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OVERVIEW:

Company Summary

REFINITIV

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PRESENTATION

Operator

Good morning. (Operator Instructions) I would now like to turn the conference over to Mr. Jud Henry, Senior Vice President and Head of Investor Relations for TSU Mobile (sic) [T-Mobile US]. Please go ahead.

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

All right. Welcome to T-Mobile's Third Quarter 2023 Earnings Call. Joining me on the call today are Mike Sievert, our President and CEO; Peter Osvaldik, our CFO; as well as other members of the senior leadership team.

During this call, we'll make forward-looking statements, which involve a number of risks and uncertainties that may cause actual results to differ materially from our forward-looking statements. We provide a comprehensive list of risk factors in our SEC filings, which I encourage you to review.

Our earnings release, investor back 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 said, let me kick it over to Mike.

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

Okay. Thanks, Jud. Good morning, everybody. If you're watching on our webcast, you can see we're coming to you from New York City and I'm here with several members of my senior leadership team, where we're looking forward to discussing another quarter of great results.

Our strategy to deliver the best network, coupled with the best value and the best customer experience, has remained remarkably consistent. And our Q3 results again show how well that strategy is working with another quarter of industry-leading customer and financial growth.

I want to thank our amazing team nationwide. We have tackled a lot of change together recently to position our company for success in the future, and it hasn't all been easy. But this team showed once again what loving customers looks like and how that simple philosophy translates into success.

I'm sure you've seen the numbers already. So I'm going to spare you the greatest hits album of all the quarterly results and just [pick up a few things] with a few comments so that we can [get to your questions]. First, as we announced yesterday, I am so proud of our network team for reaching our audacious goal of 300 million people covered with dedicated mid-band 5G over 2 months ahead of our year-end target. We announced this goal nearly 3 years ago and then we got to work and got it done. And to this day, no one else in our industry has stated any plans to match it at any time in the future.

I know it may get confusing with others celebrating their C-band deployments, which might have the casual observer believe our network lead could be narrowing. But the opposite is true. In fact, even after their C-band deployments, according to Ookla, T-Mobile's nationwide median speeds were double the next competitor's speeds in September. Double in September. And our mid-band 5G square mile coverage is also double the next closest competitor, meaning others still have a lot of wood to chop beyond just population-dense pockets to ever reach the expansive geography where T-Mobile is today.

And we have more spectrum dedicated to 5G than anyone else before we've even begun to deploy our C-band, our 3.45-gigahertz spectrum or Auction 108 2.5 gigahertz licenses, let alone refarming our AWS. Listen, we started the 5G era 2 years ahead of the competition, and today, we remain 2 or more years ahead. And I predict that 2 years from now, we still will be.

What this all translates to is a superior customer experience. We're rapidly putting our spectrum resources to work for the benefit of consumers and businesses and we're doing it with the best capital efficiency in the industry. The most exciting part, many prospective customers are only just beginning to take notice that T-Mobile is the overall network leader, leaving lots of growth runway ahead.

And we're also expanding on our long-held fame for delivering the best value. Our latest Un-carrier move is freeing customers locked into 3-year contracts, and our new Go5G rate plans are delivering the most feature-rich options in wireless. Phone Freedom has turned out to be one of our most exciting Un-carrier moves ever, and it continues to bring high-quality switchers to T-Mobile, as you could see in our industry-leading postpaid account growth.

We're also executing on our ARPA revenue growth strategy, posting another strong quarter, well over plus 1% versus a year ago, and revenue per account on the strength of Go5G Plus and multiple products.

Some have asked, if our new higher-value rate plans are our most popular with consumers, then why isn't ARPU growing faster, too? And I'll point out that consumer ARPU does continue to grow even after offsets from growing segments like 55+ and Military. And consumer overall is being partially offset by profitable growth in the enterprise space at somewhat lower ARPUs but attractive CLVs, a development that's contributing well to our financial growth.

And we're doing all of this within a backdrop of a wireless industry that continues to grow service revenues and cash flows, while simultaneously seeing customers win from healthy competition that delivers more value and better networks. In fact, this industry produces cash flow and EBITDA much higher than 5 years ago while, at the same time, customers are enjoying 3x more data at 4x higher speeds while paying just a fraction of the price per unit consumed versus before. And that's before factoring in the expanded device promotions now routinely offered.

A vibrant, profitable business delivering rapidly improving network service and value. That's the win-win 5G dividend nobody's talking about. And it helps to showcase why T-Mobile's 5G leadership is so important. This is certainly true in T-Mobile for Business where we had the highest ever account net adds overall and our highest-ever postpaid nets in enterprise based on the strength of our 5G-enabled solutions.

Consumers are also choosing T-Mobile above all others. Prime network seekers in the top 100 markets increasingly recognize that T-Mobile offers the best combination of network coverage and capacity to meet their needs. And for the first time ever, T-Mobile also won the highest share of switchers in smaller markets and rural areas in Q3.

Broadband also had another strong quarter. We now serve over 4.2 million customers who are enjoying a great experience with Net Promoter Scores that remain more than 30 points higher than cable with churn improving year-over-year as well. We remain very much on pace for our longer-term goals with 5G broadband.

Overall, our customer growth strategy remains differentiated and durable resulting in industry-leading service revenue growth, both at the total company level and at the postpaid service revenue level where most of the value is created, which grew more than 6% or more than 1.5x the growth rate of peers.

That top line leadership, coupled with our synergy realization and focus on cost efficiencies, drove double-digit growth in core adjusted EBITDA with the highest free cash flow conversion in the industry. This allows us to not only raise our guidance for this year again, it also gives us excitement and confidence in the future.

With our significant growth opportunities continuing to scale with lots of room to run, it sets us up for sustained leadership in both customer and service revenue growth as we look ahead.

