

T-Mobile US (TMUS) Q3 2024 Earnings Call Transcript

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TMUS earnings call for the period ending September 30, 2024.

T-Mobile US (TMUS 5.14%)

Q3 2024 Earnings Call

Oct 23, 2024, 4:30 p.m. ET

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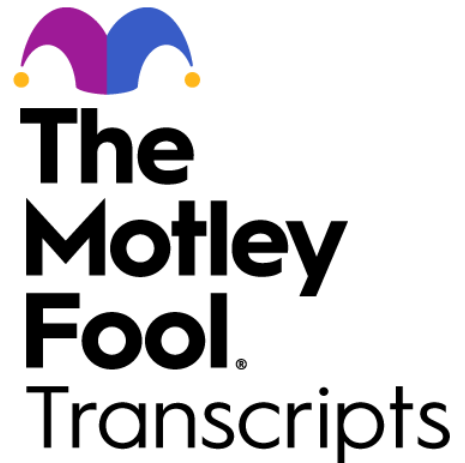


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Prepared Remarks:

Operator

Good afternoon. All participants will be in a listen-only mode. [Operator instructions] After today's presentation, there will be an opportunity to ask questions. [Operator instructions] I would now like to turn the conference over to Cathy Yao, for T-Mobile US.

Please go ahead.

Cathy Yao -- *Senior Vice President, Investor Relations*

Good afternoon. Welcome to T-Mobile's third quarter 2024 earnings call. Joining me on our call today are Mike Sievert, our president and CEO; and Peter Osvaldik, our CFO; as well as other members of the senior leadership team. During this call, we will make forward-looking statements, which involve risks and uncertainties that may cause actual results to differ materially from our forward-looking statements.

We provide a comprehensive list of risk factors in our SEC filings, which I encourage you to review. Our earnings release, investor fact book and other documents related to our results, as well as reconciliations between GAAP and non-GAAP results discussed on this call can be found in the Quarterly Results section of the investor relations website. With that, let me now turn it over to Mike.

Mike Sievert -- *President and Chief Executive Officer*

OK. Thanks, Cathy. Hi everybody. Welcome to the Q3 call.

We're coming to you from Bellevue today, and I'm joined by several members of our senior leadership team to talk about another outstanding quarter for T-Mobile. Now given our recent Capital Markets Day, Peter and I are going to keep our remarks pretty light so that we can get right to your questions. And before I get into our quarter, I do want to take a moment to recognize our team for their hard work around the clock to help our customers, fellow employees and communities to get back on their feet in the wake of Hurricanes Helene and Milton. It was devastating to have back-to-back storms of this scale form in such rapid succession, but I am so proud of how our team showed up from readiness to recovery their tireless efforts and use of innovative technologies made a huge difference in affected communities.

OK. Turning to the quarter. In short, it was a really strong one. In fact, Q3 is an example of the consistent execution we talked about a few weeks ago as a core enabler of our bold multiyear plan.

As you know, achieving that plan is predicated on delivering strong results reliably and repeatedly to keep pace with our ambition, and we did just that in Q3, empowering us to raise our 2024 guidance yet again. I'll start with our mobile business. We delivered the best Q3 postpaid phone net adds in a decade, fueled by record low Q3 postpaid phone churn and continued year-over-year growth in gross adds. We also continued to lead the industry in share of switchers and we grew share of households in both top 100 and smaller markets and rural areas.

Our powerful combination of our best network, best value and best customer experience continues to be a winning formula. We believe we have lots of room to run in our underpenetrated areas and segments, including among those who shop primarily on network attributes all across this country. Now you heard us lay down some pretty audacious digitalization goals at our Capital Markets Day event, and we're making steady progress. I'm proud to share that our total digital mix of iPhone launch sales in Q3 is up 40% just year over year.

And that for the first time, the majority of T-Mobile-branded iPhone preorders this year were digital. This highlights the early progress we've already begun to make in further simplifying and digitalizing and transforming the customer buying experience. And it validates the appetite our customers have for buying online when they are given the option for a more seamless process. Our customer momentum also continues in broadband, where we delivered industry-leading net adds once again and reached a major milestone of 6 million customers in just three years.

We're now halfway to our long-term target of 12 million customers by 2028. Our performance is fueled by our leading 5G network which was recently awarded once again as having the best 5G availability in the world by Opensignal. And our industry-leading technology will continue to further differentiate us as more and more new handsets come into the marketplace that can take advantage of our new technologies like voice over new radio, our incredible four-way carrier aggregation technology and so

many other things. Across the board, our team is doing awesome work to further extend our 5G network leadership for the benefit of customers.

And they're noticing the superior speed, capacity, and consistency relative to our competition. OK. Moving on to our financials. In Q3, we once again demonstrated our ability to deliver profitable customer growth, which we translated to industry-leading service revenue growth, including year-over-year postpaid service revenue growth, about 2x that of peers, driven by our highest ARPA growth in seven years as we continue to deepen customer relationships.

Our core adjusted EBITDA growth of 9% led the industry by a wide margin. That, combined with our unparalleled capital efficiency led once again to industry-leading free cash flow conversion. I said I'd keep it brief. So, let me sum it up.

Our formula for generating outsized value creation from focusing on smart and profitable growth continues to work really well. We have lots of runway ahead of us to continue to deliver profitable industry-leading growth as we drive forward on the ambitious plan we shared with you last month. OK. Peter, over to you to provide an update on our guidance, please.

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

All right. Thanks, Mike, and thanks, everybody, for joining us. As Mike highlighted, we delivered yet another fantastic quarter and are raising our guidance yet again. So, let me provide a quick update on our expectations for 2024.

Starting with customers, we are once again raising total postpaid customer net additions and now expect between 5.6 million and 5.8 million, up 150,000 at the midpoint relative to our prior guide. We now expect the postpaid phone customer net additions component of that total to be approximately 3 million for the full year. We expect our full year postpaid ARPA to be up around 3% year over year with industry-leading service revenue growth continuing to accelerate at a higher rate in 2024 than

we delivered in 2023. We now expect core adjusted EBITDA to be between \$31.6 billion and \$31.8 billion for the full year, up \$50 million at the midpoint.

