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Sprint Corp. (S)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for standing by. Welcome to the Sprint Fiscal Second Quarter 2015 Conference Call. During today's conference call, all participants will be in a listen-only mode. Following the opening remarks, the conference will be opened for questions.

I would now like to turn the conference over to Mr. Jud Henry, Head of Investor Relations. Please go ahead, sir.

Jud Henry
Head-Investor Relations

Good morning, and welcome to Sprint's quarterly results conference call. Joining me on the call today are Sprint's President and CEO, Marcelo Claire; and our CFO, Tarek Robbiati. Before we get underway, let me remind you that our release, quarterly investor update and presentation slides that accompany this call are all available on the Sprint Investor Relations website at www.sprint.com/investors.

Slide 2 is our cautionary statement. I want to point out that in our remarks this morning we will be discussing forward-looking information which involves 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.

Turning to slide 3, throughout our call, we will refer to several non-GAAP metrics. Reconciliations of our non-GAAP measures to the appropriate GAAP measures for the quarter can be found on our Investor Relations

website. In addition, I would like to mention that all references to customers or connections in our remarks represent results or expectations for the Sprint platform unless otherwise indicated.

Let's move on to earnings for our second quarter of 2015 on slide 4. Sprint's net loss improved \$180 million or \$0.04 per share year-over-year to a net loss of \$585 million or a loss of \$0.15 per share, compared to a net loss of \$765 million or a loss per share of \$0.19 in the year ago period. The improvement was related to better adjusted EBITDA, which Tarek will discuss in more detail, partially offset by higher depreciation expenses related to leased devices.

In addition, there are some offsetting one-time items including severance and exit costs related to work force reductions in the prior-year quarter of \$284 million, while this quarter included an \$85 million asset impairment primarily related to cell site construction costs that are no longer recoverable as a result of changes in the company's network plans as well as a legal reserve for pending disputes.

Lastly, although Clearwire's financial results are now consolidated with Sprint's and included in today's presentation, its standalone quarterly financial results will be available on our website in the next several weeks as required by its debt covenants.

I will now turn the call over to Sprint's CEO, Marcelo Claure.

R. Marcelo Claure

President, Chief Executive Officer & Director

Thank you, Jud, and good morning, everyone. This quarter marks a very important milestone in our turnaround effort at Sprint. We're progressing in our plan to return Sprint to net income profitability, positive cash flow, subscriber growth, and network priority or superiority. I'm very excited about the momentum that Sprint has with its wireless customers all over America.

Let's start discussing two remarkable events that happened this quarter. First, and as we guided last quarter, Sprint was postpaid phone net add positive this quarter for the first time in over two years. Also, this marked the sixth consecutive month of being postpaid phone positive based on October results, which is the first time in nearly three years that we have had six consecutive months of postpaid phone additions.

At the same time, I'm happy to report this quarter that we had our best ever postpaid churn in the company's 20-year history in wireless. And considering our previous record was just set last quarter, it means that Sprint is the first of the four national carriers to report an improvement in churn sequentially from the June to September quarters.

In addition, our network continues to perform better as reflected in the continued improvement in our postpaid churn. Also notable third parties whose business is to measure network performance measured Sprint's network to be faster and more reliable than ever before. I'm even more satisfied as Nielsen released a study showing Sprint as the fastest network for downloading large files ahead of AT&T, Verizon, and T-Mobile.

As it relates to funding our turnaround, we continue to work with SoftBank and other recognized companies to set up a lease company to monetize device lease by our customers. We have agreed upon most of the commercial terms, we're currently finalizing the documentation, and we expect to close our first tranche in the next few weeks.

As you can see on slide 6, not only is it good to have the company improvement in nearly all of our metrics, but we also have to compare how we're doing against our competitors. In fact, Sprint was the only national carrier to

improve year-over-year in both total postpaid net additions and postpaid phone net additions as well as having the biggest year-over-year improvement in the industry for postpaid churn for the second consecutive quarter.

As you can see in the top left graph, in the category that matters the most, postpaid, all three of our competitors have reported lower net additions year-over-year, while Sprint is the only carrier who has reported positive growth.

As you can also see in the bottom left graph, that this is the fourth consecutive quarter that we have surpassed AT&T in postpaid phone net addition and the gap has grown to almost 800,000.

Lastly, as I mentioned before, Sprint is the first of the four national carriers to report an improvement in churn sequentially from the June to September quarters. Let me elaborate. For as far back as the other three national carriers have reported postpaid churn, not one of them has improved sequentially during this period of a year; not AT&T, not Verizon, not T-Mobile, and that is something that we're all very proud of.

Turning to slide 7, Sprint continued to build momentum in subscriber growth as you can see reflected in our second quarter results. We had 1.1 million total net additions in the quarter, which represents nearly an 80% improvement compared to the prior-year quarter. This also marked the second time in the last three quarters with over 1 million total net additions and bring us to nearly 4 million total net additions in the last four quarters.

Postpaid net additions of 553,000 were the highest in eight years, improving by over 800,000 compared to net losses of 272,000 in prior-year quarter and makes four consecutive quarters of postpaid growth.

Our postpaid gross additions were the highest for September quarter in four years, and we had the highest prime mix for September quarter in seven years. Even more importantly, we continued to make tremendous progress reducing our postpaid churn, which was the best in the company's history this quarter at 1.54%, improving by 64 basis points year-over-year.