And we see opportunities amid the rapidly changing technology landscape as well all across our business to drive further revenue growth, margin expansion and free cash flow growth that will allow us to fund our growth investments in our customers and network as well as provide the potential for substantial ongoing shareholder returns.

This amazing customer-loving team continues to perform beautifully with so much exciting potential ahead, showing why it's not just a tagline when we say that for customers, employees and investors alike it's better over here at T-Mobile.

Okay, Peter, over to you to talk about our key financial highlights and an update on our guidance.

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

All right. Thanks, Mike. Our ongoing delivery of best-in-class customer and financial growth quarter after quarter enables us to increase our guidance once again. So let's jump into the details.

We now expect total postpaid net customer additions to be between 5.7 million and 5.9 million, up 50,000 at the midpoint. This reflects continued progress across all our core growth initiatives, partially offset by the deactivation of lower ARPU postpaid other data devices in the education sector, the largest of which arose during Q3.

As you know, our ability to uniquely solve customer pain points led to significant connection growth in the educational sector during the pandemic, supporting the rapid need for remote learning solutions. As things are increasingly returning to normal, we had anticipated many of these connections to roll off in 2023 and do not expect the deactivation of these educational connections to have any material impact to service revenue looking forward.

Included in the 5.7 million to 5.9 million is our expectation of approximately 3 million postpaid phone net additions for the full year.

Our focus on profitable growth allows us to fund those higher postpaid phone net adds and still increase our core adjusted EBITDA expectation, which we now expect to be between $29 billion and $29.2 billion. This is up over 10% year-over-year at the midpoint, fueled by higher service revenues and synergies and excludes leasing revenues of approximately $300 million as we transition substantially all remaining customers off device leasing by year-end.

Our merger synergies are expected to be approximately $7.5 billion in 2023, achieving the full run rate synergy target provided at our Analyst Day a year ahead of schedule as we build towards the full run rate synergies of $8 billion in 2024. Now with the merger integration now substantially behind us, we will discontinue reporting synergies separately from overall business results going forward.

We continue to expect merger-related costs, which are not included in adjusted or core adjusted EBITDA to be approximately $1 billion before taxes. And we now expect cash merger-related costs of $1.7 billion to $1.9 billion for 2023 as they have underrun the P&L recognition to date.

Net cash provided by operating activities, which include payments for merger-related costs, are now expected to be in the range of $18.3 billion to $18.5 billion.

We now expect cash CapEx to be between $9.6 billion and $9.8 billion, delivering our network milestones ahead of schedule at a capital efficiency unmatched in our industry.

The higher operating cash flows not only fund the increased CapEx, but also allow for a slight increase to free cash flow now expected to be between $13.4 billion to $13.6 billion, which includes payments for merger-related costs. Not only is this up approximately 75% over last year, thanks to our margin expansion and capital efficiency, but also represents a free cash flow-to-service revenue margin, which is multiple percentage points higher than peers with further expansion expected next year.

Consistent with the entire year -- related free cash flow guidance does not assume any material net cash inflows from securitization.

Turning to income taxes. We continue to expect our full year effective tax rate to be between 24% and 26%.

And finally, we continue to expect full year postpaid ARPA to increase slightly more than 1% as we continue to expand our account relationships as part of our land-and-expand account strategy to grow service revenue.

In closing, our differentiated and profitable growth strategy continues to deliver industry-leading growth in service revenue, core adjusted EBITDA and free cash flow along with the highest free cash flow conversion in the industry to unlock shareholder value.

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

QUESTIONS AND ANSWERS

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

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

Operator

Our first question is from the line of John Hodulik with UBS.

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

Two questions, if I can. First of all, the comments on the rapid share gains in the rural markets were sort of new this quarter. Mike, anything you could tell us about sort of where you are and sort of how much room you have to grow to penetrate these markets?

And then secondly, maybe for Peter, there was a comment in the 10-Q about the workforce reduction and the fact that it would drive OpEx down on a year-over-year basis in '24. I guess two parts there. One, are there any way you could sort of quantify the OpEx reduction? And are there other factors involved that are potentially allowing you to see that OpEx reduction on a year-over-year basis?

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

Okay, John. Let's start with Jon Freier, who maybe can give a little color on what we're seeing in smaller markets and rural areas.

As you heard in my prepared remarks, this is a huge milestone because T-Mobile achieved leadership in share of switchers for the first time ever across the entirety of what we call smaller markets and rural areas, which is about 40% of the country.

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

Yes, you bet, Mike. So yes, just picking up on that. 40% of the country, everything else out of the top 100 markets, is how we define smaller markets and rural areas. It's about 140 million people, 50 million households, and again, 40% of the market. And we just could not be more delighted. I've been talking to you about this for a couple of years now relative to our ambitions in smaller markets and rural areas and bringing real 5G.

When you think about a lot of the places that we're playing, we're bringing the only 5G network into town, and given the announcement that we just made a couple of days ago around 5G Ultra Capacity, now bringing that to 300 million people across the entire country. So it's a huge opportunity. When we bring the network, we're bringing the distribution, we're bringing our marketing and our special sauce relative to our value proposition and more choice to smaller markets and rural areas. And it's been fantastic.

It's a huge milestone for us to be across all these markets now the leader of share of port-ins. We're not playing in all the markets, just as a reminder. It's about 70% of the markets that we're playing in. We're not even playing across all the markets. And even with that, now we're the share leader in terms of -- share taker, I should say, not necessarily a share leader, but share taker.

And I've mentioned this a few times, we've had a dedicated team, was a big part of our success and smaller markets, rural areas and really getting active this with our dedicated team that's focused on driving the kind of commercial success that we're looking for. And our overall ambition is unchanged, and we're right on track to hit 20% share of household by the end of 2025.