Turning to cash capex. We now expect to be between \$8.8 billion and \$9 billion, unchanged at the midpoint. Our longer-term expectations continue to be in the \$9 billion to \$10 billion range annually as we outlined for you at our Capital Markets Day a few weeks ago. And finally, we now expect adjusted free cash flow, which includes payments for merger-related costs to be in the range of \$16.7 billion to \$17 billion, up \$50 million at the midpoint driven by both margin expansion and capital efficiency, resulting in industry-leading service revenue to free cash flow conversion.

In closing, when we spoke with you all a few weeks ago at Capital Markets Day, we outlined an ambitious plan of evolving from Challenger to Champion, one that requires consistently strong execution. Our Q3 results are another proof point on that journey with our unique combination of the best value, best network and best experiences, continuing to resonate with customers. And with that, I will now turn the call back to Cathy to begin the Q&A. Cathy?

Cathy Yao -- *Senior Vice President, Investor Relations*

OK. Let's get to your questions. [Operator instructions] We will start with a question on the phone. Operator, first question, please.

Questions & Answers:

Operator

Our first question comes from Simon Flannery from Morgan Stanley. Please go ahead with your question.

Simon Flannery -- *Analyst*

Great, thank you very much. Good evening. I wonder, Mike, if you could just talk to the buyback or Peter, the pacing of that. It sounds like you were very active in the last few weeks, but less so in Q3.

I remember last quarter, you've been active in June. Was that the grid was that Capital Markets Day? What's the thought about this and your -- how you think about the rest of this because obviously, it's been sort of stop start for a little while here. And then, Peter, maybe just help us on wholesale. You've messaged that there would be impact there from ongoing secular factors from ACP, from Mint Mobile, just help us level set as we see this down to the sort of \$700 million a quarter level.

Is there still some more to go there? How should we think about that going forward?
Thank you.

Mike Sievert -- *President and Chief Executive Officer*

Thanks, Simon. First of all, I'll hand it to Peter for both of those questions. But first of all, I just want to say congratulations to you and on your retirement, and thank you for -- first of all, for keeping us all honest, but I also know that investors have hung every word for many years, and you've served them so well. So, we're all going to miss you.

And I thought maybe your last question would be a softball, but instead come out, Peter, what happened with those buybacks. You don't ever disappoint there, Simon.

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

Yeah. Thank you so much, Simon. What happened both on the Q2 call, we anticipate it to be back in the marketplace. And we saw a similar dynamic happen after our Q2 call as we saw before Q2.

And that was our trading plan really didn't anticipate the faster than expected or earlier than expected run up in the share price. And what that meant for us is really it gave us

an opportunity after that happened a second time to step back and rethink strategically how we want to approach the buybacks, and we did that. And now you see something that's less informed by quick movements toward where we think it's going and more of a consistent execution. Still thoughtful of many factors.

Of course, I can't get into all of those, but it's a little bit of a change in strategy, and that's what you saw happen after that strategic change. Since that point, we've been in the market place consistently. So, that's the buyback story. And on wholesale, much like I said, in 2025, what we expect is the trough of wholesale and other service revenue.

And underpinning that, though, there's actually growth in wholesale and our partnerships if you consider, as you mentioned, both the ACP decline, which we now expect to be toward the higher end of that \$350 million to \$450 million range that we gave previously. And of course, the long-planned transition of Tracfone in a way to Verizon as they complete that merger integration. So, the underlying dynamics are great when you take out the ACP and the Tracfone, and that's what we expect as we hit that trough to continue to fuel growth past 2025.

Simon Flannery -- *Analyst*

Great. Thanks a lot.

Mike Sievert -- *President and Chief Executive Officer*

You bet.

Cathy Yao -- *Senior Vice President, Investor Relations*

Operator, next question, please.

Operator

Our next question comes from John Hodulik from UBS. Please go ahead with your question.

John Hodulik -- *Analyst*

Hey, thank you. Maybe two, if I could, guys. First on spectrum, there's been some -- you guys have made some moves in the market. It looks like you're trading some of your 3.45 for -- some 2.5.

Just so any thoughts on the strategy there. Obviously, Verizon buying some spectrum from USM, are you guys also in the market for additional spectrum at the right price? And maybe an update on the 800-megahertz spectrum that's one topic that didn't come up at your Capital Markets Day. And then secondly, some good info on the digitalization efforts, Mike. I mean, is there a way for you to sort of frame or quantify maybe the potential upside or improvement in costs you can get as you sort of work through that process? Thanks.

Mike Sievert -- *President and Chief Executive Officer*

Well, let's do the digitalization one first, John. If you recall at Capital Markets Day, we laid out a pretty ambitious plan for value creation over the years. And Signal Day 2027 core adjusted EBITDA, about \$10 billion at the high point of our guidance above 2023 levels. And so, that kind of shows you the potential.

Now a lot of that's revenue growth, which is partly driven by digitalization. And a lot of that is recrafting the underlying operation, getting more precise in our marketing, preventing customer problems that are a source of so much value loss in this industry. And so, we didn't unpack all the details of which parts to drive which parts. But I can tell you that we arrived at that plan after working on it for almost two years.

And after detailing out a 14-quarter quarter-by-quarter detailed plan of what will land when so that we have the barometers of knowing if we're running ahead of our plan

that we can increase our promises to you. If it looks like we're going to be running behind, we can course correct, that's how we do these things. And if you go back to our 2021 plans when a lot of people thought what we said back then was unbelievably ambitious, and we did it. But we did it because we had a detailed plan.

We don't always provide a lot of transparency. I think we do a good job there. We provide more than others on transparency, but we also have to keep some of the secret sauce to ourselves for competitive reasons. To make sure you saw the barometers underneath that, though, we put some markers out there.

We said we wanted person-to-person customer service interactions to be reduced by 75% in the planning horizon. That's a big marker. We said we wanted the majority of all activations to be digital and many other markers that we put out there. And one of the things that Peter said was that the actual business plan that we laid out didn't assume full achievement of each of those KPIs.

So, in a world where we deliver each and every one of those KPIs, there's upside beyond the guidance range. And so, we try to put out a plan that's realistic, but at the same time, ambitious. And that's kind of what we mean by Challenger to Champion. It's a plan for the future that's an evolution from Challenger to Champion that really causes us to have to do things that nobody's ever done and really rethink how this industry works as you see us doing in so many ways.