Given that we have typically seen an average seasonal 15 basis points increase from June to September quarters, the fact that we actually improved our churn sequentially speaks to the continued improvement in our network and improved quality of the customers that we're now attracting. This will continue to be a key focus for the company as the cost of retaining existing customers is significantly less than the cost for acquiring new customers.

We expect a similar year-over-year improvement this quarter, or said differently, a similar sequential seasonal impact as last year's December quarter. Most importantly, our postpaid phone net additions of 237,000 marked the first quarter of net additions in over two years. This quarter's results also improved sequentially for the sixth consecutive quarter and by over 700,000 year-over-year.

During the quarter, 199,000 prepaid customers with consistent payment history migrated to postpaid, with 175,000 of this migration being postpaid under the respective Boost and Virgin brands. Our prime postpaid gross additions were up 10% from a year ago, continuing our focus on the quality of growth to maximize profitability more than the absolute quantity of growth.

Prepaid net losses in the quarter of 363,000 compared to net additions of 35,000 a year ago. As I mentioned a moment ago, 199,000 of the prepaid losses were related to customers with a consistent payment history migrating to postpaid. Our wholesale business continued to grow for the ninth consecutive quarter, with net additions of 866,000.

Now let me update you on our progress on the network on slide 8. We have continued to make great strides towards our goal of providing a network that delivers a consistent reliability, capacity, and the speed that our customers demand. One example is the continued deployment of carrier aggregation to create wider channels and produce more capacity and faster speed in 80 markets across the country.

Carrier aggregation is important because it allow us to unlock the potential of our deep 2.5 spectrum position and build a big pipe that our customers need. We expect [ph] spectral (9:41) capacity and speeds to double, which means customers with cable devices are already experiencing significantly faster speeds. We now have 12 2x20 carrier aggregation enabled devices available to our customers, including the new iPhone 6s and 6s Plus providing a noticeable faster data experience to users.

Users don't have to take our word for it either, as others have noted experience. PC Magazine looked at the speed test results for LTE connections on the Sprint iPhones in early October, analyzing more than 32,000 individual speed tests. They found that the average download speeds on the two new devices are 50% faster than the last generation with realized maximum peak speeds on our network at over 120 megabits per second for the iPhone 6s.

In addition, Nielsen monitors how consumers are using their wireless devices using crowd-sourced data to measure the performance of common applications such as Facebook, Google, YouTube, Netflix, Instagram, Snapchat and many others. These applications comprised approximately two-thirds of activity on our customer's phones. According to Nielsen, Sprint download speeds for these applications in the April to September timeframe surpassed AT&T and Verizon with significant gains made in July following the deployment of carrier aggregation. Also, Sprint network delivered large files faster than any other carrier in the September quarter.

Independent mobile analytics firm RootMetrics has also taken notice of Sprint's speed enhancements as evidenced by the results in Denver where Sprint won the overall performance RootScore Award, and more impressively, Sprint won the Data Speed Award outright.

Furthermore, in the market that RootMetrics has tested so far in the second half of 2015, we have seen an almost 55% year-over-year increase in first place awards, and they're also showing a 66% increase in median download speeds on average compared to a year ago.

RootMetrics has also commented on the vast improvement in Sprint's overall network performance in key markets like New York City. In a recent report on New York City's urban mobile experience, RootMetrics noted how Sprint caught their attention with a strong performance in the heart of Manhattan and applauded Sprint's reliability and core performance has been incredibly strong. In fact, Sprint had the best voice performance with fewest lost calls of any carriers, both outdoors and indoors.

In addition, we're pleased to see OpenSignal's report that Sprint now has the lowest 4G LTE latency for second consecutive quarter in the September quarter of 2015, beating out once again AT&T, Verizon, and T-Mobile, despite what they may claim. Latency is the delay between the time wireless information is sent and received, which is very important to consumers today as they want their content instantaneously when they touch their device. While the significant improvement in the network today is paying dividends in the form of a better customer experience and obviously lower churn, we're also excited by the early progress on the densification plans to further differentiate our network in the future.

As we discussed last quarter, our new network plan includes significantly densifying our network by increasing the number of sites across all the spectrum bands to expand on their multilayered networks strategy. Most of the activity today had been on the activities for small cell deployments and we're very pleased with the early progress. We continue to be extremely surgical to maximize network performance as well as the efficiency of capital and

operating costs. We're confident that this plan will deliver the capacity, speed and coverage to position Sprint for network parity or superiority over the next two years. And by unleashing our unique depth of the spectrum we will be best positioned of all carriers for the growing demands of the future.

Regarding our cost structure on slide nine, we're focused on transforming the cost structure of the business to be a more nimble competitor and more importantly to get the free cash flow generation. We are exceeding our original target for reductions in 2015, which are funding the many turnaround initiatives we're implementing to attract and retain customers and improve the overall customer experience. However, we must raise the bar further for 2016. We're confident in our plan to achieve a sustainable reduction of \$2 billion or more of run rate operating expenses. This reduction is expected to be a reduction in cash operating expenses and not subject to reinvestment unless funded by further reduction.

This reduction will come from every area of the business, leaving no stone unturned, as we work on improvement procurement and operational efficiency using zero-base budgeting, reducing our roaming expenses, and optimizing our spending on sales, marketing, general and IT. We do expect some one-time cost to achieve our upfront investment to be required to realize the run rate savings and Tarek will discuss them later.

Ultimately, we must find a way to grow and optimize the business at the same time. I understand that some people will be skeptical, believing that those are two mutually exclusive outcomes. Nevertheless, we're extremely confident that we can execute on both at the same time with the guiding principle that the changes we make in the operating model must be executed in a way that minimizes any disruption to the sales momentum we're achieving or the customer experience.