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

You take these last couple of quarters and drag them, right? We'll be the share leader soon enough for smaller markets and rural areas.

Peter, any comments on OpEx for 2024? Why don't you just go ahead and roll out the guidance for 2024?

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

Yes. Exactly.

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

You got up early. I think you got up early, Peter.

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

Yes. I got up too early to roll out '24 guidance, that's for sure. But in your question of workforce transformation, look, I think Mike touched upon it at the beginning and you saw us comment around this before. This is really about a tough set of actions. But as we got through the balance of the integration, we had to make some changes.

That's what this team does: it looks around corners and it says we need to make sure we create clarity in operating of this organization, bring that entrepreneurial spirit back and make sure that we're looking at what are the headwinds and what are the tailwinds.

As we think about what we laid out at Analyst Day, which seems like so long ago, with respect to 2024 and what we're going to do there, a lot in the world has changed. But it's a set of all of these tailwinds and actions that we've created that still gives us confidence that we think certainly from a core EBITDA perspective, again, I'm not going to roll out all the '24 guidance, that we're going to come right in there in the middle of the range. And these are the kind of actions that are necessary to create that opportunity and keep bringing the ability to invest in customers and the network and the business as we are.

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

I was kind of kidding, but you did roll out the guidance. That's pretty good. It is remarkable that we did this Analyst Day years ago, I think early in '21, and laid out several years of expectations. And as we sit here today, knocking on 2024, we're able to outlook a year next year that looks just like we had anticipated right down the middle.

And that's something that I'm particularly proud of, given that it's not all like we thought. I mean, it's really different than we thought. And yet we make course corrections as we go to keep the promises that we made to you front and center: a vibrant, growing business, developing EBITDA and cash flow and doing breakthrough things for customers and businesses. And that's what's happening. So we couldn't be more excited about next year.

Operator

Our next question is from the line of Simon Flannery with Morgan Stanley.

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

Mike, you talked about some of the additional growth opportunities and perhaps if you just revisit the fiber pilot and how that's going, how you're thinking about that. There's been a lot of speculation about different assets. I think you've talked about in the past about asset light.

And then related to that, fixed wireless expansion and analyzing millimeter wave, overlay solutions and other ways to add capacity, any updates on that? It sounds like you still got C-band and 3.45 to bring to bear on that. But any color there would be great.

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

Yes. Thanks, Simon. Well, nothing's changed in terms of our philosophy and approach as it relates to broadband. And just to take you back, what we had said still holds, which is we are conducting all kinds of experiments in the space, including observing our national performance in 5G home broadband which, if anything, that performance and the resonance of our brand and our team's ability to execute in the space, along with the trials that we're doing in fiber only bolster our confidence that our brand and our team belong in this market.

But nothing has changed in terms of our philosophy. We like this business model. And to the extent we make investments or partnerships in the area, our view is it should be capital-light, generally off-balance sheet, et cetera.

Speculation, I know, is out there. I can clarify, we're not the partner to [Jana] in the transaction that was rumored a couple of weeks ago, although we remain interested in partnerships like the kinds we have rolled out pilots around and other constructs that are generally capital-light, generally off-balance sheet.

And that's for a reason. We're performing really well and demonstrating through our test as well as our broad scale performance in 5G home broadband that our brand and our team belong in this space, and we can create value.

As it relates to new ways to do wireless broadband, you said at the very end there, and I mentioned in my remarks, Ulf and team now that they've reached 300 million people with mid-band Ultra Capacity 5G are now setting about the task of deploying all of our spectrum resources to that base. And we're only just beginning. We have the bulk of our 2.5 gigahertz now rolling out, but our target is to be at 200 megahertz around the end of this year deployed against the 300 million people. And then more room to run next year because, as I said, we have Auction 108 proceeds still pending, we have C-band that we haven't deployed, 3.45 as well as refarming potential from spectrum being used for LTE right now like AWS.

And so lots of room to run as it relates to pouring new capacity into this network. And that means we, right now, at a broad scale, are not looking at alternatives to that from a wireless standpoint. We use millimeter wave pretty strategically in very dense places, and so far, that's a great use for it.

I will say, as we said last time, so no change, that we remain open-minded to whether there are techniques that would allow us to deploy capital specifically for 5G broadband and make a great return for you. But so far, we haven't drawn any conclusions that, that's a scalable opportunity for us.

Operator

Our next question is from the line of Phil Cusick with JPMorgan.

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

Two, if I can. One, Peter, can you talk about potential savings from the layoffs in August? And will those hit the fourth quarter or should we think of that all next year?

And then maybe one for Callie. Can you talk about the contribution of business to subscriber growth numbers? And what's the typical ARPU of your business [formats]?

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

Okay. Let's start with Callie on business and then we'll go to another crack at OpEx. So what's going on in business, Callie?

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

Well, thanks, Phil, for the question. And I'll tell you, as a result of our network leadership and the solutions that are built for today's unique challenges of a CIO, we continue to deliver highly profitable growth. One of our highest postpaid phone net adds and lowest phone churn quarters in history, and delivered results once again that outperformed our benchmark competitor.

This quarter also, we delivered our highest enterprise postpaid net adds ever. So we're seeing growth in all segments in small business and in enterprise.

As for the macro environment, while there's probably a portion that are pricing sensitive, we know from years of experience that price alone doesn't determine a win with enterprise and government who are uncompromising when it comes to network performance and complete solutions. Solutions like we recently deployed at Boston Children's Hospital, which is the health care industry's first-ever hybrid 5G network solution for over 18 buildings, which is supporting critical applications, not only reliable connectivity, but also with security and MDM solutions for doctors to provide telehealth services to their patients.