And hopefully, that came across well at Capital Markets Day. Now switching to spectrum. You asked a couple of different questions. One of them was about 3.45 specifically, and I'll just ask Ulf to talk about what's going on there.

Ulf Ewaldsson -- *President, Technology*

Right. Well, thanks, Mike. Well, on our journey, when we are building our network, which is a dense 5G multilayer network. We are always working with our different layers and the different spectrum assets we have.

We have a superior sub-6 gigahertz holding, today, which is providing us with our enormous capacity benefit. And in that, we always value spectrum short term, long term and midterm. And we see that 3.45 is not part of this plan. So, that's why we did it.

Then this transaction goes through a number of different approvals and so on, and we will see. But the way we did it, we are very satisfied, I should say, with how it came out. On the 800 band, we concluded the auction without really a bid that was qualifying. That gives us now new optionality really.

We can either deploy it or we could look at doing something to benefit monetarily from it. So, we have those optionalities as we go forward. We're always working on our spectrum portfolio and continue to build this leading 5G network based on it.

Mike Sievert -- *President and Chief Executive Officer*

OK. Hopefully that answered the question, John.

John Hodulik -- *Analyst*

You bet.

Cathy Yao -- *Senior Vice President, Investor Relations*

OK. Thanks, John. Operator, next question, please.

Operator

Our next question comes from David Barden from Bank of America. Please go ahead with your question.

David Barden -- *Analyst*

Hey, guys, thanks so much. So, I guess to start, I guess, would be for Mike, you were in Germany at the DT CMD, where they kind of elaborated on the hope that they would see that their interest -- ownership interest in T-Mobile would rise. I think they said to the high 50% range from the current levels. Can you elaborate a little bit on your understanding of how that timing might work because that will impact how the mechanics of the buyback on the float work, and it could magnify that effect and make it much more beneficial for the U.S.

investors? And then the second question, if I could, Maybe, Peter, your 3 million postpaid phone net kind of target for the year implies about 100,000 reduction in year-over-year nets in fourth quarter versus flat year over year in the third quarter. Is that just being conservative? Or is there something else to watch out for? Thank you.

Mike Sievert -- *President and Chief Executive Officer*

OK. Well, I'll start, Dave. And I'm sorry to disappoint you without being able to really answer the question much. I guess the prototypical answer would be, you kind of have to ask them.

I will say that in this long journey, being an independent company with DT as our controlling shareholder. We've seen their position range from the 40s to the mid-60s. They've maintained a controlling stake the entire time, and that governance structure for us, from our lens has been pretty unchanged. In other words, the board structure the people involved.

We have all been together a long time. At this point, TMUS is a very, very important part of what they do, and they're very clear about that. We're much larger as a company than they are now, etc. And I think from a standpoint of governance, it really works.

What's good for us is generally good for them, especially because of the relative value and size, etc. They've been incredibly supportive of our strategy. They're a great board I feel that having industry experts on our board from DT has been very helpful to us. I

think a lot of companies in our space don't have that benefit of insiders that are really able to ask the three layers of whys and all the things we want to do.

And at the end of the day, this management team and this board have made a lot of moves together that have created enormous value and success. Now they did mention that they wanted to -- they have multiple strategies and multiple capital allocation strategies that may result in them concentrating their position over time. But when that happens, how that happens, whether that happens, you'll have to ask them. As to your second question?

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

Yeah, Dave, on the 3 million, so it's approximately 3 million from a postpaid phone perspective. And as you know, Q4 has a unique attribute in that the last couple of months, which are really in front of us here are a period of really great activity. We have certainly positioned well, as you saw in Q3. And of course, we have ambitions to outperform what we put there.

But we're always cautious with the two biggest months of Q4 ahead of us, in terms of putting a guide out there that's achievable for us. So, somewhere approximately in that 3 million, not right on with, of course, the ability and aspiration for us to get after it.

David Barden -- *Analyst*

Perfect. Thanks, guys.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thanks, Dave. Operator, next question, please.

Mike Sievert -- *President and Chief Executive Officer*

I will say, while we're teeing that up, we almost always get that question at this time of the year -- and because it's weird to have a guide with only two months left. But you also have to remember that the biggest part of the quarter is the part that's still in front of us. So, every year at this time, and we do get accused of being a little cautious. I don't think it's cautious.

It's just that so much is unfolding later in the quarter. I will comment that our quarter-to-date trends are spot on our plan and looking really strong. So, no question marks there whatsoever.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thanks, Mike. Next question, please.

Operator

Our next question comes from Michael Rollins from Citi. Please go ahead with your question.

Michael Rollins -- *Analyst*

Thanks. Good afternoon. Two questions, if I could. First, curious if you could give us an update on the journey for deepening penetration in the SMRA markets, as well as within the business vertical.

And then secondly, with respect to postpaid phone ARPU, it looks like it was up, I think, 1.8% year over year. And if I remember correctly, just from some of the discussions in the past, the base case expectation for the back half of the year may have been up 1%. And just curious if you could unpack the strength in ARPU? And is there something to take from this strength as we look at future quarters? Thanks.

Mike Sievert -- *President and Chief Executive Officer*

OK. It turns out to be a three-part question. So, I'm going to ask three different speakers to try to keep it tight. But we're going to go to Jon on SMRA, quickly to Callie on business and then back to Peter on ARPU, and I'm going to predict he's going to pivot you to ARPA.

But, Jon?

Jon Freier -- *President, U.S. Consumer Group*

Yeah. Mike. So, just smaller markets or areas, I always take a moment to remind everyone that this is 40% of the market, 140 million people, 50 million households. We could not be more pleased with the progression of our growth in this space.

Q2 was our highest win share quarter that we've ever delivered. And here in Q3, we beat Q2. And so, we've got a great series of momentum happening in the marketplace where we're driving switching, winning those switching decisions, No. 1 in terms of win share in the marketplace in smaller markets and rural areas.

And like I talked about at Capital Markets Day, too, the thing that built a lot of confidence for me is that our overall Net Promoter Score in smaller markets in rural areas is now number one, and it's 20% higher than the next highest competitor. For me, that builds ongoing customer advocacy, customer loyalty and continues to build that overall growth momentum that we have in that particular marketplace. And that's while we're continuing to build net new accounts in the top 100 markets as well. So, we're having a lot of fun doing this.