Moving to slide 10, we continue to enhance our value proposition with innovative products and pricing that provides consumers with great products and great service and a great price for data. At the same time, we want to maintain a prudent approach to monetizing the growth in data usage and obviously improved profitability.

In August, we launched the iPhone Forever program, allowing customers the opportunity to come in every time a new iPhone is launched and get the latest model on their new lease. Many customers told us that they would like a new iPhone every year but they were locked into a two-year commitment. Now we have delivered just what customers want.

In October, you saw us address both ends of the rate card with a new entry point plan for low data users at \$40 for 1 GB as well as raising the price of unlimited by \$10 to \$70. Keep in mind, that for iPhone customers, this is \$20 higher than where we were at the end of June. This move is immediately accretive to our margins while still offering the lowest prices for postpaid unlimited high-speed data plan from a national carrier and continue to serve an important part of the market that is currently turned away by the two biggest carriers who refuse to offer consumers a true unlimited data option. Most importantly, we're treating our customers right by not changing their existing monthly rates for unlimited and we gave prospective customers a two-week advance notice that the price change was coming.

In addition, we have enhanced the customer experience for customers on the Sprint Family Share Pack by eliminating surprise overage for data. For new customers or base migrations to a new plan, we will continue to provide unlimited at data 2G speeds and no additional charge after they consume their generous data buckets. At the same time, we'll provide very simple and quick options for the customers to actively purchase additional high-speed data at their discretion and with their consent. This put the choice in the customer hands, where it really belongs.

We also continued to enhance the value proposition for our prepaid bands as well with growing data loyalty plan for Boost and the unlimited music plans for Virgin. All-in-all, we're focused on providing a competitive price to customers while still growing the average billings per users to drive profitability.

Furthermore, we continue to maintain a selective approach to customer acquisition, focused a lot more on the quality of the customers rather than the absolute quantity as we look to maximize long-term value and progress towards free cash flow.

Given the higher customer lifetime values of prime and multi-line customer, this is the most cost-effective way to acquiring new customers while continuing to delight our existing customer and lowering your postpaid churn overtime.

I will now turn the call over to Tarek to take you through our financial results for the second quarter.

Tarek A. Robbiati

Chief Financial Officer

Thank you very much, Marcelo. Moving to revenue on slide 11, consolidated net operating revenue of \$8 billion for the quarter was down \$513 million year-over-year driven by lower wireless and wireline services revenue, partially offset by a 5% improvement in equipment revenues.

Service revenues of \$6.9 billion for the quarter were down 7.6% year-over-year due to a lower postpaid phone customer base and a higher mix of customers in the postpaid base now on rate plan offered in conjunction with device financing programs as well as lower wireline revenues.

Looking at wireless services revenue on a more comparable basis, service revenues plus installment billings and lease revenues actually increased slightly year-over-year. Equipment revenues of \$1.1 billion for the quarter increased \$56 million year-over-year as a 9% increase in retail sales was partially offset by the timing of recognition for the associated revenue based on the purchase method.

As you may recall, the installment billing and subsidy sales volumes recognized more revenue at the point-of-sale compared with to revenues from leased devices for which no revenue is recognized at the time of the transaction and is instead recognized over the leased term.

64% of postpaid device sales in the quarter were financed, which is consistent with last quarter, with roughly 51% selecting our leasing plans, which was also consistent with the last quarter. This compares with the device financing take rates of 27% a year ago.

The Sprint platform postpaid average total billings per account, which includes the monthly equipment installment billings and lease revenue and service revenue per account was \$166.05 for the quarter. This represents an increase of over 3% year-over-year as higher installment billings and lease revenues more than offset the lower monthly service charges offered in conjunction with device financing options as well as the fact that our average lines per account has increased 5% year-over-year.

Looking at postpaid phones specifically, postpaid phone ARPU of \$70.64 for the quarter increased more than 2% year-over-year, maintaining pricing discipline for future profitability and growing the monthly cash flow stream from our customers.

Prepaid ARPU of \$27.54 for the quarter increased over 1% year-over-year, primarily driven by changes in the mix of our customer base among our prepaid brands and partially offset by pricing changes in our Boost and Virgin brands.

Now turning on to slide 12, our adjusted EBITDA was \$2 billion for the quarter, which increased 45% year-over-year as expense reductions more than offset the decline in operating revenues. In spite of our 9% year-over-year increase in retail sales volumes, total operating expenses improved from a year ago, driven by a \$1.1 billion reduction in cost of product expenses, primarily due to device leasing options for which no cost is recorded at the time of activation in our direct channels.

Cost of service expenses remains relatively flat year-over-year as continued improvement in network expenses were offset by higher service and repair costs. Meanwhile, selling, general, and administrative expenses improved by 3% from a year ago, primarily due to lower wireless bad debt expense as a result of a higher mix of prime credit quality customers and improved management of the base.

Operating loss of \$2 million in the quarter improved by \$190 million year-over-year as the higher adjusted EBITDA that I just discussed was partially offset by higher depreciation expenses associated with the growing base of device leases as well as the offsetting one-time items that Jud mentioned earlier in the call.

Turning on to CapEx and cash flows on slide 13, cash capital expenditure were \$1.7 billion in the quarter, compared to \$1.1 billion in the quarter a year ago. The \$600 million increase in spending was entirely due to the \$573 million related to device leasing in our indirect channels, where we purchase the leased devices from the dealers and retailers. Capital spending on the network was flat year-over-year.

