loaded this year, due to our aggressive 700 megahertz A-Block rollout. This is just a timing issue, which we will normalize in the course of the year.

From a working capital perspective compared to Q1 last year, we saw higher outflows due to inventories in connection with leasing and a decrease in accounts payable, partially offset by a reduction in EIP receivables. We continue to expect a significant improvement in free cash flow this year.

Net income and earnings per share were up strongly year-over-year. EPS came in at $0.56 per share, compared to a loss of $0.09 per share in the first quarter of 2015. The after tax impact of the spectrum gain on EPS in the first quarter of 2016 was $0.46.

Branded postpaid phone ARPU declined sequentially due to the impact of Data Stash. However, if you correct for Data Stash, ARPU was generally stable both sequentially and year-over-year, which is a significant achievement if you compare our ARPU development to that of our competitors.

Let me also say a word on bad debt expense. As predicted, bad debt expenses and losses from the sale of receivables came in lower in the third quarter of 2015, and generally in line with Q1 of last year, even with rapidly ramping total customers. Relative to total revenues, bad debt expense and losses from the sale of receivables declined both sequentially and year-over-year. Also, as already said on the last earnings call, we were prudent with our credit policies during the first quarter of 2016 in order to limit exposure to higher sub prime receivables.

Let me now come to our 2016 guidance. In light of the strong customer growth we experienced in Q1, we are taking up our target for branded postpaid net additions to 3.2 million to 3.6 million, up from the original target of 2.4 million to 3.4 million. For adjusted EBITDA, our new target is $9.7 billion to $10.2 billion, up from the original of $9.1 billion to $9.7 billion. This increase is due to the spectrum gain of approximately $600 million. Our EBITDA target includes the aggregate impact from leasing and Data Stash of $700 million to $1 billion, which is unchanged. Finally, we target cash CapEx of $4.5 billion to $4.8 billion in 2016, which is unchanged from the prior guidance, as already mentioned.

Let me also say a word on our expectations for the second quarter of 2016. Please be aware that results in the first half of 2016 will be impacted by new revenue deferrals associated with Data Stash. Remember, Data Stash, we received the cash consideration upfront, but the recognition of that is deferred to future periods.

For the first quarter 2016, the actual impact amounted to $138 million. For the second quarter, the impact is expected to be approximately $70 million to $90 million. For the full-year, the impact is still expected to be in the range from $250 million to $350 million. Additionally, as in the first quarter, net income will also be impacted by higher depreciation due to the impact of leasing and higher interest expense due to the $4 billion fund raise in November, and the $1 billion fund raise just completed on April 1, at the beginning of this quarter.

When looking at the shaping of quarters for 2016, please refer to historical trends over the past two years. We are executing on a contracyclical game plan of loading growth in the beginning of the year, which results in increasingly ramping cash flow throughout the year.

I am also pleased to announce we've reached agreement with Deutsche Telekom and issued an 8-K this morning for a $1.35 billion add-on to our recent eight-year 6% unsecured notes priced at an effective yield of 5.14%. This is essentially a fully committed bridge that could be drawn at our option with terms and conditions pari passu with our existing unsecured notes. We are also in discussions with Deutsche Telekom for an additional $650 million bridge, which will end our current fundraising efforts for an amount totaling $9 billion.

In summary, we delivered very strong financial results in the first quarter, and expect continued strong growth in 2016.

Now, let's get on to your questions. You can ask questions via phone, text message or via Twitter. We will start with a question on the phone.

Operator, first question please?

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Simon Flannery, Morgan Stanley .

Simon Flannery (Analyst - Morgan Stanley):

Thank you very much. Good morning. Some very good results on the prepaid side. John, can you provide a little bit more color about, are we seen prepaid as a segment, really start to rebound and become more relevant for different customers?

Is this mostly share gain? Perhaps some insight into how sustainable this is for the rest of the year? Thank you.

John Legere (President & CEO):

Mike, why don't you start that one.

Mike Sievert (COO):

I think the premise to the question is that there's a segment phenomenon going here, and that's exactly what we're seeing. Two things are happening. One, we are seeing high-quality monthly prepaid of the kind that we offer with Metro PCS really growing. It's growing at the expense we think of postpaid offerings, like those at Sprint, and it's growing at the expense of lower quality pay-as-you-go prepaid. That's high-quality network led monthly prepaid segment is growing. That's the first phenomenon.

The second phenomenon, is within that segment, Metro PCS is kicking (expletive). We had a record quarter on Metro PCS, the best we've ever done, and it really shows that we've got the right combination of a great value proposition well-marketed and really taking advantage of leading with the T-Mobile network as a key differentiator in the prepaid segment. The team is really firing on all cylinders.

John Legere (President & CEO):

I appreciate the question, Simon. This is a number of things. One of them is record -- and I amplify that, results from Metro PCS. Metro PCS is showing us the value of a couple of things, which is we've expanded their business from the time that we came together into 40 additional markets, a total of 55 markets now.

We've grown in both the original markets as well as in the expanded markets. We have 7,500 dedicated doors with Metro PCS and we're adding 1,000 doors this year. And very strong solid ARPU on the prepaid side and very good churn on the prepaid side for prepaid business. We are thrilled at what's taking place on Metro.

I actually think our competitors have yet to figure out a way to successfully and simultaneously run a prepaid and a postpaid phone business. Sprint had one quarter a 1.5 years ago or so about prepaid and then all of a sudden, thought nobody cared and they dropped it like a hot potato and ran over to postpaid and lost quite a bit of business. AT&T has been doing some business with Cricket, but I don't know if anybody's keeping track, AT&T has not added a postpaid phone customer since Q3 of 2014.

11 quarters in a row of both businesses with the brands simultaneously performing very well. I think this is a very big deal and I think it even gave Verizon pause to try to make up some answer of hey, we do that with TracFone. Very excited about this. I met with the dealers of Metro last week in Dallas, and they are equally excited and highly motivated group.

Braxton Carter (CFO):

Something we ought not to forget, the Metro model has been historically contracyclical to general trends in the postpaid business. The first quarter is also the golden quarter for that type of model given the liquidity from tax refund standpoint in the market. But we do see a lot of continued momentum both in legacy markets and expansion markets with Metro PCS.

Simon Flannery (Analyst - Morgan Stanley):

Thanks a lot.

John Legere (President & CEO):

Simon, I think one of the -- I'll use this moment to talk about this. This is one of the little golden nuggets in this set of earnings. Remember that the ARPU at Metro PCS is $38, $39 each. This is a very steady, very good ARPU and I think as we start talking about customer adds, and then you go through the portfolio of T-Mobile's 2.2 million adds and you look at 877,000 postpaid phones, and we know those are the highest ARPU. And then, over 800,000 prepaid net, at a really strong and then you compare that to the other guys.