I've been talking about it for three years, and we're continuing to drive new highs in our switching activity in smaller markets in rural areas.

Mike Sievert -- *President and Chief Executive Officer*

And I know you didn't ask about this, Mike, but one of the things we reminded you of at the Capital Markets Day is we average that top 100 set of markets for you a little bit. And this dynamic that Jon is talking about that has been a huge tailwind for us in SMRA is present in a lot of those top 100 markets. There's a big part of those. Well, we're not No.

1, and some of them were not even No. 2. And so, there's big tailwind potential there. And in all three types, where we're No.

1, where we're No. 2 or even while we're No. 3, T-Mobile is growing. So, it really shows that our formula works across the board.

And now to the second part of your three-part question, what's going on with the business. And by the way, Callie, while you're talking about that, maybe you could hit Chaitin Sharma's question about enterprise solution deals, what are we seeing? Could you name names, what's going on out there?

Callie Field -- *President, T-Mobile Business Group*

OK. We'll do. Well, Jon mentioned that they're having a lot of fun. And I got to tell you, so is this TFB team.

We beat our benchmark competitor again in postpaid phone net adds in postpaid net adds and invoice churn. We're continuing to see profitable growth rising CLVs in all segments. And we also just declared our ninth consecutive quarter of positive trends in all segments against our competitors. In enterprise, let me narrow in specifically on a couple of the segments and some customer wins and use cases.

Enterprise, we had our best activations on record. So, considerable growth across all of our solutions and working with existing customers like American Airlines, where we're developing BTS solutions for their airplane operations or new logo growth with New York Life Insurance, where we are helping them combine solution with Smarsh to make

sure that their voice communications are secure. In government, we saw double-digit growth quarter over quarter and net adds across on BTS and in HSI. And a lot of that growth is supported by wins in the Fed via the Spiral 4 contract.

So, we are growing and winning with the Army, the Air Force and the Y-12 National Security complex. And then when I think about HSI in particular, this is one of our strongest quarters ever, highest net adds in fixed wireless. And we're doing really well. So, we saw a lot of wins this quarter with retail multisite.

So, new customers include Lowe's, Spirit Halloween, PetSmart and then in education, where we're able to solve some connectivity problems with some of the largest school districts in the country like Houston ISD. And then again, like I mentioned, bringing our fixed wireless solutions to the Department of Defense. And we certainly have more room to run. With A&S, we had some really cool deployments this year.

We're starting with advanced network solutions to really see our pipeline continue to grow and then continuing to see more and more deals closed each quarter, which the team is working hard against that target. Oxy Petroleum is an example, Chaitin to answer your question online, where we deployed a hybrid A&S solution across of 20 of their manufacturing plants. And so, that's some of the work that we've been doing this last quarter, Part 3.

Mike Sievert -- *President and Chief Executive Officer*

Great. Thanks. Well done. And ARPU trying to --

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

Well, I'll definitely be truthful and redirect you to ARPA in just a second. But honestly, we do see strength there. And previously, what we had said is, from an ARPU perspective, we see probably about 0.5% year-over-year increase probably now see about 75 bps of

that, so a little bit of strength there. But the reason we don't focus on ARPU as much as you know, is because it is very much a mix-driven metric.

And so, things like the success that Callie just described in the business group where you don't have high ARPUs, you tend to have lower ARPUs with higher ARPUs, very, very strong CLVs, segment plans, things like that. That's why we pivot into ARPA and again, continued strength there and just increased our guide very exciting to be at 3% year-over-year increase from an ARPA perspective.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thank you, Mike. Thank you, Peter. Operator, next question, please.

Operator

Our next question comes from Jonathan Chaplin from New Street Research. Please go ahead with your question.

Jonathan Chaplin -- *Analyst*

Thanks. Two, one for Ulf on the 800 megahertz again. We've seen some challenges to your request to use PCS spectrum for the direct-to-device service with Starlink.

Wondering if you think those challenges posed a real sort of headwind you're being able to use that spectrum and whether 800 megahertz might be an alternative? And then, Mike, a question for you.

AT&T said something that totally shocked us today that at some point, they think they could open their network, their fiber network to wholesale to get your perspectives on that, would it make sense for you guys if they did that to leverage their wholesale network to self-bundled products? Thanks.

Mike Sievert -- *President and Chief Executive Officer*

OK. Great. Well, I'll start out on -- I guess, on both of them and then see if Ulf wants to add anything. On the direct-to-sell, no, we don't really see any barriers to progress there.

We're very much looking forward to getting our beta underway during the hurricanes, we were able to test with a temporary authorization and saw hundreds of thousands of successfully completed text messages to people that otherwise wouldn't have seen them even though our network was recovered at a remarkable pace. And so, it's it's getting closer and closer. We have over 200 satellites in the air. I think this will work itself out despite the obvious process that has to happen through the FCC.

I think this is a fundamental good and we will be off to the races very soon. As it relates to 800, as Ulf said, there's a lot of optionality for 800 now. We were required to sell it as an artifact of the merger and the consent decree and to auction it under a set of auction rules. We did that and there wasn't a qualifying bid as defined in the consent decree.

And so, we're no longer are required to sell it. That gives us optionality. I'll remind you of a few things that Peter has said, one, proceeds from selling it are not currently in our financial plan. So, should we sell that spectrum, that will be, in essence, incremental.

And secondly, in Ulf's network plan, utilizing that spectrum is not currently in the plan. So, the reason I point this out is that just we have a lot of optionality and that's valuable spectrum. It's important spectrum. And you'll have to stay tuned as it relates to our resolution on how we plan to use it.

As it relates to fiber and open fiber, one of the things that has made cable kind of interesting is that you do see a certain amount of collaboration in that space because there aren't overlaps. Look, it's hard to predict what the future will look like. This is a very, very competitive market. I think it always will be very, very competitive.

And that being said, a lot of things will unfold over the years, and we'll have to see what's the very best way we can serve consumers and businesses. But we're open-minded to all future constructs. I can tell you that we're very, very excited about our fiber plans, and we intend to compete vigorously with them. Our strategy is to be first to fiber in the places where we go and that's why we teamed up with some of the fastest moving players in this industry so that we can race with abandon to provide this incredible service we know we can provide.

That being said, I wouldn't speculate more on the future than that.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thank you, Jonathan, for the question. Next question, please.