Free cash flow was negative \$100 million for the quarter compared to a negative \$75 million in the year ago quarter. The year-over-year change was primarily driven by the improved operating results that I discussed as well as \$400 million received under our receivable facility in the quarter, offset by the \$600 million increase in capital spending that I previously mentioned.

In addition, we expect free cash flow in the December quarter to be a greater use of cash, similar to the June quarter, due to higher sales volume and inventory. I am now managing the business on an operating free cash flow basis excluding the impact of working capital financing to manage this company [audio gap] (23:32) deleveraging in the future.

As a result, we ended the quarter with total general purpose liquidity of \$5.9 billion, comprised of cash, cash equivalents and short-term investments of \$2.1 billion, \$2.9 billion of undrawn borrowing capacity under our revolving bank credit facility, and \$900 million of undrawn capacity under our receivable facility at the end of the quarter. In addition, we had \$1.2 billion of undrawn availability under our network vendor financing to be utilized towards the purchase of 2.5 gigahertz network equipment.

Also, as we introduced conceptually last quarter, we are working with SoftBank and other parties to execute the first tranche under a new formed handset lease facility. We expect to close on this facility in the next few weeks, and we'll provide additional details at that time.

Let's look at guidance on slide 14. As Marcelo mentioned, we're focused on our plan to achieve a sustainable reduction of \$2 billion or more of run rate operating expenses, and to realize that run rate benefit, we expect some one-time transformation program operating costs and CapEx costs to be required. While still preliminary, our current estimates of such transformation program costs, including program OpEx and CapEx for the business, are between \$1 billion to \$1.2 billion over the remainder of fiscal year 2015 and fiscal year 2016.

Regarding our adjusted EBITDA guidance for fiscal year 2015, on a business-as-usual basis, we would reaffirm our previous range of \$7.2 billion to \$7.6 billion. Incorporating the transformation program costs to realize the run rate expense reductions that would impact adjusted EBITDA this year, we now expect to be at the low end of that guidance range. This excludes any impact of the expected sale of devices leased to customers, which we expect to provide more details on after closing of the transaction.

Furthermore, on a business-as-usual basis, we would reaffirm our previous guidance for expected operating income for fiscal year 2015 from a range of positive \$200 million to \$500 million. We now expect operating income to be between zero and a negative \$150 million to reflect the expected transformation program costs incurred in fiscal year 2015 to realize future run rate expense savings. This of course also excludes any impact of the expected sale of devices leased to customers, which again, we expect to provide more details on after the transaction closes.

In addition, as we remain focused on maximizing our capital efficiency while continuing to improve the performance of the network, we continue to expect cash capital expenditures to be approximately \$5 billion for fiscal year 2015, excluding the CapEx associated with purchasing leased devices in indirect channels.

Regarding the longer-term outlook and given the previously mentioned cost reductions of \$2 billion or more, we continue to expect 2015 will be the peak cash flow burn, and we have a plan to improve the company's cash position.

Getting to free cash flow positive as soon as possible is our top priority, and we are working diligently towards that goal, as our plan to take costs out attests. At this stage, we continue to expect that the working capital facilities that we are establishing in addition to the network equipment leasing transaction that is in progress with the assistance of SoftBank can provide the funding necessary to execute our turnaround.

I'll now turn back the call to Jud to begin the Q&A.

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Jud Henry

Head-Investor Relations

Thanks, Tarek. In just a moment, we will begin the Q&A. Jennifer, please inform our participants on how to queue up for the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Brett Feldman with Goldman Sachs.

Brett Joseph Feldman

Goldman Sachs & Co.

Q

Thanks for taking the question, and two, if I could. I know you're not prepared yet to talk about this financial impact of the handset financing partnerships, but I was wondering if you can maybe provide us a little bit of color on how the accounting works. There's been a lot of discussion among investors about where we're going to see those impacts flow through your financial statements. And then just as a follow-up on some of the cost-cutting initiatives, it does seem like Sprint has been looking to take cost out of the business for a number of years going back to some initiatives implemented two CFOs ago. And so if you can maybe help identify certain areas where maybe you still think that there are some big savings opportunities as we work through our models that would be very helpful? Thanks.

Tarek A. Robbiati

Chief Financial Officer

A

Sure. Thank you, and good morning. The first part of your question relates to how you may want to think about accounting for handset LeaseCo. As it stands and as we explained in the press release, we're well advanced on handset LeaseCo. The commercial terms have been largely agreed. We're in the process of documenting the facility and of course, we'll come back to the market with a much more detailed explanation of the transaction, the sale and leaseback transactions.

From an accounting perspective, most likely this facility will be off balance sheet, and as a result of that, you can imagine a vehicle, which is not on the Sprint books and for which Sprint makes ongoing payments that will be visible above the EBITDA line. These payments will go towards effectively having Sprint acting as the servicing agent for leases that have been sold to that facility. That's what you can expect from an accounting standpoint, and that should be visible above the EBITDA line.

Now on to the second part of your question, which pertains to cost cuts. Look, simple answer to this is that we are determined to with Marcelo to attack the cost base. We leave no stone unturned here. We will look at every aspect of the cost structure whether it's variable or fixed to optimize it, and you can look at the various lines in the P&L, particularly our labor cost, our network OpEx, and our cost per gross additions, our back-office costs around care, IT, billing, and general and administrative expenses to see how we will drive these lines and these costs down over time.