I think what we need people to start understanding, is that some of these adds, a lot of these adds, these connected cars, these are in cents, not dollars. Now I understand that Hum, which is that little device to make sure your kids drive out at night and get drunk somewhere is going -- it's going to be less than $10. What I'm most excited about is these numbers in the qualitative components of what the underlying financials are, are very very strong.

Simon Flannery (Analyst - Morgan Stanley):

Thank you.

Nils Paellmann (Investor Relations):

We'll take the next question, Operator.

Operator:

Amir Rozwadowski, Barclays Capital Inc.

Amir Rozwadowski (Analyst - Barclays Capital):

Thank you very much and good morning, folks. I wanted to touch upon the churn metrics and how you folks are thinking about that going forward? While they still remain low relative to where they had been in the past, we did see a slight uptick on a year-over-year basis. I was wondering if you could talk through that and then I have a quick follow-up question?

John Legere (President & CEO):

I'll start that and see if you guys want to add in. When you look at a set of results that are so perfect, you try to find something. The way I would describe this is sequentially, we were down 13 basis points and the year-over-year post-paid churn, it's basically flat, 1.33% to 1.3%, and it's basically flat year-over-year to our record performance.

You should color us very happy and enthusiastic about that level of postpaid churn being tied with our record results being down sequentially in a highly competitive time. Certainly, don't read into that that we don't think it can get better. The moral of the story is, all of what's in this set of metrics, we are very comfortable and happy and can perform extremely well. We would look at these as year-over-year flat with record performance and possibly an ability to go down from here putting aside normal seasonality trends.

Braxton Carter (CFO):

Amir, one thing to focus on is the 700 megahertz A-Block roll out, which we now own 258 million POPs. The benefit of having low-band spectrum in our portfolio, and this trend is really just starting, with the 194 million total POPs rolled out of low-band and a little over half of our customers having a band 12 capable handset. We are going to see a lot of future goodness develop from that 700 megahertz A-Block and the development of that ecosystem. That provides us with quite a bit of optimism for the future.

Amir Rozwadowski (Analyst - Barclays Capital):

That's a great transition to my follow-up question. I'm thinking about your net add performance for the quarter. Is there a way to delineate whether or not you folks are seeing benefits from the rollout of 700 megahertz to areas where perhaps you didn't have that strong a reach before? Or is that forthcoming and how we should think about the opportunity set further net add gains?

Mike Sievert (COO):

It is Mike, Amir. It's definitely started. What's interesting is, as you've seen the network stats, how rapidly we've rolled out extended range LTE, one of the things we've pointed out is that the distribution lags that. We have got a formula here that's get the network great and then follow it in with distribution and marketing.

Right now, if you look at all these results and how we're rolling up all of the growth in the industry, really we're playing with that full formula of a completed network footprint plus full distribution at our normal distribution densities in about 230 million of those national POPs. That means we've got one-third of the country left to go. Now, we've been growing.

Already this quarter, we've built dozens of stores. We plan to do about 400 stores on the postpaid side with the T-Mobile brand this year. About 1,000, as John said, with the Metro PCS side. We have a lot of expansion front of us. We see an opportunity by the middle of next year, to add 30 million or 40 million POPs to where we have that full, I'll call it, marketing footprint with the distribution in place, the network substantially complete and marketing on top to emphasize our differences.

John Legere (President & CEO):

I think obviously the piece that we will find ways to point out clearer is the actual churn benefit that we are getting because of this broader coverage and superior coverage. Remember, that this 700 that we've deployed, 8 of the 10 top cities in the US, and 28 of the top 30, this is an enhancement to where we've had pretty good coverage already, just significantly changing what you get with as we've called four times better coverage. It's better in building penetration. Better rural coverage around those areas as well.

Two things. One is churn benefit, which I think we can quantify and then of course as Mike said, we have tremendous incoming demand from where we now have really good coverage but call it within 10 square miles or so, there is no T-Mobile retail presence. And I think that's something that we're ramping up very quickly.

Amir Rozwadowski (Analyst - Barclays Capital):

Thank you very much for the additional color.

John Legere (President & CEO):

Do you guys want to take one on Twitter? Let's see. Let's try. Pull down. No, the other way please. Why don't we take these two from Kyle and Andrew. We know Kyle, he is our young future superstar journalist who is written into us. It's an interesting opportunity to talk about a couple things. Has T-Mobile's goal with recent Un-carrier moves such Binge On and Music Freedom then to eliminate the data package?

Obviously, the answer is no. We will use this to remind people that a tremendous part of what is happening in T-Mobile are because of these underlying Un-carrier moves and the transformation of the industry. When you go through periods that are somewhat promotional, which we certainly just finished a quarter that was like that. I think the competitors are starting to figure out, okay, so you put out your promo, you put out your price change, but it's not apples-to-apples anymore.

As an example, 225 million songs are streamed free now by customers at T-Mobile on Music Freedom. There are 100 different providers on Binge On and Music Freedom that are now providing free streaming of music and video. And Binge On has already allowed our customers to be streaming over 70% of their video is zero rated and two times the amount of video being watched.

I think we've also gone out of our way to explain that the utilization of our network providing these benefits to our customers has been a positive enhancement. This is in no way an attempt to move away from data package or data utilization. It's a highly effective, positive way for the financials of our shareholders, but also for our customers. I believe Binge On especially, has been a very differentiating offer and continues to be so. Let's go back to the phone for one more and then we'll loop back and get a little clearer here on the Twitter questions.

Operator:

Brett Feldman, Goldman Sachs .

Brett Feldman (Analyst - Goldman Sachs):

Thanks and I will ask a follow-up question on Binge On. Now that you had that capability available to your base for a while, have you noticed anything interesting about the behavior of customers who are heavy Binge On users? For example, is someone who's a heavy Binge On user less likely to churn and is there any evidence that Binge On is a key reason that customers are switching to T-Mobile?

John Legere (President & CEO):

Want to start, Mike?

Mike Sievert (COO):

The short answer, Brett, is yes and yes. We haven't broken it out, but what's interesting is if you think about an Un-carrier move, in order for what John said to be true, what he just said was that people on rated data plan at T-Mobile have literally doubled their consumption when it comes to hours of what they consumed on our network before Binge On. Think about that for a minute. In order for that to be true, literally millions and millions of people needed to take this Un-carrier move and substantially change their behavior in a way that allows them to get way more value out of their wireless relationship.

That means two things are going to happen. One, they're going to be happier with that wireless experience and stay longer, and we're seeing that. And secondly, they're going to tell people about it. If you're able to do something like this, you're going to tell people about it because it's massively differentiated. And you see two great quarter, Q4 and Q1, as examples of how Binge On's contributing to our results.

John Legere (President & CEO):

There's two things collectively gone on. Both bode very very well for the future of T-Mobile. One of the things that's interesting, not only have we already talked about expanding our retail footprint, but the Un-carrier moves, which are great ways to solve customer pain points, our studies suggests that the awareness level around the United States of potential customers of these various Un-carrier moves is in some cases well below 50%.