Operator

Our next question comes from Craig Moffett from MoffettNathanson. Please go ahead with your question.

Craig Moffett -- *Analyst*

Sure. Thank you. And first, let me embarrass Cathy by wishing you a happy birthday today.

Mike Sievert -- *President and Chief Executive Officer*

Yes. Happy birthday, Cathy.

Cathy Yao -- *Senior Vice President, Investor Relations*

Appreciate it.

Craig Moffett -- *Analyst*

I know you're not going to forgive me for that, Cathy. Let me ask the regulatory question about upgrade rates because you like your peers, continue to see very, very low upgrade rates on handsets. My guess is the kind of the debate about whether we're going to see a big handset upgrade rate this year is largely already settled. But as you look out to next year and what at least the handset makers have said is expected to be a more robust AI-driven upgrade cycle.

How do you think about that? How do you prepare for it? And how do you -- as a share gain or how do you potentially benefit from it?

Mike Sievert -- *President and Chief Executive Officer*

Yeah, a great set of questions, Craig. Why don't we start with Mike Katz and talk about the upgrade rates we're seeing and little future casting?

Michael Katz -- *Chief Marketing Officer*

Yeah. I mean in terms of the current upgrade rates, like you said, they were low. And a lot of that is just because of what we've been talking about the last several quarters that we see customers having their natural demand met by virtue of the way that our upgrade programs work. And by virtue of how good the T-Mobile version of the 5G devices are, both in terms of penetration, we have over 80% of our customers using 5G devices.

But also -- and maybe Ulf can comment on this later, some of the unique capabilities that are available in some of these devices because of our stand-alone 5G network. So, what we see is customers having devices that generally work better and devices that are becoming more expensive and lasting longer. And we think all those factors have come into play affecting and you're seeing the outcomes of the upgrade rates. Looking forward, look, it's hard to predict.

A lot of the OEMs don't share their long-term plans and what their devices are going to look like next year. But like -- just like going into this iPhone cycle, I'd say the next -- the same thing about next year's cycles, both with iPhone and with other OEMs. We think we're really well-positioned on whether it's a big upgrade cycle or not. In the case of a big upgrade cycle, T-Mobile has constantly been the winner when there's a lot of switching in the marketplace.

And we saw that again during this last iPhone launch, and it's demonstrated in a lot of the results that you saw here in Q3 with 315,000 net new accounts by far, the most out of anybody that reports in this industry. So, we think in a world where there is a lot of switching because of a new device that creates a lot of upgrades because of this unique proposition of best network, best value and best experience when customers are shopping, T-Mobile is going to win. And that's, I think, been demonstrated quarter over quarter for many years now.

Mike Sievert -- *President and Chief Executive Officer*

OK. Anybody want to add to that?

Ulf Ewaldsson -- *President, Technology*

Well, the only comment there on the phones that Mike mentioned is that many phones are coming up and getting four-carrier aggregation, two-carrier aggregation in the uplink. This gives enormous benefits. It's 30% higher speeds in the downlink, 15% in the uplink. So, this stuff performs really well on our network.

And just a reminder on what Mike brought up is that we are the only one who has pure stand-alone core. We've had it since 2020. It's well tuned. It's rolled out over entire network, and it allows us to do these things.

It allows us to the four-carrier in the downlink, it allows us for the two-carrier in the uplink with all those benefits for the new devices coming out. And it also allows us

now to use voice over the new air interface as you mentioned in your opening, that's a huge thing. It really leads to much better call setup times. It leads to better quality, and it gives us the opportunity for more effective spectrum use.

Mike Sievert -- *President and Chief Executive Officer*

So, it's interesting, why do we say these things? Well, first of all, we pointed out for the reason Mike said, which is when people are having a fantastic experience that's differentiated with their current device at T-Mobile, then they're not as compelled to move. They're having a great experience, so they shop less. That's great. We have low upgrade rates as a result.

When they wind up switching, we win because we win the switching moment. So, there's not enough talking in this industry about switching, but it's very clear that these numbers show once again we're the switching winner. And if there's a super cycle in the future and that spurs switching that will be great for us. And this point that you're pointing out around the newer devices, taking advantage of our advanced capabilities, it really speaks to another issue.

At Capital Markets Day, we were pretty clear that we don't expect to just defend this 5G network lead. We expect to extend it over time. And the evidence continues to back us up on that. We are much our margin of superiority is greater today than it was two years ago.

And one of the drivers of this is not just the rate and pace of our deploying technologies but it's the tailwind represented by the fact that a lot of the devices out there today in people's hands don't take full advantage of the network. For example, the latest iPhone 16 has advanced capabilities that are uniquely unlocked by T-Mobile's network. And the more those get in people's hands, the more it will unlock the embedded technology we've already rolled out, creating a tailwind for us to further extend our lead. And that will be a great dynamic down the road when people have

those in their hands and they're faced later with whether to upgrade further and they're going to be very happy with what they have.

So, really nice trends unfolding there. Hope that helps, Craig?

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

And maybe I would add just one little bit because of those dynamics that we're seeing, what Mike described, as I think about Q4, we'll probably see the same seasonality from an equipment revenue perspective that we saw last year. So, the same kind of absolute dollar increase that we saw Q3 to Q4 is what I expect to happen from Q3 to this Q4. Obviously, higher than Q3 with that holiday seasonality happening there, but that's the trend that we'd expect.

Craig Moffett -- *Analyst*

Thanks, Peter.

Mike Sievert -- *President and Chief Executive Officer*

You bet.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thanks, Craig. Next question, please.

Operator

Our next question comes from James Schneider from Goldman Sachs. Please go ahead with your question.

James Schneider -- *Analyst*

Good afternoon. Thanks for taking my question. I was wondering if you could maybe comment on your plans for network upgrades on the wireless side for next year. Maybe talk about the relative prioritization of your 3-plus gigahertz upgrades, as well as how much you plan on doing in terms of rural and markets outside of the Tier 1 against any other priorities you may have? Thank you.

Mike Sievert -- *President and Chief Executive Officer*

Thanks, Jim. This might be a good opportunity for Ulf to kind of remind that we have a different approach for how to do this than many. And it's algorithmic, it's driven by deep data. And in that sense, the planfulness around big macro topics like that are a little bit different for us.