Now it's very important that we are targeting at this stage for fiscal year 2016 a \$2 billion or more of run rate operating expense reductions. Now to achieve those \$2 billion or more run rate operating reductions, we would have to incur one-off costs, some of these one-off costs which we call transformation program costs in both OpEx and CapEx, and so you will have the OpEx reported in fiscal year 2015 and 2016 and 2017 to achieve an exit run rate of \$2 billion OpEx reductions from fiscal year 2016 onwards. I hope I have answered your question that way.

Brett Joseph Feldman

Goldman Sachs & Co.

Q

No, that was helpful. Are you going to give us quarterly updates on how much you are spending around these transformational programming costs?

Tarek A. Robbiati
Chief Financial Officer

A

Sure. I mean, as we go along and we firm up our plans, we'll be happy to report on those to the extent we can.

Brett Joseph Feldman
Goldman Sachs & Co.

Q

Great. I appreciate taking the questions.

Operator: Your next question comes from the line of Jennifer Fritzsche with Wells Fargo.

Jennifer M. Fritzsche
Wells Fargo Securities LLC

Q

Great. Thank you for taking the questions. A few, if I may. On the network, is it possible to consider that maybe some of the benefits you're now seeing are a result of Network Vision? And I just – because in talking to the tower companies, it doesn't seem to be that a plan for small cells or new macro cells has really been communicated to them and so I wanted to just kind of get clarity on that. And then separately, if you could talk a little bit about the distribution and the inclusion of the RadioShack channels and how that is going. Thank you.

R. Marcelo Claire
President, Chief Executive Officer & Director

A

Hi, Jennifer. It's Marcelo. So when we talk about our network, you have to look at it's a combination of many different factors, but obviously the strong foundation of Network Vision has served its purpose. I can tell you that our network is performing better than ever. And it's not only us speaking, but a lot of independent analytics firms like RootMetrics, who pretty much in the first set of testing they've done this year in the first half or second half 2015 pretty much 55% – we're getting a 55% more first-place awards, meaning our network is performing better.

Secondly, we've now started to look at data from Nielsen, which uses crowdsourced data and it shows that for the first time that Sprint is passing both Verizon and AT&T on speed as we turn on carrier aggregation. And it was also very nice to see an independent company like PC Magazine, basically when they tested all the iPhones, they gave remarkable remarks about iPhone success and the fact that we're achieving 50% faster downloads than previous generations. In many cases, they were getting 120 megabits per second.

So the reason why I shared this with you is our network is performing today better than it has ever been in terms of all the different measurements that we basically put on our network. And the network team has been working very hard and not only finalizing Network Vision, but I would say that the key we're working a lot had been in optimizing, doing a lot of optimization work. Now as we work towards the future, we'd continue to execute our plan to densify our network. We don't share our plans with all the network companies. We are using, in many cases, alternate vendors in the densification of our plan, and I can report that we are having – we're in steady progress and we're very happy with the results that we have so far as we continue to build our network.

Now as it relates to RadioShack, we've opened 1,435 Sprint RadioShack stores. That was important to us because it allowed us to do this quick and it's a cost-effective expansion of our branded distribution. All stores are open and they're staffed by Sprint personnel mainly. We're in the midst of remodeling and we're in the midst of putting exterior signage. What I can share with you is that we are getting a higher postpaid gross add volume as a result of

these stores than when RadioShack used to sell our product in their 4,000 stores. So we're very happy with the results, we're having a much higher prime mix, we have an improved accessory attachment rate, and we're right on plan. So we feel very good about the fact that we made a bet on RadioShack that this is yielding the results that we expected to get.

Jennifer M. Fritzsche
Wells Fargo Securities LLC

Great. Thank you.

Operator: Your next question comes from the line of Amir Rozwadowski with Barclays Capital.

Amir Rozwadowski
Barclays Capital, Inc.

Thank you very much. And good morning, folks. I was wondering if we could talk a bit more about your sort of go-to-market strategy at the moment. Based on your commentary and the numbers that you provided, it does seem as though that you're taking a very selective approach to pricing opportunities in the marketplace, noting that billings and collections from customers are actually up year-over-year and you have adjusted some of your unlimited plans in terms of the pricing that you're putting in the marketplace. Can you provide us with some color in terms of how you think about pricing as a tool to continue the subscriber momentum that you're now recently seeing and how we should think about that in terms of your ability to drive further subscriber momentum going forward? Thank you very much.

R. Marcelo Claure
President, Chief Executive Officer & Director

So, Amir, we focus on two key areas. One is not only in the past that we're focusing on the quantity of subscribers, but we put a lot of focus on the quality of subscribers. And as a result of that, you can see the lowest churn in company history. So we've been selective, we have increased the credit profile of our customers, and we've been able to basically return the company to handset positive net adds. Now we've been able to achieve that by pretty much maintaining prices stable and the reason why I say that is our average billing per account is up 3% and our average billing per user is up 2%. So from a pricing perspective, we're incredibly disciplined on how we price our product.

Now when you look at our two latest price moves that we've done is we've taken the price of unlimited up by \$20, that's from \$50 to \$70, that was a big price increase, and we have not felt any demand fall. Another area that we've attacked is the low-end data user. For that, we have pretty much introduced a \$40 plan. So what we're trying to do with our rate plans is pretty much go over the low-end of the market with a \$40 1-gig plan and we're covering the higher end of the market with a \$70 unlimited plan. We feel that that is the right strategy of basically increasing the amount of customers that come to Sprint and at the same time while not lowering our overall pricing, as you can see reflected by increase in average billing per account and average billing per user.