We've now been training our teams for that moment when we get customers that are coming in considering T-Mobile. This portfolio of Un-carrier moves is a great selling point to a very unaware at times audience. Those that do use it are clearly our most dedicated customers. A, because they feel like we are changing things for them and B, because they now see the depth of what the capabilities are.

The other interesting thing that's happened is when Binge On first came out, there was a lot of fear, uncertainty and doubt on a couple of fronts. One was, oh yes, but Google hates it and we can't use YouTube. Well, we solved that and that was a big enhancement. But then there was this crazy notion and this lack of belief that we understand and our network team understands that for ADP, for example, to watch Netflix videos, is a very perfect quality experience and we're not trying to trick anybody. What customers ultimately found out is not only the four ADP for Netflix is it a great experience and it's zero-rated, but it's 133% of what's being given to the other groups by AT&T and Verizon .

And I think that just caused a big thud on the floor as to what's going on. I won't even bother going back and trying to pick up the question of who knew what when, but I do hope at some point in time that direct questions get answered. But the people that don't really care are the customers now. If you're a Verizon customer and you realize for five years you've been watching Netflix at 360P and you've been paying significantly in data buckets, I think what you call that is a highly interested future T-Mobile customer.

Brett Feldman (Analyst - Goldman Sachs):

Thanks for the color.

John Legere (President & CEO):

Operator?

Operator:

Phil Cusick, JPMorgan .

Phil Cusick (Analyst - JPMorgan):

Two things. One, you tightened credits on this quarter or was it last year? What was the result on incoming customer credit quality and now that we're passed the Q1 tax window, do you expect to open that up again?

Braxton Carter (CFO):

Good morning and very good question. When you look at the disclosures we have in our fact book, adjusted for the EIP securitization, the mix of prime and subprime is unchanged. The credit policies that we put in place in the first quarter, particularly oriented towards what happens during the -- particularly in the month of February, which is the peak tax refund season, were highly successful. The changes that we put in place did not affect our flow one bit as you can see from these results and they are permanent changes going forward.

Phil Cusick (Analyst - JPMorgan):

Okay. So we shouldn't expect that to open back up. Second, can you talk about free cash flow for the year excluding spectrum and whatever spectrum interest expense comes through, how should we think about cash flow generation for the Company?

Braxton Carter (CFO):

Significantly ramping, Phil. When you look at the core EBITDA guidance sans any spectrum transactions, and adjusting for our very transparent disclosures on the impact of leasing and Data Stash. The cash generation of this business organically from operations is rapidly ramping. We just reiterated our cash CapEx guidance.

One of the benefits of what we did essentially having $4 billion worth of bridge with Deutsche Telekom is avoidance of any interest carry on that part of our fund raise. We executed $5 billion that went on the balance sheet at a very attractive rate. And what we've done with the bridge, locking in rates now and avoiding any future exposure is another very significant development. But it's very easy to do the math and see that organically, there is going to be a very substantial ramp in the true cash generation on a fully levered basis plus minus all changes in working capital for 2016.

Phil Cusick (Analyst - JPMorgan):

Okay. Just to follow-up there. Including the $650 million that you're talking about with DT and the $1.35 billion this morning, what is your total liquidity and what do you need to run the business?

Braxton Carter (CFO):

We ended the first quarter with about $6.5 billion. That included $5 billion that we had previously raised for purposes of spectrum acquisitions. We got a $4 billion bridge on top of it, so that takes it to $10.5 billion. In the first quarter, we did pay the first transaction we executed in the third quarter for 700 A-blocks. That's already out of that number. The minimum liquidity for the business is roughly $1.5 billion to $2 billion.

Phil Cusick (Analyst - JPMorgan):

Okay. Thanks, Braxton.

John Legere (President & CEO):

Let's go to a couple of Twitter and Facebook questions. David Freeman wrote in, what's the expected POPs to be covered by Band 12 by the end of 2016? Neville, why don't you talk about that and maybe even how many Band 12 handsets we've seen deployed, et cetera?

Neville Ray (CTO):

Thanks, John. Band 12 has been -- we've made incredible progress over the last 12 months,18 months. At the top of the call you heard we are at 194 million covered POPs to date, well ahead of the plan and schedule that we put in place originally on this. As we look at 2016 and into 2017, with almost 260 million POPs, licensed POPs now available for us to run at, obviously, we're going to run at everything.

We haven't finalized all of the details yet, but if you look at our track record on how quickly we are rolling out the 700 megahertz spectrum, I don't think you're going to see anything different in 2016. Hopefully, there is more opportunity in the secondary market. Obviously, we're in the auction, but there's still a 700 megahertz market out there and we'll look to add to our holdings if those opportunities arise.

Braxton mentioned the handset growth and it's a tremendous piece. It's about 55% now of LTE handset tab Band 12 capability and that's incredible progress in a very short period of time and that number continues to grow and drive north every week. Great portfolio of Band 12 handsets. Everything we sell now is effectively Band 12. And the network benefits that you heard Mike and John talk about earlier on, this is a very different network from T-Mobile compared to where we were three years ago. Low-band has made an incredible difference to the performance of the network and what's reaching our customers and we will continue that drive this year and next.

John Legere (President & CEO):

I'm going to take one more Twitter and then we'll go back to the long and growing list on the phone. Andrew Beal, we asked half of this question but I think we can do some work on. Can you talk about the growth in your marketing footprint and explain how that is driving increase in selling expenses. Mike, why don't you talk about that because I think it's for Braxton as well, the question to doing with an assumption that selling or SG&A is on.

Mike Sievert (COO):

We hit the first part. Obviously, we're expanding our footprint. But the other piece, keep in mind, and this is really interesting, the overall growth in our branded nets this quarter in Q1 from last quarter in Q1, was 54%. So when you look across postpaid and prepaid, obviously, the branded side of our business is growing incredibly quickly and that's great for us in the marketplace. It allows us sets a foundation for us. It also drives the SG&A expenses in the period.

John Legere (President & CEO):

Okay. Operator?

Operator:

Matt Niknam, Deutsche Bank.

Matt Niknam (Analyst - Deutsche Bank):

Thank you for taking the questions. Two, if I could. One, on leasing versus EIP? In the past, you talked about Q1 having a greater shipped back, the EIP-centric promotions. Any takeaways you can share regarding the customer response and how you're thinking about that mix looking forward? And secondly, on a EBITDA guidance. Excluding the spectrum gain in the quarter, it looks like you tightened the high-end of EBITDA guidance by about $100 million. Just wanted to make sure that was entirely tied to the better growth expectations for the year? Thanks.

John Legere (President & CEO):

Mike and then Braxton.

Mike Sievert (COO):

What was the first part?

John Legere (President & CEO):

Why don't you do the second.