In other words, we're looking now at a much more micro level than kind of a broad secular level without as much preference for whether it's rural or whether it's urban etc., but maybe you can explain customer-driven coverage and how it drives our priorities into 2025.

Ulf Ewaldsson -- *President, Technology*

Right. And first of all, I mean, we have the greatest assets, as I said before, on the below 6 gigahertz those assets are allowing us to build a very consistent network. So, means that also all the towers that we have and we have more than 80% of our towers are equipped very similarly. We are the only player in the market who has three layers dedicated to 5G.

In that, when we are allowing us to build and expand this, we are using a methodology that we call customer-driven coverage. And customer-driven coverage is something we have spent about one and a half year about developing a methodology. It's an algorithmic etiology based on AI where we're using billions and billions of data points that we are assessing from customer experience data across the network. We're correlating that with business data and with real customer outcomes.

In other words, what customers decide to do on our network. And then we are assigning a CLV value, a customer lifetime value to a grid across the country, more than 4 million little hexagons that we have created across the country, 15-million-meterwide hexagons. We're assigning those values relative to competition to allow us to know exactly where we can build to please customers. Because at the end of the day, this is not a pop drive where you're just chasing populations and where populations live, it's a much more complicated art to figure out exactly where customers will value most our build.

And that's what we're doing on our capital allocation. And to answer your question, Jim. It's really what we're doing on our capital allocation for next year. We're taking full advantage of our customer-driven coverage.

Now looking then at our assets and our -- to your question about the 3 gigahertz band. How much do we really need to deploy that? Well, today, we have a -- and we went very smart into the auction around C-band, where we selected 50 markets where we really could see that this spectrum fits very well to our grid. So, when we deploy it, it will be optimized for our grid, our tower-to-tower distance in a way that makes it very effective. And it's very -- in markets where there could potentially over time, be a need to expand our capacity.

But as we see it now, it is not needed. We have so much more room to run. We are only about 60% deployed on our mid-band spectrum to 5G today. And we have much more other things that we can take an action in among the others, the technology leadership that you just explained, Mike.

So, that's where we are on our C-band plan.

Mike Sievert -- *President and Chief Executive Officer*

Perfect. So, Jim, what you can take away from that are a couple of things. One is with apologies. What you can take away is what you just heard.

We keep a little close to the vest. How and when we will deploy each band and exactly where we will deploy. And we do that for all kinds of reasons. But one of the transparency we attempt to offer you is the following: One, we outlooked at Capital Markets Day that the \$9 billion to \$10 billion capital envelope is sufficient with our detailed planning to not only defend but to extend our 5G leadership and to meet the goals that we established in our business plan.

We've modeled this at a very detailed level. The lens is different. The set of tools are different. They're not blunt tools like let's go after the countryside and let's go after -- it's much more algorithmic, both just described that we have tens of thousands of projects.

They might be small upgrades, they might be reorientations, they might be adding C-band in the future to the premise of your question. We have tens of thousands of future projects that gets stacked ranked based on some practical concerns like zoning permitting but mostly based on the outputs from our AI-driven algorithmic model called customer-driven coverage. And the result of that will be that we will stay ahead of the demand curve and continue to extend our overall performance and 5G experience leadership in the country within the capex envelope that we provided to you.

James Schneider -- *Analyst*

That's very helpful color. And then just as a quick follow-up, can you maybe comment on whether you see anything in either your macro indicators or your underlying consumer data have you at all concerned that we are about to see a significant deceleration in the overall kind of gross add environment in the consumer wireless space? Thank you.

Mike Sievert -- *President and Chief Executive Officer*

OK. And again, I'm going to apologize. I feel like you've asked me two in a row that I'm not all that well-equipped to answer. And the reason why the second one is difficult is that we have sort of determined that T-Mobile or maybe even our industry writ large, is not really that great of a canary in the coal mine on macroeconomic things.

And part of that is, I think, the essential nature of our service. And so, we are not going to be the guys to ask to give you early indicators of changes or nuances and consumer behavior. And one of the -- and that's borne out by our numbers. Our customers are kind of per category, per segment paying at traditional norms, valuing the service, just no real secular changes there.

that are noteworthy. As it relates to growth in the industry, there are weird dynamics that are hard to predict there. We've done a pretty good job predicting our business, almost remarkably good job predicting our business. But predicting what happens sort of in the "market growth has been more difficult.

And a lot of that is because some of what gets added to the industry is kind of questionable sort of lower calorie net adds, etc. And it's one of the reasons why we focus so much on switching. We focus on the core business, our families on postpaid traditional plans who've been in this industry for a while and who switched to us from another provider, that continues to be just sort of at a modest rate and pace, the bread and butter of our superior revenue growth story. The other dynamic we focus on is an ongoing transference from prepaid to postpaid.

Now this one could possibly be a canary in the coal mine you're looking for because we have seen over the past five years during these vibrant economic times, lots of transference from prepaid to postpaid. In this most recent quarter, we saw it yet again a strong -- I think it was 175,000 net transfers from our prepaid to our postpaid showing that, that trend just continues that one -- maybe that one would be an indicator if you see that slowdown because this is a demonstration that customers are

qualifying for postpaid plans over these last five years. So, that's one to watch and it continues to be in recent trends in recent history consistent with.

James Schneider -- *Analyst*

OK, thanks.

Mike Sievert -- *President and Chief Executive Officer*

You bet.

Cathy Yao -- *Senior Vice President, Investor Relations*

Operator, next question, please.

Operator

Our next question comes from Peter Supino from Wolfe Research. Please go ahead with your question.

Peter Supino -- *Analyst*

Hi, and thank you. A question that's a bit longer term in nature on spectrum costs. your stock valuation multiple expansion shows a lot of market confidence in your growth outlook. And if you put your investor hat on, may you agree that the other key value driver is the cost of that growth.

And so, I want to ask you about a distant but potentially expensive issue, the 6G cycle. 4G and 5G costs, each of the major MNOs, tens of billions of dollars, your 5G solution with Sprint was quite elegant. I'm wondering if you'd share your view on that and whether anything about your business today sets up the long run for a different level of spectrum and RAN costs than we saw for the 4G and 5G cycles. Thanks.