Amir Rozwadowski
Barclays Capital, Inc.

That's very helpful. And then, Marcelo, if I may, in terms of these transformational costs, how should we think about the areas that you're focused on in terms of where the opportunities are to invest in order to drive down costs over the longer term?

R. Marcelo Claire

President, Chief Executive Officer & Director

A

So I will jump in and I'll have Tarek if he feels he wants to express his opinion after that. We had a very clear strategy in terms of how we are running the company. The first part in which we put a lot of our energy was we had to stop the revenue decline. I mean, if you look at the top line, that's pretty much – we have a stable top line today. And that's why we wanted to make sure that was objective number one.

Once you have achieved that, we're going to attack the cost line. Now what we did in our first year was basically – I would say, you never want to use the word cosmetic, but it was the first phase of cost take-out, and we are able to make a commitment to take out \$1.5 billion, and so far we are on track to achieve that.

The second phase of our cellular transformation is basically going much deeper and looking at pretty much every single line item in the P&L, and there's a lot of areas. There's a lot of areas that we are putting a lot of focus. We're looking at our labor costs and maybe optimizing labor. We're looking at our cost of service. We have been paying hundreds of millions of dollars to our competitors in roaming. And after our network gets built out and finish for Network Vision, then we think the roaming cost drop dramatically.

We're looking at how we run our network. We had a lot of bad maintenance and software contract with the different vendors that we've had, those have been drastically and will be drastically reduced. We're looking at how we source devices, how do we do it smartly. We're looking at how we manage care as we simplify our offers. We're going to see a reduced amount of cost of care and being smart in terms of how do we utilize technology to drive care costs down.

So it's pretty much, I would say, every single area: care, IT, billing, G&A. Also, we are looking at how we acquire customers, what is the mix between direct and indirect distribution, and that way how can we reduce our cost per gross add. I can tell you – not to go into too many specifics – but today, our plan is – I think we have over 1,500 different initiatives that we're tracking on a week-to-week basis as we're committed to reach the \$2 billion that we're going to reach \$2 million in cost reduction that's going to be net. We plan to see that by the end of fiscal year 2016.

Tarek A. Robbiati

Chief Financial Officer

A

Yeah...

Amir Rozwadowski

Barclays Capital, Inc.

Q

Thank you very much for taking the questions.

Tarek A. Robbiati

Chief Financial Officer

A

If I can add just a couple of color points onto what Marcelo has said, the sequence of our transformation is first stabilize the top line. You can see from slide 11 that the operating revenue decline has decelerated materially over the past three quarters. Now we attack the cost base. And I have to say given that I'm still fresh in this company, I've been here for two months, I could tell you that there's a fair bit of complexity in this business that hasn't been addressed over the years.

If you really put the \$2 billion cost take-out that Marcelo has mentioned into perspective, that only represent 10% of the cost base that we currently have. There is great potential there, and we can execute on reducing our cost base now that the top line has been stabilized and all the areas that Marcelo has mentioned are being sawed off in a way where we have to think how to do business differently relative to the past. So it's a fundamental shift in the way we operate the business relative to the historic past.

Amir Rozwadowski
Barclays Capital, Inc.

Thanks again, Tarek.

Operator: Your next question comes from the line of John Hodulik with UBS Securities.

John C. Hodulik
UBS Securities LLC

Okay. Thanks. Three quick questions for you. First, can you tell us if the iPhone Forever initiative drove a meaningful improvement in your net add momentum that you saw in the third quarter here? Second, you guys posted a 51% sort of lease rate, number of your – percentage of your devices under leases. Where can that go in the fourth quarter? And then, lastly, I guess, both Marcelo and Tarek, you guys talk about the cost savings being net sort of cost savings or not having to reinvest that. I just want to clarify, does that mean that sort of net of the impact of selling your lease devices that we would see a full sort of \$2 billion improvement in EBITDA over the period sort of – or at least a run rate savings in 2016, and the full \$2 billion over that sort of longer period? Thanks.

R. Marcelo Claire
President, Chief Executive Officer & Director

Great. I'll take the first two. This is Marcelo. And then I'll let Tarek take on the third one. We're very happy with the progress of iPhone Forever. We've had most of our sales during the last couple of months have been driven by iPhone Forever. We've done a lot of customer research and it's proven that customers love to sign up to a program that allows them to have access to the latest device, every single time it comes out. So we're happy, and yes, it has been a pretty – it has been a good contributor to our good performance as it relates to haves and net adds.

As it relates to the future, we are in the midst of doing an exercise in terms of how can we simplify our value offering, and we're happy that we've achieved over 50% of our sales being in lease considering that we only started that a year ago. We like lease economics because it allows us to capture the residual value at the end of the lease. We like to be in the leasing business because with our partner, SoftBank, we have been able to find a mechanism that allows us to finance most of the lease – pretty much most of the revenue stream that comes from a lease, both the receivable piece plus the residual value. So you can see us be that carrier that is focused on leasing but at the same time offering an option for customers who want to own the device who do not like leasing a device.

We are in the midst of potentially evaluating our exit of subsidy. We've seen that the industry has changed. We were one of the drivers for this industry to change. And it's fair to say, that I will say at the beginning of the year, you're going to see a significant drop in our subsidy activations, maybe not for our base, you know, we're very respectful that our base has been used to buying phones under subsidy, and we're always going to give a choice to our base. But potential new customers at the beginning of next year, I think you're going to see us more focusing on lease with an ability to lease to own due to the fact that customers want to own their devices.