So let me pause there, and Mike, see if there's anything.

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

Yes. And specifically on ARPU, we said in our prepared remarks it's somewhat lower than consumer, but highly accretive from a CLV and value-creation standpoint. So these are great customers. We are finding, as Callie said, that enterprises are not picking us because we're the lowest price, although we compete ambitiously on price. They're picking us because of the solutions that Callie's team has brought to the market. And that's very helpful from a value-creation standpoint for us.

So we continually look at the customer lifetime value, net of all the cost, to serve these customers and find that enterprise customers are highly attractive and therefore contributing to our financial results. And that's why Peter always warns you ARPU's a mix-driven metric, and we're not solving for it. We're solving for value creation and return on our effort and investment. And enterprise is a great place to put our effort and investment.

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

And then, Phil, with regards to the [$1 billion] crack at OpEx, so again, the actions that we took are really ways for us to create tailwind and further fuel the growth for the company. And so I'm not giving specific line item, OpEx guide. All of those actions were then contemplated in the updated guide for 2023 that we gave, and again, kind of the teaser we just gave about 2024 and core EBITDA there.

Operator

Our next question is from the line of Craig Moffett with MoffettNathanson.

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

You guys recently took a price increase for legacy plans. And we've heard a bit about -- it certainly drew some unwelcome press, and we've heard a little bit about pulling back from that a little bit. Can you just talk about the kind of response you've had and how you think about industry pricing going forward and the ability to walk some of your ARPUs higher?

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

Yes, of course, Craig. And by the way, that was sort of not very accurately reported. So let me just kind of clear it up. As you guys know, because you follow us so closely, more so than the press, we tend to do tests and pilots of things quite a bit to try to figure out what's the right answer. In this case, we had a test cell to try to understand customer interest in and acceptance of migrating off old legacy rate plans to something that's higher value for them and for us. And we had planned to test and did some training around that. And then it leaked. And it leaked as if it was a broad national thing, and it kind of wasn't.

Now I don't know that we still have to do that test cell because, to your point, we did get plenty of feedback thanks to the erroneous context of the leak. And I think we've learned that particular test cell isn't something that our customers are going to love.

Now exactly none have rolled out. So even to your question that we recently rolled out, we didn't. We had planned it. We had planned it as a test cell and then we aren't doing it because I think we've got plenty of feedback.

But maybe, Mike, you can talk about our philosophy on pricing, things we're interested in, what we're hearing from customers and also what we're seeing with Go5G Plus and Next.

Michael J. Katz - *T-Mobile US, Inc. - President of Marketing, Strategy & Products*

Yes. Maybe I can start with that. Go5G Plus and Next have been, like we've talked about the last couple of cycles, incredible successes for us. And it really starts with the fact that these are, hands down, the best value in this industry. If you look at all the features that come with those plans, there's hundreds of dollars of value for customers on a monthly basis with the streaming benefits and the in-flight WiFi and roaming benefits around those plans.

But in a time when the market and customers are so focused on device value, there is not a plan in the industry that gives customers more flexibility and more value on device than the Go5G plans do. And you really saw that in this last iPhone cycle where we really differentiated with the flexibility on upgrade. When the rest of the market is at 3 years, we had offers for customers that allowed them to upgrade as frequently as 1 year.

Those plans really create the platform for our core pricing strategy, which is how can we give customers more and more value and allow them to move up our price card because they feel like they're getting something additional from us. So that is the foundation of our core pricing value.

As Mike said, we conduct tests and pilots all the time, all the time, and we will continue to do so because we still think there's opportunities both to deliver more value for customers in a bunch of different ways, but also look for opportunities to simplify our overall portfolio.

So I would expect to see more of those kinds of tests from us because it's been a consistent practice throughout the entire Un-carrier journey so that we get it right for the experience for our customers.

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

Yes. Although that particular test cell doesn't need to be executed now, we remain very interested in rationalizing our legacy rate plans for IT purposes, simplification purposes, revenue realization purposes, customer satisfaction and retention purposes. So we're going to stay at it. But that particular idea is -- we'll probably do something different. Good. Okay.

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

Can you just comment on just the industry pricing environment overall and what your sense is about the pricing -- the competitive intensity on the rate plan side?

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

Yes, absolutely. In fact, I'll give a broader picture, rate plan and device promotions, which have become a part of the competitive milieu over the last couple of years. It's intense. It's really competitive. And it is pretty consistent, too. I mean, I think it's been consistently competitive all year. And you saw we delivered an incredible Q2 and Q3 in that context, some of the best performance in our history. The lowest churn ever for a Q2 and for a Q3 in our history. We continue to lead in postpaid net additions and delivered EBITDA performance and outlooks on EBITDA that show that we're monetizing that growth as well.

So we're really comfortable in this competitive dynamic, and it's stable and consistent. So that's what's going on out there. It's intense. We like it that way. And I would say we're entering a typically very intense seasonal period around the holidays, and I expect it to be a slog out there just like it is every year.

Operator

Our next question is from the line of Brett Feldman with Goldman Sachs.

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

During your prepared remarks, I think you had mentioned that your fixed wireless churn has come down. I was hoping you can maybe give us a little bit of insight into what's driving that. Maybe broadly speaking, what you've learned about what creates churn and what causes greater levels of retention across that base? And do you think you're getting to a point where churn is getting into a mature run rate? Or is there still opportunity to keep driving that lower?

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

Yes, I'd love to take credit for that. I think a lot of it is just the math of the aging of our base. So this product was great when we launched it, and that's because we had made sure it would be great before we took it national. And so it's generally been pretty consistent. One of the ways you can look at that is the Net Promoter Scores, which have been pretty consistent.