Braxton Carter (CFO):

Matt, good question. We did narrow the range on our EBITDA guidance that is solely a function of the increase in postpaid production that we've guided to this quarter. Nothing else was behind that. As you can see, the low-end of the range is fully intact the way the guidance is built.

John Legere (President & CEO):

Mike, for those of you at 5:00 AM Seattle time, the question was on leasing and EIPs.

Mike Sievert (COO):

I got caught up on the second half. It's really pretty straight forward. We have two great approaches to bringing financing to the marketplace. One is IEP and one is leasing, which our first version of last year was jump on demand. Right now, we are much more focused as you can see in the marketplace on EIP.

You saw in our results from Q1 that leasing and a percent of total devices fell to about 14%, and that really is not a statement on our future. It's a statement on our presence. What we found is that of the products that we have in place right now, for one thing, our team is much better at selling our EIP solutions. We have great systems behind that. It's a faster transaction. It's an easier transaction. But that's not a statement of EIP versus leasing. That's a statement of the products we have in the marketplace right now.

We have a couple of great approaches. What I can tell you is that the guidance that we've given for the year, contemplates generally what we expect to do through the balance of the year. It's not to tell you a quarter by quarter view on where we will be emphasized though. And part of it is to protect some ability to have competitive surprises out there as we continue to evolve our offerings.

Matt Niknam (Analyst - Deutsche Bank):

So as it stands now though, I think it's fair to assume EIP remains the bulk of growth relative to leasing, just based on what's implied by lease revenues for the year?

Mike Sievert (COO):

When you look at the guidance that we've given and you do the math on the current leasing revenues, it implies that we will be continuing to do an awful lot of EIPs and you see our emphasis there right now. But

I can't make you any statement quarter on quarter about what the mix will be.

Matt Niknam (Analyst - Deutsche Bank):

No worries. Think you.

John Legere (President & CEO):

Operator. Next one.

Operator:

Mike McCormack, Jefferies.

Mike McCormack (Analyst - Jefferies LLC):

Braxton, maybe just a quick comment on looking at handset phone ARPU ex Data Stash impacts throughout the year and maybe just give us a sense on the puts and takes as you think about that. And then secondly, from a subscriber standpoint, obviously a great job on getting handset apps coming in. Did the unlimited discount plan have significant impact there or was that not as popular?

Braxton Carter (CFO):

Let me start with the first and I'll hand the second over to Mike. When we look at ARPU, adjusted for Data Stash, which remember, is cash consideration received upfront just deferred recognition. The first part of the year is disproportionately impacted. Last year we gave a gift, there was no gift this year. So you essentially had the whole base deferring up to the 20 gigabyte cap, which we anticipate will predominantly happen in the first two quarters of 2016. With that said, there will absolutely be a ramp in ARPUs over the next several quarters as we're getting past that disproportionate upfront impact.

When you look at everything sans, or excluding, the impact of Data Stash, what we saw in the first quarter was actually a 0.3% sequential increase in our postpaid ARPUs, which shows that there is underlying strength from data attach, from other things that we are doing in the marketplace and the construct of our promos. And that is even with a very aggressive promotion on environment oriented towards family plans. Remember, the vast majority of our flow is coming from AT&T and Verizon , and the percentage of those two incumbents bases on family plans is well over 80%.

So the family plan construct is very favorable for us in taking share and the MPV of those families and the CLV is much higher than a single line. So it puts a little drag on ARPU, but you can see the way we're executing everything else, we actually increased 0.3% sequentially. Our outlook for the year is general stability of ARPU ex Data Stash and that has been our position for the last several quarters and nothing has changed there.

Mike Sievert (COO):

Just to the other part of the question on unlimited, the promotion was a contributor. We had a great lineup of promotions throughout the first quarter. I would say the differentiation around ongoing network improvement and Binge On were the biggest contributors to Q1 performance, but so are our sporadic promotions that pulse into the marketplace.

In Q1, it was based on our unlimited offer where we had a four line offer out there with the fourth line free on unlimited. A couple comments. One, we set up a time that unlimited isn't really our focus. I will tell you why, because Binge On is our focus. That was a promotion that we had in place for a time. But overall, if you look at our value proposition, we're focused on letting people have unlimited video and unlimited music at much better price points than they can achieve with unlimited plans overall.

That said, we're really proud to be able to offer unlimited. We have got the network that has the capacity. We don't have any plans to change the fact that we offer unlimited. By the way, keep in mind that offering unlimited has become much more network efficient since the launch of Binge On because the vast majority of our unlimited customers keep their Binge On control activated for a number of reasons, including the speed and reliability of the rest of their data. That makes delivery of unlimited to those customers, much more network efficient for us than it's ever been before.

Mike McCormack (Analyst - Jefferies LLC):

Mike, there is a follow-up on the unlimited stuff. Did you see as you expected more people being brought up in ARPU into the plan as opposed to those pricing down?

Mike Sievert (COO):

Of course, but it was also a promoted plan. So, unlimited is our most expensive offer which helps to draw ARPU up. But on the other hand, for those that would've bought unlimited anyway, it was a promoted offer and it had an effect of bringing ARPU down. Net-net, I'm sure it was a small contributor.

Mike McCormack (Analyst - Jefferies LLC):

Great. Thank you, guys.

John Legere (President & CEO):

I'm going to go into Twitter here and I have to give the persistence award across all platforms and multiple questions to Bill Ho. Bill, you wore me down. I'm going to take a couple of your questions. One of them is kind of a softball to me, so I thank you. That's probably the one that got my attention, and then we'll go into your second question. First question that Bill had asked is as follow-up and postpaid customers, what are the main reasons for porting or specifically, value priced Binge On, et cetera?

I think, Bill, you're leading the witness with that answer. Why customers are coming or porting away from Verizon and AT&T to T-Mobile has as much to do with what they're not doing and how they've been treating them with the stated long-term three-year's intent T-Mobile to fix the industry on behalf of all wireless consumers. The list goes on and it still exists. Contracts, overages, fees, bundles, international data charges, not even to mention some of the positives that you've gone onto which are music streaming, video streaming with Binge On.

And then quietly, we have consistently now been for three of the last four quarters and rising, JDP's number one. So we have a differentiated customer service experience, a differentiated in-store experience, because we have got highly engaged people that believe in our brand and believe in our Company. And all of that together, has created an environment where I would say we have as many fans who are sitting inside AT&T and Verizon , thanking us for the changes that we're causing their carriers to make as we do with those that have come. I am very excited about how long this can take place.

Now, the next piece of your question, I'm going to ask Mike to comment. It's about T-Mobile At Work and about where you used the word enterprise base, which for us is much more focused on small and medium business. Any traction in the enterprise space, wins from competitors, expand to complex solutions, et cetera? You want to talk about At Work Mike?

Mike Sievert (COO):

Yes, it's been a little bit surprising on At Work. We said very clearly when we launched Un-carrier 9 about a year ago, that our focus was on small and medium business. We updated you once or twice since then that said our run rate with that group had doubled. Well now, it's significantly more than doubled, so progress continues with small and medium business.