We also believe that lease is going to help us to further reduce our churn. If you look at iPhone Forever, which is basically a – it's a 21-month lease with the ability for a customer to upgrade their phone every year. That means that a customer in many cases is going to be upgrading their phone and renewing their leases before their lease termination date. So, overall, we are the ones who introduced lease to the market, and we believe leasing is a good way for us to continuously go to market. I'll pass it on to Tarek so he can address the cost question.

Tarek A. Robbiati
Chief Financial Officer

A

Okay. Thank you, Marcelo. So it's really important to understand how we are thinking about transformation cost in the context where we want to deliver \$2 billion of OpEx savings on a run-rate basis.

Now, as we explained, there are one-off charges to attain this \$2 billion OpEx exit run rate as of fiscal year 2016 and beyond. Some of these charges are accounted for as CapEx and also inevitably as OpEx, accounting permitting.

So when you really look at that transformation program cost OpEx, we call that internally [ph] PROPEX (46:04), program OpEx for short. And the reason why we track that internally separately is because we want to make sure that once that one-off expense has been incurred, it no longer creeps into the cost base moving forward. So when you really look at our OpEx run rate, it will be a clean \$2 billion once those one-off OpEx expenses have been incurred and the benefits of the cost reductions realized.

Now the second part of your question I think referred to how do we think of this in the context of handset LeaseCo? In our guidance and in the slide that you have in the presentation pertaining to guidance, we were clear that that guidance excludes any sort of impact from LeaseCo handset, the handset sale and leaseback transaction. And we will update you with respect to what that impact will be as we finalize that transaction.

Again, there's been considerable progress made on it. At the very first question, we flagged it would be most likely an off-balance sheet vehicle, and we also said that the way to look at it from an EBITDA perspective is that we at Sprint would be the servicer of those leases that we sold to the vehicle, and therefore, we will pay that vehicle a charge that will be incurred above the EBITDA line. So I hope this answers the question.

John C. Hodulik
UBS Securities LLC

Q

Yeah. That was great. Thanks, guys.

Operator: Your next question comes from the line of Kevin Smithen with Macquarie.

Kevin Smithen
Macquarie Capital (USA), Inc.

Q

Just another follow-up. Can you tell us what was the OpEx portion of the \$1.0 billion to \$1.2 billion over two years and how much of that will be recognized in 2015 and then in fiscal 2016?

Tarek A. Robbiati
Chief Financial Officer

A

At this stage, allow us to keep the range from \$1 billion to \$1.2 billion. We're still really thinking about whether we invest in durable capabilities in which case how we can capitalize some of the \$1 billion to \$1.2 billion, and we will revert back when we have better clarity about how that would be.

Kevin Smithen

Macquarie Capital (USA), Inc.

Q

But you must have made some assumption to give guidance for the low end of the EBITDA range. We're trying to sort of understand on a run-rate basis in fiscal 2016 once you get through the bulk of these costs what your run rate EBITDA will be?

Tarek A. Robbiati

Chief Financial Officer

A

Okay. You could see from the change in the guidance what sort of order of magnitude you can think about in terms of OpEx. Let's say and assume for argument sake that 50% of the \$1 billion to \$1.2 billion will be OpEx and the remainder will be CapEx.

Kevin Smithen

Macquarie Capital (USA), Inc.

Q

Okay. And most of that will be this year or will it be considerable residual amount in fiscal 2016 that will be in your EBITDA guidance for next year?

Tarek A. Robbiati

Chief Financial Officer

A

I think we said that these costs will be incurred over fiscal year 2015 and 2016.

Kevin Smithen

Macquarie Capital (USA), Inc.

Q

So there will be some cost that will get pushed into next year but not most of them?

Tarek A. Robbiati

Chief Financial Officer

A

Correct.

Kevin Smithen

Macquarie Capital (USA), Inc.

Q

Okay. And then, Marcelo, can you give us – last quarter you gave us some anecdotal impact on gross adds and churn in the first month of the quarter. Obviously you had some price changes. Can you talk about what you've seen thus far in October net of some of your pricing initiatives?

R. Marcelo Claire

President, Chief Executive Officer & Director

A

So one of the things I'm surprised is not a lot of people have discussed churn, so let's talk a little about churn. We just reported churn of 1.54, which makes it the lowest churn in Sprint's 20-year history. So that's something we take a lot of pride, but more importantly, if you actually go and look at what has happened to churn between Q2 and Q3 to every single carrier in the United States, there has never been an incident where churn has decreased from Q2 to Q3 and we are the first carrier to ever achieve that.

So that basically gives us a good indication that customers are coming to Sprint but more importantly that customers like what they see at Sprint and that customers are staying. They like the network performance, they like the customer service enhancement.

What I can report to you is as we closed the month of October that October was another handset-positive net add month for us, and I think it was probably the highest that we've had in a few months. So we feel very good with the momentum and we continue to keep the momentum in October. So all good for handset net adds, which is our main indicator today.

Kevin Smithen

Macquarie Capital (USA), Inc.

Thank you.

Q

Operator: Your next question comes from the line of Michael Rollins with Citigroup.

Michael I. Rollins

Citigroup Global Markets, Inc. (Broker)

Hi. Thanks for taking the questions. I was wondering if you could talk about how you look at the urgency to improve gross adds for the company and what the thumbnail sketch looks like in terms of what you look to deliver to achieve that improvement, whether it's more investment in marketing, rate plans, networks, want to get your sense of how you are looking at that gross add trajectory? Thanks.