Michael J. Katz - *T-Mobile US, Inc. - President of Marketing, Strategy & Products*

Yes. In fact, leading industry of all kinds of -- different kinds of broadband products. Yes, I think there's two things. One is the one that Mike just said and we've talked about this previously that when you have a new broadband business, one that literally has doubled in size year-over-year, then we have many more customers that are brand-new customers that churn at a higher rate. That's just the way that the churn curve works on products like these, including wireless. Early 10-year customers churn at a higher rate. And as customers mature and our base matures, we expected to see a decrease in churn, which we, in fact, have seen.

Additionally, across all of our 10-year cohorts, we've also seen churn come down. And a lot of that is because as we get mature in our execution and as we get more feedback and data from customers about their performance, we've been able to tune our execution. We've been able to do things and address things like common things that cause confusion for customers either with install or with peripheral devices being attached to their CPEs. We've created better tools to be able to troubleshoot for customers. And those things have had an impact on churn.

And I do expect, as we learn more, we'll get better there as well. So our goal with all of our businesses is always to be the best in churn, and that's no different for us than in the HSI business.

Operator

Our next question is from the line of Jonathan Chaplin with New Street Part -- Research.

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

So Mike, when you talk about why your business is so great, it always starts with a discussion of the fact that you have the best network and it's built on this incredible spectrum portfolio that's unmatched across the industry. Is there something about the broadband business that means you don't have to own and control the underlying asset in order to have the same kind of defensible position in broadband? And I'm thinking specifically of fiber here as opposed to fixed wireless access.

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

Well, it's a great question. For me, in the wireless space, you have this national competitive intensity where brand trust around this intangible of value and network is really, really important. And we have so carefully built that brand trust over so many years that we think it's somewhat transferable. People believe in this brand, being an advocate for them, putting them first, changing the rules in their favor.

And in wireless, there's a big intangible on network, which is you can't really buy 3 phones and then travel the whole country. There are services that do that and people make advertising claims based on what those services find, but people don't believe all that stuff. So it really comes down to their own lived experience and the covenant -- sort of the contact and the connection they have with the brand that they use. And what we're finding in our work is that, that brand is highly transferable into adjacent spaces because of that trust.

And so we're interested in the space. We're finding that our brand really resonates, but we're not interested in changing who we are from sort of a capital structure standpoint. And that's why we've talked about fiber the way we have.

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

A quick follow-up, Mike. Can you just update us on how many homes you're addressing with fixed wireless access and how that's changed over the course of the quarter?

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

Yes. And I'll address it, but I will remind you, it's a bit of a different metric than homes passed in the broadband and fiber space. We generally talk about marketing to about 50 million homes right now. But it's a dynamic number and it changes based on penetration of given neighborhoods.

And so what happens, I'll remind you, is that on every sector of every tower, we have an assessment of capacity, not just now, but out into the future, assuming ongoing wireless smartphone share taking and ongoing rapid increase in wireless consumption per smartphone. And once we plot all of that out, there are sectors of towers where no normal amount of share taking or wireless smartphone consumption will use up our capacity anytime soon. And in those places, and only those places, are we approving applicants for our home broadband service.

And what that means is we're essentially monetizing and selling excess capacity through this initial 5G broadband strategy. And so those are the "homes passed". Now if 3 people in your neighborhood sign up or 4 or 5 people, depends on the sector, the whole neighborhood comes off our list until such time as we've got that excess capacity again.

Now as I mentioned earlier, Ulf is rapidly rolling out new capacity enhancements and we're only part way into it. I think as we wrapped up the quarter, we had, what, Ulf, about 155 megahertz deployed against our Ultra Capacity?

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

That's right. And we continue -- I mean, we have now 70% of the payload is 5G on the network. As we continue to see more and more 5G traffic, that means we can move over frequencies that are used for LTE into 5G. And as you said earlier, we have this enormous spectrum asset in mid-band, which is where the Home Internet products are residing that we can continue to leverage. We have more spectrum than anyone else has on mid-band as a potential. By the end of the year, we are approaching 200 megahertz that we will have dedicated for 5G products.

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

So that gives you a sense of how rapidly this is changing in terms of how we're deploying capacity. It sits in the high 150s now. It's on its way to 200 around the end of the year against Ultra Capacity 5G. And that's before broad deployments of C-band, 3.45, most of the Auction 108 proceeds, which we don't have yet and ongoing refarming from LTE. So lots of room to run.

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

So Mike, that 50 million is about the same as it was last quarter. So the acceleration in net adds must have come either from gaining share of decisions within the 50 million or from the reduction of churn that you mentioned earlier.

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

Yes. And net adds have been relatively consistent. I mean, I know it was in the high 500s this time. Every quarter will be a little different. But I would say net adds have been pretty consistent.

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

All right. Let's go to social. We've got a question from [Bill Ho]. Given the 3Q iPhone launch and 3Q take rate, how does Q4 look for existing subscriber upgrades on devices and plans?

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

Okay. Well, let's start with Jon and maybe talk about what we're seeing out there in the consumer space with upgrades and what's driving that.

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

Yes, you bet. So like we said in Q3, we had a great overall quarter when you look at what's happening with the iPhone. First of all, this iPhone 15 is a fantastic device and it drove a lot of switching in the marketplace as you saw relative to our results.

And not just a iPhone 15 on a differentiated 5G network that I talked about just a few moments ago, but a different iPhone 15 because of some capabilities that really work on our network versus others. When you think about 4-carrier aggregation, when you think about voice over new radio, 20% download speeds that are faster versus an iPhone that doesn't have that, that's all great. Customers love it, et cetera. And it drove a lot of switching activity.

Now relative to our existing customer base, what you're finding is you're finding us landing upgrade offers with people who need it and not necessarily with people who don't need it. Because remember, our overall base is about 70% with the 5G handset that's out there today.