The thing that we're surprised about though is the ongoing performance in our enterprise business. I think what's happening is the network results that we've been able to post and the rapid improvement in the network over the last year, has caused a major reassessment of our business by enterprise customers who maybe a couple of years ago just didn't put us in the considered set because enterprise's customers have a known set of needs around where their employees need to be able to travel.

There's two ways we're winning with enterprises. One is, we're managing to wedge in and take a share at a number -- at a large and increasing number of the Fortune 500 where we don't become the incumbent leader in that enterprise but we go and take some significant share. From where we're starting, that's really great. If we can help enterprises to reprice their AT&T and Verizon deal, we're very happy to do that and we consider it a service to the industry. And if they give us some share along the way, that's great.

The other thing is, we are actually getting some signature wins where we're taking all of the business from AT&T and Verizon and that's nice to see as well. Overall, the progress since we began our strategy about a year ago has been terrific and more to come.

John Legere (President & CEO):

Thank you, Bill. We look forward to your next 10 questions across all platforms. Next one on the phone please.

Operator:

Michael Rollins, Citi.

Michael Rollins (Analyst - Citigroup):

Thanks for taking the questions. Just a couple if I could. Just given some of the comments you made on spectrum, is there an update on your spectrum budget for 2016? And within that context, how is your thinking about the FirstNet RXP opportunity? Thanks.

Braxton Carter (CFO):

I'll take the first one. Good morning, Mike. We are in the quiet period on the option and really not in a position where we can discuss anything other than prior comments. We were very clear in our public disclosures leading up to this quiet period about what our total envelope was. I did comment in the prepared remarks section that we have raised a total of $9 billion, and then also discussed the minimum liquidity requirements of the Company. I will leave it at that.

Neville Ray (CTO):

I can pick up the second piece, Mike, on FirstNet. Obviously, we are very supportive of the objectives of the FirstNet team and what they're trying to get done for the good of public safety. It's a big goal. I think for us at this point in time, we've talked a lot about where we are with the low-band push and that's the primary focus for us at this point in time. Both in terms of rolling out and continuing this rapid rollout of 700 megahertz and in addition, back to the first part of your question, this focus on the auction.

Timing is not great for us in terms of that opportunity and maybe the complexity it could bring to our business at a point in time when we're driving so hard on low-band rollouts. At this point in time, nothing to really update. The RFP is closing somewhere inside this quarter and it's probably doubtful that we'll be a significant player in that.

Michael Rollins (Analyst - Citigroup):

Thanks very much.

John Legere (President & CEO):

Operator?

Operator:

Walter Piecyk, BTIG.

Walter Piecyk (Analyst - BTIG):

Yesterday, Verizon was talking about basically going after home broadband connections. I'm curious if you have any plans for this segment. It sounds like it would take a different type of customer premise equipment than just expecting the end user to have their smartphone or tablet or whatever. Do you have any plans to go after this segment over the next couple of years, either with or without 5J?

John Legere (President & CEO):

I'll lead into that Mike, and then you'll pick it up. Walt, following you around, I would strongly suggest that that crappy coverage you're getting on your Verizon and your Sprint handsets while you're doing those lame periscopes would suggest that you should worry less about your home broadband and more about getting some good T-Mobile connectivity.

Secondly, I think it's interesting to hear some of what Verizon is focused on today, consistent or inconsistent with a couple of months ago when Lowell McAdams was on TV describing in gory detail the impact on consumer wireless at next year's Super Bowl on a 5G implication. But I think that's been walked back to maybe some fixed wireless applications and allowing the rest of the world somewhere out in 2020. Let's probe into what they may be talking about on home broadband and Mike maybe you can talk about some.

Mike Sievert (COO):

I'm just glad that Verizon finally copped to that fact that a lot of that 5G bluster they've been putting into the marketplace is actually really about home broadband, because they've been running around saying that 5G is about to launch any second now and getting people fired up. When really what they're talking about are fixed station modems at fixed locations and it's going to be a little bit more time before they're able to get it to mobile as the industry matures. The fact that they are starting to clarify some of their earlier rhetoric is nice to see.

This is an opportunity, but let's not discount the opportunity that it already represents for our customers. Yes, there is an opportunity down the road, particularly with 5G as we get some increasing breakthroughs in bits per hertz that the wireless technology can deliver. There is some potential for wire line displacement and we're interested in that as much as anybody.

Remember, right now, we probably have the largest proportion of customers who rely on their wireless carrier as their only Internet connection. As their only one and it's growing. At Metro PCS, it's significant double-digits and at T-Mobile, slightly less. But still, we probably have the highest proportion customer base that is now using their mobile connection as their only mobile connection and an even larger number using it as their primary connection to the Internet. So strategically, mobile is becoming more important in people's digital lives and that positions a company like us who's really great at delivering high-capacity mobile solutions very well.

Walter Piecyk (Analyst - BTIG):

In the 5G though, when they were asked about that, you're right, I think they went more to the fixed, but they were also saying that look, we are more aggressive than everyone else and everyone's going to follow us. And frankly, on the Crown Castle call, they were showing some fiber links in some cities where there was multiple carriers on their fiber. So it sounds like the small sales stuff is something that you guys are also embracing now. And Verizon's point is if that you're ultimately going to do a lot more aggressively like they are in the future once you start hitting your capacity limits.

Neville Ray (CTO):

Let me pick up, Walt. I think on the fixed piece, it's interesting. I think the industry is trying to understand what's going to be the best application in the 5G space with this high-banded spectrum. You see the US plan. It's got stuff up to 70 gigahertz and we all know the physics and engineering challenges in getting that type of spectrum to propagate effectively. Now that said, there's a lot of advancements coming through LTE, which will be bolted into and built on in 5G that has the or have the potential to increase the propagation and capability of high-banded spectrum.

On the fixed side, the one thing that Verizon and I think others are talking about, I think in the first part of your question you talked about some form of customer premise equipment, which is very different than something sat inside your house today. It's some form of structure or installation on the rooftop of your house. And that may be what's required to secure the home broadband experience with the high-banded spectrum.

There's a lot of folks looking at this trying to understand what the cost would be, the deployment challenges. There's a whole host of things to work through here. Verizon's looking at that. I think we're all looking at that. We're running our own 5G trials. We've got our lab work underway. We'll do our field trials this year. There's nothing their really doing which is way out in front of anybody else.

I think they backed away from some of their early statements. They're talking now about fixed wireless in the 5G space in 2018, so that's moved back a year or 18 months from some of the early statements they made not even a couple of quarters ago. I think they're starting to understand as they get into this the complexity and challenges involved.