Mike Sievert -- *President and Chief Executive Officer*

Well, it's a great question, Peter, and it's -- the premise of your question acknowledges this, it's a little premature. But there's a lot of reasons to be optimistic about the long-term trends. And that's one of the reasons why we wanted to talk with you at our Capital Markets Day about our vision for what comes after this current 5G cycle. AI RAN and what it can be.

And yes, there's a potential big cycle coming. But on the other hand, it may be a cycle that's fundamentally more efficient to roll out than prior cycles. And the promises of Open RAN that have been made for years may finally be realized at scale in the AI RAN era. And this allows you to offset potential future cost of replacement of future technologies with fundamental efficiency, and so we're optimistic.

We were able to indicate that for our planning horizon over the next few years, this \$9 billion to \$10 billion capex area makes sense. Now that's not full-scale 6G time frames yet. But at the same time, we wanted to put down markers about our vision for what comes next with AI brand because it's so promising on the ability to do more. One of the things that we drive our plan around is the two core metrics, which is technology over time should allow us to extract more and more network performance per capex and opex dollar and it should allow us to extract more and more network performance per unit of spectrum.

And that's what has happened, and that's what we think will continue to happen. But this next cycle may be more efficient than the big verticalized 5G cycle was. I will also say that the net cost of 5G involved a big part of that cost involved our competitors rushing in to spend an inordinate amount of money to try to get mid-band spectrum and that was caused by the extra competition brought on by our merger. Had that unfolded differently, it may have happened over time.

And it really showcases how much competition our merger brought to this industry and how quickly. And today, customers are the beneficiaries of that. But so is the industry. One of the things I've talked about in the past is that yet while 5G has been costly for some, overall, you see industry cash flows at or around all-time highs.

And yet you see consumers benefiting with three to four times more speed and three to four times more data usage at similar price points to five or six years ago. So, consumers are giant winners from the 5G cycle, but the industry remains quite healthy as well. And I think the future bodes very nicely for 6G. One of the things we intend, like we did in 5G, when we looked around corners, and we saw that it would unfold on smartphones and in mid-band, we intend to be a company that drives the future on 6G as well.

And that's why we've struck our unique partnership with Ericsson, Nokia, and NVIDIA to help invent I ran and bring the future about in a way that disproportionately benefits T-Mobile customers.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thank you, Peter. Thanks, Mike. Operator, next question, please.

Operator

Our next question comes from Sam McHugh from BNP Paribas. Please go ahead with your question.

Sam McHugh -- *BNP Paribas Exane -- Analyst*

Yeah. Maybe just a follow-up on that in some ways. It's good to hear about like the consumer benefits that you'll scale through the Sprint deal brought. How is engagement going with different parties on the UScellular deal ever as much you could add on that? And then a second, just a quick follow-up on the ARPU growth.

I know ARPU, not ARPA. But in terms of the upside surprise, is that more of a mix effect of the gross adds? Or is it the price rise that's landed better than maybe you anticipated? Thanks very much.

Mike Sievert -- *President and Chief Executive Officer*

OK. I'm going to start with Peter on ARPU and ARPA. And is it mix-driven? Or what's it driven by and then probably turn to Mike Katz to talk about how UScellular is unfolding?

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

Yes. ARPA is a number of factors, as you know. On the consumer side, it's a continual expansion of the relationship, including with 5G home broadband, other connected devices, really seeing strength in growth and expansion of customer relationships. Callie spoke a lot about the success in T-Mobile for business across the segments and how you see ARPA expansion there.

In terms of the rate plan optimization, that was a very minor component of the year-over-year ARPA change and certainly not the driver for the 3% increase now that we anticipated really is core expansion of customer relationships that's so exciting.

Mike Sievert -- *President and Chief Executive Officer*

OK. And maybe while you're at it, Mike, you can talk about not just UScellular, but you might as well talk about Metronet and Lumos. We've been pretty busy out there. So, what's going on with these new combinations that we have?

Michael Katz -- *Chief Marketing Officer*

Yeah. We have several transactions. And I would say all of them are in the process and the processes are going really well. In terms of Lumos, we expect that to close in the

first part of next year.

UScellular, which is also in the process, maybe the middle part of next year. And then Metronet, we also expect to close in 2025. So, good progress through the whole regulatory process. There's obviously several different groups that have to review and approve them and feel like those are going really well so far.

Mike Sievert -- *President and Chief Executive Officer*

We happen to have at the end of the table, one of the nation's most accomplished antitrust lawyers. So, our general counsel, Mark Nelson, any commentary on things we're learning as we go along.

Mark Nelson -- *Executive Vice President, General Counsel*

Yes. And we've cleared -- both Lumos and Metronet have cleared the DOJ review process. They're still pending for the FCC, and that will take a little more time, as Mike just indicated, on UScellular. We think this is great for consumers.

It's going to lead to lower pricing, especially for the UScellular customers. It's going to lead to better coverage for all customers. So, we're confident in that, and we think we'll get clearance in due course, but we're working through the process with the various agencies right now.

Mike Sievert -- *President and Chief Executive Officer*

We have begun some planning with the counterparties, particularly UScellular and because that's a more complicated set of planning that we have to do. And we've met the teams, they're fired up. I can tell you that they are excited about that core premise that Mark just reminded everybody of. This isn't always the case.

This is a transaction that very clearly will result in both lower prices and better network. Both T-Mobile and UScellular customers will have a better network experience. There's no question about that. And UScellular customers will be offered lower prices as they migrate to the T-Mobile plans.

And that's just a classic win-win. So, we're very confident, but we have to keep our heads down and go through the process and explain our case to all the parties involved. Very exciting time.

Sam McHugh -- *BNP Paribas Exane -- Analyst*

Thank you.

Mike Sievert -- *President and Chief Executive Officer*

You bet.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thanks, Sam. Our next question, please.

Operator

Our next question comes from Kannan Venkateshwar from Barclays. Please go ahead with your question.

Kannan Venkateshwar -- *Analyst*

Thank you. Maybe one on pricing. Mike, when you look at pricing across the industry right now, it just seems like it's taking much better than expected. I mean, churn is not as high when these price increases are taken and we've seen multiple price increases, of course, from your peers.