And when you think about customers that are having a great lived experience today on an incredible 5G network, they look at upgrades as an opportunity to, am I really going to improve my experience. For a lot of customers, that's not really happening relative to the network that they have out there and relative to our overall positioning with our 5G devices.

Remember, we had a lot of upgrades back in 2021 and 2022 in the Sprint base. We got a lot of that upgrade base happening at that time.

So like we said, when you look at the overall iPhone 15 launch, I feel fantastic about that. When you look at upgrades, it's a little lower. You've seen the upgrade rate at 2.7%. It's a little lower, but also with against the backdrop of the lowest Q2 churn we've ever had followed up with the lowest Q3 postpaid phone churn that we've ever had. And I like how those dynamics are playing out.

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

Yes. And I would just add, Bill, to that question. I think I'd expect the same dynamic to play out in Q4. That same meeting consumer demand exactly as it is. That same dynamic of because of the 5G device penetration and how the lived experience on those network actually exists for those customers.

I feel our equipment revenue, which as you know, isn't the value-creating element of the company, that's service revenue, that will continue to have industry-leading growth. On the equipment revenue side, I'd expect it to be in the same kind of low $3 billion range for Q4 as a result of that dynamic.

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

It's been a nice tailwind for us to see these upgrade rates so low and yet our churn so low at the same time. And it really speaks to the everyday experience that T-Mobile customers are having on the most advanced 5G network. And they just don't feel as compelled to take action because they have a 5G device, and it's working remarkably well.

And that trend could continue because as Jon -- Jon said it kind of fast, but the newest iPhones take advantage of 4-way carrier aggregation on T-Mobile because our network is so far ahead with standalone 5G and core 5G capabilities that are much more advanced.

Now the devices are starting to take advantage of those things, which means they're very future-proofed. And so it's great to be at T-Mobile because these advanced phone features take advantage of advanced network features and may mean that you don't need a new one again as quickly as you might otherwise.

For some people, that's what they want. They just want a new one every year, I'm one of those people. And T-Mobile reaches that audience as well with our breakthrough plans like Go5G Next. So we feel like we're speaking to the right audiences with the right offers here.

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

Okay. Great. Operator, let's go back to the phones.

Operator

Certainly. Our next question is from the line of David Barden with Bank of America.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I guess, two threads, if I could. Mike, I just wanted to follow up on your comments. I mean, in the past, you've historically said that higher switching environments were environments where T-Mobile thrive because you were bringing your value proposition to the market more frequently.

But now that upgrade rates and churn is falling across all the telco players, does this mean that you're getting just super normal switcher share from the telcos? Or is some of this now coming to you from cable as that base kind of ages in their experience in the cable industry and the promotions come off?

And then I guess the second question, if I could, Peter, you kind of talked about how these head count reductions in the summer were part of some of this larger plan for transformation of the business. Is there more to come on the transformation, and maybe for lack of a better word, synergy realization as we look into the 2024-2025 period? Or are we there now?

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

Yes. Thanks, David. Well, let me comment first on the competitive dynamic. You're right. I mean, we love a dynamic where there are more jump balls, more people who are category [contenders]. And let me clarify, though, that devices and upgrade rates are only one input to that. So devices can be a great catalyst for switching carriers, but they're by far not the only one.

And so our job through our offers is to create those moments where people stop and say, hey, maybe I'd be better off. Maybe it's better over there at T-Mobile. And that's something we've consistently done and our Un-carrier moves have always been a technique we've used. This latest one this year, Phone Freedom and all the related offers around it, is really resonating with people.

We looked into it and found that AT&T, for example, was experiencing really low churn and yet high intentions to switch by their base and that told us that people felt trapped. And so we released an offer that was about untrapping them. And that's been the kind of thing the Un-carrier has always done. So we're out there competing ambitiously and it's working, as you can see, in our industry-leading postpaid phone net additions and other metrics.

We are also seeing, mostly due to the aging of the base, as you said, that switching relative to cable has been improving quarter-over-quarter for several quarters in a row. That's good to see. There's no real new dynamic there with cable. They've been pretty consistent since about a year ago, and we expect that to continue. And you can see how well we're competing in a dynamic where cable is out there doing what they do relatively consistently.

And then finally, you were asking about transformation and what's going on there and what we see. Do we have room to run? In many ways, we're really just getting started.

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

Yes. And you kind of asked it in the context of workforce transformation. And no, there's no broad plans to do any more of that in 2024. But on transformation and efficiency, absolutely, and how we'll grow core EBITDA and continue to expand that.

Two elements there. One, as you know, we made significant investments in the last couple of years, whether it's in network and the pull forward that we did there, that now we're able to leverage. Similarly, in smaller markets and rural areas where you had distribution expansion and that investment is things that you can now leverage.

And beyond that, of course, I mean, that's one thing this team does phenomenally well is looking at how do you harness the latest technologies? How are you really looking around corners to create the efficiency so that we can have that reinvestment into customer acquisition and profitability? So there's more of that on the runway ahead of us for sure.

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

And obviously -- yes. And I'll just add one thing. I mean, obviously, we're not the only company that has noticed this, but the technology landscape around us is rapidly changing. And so that means there's an opportunity for us in our post integration era as we plot the next chapter to think about recrafting our company, taking advantage of the technologies that are now available to us to become much more deeply data informed, much more AI-enabled, much more digital-first, those kinds of things.

And so we're -- that's taking up a lot of our team's time and attention now to reimagine how can we create a business model that really creates a fantastic experience for each customer individually, but at the same time is more efficient to operate and that's where we have ambitions.

Okay. Jud, where do we go now?

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

Next question, please, operator.