To your second question, in terms of what happens with small cells, obviously, we are busy on small cells. We can come back to 1,001 other things we're doing to continue to deliver the fastest network in the US and the great capacity experience. And that workhorse for this industry is LTE and LTE advanced, really over the next 5 years to 10 years because it's the macro layer of LTE that's going to deliver the great broadband experience.

Now, we are going to be supplementing capacity as will many others in hot spot environments, be that an LTE and/or in with 5G capabilities when that comes to bear. That's the best place for 5G to play. It's going to be in hot spot locations where the propagation and physics of high-banded spectrum are less of a concern. Us particularly, that's our primary interest. You look at the large volumes of spectrum, how do you apply that best in a mobile environment in areas of capacity concern that will come at us in the 2020, 2021 type timeframe?

We're there. Obviously, we're pushing hard now on small cell capabilities. We're building our fiber out, not building our own fiber, but leveraging fiber that's there from others. And you'll see us start to densify this network. What is the most dense network in the US today, coming from T-Mobile. You'll see us continue those efforts and stay ahead of the competition. I always talk about the best proxy for the capacity offered in the US today is the fastest network. Here we are nine quarters in a row approaching 2.5 years with the fastest network in the US.

If I'm Verizon , one, I'm pretty frustrated about that. Two, I'm looking over my shoulder because T-Mobile may match my breadth if not exceed it with the largest network in the US before too long. So what do I do? I change the nature of the game. I try and change it anyway and change the discussion to something which is as loose and amorphous as 5G is today, in the hope that that enables me to maintain some form of view over superior network experience to come. Big game, but the next two years to three years, you will see us push and be the fastest growing, the fastest network and the most advanced network with what we're doing on LTE.

Braxton Carter (CFO):

Walt, what is really interesting is Verizon spent billions of dollars on their brand, on saying that they are the leaders in network. But the facts of the matter don't support that. Neville, why don't you talk a little bit about VoLTE.

Neville Ray (CTO):

If we look at capacity rate and folks ask this question about where are we heading with capacity growth on our network. There's a number of things that we're working through. Obviously, the deployment of 700 is great. We have AWS3 spectrum, which will get to customers in the early part of 2017.

Probably, the biggest thing to think about is, I'll do rough math for you. Half our network, just over half our network today is LTE in terms of the spectrum that we own. So, half our spectrum is on the LTE technology. And that covers almost 90% of our data in today and this is the really interesting stat. 53% of our call volumes are on LTE with voice over LTE. When you look at the other half of the spectrum and what's it doing, it's not doing that much.

Our biggest opportunity and what we're working through very hard this year and will continue next, is how we reform and bring the benefits of the other half of our spectrum towards LTE and all the inherent multiplying efficiencies that LTE brings as contrasted to legacy networks. When I look at our competitive set, some of them without even one VoLTE capable handset in the marketplace today, struggling to drive VoLTE at the pace we have. Nobody coming anywhere close to the level of VoLTE calls. You have to look hard at their spectrum positions and say, how do they make it through the next two years to three years? What are they going to go do? Because 5G is not going to solve anything for anybody in terms of capacity on these networks for some time to come.

So LTE is the workhorse and I think we've been very loud and proud about having an all LTE network, for stability, first to RCS, first to EBS now. We have the leading LTE network in the US. There is no doubt, hands-down, we are pushing the LTE technology faster and harder than anybody else. We will be the first to deliver an all LTE network product across the US marketplace.

John Legere (President & CEO):

So, thank you for giving us a few seconds to vent about Verizon . I would like to preliminarily announce that it is highly likely over the next two quarters, that Verizon will take over the dumber spot of dumb and dumber from AT&T . We still have a soft spot for AT&T because they are by far the biggest contributor of postpaid ports into our Company. By the way, 80% of the postpaid port ins coming from AT&T and Verizon . So if you ever wonder why we focus so much on them.

And the pride factor for Neville and for the employees of T-Mobile, is this 5G shenanigans is nothing other than a scream for help to try to capture a brand to have something to say and your better matters campaign when T-Mobile now has 308 million POPs, virtually the same coverage, 194 million POPs of 700 deployed. T-Mobile is showing up for the low-band options in a way that could set us up for the future. In effect, you may have even seen it, Walt, because I know you're a big follower of rap. I even wrote a rap song for Verizon because their earnings were so easy that I hope the millennials could follow this. And it really is our revenue declined, we lost postpaid phones, we walked gone back on 5G and we still hope to get some millennials. That, in effect is all you need to know about Verizon's earnings and what they're doing on 5G. Operator, next one.

Operator:

John Hodulik, UBS.

John Hodulik (Analyst - UBS):

Maybe another one for Neville. Given the users you're seeing from Binge On and the unlimited offering and the use of mobile for fixed, are there any data usage stats that you could share with us on a per device basis and maybe talk about some of the growth you're seeing in traffic overall on your network? Then, a question back on prepaid. The prepaid churn number really stood out and I take it that was likely driven by the improvements in the network. Is this sub 4% level, is it more seasonal or is it more secular and do you think you can keep it below 4% going forward?

Neville Ray (CTO):

John, let me take the first piece. The way we look at the network loading, it's effectively doubling year-on-year. That's been our historical run rate for the last two years to three years. I see nothing that would say it will be any different in 2016 and into 2017. Mike actually talked about the offset with Binge One and the efficiencies it brings back into the network that's north of 10% now with a large number of customers congesting video on 4ADP compared to 1080p or 720p. So those things actually help.

I touched on some of these. Obviously, we're working very hard to build a more efficient network product and that's everything from deploying the new spectrum assets that we have in the house, redeploying the old spectrum assets that we've had in 1900 PCS for some time, the VoLTE push, MIMO is coming this year for us, so this is another maybe a torn competitively for the other folks out there. We're predominantly 2X4 today on MIMO. We'll be 4X4 this year. I love to see where the competitive set will be on that.

Three-way carrier aggregation is coming, allowing us to force and push our speeds up. It's a three-way carrier reg which we'll have live in some areas in some markets certainly midyear. That's a 300 mps type peek speed. We're going to continue pushing every which way on capacity. We're also pushing on unlicensed. So there's a couple of Twitter questions floating around on what's happening with LTEU and LAA. I'll tell you there, we are frustrated and we're not seeing the progress that we would like to see. We still have an ambition to push solutions into the marketplace inside 2016, but based on where we are from our regulatory perspective at this point in time, the light is dimming there a little.

But that said, we are making good progress. We have an SDA under review with the FCC, which would allow us to advance testing. Pieces like that, us leveraging unlicensed spectrum, when you think about it in 2017 and 2018, there's a lot of different options for us to expand not just the reach, but the capacity and capability of the network. A lot of growth around us, but that's the game. And the fascinating piece for me is if our competition is going to make a big bet on 5G, then let's watch their networks implode in 2017 and 2018 and 2019, before there's any cavalry coming with 5G and capacity and benefit from that the 2020, 2021 timeframe. It's game on. The next two years to three years is critical and LTE advance is going to be the workhorse and as I said early on, we will lead.