Does that make you think that the value gap is maybe bigger in wireless and maybe this becomes a recurring opportunity? And related to that, when you think about your volume growth, you're over-indexing versus the rest of the industry by a significant amount. And that's obviously great from a share perspective, but it does come with its own cost in the form of working capital and equipment margin rate and so on. So, is it a third that if prices are ticking better, then maybe the balance can shift a little bit more toward price and drive the rest of the P&L and cash flow in a slightly different direction? Thanks.

Mike Sievert -- *President and Chief Executive Officer*

That's a great question. Thanks for it. Our strategy here has been remarkably consistent. And as it relates to, for example, the working capital and other P&L impacts of a growth orientation, that's kind of very much in the run rate.

It's true this quarter, we had the best Q3 in a decade, so that's on the margin, helpful. But it's in the same area code. I mean we're growing methodically, consistently, repeatedly, and that's what you want to see from us as we chase these very ambitious goals for the out year. I will put our revenue growth plan up against anybody's.

Our plan is one that favors customers that focus on value that promises value and that has resulted in service revenue growth and postpaid service revenue growth that lead the industry by a wide margin. So, I want to make sure to caution us because the strategy we have, which is to emphasize value and network and experience as this team keeps reminding in every answer, that really works. And so, we're very cautious about putting that at risk. That being said, we have to keep up with the times.

You've seen us doing some of that. I think you could even be said that, that's gone very well. But we have to make sure that anything we do now and in the future is consistent with our vision that the Un-carrier stands for superior value. And to your premise of your question, that may leave room.

What it means to be that may allow us to make changes over time. but we will make changes with the North Star being true to our brand should there be changes in the future.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thanks, Mike. Before we go to our last question on the phone, I'm going to take one question from social media probably for Peter. Given the nice EBITDA take-up for the year, can you help us understand what's driving that? Is it the rate increase? Or are there other puts and takes we should think about?

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

Yeah, absolutely. Thank you, Cathy. There's a number of things. Of course, we're at that time of the year when the year guide is the Q4 guide.

And so, maybe I'll just focus on all the puts and takes within Q4. Of course, there's more adds for the year as we just raised guidance yet again on total postpaid, as well as total postpaid phone. And then there's a few puts and takes as I think about, while the net is an increase in the midpoint. There is a noncash spectrum swap gain as that deal has closed.

That's about \$137 million. But that is primarily offset by slightly higher ACP decline. So, as I mentioned earlier, we'll be at the higher end of that \$350 million to \$450 million range. And then, of course, there's hurricane costs that we're incurring in Q4 to make sure that we get the network back up and running and serve customers as quickly as possible on that front.

So, with all those puts and takes, we still saw a nice increase of \$50 million at the midpoint and I'm very excited about that.

Mike Sievert -- *President and Chief Executive Officer*

Every guidance we give is fundamentally driven by the underpinnings of the business, right? And every quarter has sort of some tailwinds and some headwinds that are one-time, and this one is no different. Good one. Was that question from Cathy's. Birthday online or --

Cathy Yao -- *Senior Vice President, Investor Relations*

OK. All right. Last question. Thanks, operator.

Operator

Our last and final question comes from Eric Luebchow from Wells Fargo. Please go ahead with your question.

Eric Luebchow -- *Analyst*

All right. Great. I appreciate you squeezing me in. So, I just wanted to maybe touch on the high HSI or fixed wireless business.

Obviously, you updated your guide at Capital Markets Day 12 million aspiration. And I know we talked about it implies a modest decel in net adds if we straight line it, but you've been pretty consistent at this 400,000 quarterly run rate. So, does that still feel like an achievable number near term? And maybe, any other color you could provide on kind of how gross adds versus churn have trended? And then any geographical split kind of between urban versus suburban versus rural areas where you rolled it out? Thank you.

Mike Sievert -- *President and Chief Executive Officer*

Sure. The majority come from cable. The majority come from -- with existing T-Mobile customers. The broad trend lines haven't changed much.

As we grow, gross adds have to grow in order to outrun even if churn is consistent. Broadly, every quarter is different. But broadly over time, our churn trends have looked very nicely as this cohort has aged. So, that's really good.

Every quarter, we'll be a little different on that front. But generally, I've been pleased with that over the last year and a half. But gross adds have to keep rising. And so, that's one of the reasons why there's a difference between the current run rate and the terminal size by "2028" at least for now.

And we'll have to see how it goes. You're right. It's been remarkably consistent, consistent in that. We've been gaining more net adds than anyone else in the industry, some quarters more than everyone else combined.

And one of the things that gives us a lot of confidence here is that people just love this product. This is the highest Net Promoter Score by some measures, product in the country. And so, that gives us a lot of confidence. Our average speeds are just like the cable averages.

Our usage is 0.5 gig 0.5 terabyte a month and growing. The average speed and experience is triple what it was three years ago. So, it's not a static thing. It's rapidly improving.

And again, it matches cable, but it's a lot -- it's differentiated versus other fixed wireless offerings as well. So, we're just really confident in the product, and we will keep investing time and energy in the customer experience to make sure it remains truly great. And so, far, so good.

Cathy Yao -- *Senior Vice President, Investor Relations*

Thank you, Mike. That's all the time we have for questions, and we appreciate everyone joining us today.

Mike Sievert -- *President and Chief Executive Officer*

Thanks, everybody.

Cathy Yao -- *Senior Vice President, Investor Relations*

We look forward to speaking to you again. And if you have any further questions, you may contact the Investor Relations or media departments. Thank you.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Cathy Yao -- *Senior Vice President, Investor Relations*

Mike Sievert -- *President and Chief Executive Officer*

Peter Osvaldik -- *Executive Vice President, Chief Financial Officer*

Simon Flannery -- *Analyst*

John Hodulik -- *Analyst*

Ulf Ewaldsson -- *President, Technology*

David Barden -- *Analyst*

Michael Rollins -- *Analyst*

Jon Freier -- *President, U.S. Consumer Group*

Callie Field -- *President, T-Mobile Business Group*

Jonathan Chaplin -- *Analyst*

Craig Moffett -- *Analyst*

Michael Katz -- *Chief Marketing Officer*

James Schneider -- *Analyst*

Peter Supino -- *Analyst*

Sam McHugh -- *BNP Paribas Exane -- Analyst*

Mike Katz -- *Chief Marketing Officer*

Mark Nelson -- *Executive Vice President, General Counsel*

Kannan Venkateshwar -- *Analyst*

Eric Luebchow -- *Analyst*

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