Operator

Certainly. Our next question is from the line of Kannan Venkateshwar with Barclays.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

So Mike, I just wanted to push you a little more on the capital allocation [budget]. When you think about the broadband business in the next couple of years, you'll probably be either the #3 or the #4 biggest player in broadband. And that could either mean that you need more capacity spectrum or get an opportunity to update the fiber.

And then, of course, there is the opportunity -- I mean, from -- you have potential on to maybe expand [after] certain segments in the market. So if you guys think about it, make it out over the next few quarters, but if we were to look at a wider lens over the next few [years], could you help us think through how you evaluate some of these opportunities longer term in terms of both fiber as well as these asset (inaudible) opportunities that may (inaudible)?

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

Yes. Thank you. And I'm really sorry, your line is really garbled. And so I'm going to paraphrase what I think you're asking, but we really couldn't hear the words. I apologize.

I think you're asking about longer term, how do we think about playing in the broadband space. I made comments about wireless over the next year and kind of how we think in the immediate term about fiber, but what do we see as the bigger picture, especially given the finite nature of capacity in the wireless space.

And I'd say we haven't taken decisions about that. We are interested in whether or not there are techniques that are capital efficient that could extend the capacity and competitiveness of wireless into the future, and we've not yet cracked the code on that. But our team is working hard on that to see whether there are techniques that would work to do that, and that would be -- that would support a business model where we could make a fair return. So we're hard at work on that.

We're hard at work executing our current strategy centered around mid-band spectrum and competing ambitiously towards that high single-digit target that we had talked about. And that seems to be very much on track.

And then as we said, we're interested in fiber. And to the premise of your question, fiber is a technology for the decades and that's not lost on us. We know that fiber will serve households and businesses a long time from now. And we also are rapidly, I think, gaining confidence that our brand and our team belong in the broadband space.

That being said, we don't have an interest right now in changing the basic capital structure of this company nor the philosophy of it nor the centricity we have around wireless. And so we're looking for ways that we can, over the next couple of years, continue to learn, continue to expand, bring our brand of fiber through partnerships, through capital-light methods, investments, collaborations, those kinds of things. And they won't all be as small probably as the small pilots we're doing now. We may get after it a little more significantly because our confidence is building in the space.

And then -- and I know you want a longer-term vision for it, but I think we go do that for a couple of years and get good at it and execute and prove we can give returns and also get through some of that initial capital intensity period and then kind of see where we are.

What this team is very focused on is making sure that the efforts that we embark on, on your behalf deliver a great return back to you. And we're in this phase now in wireless where we're starting to realize the benefits of a disciplined strategy that has balanced growth and profitability so well over the last few years that we are now into a major shareholder return phase. And we think that's a great place to be.

I'm sorry, we couldn't hear your question as well. I hope I got close.

Operator

Our next question is from the line of Michael Rollins with Citigroup.

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

First on the capital investment side. Can you discuss a little bit more over the course of the year what were the activities that drove the incremental investment? And maybe you can give us an early read on how 2024 looks from an investment perspective and how those spending activity may be similar or different to the current year?

And then just one other quick question. In the past, you discussed the mix of postpaid phones of overall postpaid net adds, I think being around 50% for 2023. But in the third quarter, that percentage ticked up because of the educational sector deactivations. So just curious if you can give us an update on how you're thinking about the mix of postpaid phones within the total postpaid net add guidance.

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

Okay. Let's start with the easy one at the end because I think you gave some specific numbers there, Peter. But then if you don't mind, why don't you talk about our capital philosophy for next year, and then I'll hand it to Ulf to talk about how he's going to spend all that money.

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

Very wisely, as he always does. Yes. You're right, Mike. Q3 was kind of a unique phenomenon, which is why we gave more specific guidance as to the subset of the overall that will be postpaid phone, the approximately 3 million total for the year. And that's because Q3 in and of itself was kind of that period where we anticipated more of these educational deacts to come through and they did.

So I wouldn't read through Q3's mix of phone to other, but really take it in the context of what we gave with regards to the 3 million overall for the year.

Now -- and turning into everybody's teasing out 2024 guidance from me. But as we hand it over to Ulf to talk about how the investments have been made and how the shift is really into this customer-driven coverage, very data-driven, informed build to make sure that we're focused on where the best ROI is, where the best customer experience benefits will come, we've seen a lot of benefit from that. The way we're able to deliver, you just saw it, with 300 million POPs delivered and yet we are the most capital-efficient company in the industry.

And so when you turn to 2024, we continue to believe that, that's really the mechanism that's going to drive capital investment, particularly with regards to the network. And so I could see us maybe -- we gave a [$9 billion to $10 billion] as a range for '24 previously. I could see us probably being on the lower end of that. We'll see what transpires in the longer term. But that's kind of the early read on where we think '24 could land.

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

Yes. And I want to hand it to Ulf and team and Neville before him. We have really built, thanks, Ulf, to your leadership, a really different approach on how to deploy capital. And it is lean, it's efficient. It's plan-ful. And we're realizing real benefits from that right now. And we can see all of our diagnostics how we're getting more for less. And so I'm just really, really proud of that.

And maybe we can talk about what the priorities are for 2024. And as a part of that, we can also hit Tech life Channel, @Techlife32, congrats on the 300 million. What's the progress on the new site builds 10,000 we had talked about in the merger plan. Will that complete this year or will that run into 2024? And tell us about the capital priorities for the network next year.

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

Yes. Thanks, Mike. And I couldn't be more delighted that we were able to pull into the station months ahead on -- 300 million POP coverage. And as you said, Mike, it's very much attributed to how we do this. We do this different from other operators in the world, I would say, with our lean just-in-time process, which is focused on lead times and deliveries of precise upgrades where we need them on the ground. And that's why we were able to pull in on that.