John Hodulik (Analyst - UBS):

What about monthly usage for smart phone? Can you give us that and maybe how quickly that's grown?

Neville Ray (CTO):

It will be on par with what I've said on a year-on-year basis. You can factor into those numbers, John. We don't normally disclose a monthly number.

Braxton Carter (CFO):

John, on prepaid churn. Thanks for the comment. We're delighted with where things are. We don't guide on churn specifically. But there are some tail winds to our business that are generated by a couple of things here. Number one, the fact that Metro PCS continues to grow as a proportion of our total prepaid subs. Metro, traditionally, has a much lower churn rate than other prepaid brands, including our T-Mobile brand. And that's because its business model is different.

At Metro, it's predominated by exclusive distribution which is relationship based and we are able to more tightly manage those relationships with customers. It has much higher device attach. And device is really important for our longitudinal relationship with a customer and we do some amount of device subsidies there. And of course, Metro, as opposed to some of the competitors out there, is attached to the T-Mobile network, which has been rapidly expanding and improving, as Neville said. All those things generate lower churn than a typical prepaid business has. And as Metro grows as a percentage of our total base, we see some potential for improvement there. And you saw it in the results this quarter as Metro predominated an all-time record, 800 plus thousand net adds in the quarter.

John Legere (President & CEO):

I want go to Twitter. A question came in. I think Walt Piecyk moved over to this forum since we got him on his call. Can you provide an update on porting ratios by carrier? This is another area that we're very pleased and comfortable with and very consistent on. As we said, overall porting against the industry has been positive for 12 quarters. It's been over nine quarters where each one has been positive.

The overall postpaid porting ratio in Q1 was 1.5, So 1.5 times, which is something we are very comfortable with. That's down from 1.67 last quarter. The way it breaks down by carrier is AT&T was 1.75. Last quarter, it was 1.92. Verizon was 1.34. Last quarter, it was 1.44. And Sprint was 1.35 and last quarter, it was 1.56.

Two comments. One is, that we don't want to start switching the data that we look at. We are looking -- as you may have noticed, our way to compete with Sprint is via Metro PCS. We are very much targeting Sprint users with Metro PCS offers. When you look at the porting between Sprint and Metro PCS and T-Mobile, that's in the 1.6 to 1.7 range over the last quarter. I think that's a strong way for us to look at it and we will continue to.

Second thing is, in the short part that we've had in Q2, as we said very important trends we're looking at. Is AT&T has gone back up last week towards 1.8 from 1.75 and Verizon has gone back up to its 1.5. So, as I said, in the long-term, these are all porting rates that we are -- if everybody's happy with this, we're really happy we can just keep going on this way and we'll be twice as big as them in a specific period of time. Let's go to the phone for another question.

Operator:

Jonathan Chaplin, New Street Research.

Jonathan Chaplin (Analyst - New Street Research):

One quick one for Braxton, and then one for Neville. Braxton, just to add some more specificity around some of the comments you've made on free cash flow. I think given the ramp in EBITDA you're looking at flat CapEx and your prior comments on the working capital drag being down. It looked like free cash flow $1.5 billion to $2 billion should be easily achievable. I'm just wondering if there's anything that would have changed that view in the quarter?

If that's the case, it looks like you've got more resources than you need going in to the auction just from cash on hand and free cash flow that you generate. Would the extra $1.35 billion that you're raising from DT just be putting in place an incremental cautious cushion or are there other uses of free cash flow that we're not thinking about?

And for Neville, I realize you guys are still making progress on using LTE and unlicensed spectrum, but it looks like that's been pushed back by at least 18 months in terms of being something that could come to market. Has that changed your network plans at all? When do you think you will be able to get all of your spectrum moved over to LTE? Thanks.

Braxton Carter (CFO):

By the way, great title on your piece this morning.

Jonathan Chaplin (Analyst - New Street Research):

Thanks, Braxton. You guys deserve it.

Braxton Carter (CFO):

Ghetto superstar. That's pretty impressive. Love it. To answer your questions, you are directionally correct on all of the comments that you made. You really go through the piece parts. Your views on cash flow generation are spot on. There are no other uses of cash other than for the spectrum. We're generating significant cash flow in the business. The only reason that we've raised any additional funds to which I commented is a total of $9 billion, $5 billion on balance sheet for committed bridges from DT is for spectrum opportunities that are in the marketplace. There have been no changes in the quarter that would change our view at all as to total cash generation for the business.

Neville Ray (CTO):

Let me pickup Jonathan, on your two questions in there for me. On leveraging LTEU, LAA and the 18 months statement, we are not buying into an 18-month delay on that. I think I referenced this just in the prior dialogue. We are still pushing very hard. We've made progress with the Wi-Fi alliance and all of its constituent members on the test spec. As I've said, we've applied for an SDA, which I believe will be favorably reviewed and approved by the FCC shortly. And testing will move through the next two months to three months at a fairly quick pace.

We actually have commercial small cell product ready to roll that's LTEU capable. And the headsets being the long pole and the tent, we're still pushing with our OEMs for 16 capability. That piece may slide into early 2017, but that's the timeframe for us at this point in time. It's a Q4, Q1 2017 story and we're going to keep pushing very hard. A lot of consumer benefits in there.

That said, have we rolled this in and included this as a key element of our capacity growth? And the answer is no, not yet. I think all of the measures that I talked through earlier on, that's our plan A. We want to clearly move into leveraging LTEU, ton of consumer benefits, speed and capacity on so many dimensions there. And that will become something more formative really in the 2017 and 2018 timeframe.

Finally, all LTE story, what you'll see us do this year, is our DSM network, it carries very little traffic today. By the end of the year, that will be down to a very thin skinny GSM layer, a small number of channels to support nomadic and nonmobile GSM products and services, which there's a demand for. And we'll leave that be for some period of time. We are not retiring GSM. We don't need to go there. We figured out how to put a thin layer of GSM in and amongst our other technology assets.

And the main push is how fast can we continue to drive VoLTE into our base and retire UMTS and HSPA voice services? That won't complete in 2017. There will probably be a tale in 2018, but we're driving that as fast as we can. And with 53% of all of our core volumes on VoLTE today, that number a year ago was about 9%. So we're moving at a tremendous pace of VoLTE performances I believe are second to none globally in terms of adoption and the performance of the VoLTE layer. And so, our ability to move to an all LTE product is way out in front of any of our competitors at this point in time and I'm hopeful we'll come in long before 2020.

Jonathan Chaplin (Analyst - New Street Research):

Neville to wrap up some specificity around that quickly. On GSM, is the very thin layer a 5X5 or even less than that? And what would you need at the end of this year for UMTS voice in terms of spectrum allocation?

Neville Ray (CTO):

It is definitely less than 5X5. That's on purpose. I'm talking of maybe half a dozen channels of GSM.

Mike Sievert (COO):

For machine to machine purposes.

Neville Ray (CTO):

From machine to machine nomadic services, really non-mobility GSM. And there's a lot of customers that want that. It's more beneficial and cost effective to actually run that service for a period of time until we move into thinner LTE products, the IoT space, et cetera, don't have to wait for 5G for those things to come through. The thin GSM will be there for a period of time. On UMTS, we have -- you can run the math on our spectrum assets today and it varies by market. But, I'd love to get down to a 5X5 carrier on UMTS in the 2017 timeframe. 2017 and probably some markets a little more than that in 2018. But that's the goal and objective in the front of the team.

Jonathan Chaplin (Analyst - New Street Research):

Thanks, guys.

Mike Sievert (COO):

Jonathan, your question brings up an opportunity to raise an interesting point to amplify something that Braxton said, which is -- and we've been foreshadowing this for a while. We've reached a point in the last quarter, where device financing wasn't really a material cash -- didn't really have a material working capital impact on our cash. That's a big milestone we've been talking about for a long time. It's a good guy hidden in the numbers. In our fact book, we tell investors how to make the calculations because we have both EIP and leasing now. But in the quarter, overall net-net handset financing consumed about $104 million, which is a great place for us to be now as that overall working capital account across leasing and across EIP, even though geography is very different, it's not materially growing in the last quarter.

John Legere (President & CEO):

Okay. Operator?

Operator:

Craig Moffett from MoffettNathanson.

Craig Moffett (Analyst - MoffettNathanson LLC):

I will return to the free flow question one last time, Braxton. And given your comments about the ramp that you expected free cash flow, as do we, the obvious question is how do you think about your priorities for capital allocation over the next couple of years with respect to delevering? And if it turns out that Deutsche Telekom isn't interested in reducing their stake, then how do you think about share repurchases in the open market?

Braxton Carter (CFO):

Let me make one comment, Craig. We did file an update to our shelf registration statement yesterday. And those were purely administrative. As part of the original shareholder's agreement, we had a requirement to register DT shares in debt and we are approaching the three-year mark on that initial registration. So it's purely an administrative item.

Obviously, the best use of cash is to invest in the operations. But now that we've reached a significant inflection point of rapidly growing cash with the only potential use for that cash, excess cash, opportunistic spectrum transactions. It gets really exciting. In the not short-term, but the midterm, given what we're seeing with the business, it is a potential that we can start returning cash to our shareholders, which really changes the whole makeup of our Company.

But that's not to be expected in the short-term. We are taking our leverage up. We'll have to see what happens with the auction. We will organically delever rapidly as we've continued to delever over the last couple of years. The possibility of shareholder returns is viable when you look at in the medium-term. Very good question.

Craig Moffett (Analyst - MoffettNathanson LLC):

Thanks, Braxton.

John Legere (President & CEO):

We're going to take one last question from the phone and I am warning you, depending upon the length of this, I've got to leave to get down to the exchange to talk to CNBC. Operator, go to the next one, and if Braxton gives you the thank you and you don't hear my voice, it all depends upon the volume of the answer to this one.

Operator:

Rick Prentiss, Raymond James.

Rick Prentiss (Analyst - Raymond James & Associates, Inc.):

Thanks for slipping me in there. One quick one and then one broader one. The quick one is, taking the low-band spectrum up to 258 million POPs rapidly, have you already closed on that spectrum and is that baked into the $260 million to $270 million marketed stores by mid-2017?

John Legere (President & CEO):

Yes. We own that spectrum and we're planning to rapidly build against that. Neville can give you a little bit on the timelines. I think he addressed that a little while ago.

Braxton Carter (CFO):

The transactions that were entered into the first quarter of this year, have not closed. We have executed transactions. We have to go through the FCC approval, so we have not paid and closed on those. We did close the fourth quarter transaction and pay for that in the first quarter.

John Legere (President & CEO):

Let's continue to point out that the footprint that we cover now is 308 million POPs. We have got amplified coverage in the 258 million POPs and growing. So from a standpoint of retail presence, it's driven by the former. Neville, why don't you continue.

Neville Ray (CTO):

We are awaiting on approval on some of those licenses, Rick, but that doesn't prevent us from doing the work we need to do ahead of time from a site perspective and there's de minimus risk on approval on those deals.

The other piece we haven't talked to today is where will we end up the year in terms of covered box? I'm laying down the gauntlet with my team. We're not going to rest until we have a network as big as Verizon's, if not bigger. I'd like to get as close to that number is I can by the end of this year, which means we'll be north of 310 million. That's going to be primarily driven by what we can achieve on additional 700 megahertz roll out.

Rick Prentiss (Analyst - Raymond James & Associates, Inc.):

The broader question is, back to the fixed wireless broadband comments earlier, Google fiber came out and was talking about interest in going beyond fiber to a fixed wireless aspect. Can you update us on where you are with technology companies and supporting people that want to get in and further shakeup the industry you guys have done a good job shaking up?

Mike Sievert (COO):

Tell me more about what you mean by the question, Rick?

Rick Prentiss (Analyst - Raymond James & Associates, Inc.):

Google fiber came out in an interview about 1.5 weeks ago, talking about how they really want to push beyond where fiber is economic and go into areas where possibly fixed wireless broadband would be more important. You guys also have some other relationships with Google . I'm just trying to understand -- they're obviously not coming to the broadcast auction, but have you had any update for us inside of your dealings with nontraditional companies in telecom?

Mike Sievert (COO):

Got it. Not a lot that we can get into other than the fact that a lot of us share the same goals. One of the things we've said before is that content and consumption is rapidly transferring to the Internet and the Internet itself is rapidly transferring to mobile. That positions us in a pretty good spot. As you know and as we've talked about, we have deep partnerships with some of these companies. We're working with them collaboratively.

Google is an interesting company. They really want to see great broadband Internet reach every person. Obviously, wireless is a really important tool on how to do that. They've made investments in fiber because they want to see great unfettered access in urban and suburban communities, but there's also an opportunity for wireless to reach people.

As I said earlier, we have the biggest base of customers in a proportion who rely solely or mostly on wireless for their connection in the first place. That positions us as a Company and as a brand really well as wireless becomes a more and more important part of the overall Internet story for typical consumers. Think about your own behavior. We all spend way more time on our wireless device accessing the Internet than any of us would have guessed a couple of years ago. That opens up lots of friendship opportunities for us. I don't have any announcements for you today about those partnerships, but the premise of your question is spot on.

Rick Prentiss (Analyst - Raymond James & Associates, Inc.):

Thanks a lot. That helps a lot with the periscopes too, I guess.

Mike Sievert (COO):

Right on.

Braxton Carter (CFO):

We want to thank everyone today for tuning in and definitely looking forward to speaking to you again in the second quarter earnings call. Have a great day. Thanks for your interest.

Operator:

Thank you, ladies and gentlemen.