We will continue to refine this process. And now it's becoming, with the teams, much more having input from AI, from all the data we have, from the market on precisely what the biggest and best returns on investments are as we continue to build and upgrade the network. We have a lot of room to run that was said earlier here in terms of putting frequencies to work in our mid-band, the mid-band that actually creates this enormous experience, the Un-carrier -- sorry, Ultra Capacity on the phone that you see with the UC. That experience, we will continue to enhance.

Let me remind everybody that we got our C-band left and we got 3, 4, 5 left, for example. Those will need capital next year and we're looking into a precise deployment of those. But we also have more LTE spectrum, as we said earlier, to put at work, more 600 with a current or a newly announced lease with Comcast that we are putting to work as well. But those actually don't need capital because we have smartly built this network in a way that we can just, with command, upgrade the network to make use of those into next year.

So a very effective year in terms of staying very competitive, being staying ahead of others a couple of years as we are on our 5G advantage with capital efficiency.

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

That's fantastic. And I know every company is being asked, how are you taking advantage of emerging AI technologies and it's really exciting that this is one of the areas where our business can benefit because the team has already begun making capital deployment decisions, as Ulf just said, based on an AI analysis of network usage and how it correlates to individual churn and satisfaction patterns at a person-by-person level. It's very exciting stuff. And that, and many other things, including the breadth of our portfolio, lead to a capital efficiency profile. So we'll see.

I know Peter teased you, we don't know. It's not time to guide on next year yet. But our hope is that because of that capital efficiency and what we're now seeing, we may be able to accomplish everything we set out to accomplish next year at the lower end of that capital range. So we'll see and we'll give you an updated view as we get into next year.

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

All right. Yes. Lots of congratulatory on social on 300 million. So great job, Ulf.

Operator

Our next question is from the line of Greg Williams with TD Cowen.

Gregory Bradford Williams - *TD Cowen, Research Division - Director*

Great. I know the industry has asked this question for quite some time, but you just hit 850,000 phone adds. You're the third carrier [to turn a] solid phone growth. Cable's going to announce their numbers in the next 48 hours. But just getting your latest thoughts on where these additional phones are coming from and how you see industry phone growth playing out in 2024?

Second question is just on private networks. One of your competitors spoke yesterday saying that perhaps private networks could move the needle in 2025. We've been down this road before. But you talked constructively on advanced strategy in the past. I'm curious to hear if you're seeing similar views on 2025 for private networks?

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

I mean, well, first of all, let's start there. I mean, for some competitors with standalone 5G capabilities, private networks are here now. We're just aren't managing it through press release and vaporware. We're just quietly serving customers. Maybe -- I don't know if you want to talk about any of those, Callie, that we're doing. There's a lot of exciting examples nationwide of customers who are benefiting from this today at T-Mobile. And then we'll get to your second question.

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

Well, I mentioned this earlier, Mike. And when we think about the challenges ahead of CIOs today, they're looking for ways to take a campus, like Boston Children's Hospital that I mentioned before, and take the millions of connections with WiFi and say, hey, we've got to have something that meets the needs of the data and the connectivity in our business. And so we have a very real-time example in the health care industry and several more that we're building out that are allowing doctors and nurses and their patients to have reliable connectivity, but also with security and MDM solutions.

Another thing that we -- is real for us today is the first commercial offering of a network slice that will deliver an incremental layer of security and control for our customers, combined with T-SIMsecure, which is a SIM-based SASE solution reducing complexity for IT administrators.

So we're able to take these solutions and pair that with a hybrid 5G network solutions, sometimes in parts of the campus private, some parts utilizing the incredible public network that we have. So these are very real deployments today that have significant pull-through on other types of connectivity that we offer and really meet the challenges that CIOs are looking for. Not to cut off a couple of dollars on a phone connection, but to really look at their entire solution for data and connectivity and that's where we're playing because of the 5G standalone core that we have.

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

I mean, it's well timed because CIOs are interested in secure connections more than ever before and they're interested in saving money, not necessarily on a per-smartphone subscription, but broadly in their system of connectivity and our solutions do that. And so it's great to see and obviously an all-time record quarter for enterprise for us.

And then you asked about the overall postpaid phone growth rate. And yes, it's turned out to be more resilient than a lot of people predicted. We didn't predict. We told you when you asked us last year that we weren't going to predict the whole category. But overall, postpaid phone growth continues to roll on, although at slightly more modest rates.

And there's lots of things driving that. You see enterprises carrying 2 lines, sometimes on the same phone, sometimes on separate phones. You see postpaid growing at the expense of prepaid. That trend continues, although T-Mobile continues to grow our prepaid base across all types of connections. So we continue to lead in that space. All the donations are coming from someplace else.

And then what I called in the past kind of low-calorie net adds that you see principally at some of our competitors, including newer competitors.

And thank you for giving me the opportunity to go ahead and pre-announce cable's results for them as I usually do. No, I'm kidding. We do have telemetry that tries to show us all quarter long what's happening with our competitors, and I think it's a remarkably consistent trend. So you see intense competition out there, probably not a lot of big surprises. And you saw us perform yet again with a market-leading, very high-quality, mostly prime 850,000 postpaid phone net additions in a quarter where we experienced an all-time record Q3 churn. So just really proud of how we're competing in an ongoing competitive dynamic.

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

All right. That's a good place to wrap up. All right. Thanks, everybody, for joining us. Really appreciate all your support. And if you have any further questions, please feel free to reach out to both the Investor Relations or the Media Relations department. Again, thanks again for joining us today.

Operator

This concludes the T-Mobile third quarter earnings call. Thank you for your participation. You may disconnect, and have a pleasant day.