Q

R. Marcelo Claire

President, Chief Executive Officer & Director

So we look at the business through different areas. First, as I said, we have focused on both quantity and quality of gross adds. It is easy to increase your gross adds. All you have to do is lower your credit standards. And there's a tremendous amount of growth that's waiting and that is something that we have fundamentally stopped, and basically all we do, we had a pretty strict credit guideline. So, if you think what we've been able to achieve, we've been able to increase our number of gross adds while drastically increasing the credit standards, meaning that most of the customers we are bringing in today are prime customers or they're subprime with a very high security deposit or a very high down payment.

A

Now, I think the best reflection of that is we've had the highest prime mix for September quarter in seven years. So we like the quality of customers that we're bringing, which is essential. And the reason why this is quite important is when you multiply the amount of time a prime customer is going to stay with you, then the customer life value or the overall economic change dramatically for the better. So we're very happy in terms of the amount of gross adds that we're bringing while at the same time being able to maintain the quality of gross adds that we're bringing.

In addition, we put a lot of focus on churn. We have a churn team or a base management team that is focused on understanding the pain points of our customers. Our network continues to get better I will say on a weekly basis and combined with a much better customer experience then that is the main reason customers are staying. We expect the trajectory and the trend to continue. We are pretty much getting better every single month from a net add trajectory. So we like the trajectory and we, at this point in time, we don't see any change in the positive trajectory that we have.

We meant what we said in our press release that this is an inflection point. When you look at where we were a year ago, losing hundreds of thousands of postpaid handset customers, to where we are today and we're adding tens of thousands of customers, it is a dramatic change in the trajectory of the company. And that's going to be reflected

as we turn the momentum on revenue and as we are able to take cost out. So we feel very good from a handset acquisition perspective.

Michael I. Rollins
Citigroup Global Markets, Inc. (Broker)

Thanks very much.

Jud Henry
Head-Investor Relations

Jennifer, we've got time for one more question, please.

Operator: Your final question comes from the line of Phil Cusick with JPMorgan.

Philip A. Cusick
JPMorgan Securities LLC

Hi, guys. Thanks. So first, a clarification going back to Kevin's question. I'll try this a different way. If we hadn't gone through the transformation costs, do you think the adjusted EBITDA range would have had to change? And then, second, if you can talk about the prepaid to postpaid transfers, I don't remember you calling this out before. I'm sure it's happened before, but is this sort of a new effort because it seems like a significant acceleration, if nothing else. It sounds like some at least of those customers are staying on Boost or Virgin. Are they actually spending more or are they just getting to pay in a different way? Thanks.

Tarek A. Robbiati
Chief Financial Officer

Let me take the first question on the guidance, and I'll hand over to Marcelo for the second. When I stated the guidance, we prefaced it by saying, on a business as usual basis, we would be reaffirming the previously given adjusted EBITDA guidance. And therefore, you're right. What does impact our guidance at adjusted EBITDA level is the need to attack the cost base and the cost of the transformation to do so.

Philip A. Cusick
JPMorgan Securities LLC

Okay.

R. Marcelo Claire
President, Chief Executive Officer & Director

Right. Let me tackle prepaid to postpaid migrations. I think we reported in our previous quarter that we were going to look at doing some prepaid to postpaid migrations. So how did we get here? We analyzed our 15 million prepaid customer base, and we saw customers with a consistent payment history on very similar to postpaid payment behavior. We have given the customers the choice to come to Sprint, and in which they have changed their rate plans, changed their handsets and are having a higher ARPU. And some others we have asked them if they would like to stay in the Virgin and Boost brand. We look at that as a great opportunity because now we create a billing relationship with these customers and what we expect is to have improved retention opportunities and higher spending levels. We started doing this a few months back. And so far I can report that the trend that we're seeing from a churn reduction once a customer moves to postpaid is much better than if they would have stayed in prepaid.

So, so far, we like the results. We have a special group that just dedicates to migrating customers from prepaid to postpaid. This is not a shotgun approach. This is basically doing a lot of management of our base and identifying customers who have the same profile as a postpaid customer.

Philip A. Cusick

JPMorgan Securities LLC

So if I'm a Boost customer – sorry, go ahead.

R. Marcelo Claure

President, Chief Executive Officer & Director

Let me add one more thing. Our focus is to remain postpaid phone net add positive, excluding the prepaid migrations. So we were able to achieve that without the prepaid migrations. Now, obviously, we're looking at those prepaid migrations. Go ahead with your question, with your follow up.

Philip A. Cusick

JPMorgan Securities LLC

I was just going to say, if I'm a Boost customer and you call me and say would you like to be postpaid, what changes in my life? Does my plan change? Does my sort of payment structure change?

R. Marcelo Claure

President, Chief Executive Officer & Director

So if you're a Boost customer and you switch to the Sprint platform, basically you're going to have to choose a Sprint phone, you're going to have to choose the Sprint rate plan, and basically you're going to be paying more to Sprint than you were paying to Boost. In the case you want to remain with Boost, in many cases we're going to ask you to keep your device and therefore we don't need to invest the money in terms of subsidizing a device again or any cost per gross add, and what we're going to do is we're going to extend you some credit terms.

So we're going to change the relationship from a prepayment to a postpaid relationship, and again, what we've seen the early trends of this is the churn curve changes dramatically and you start spending more money because now pretty much you have the ability to use your phone more without being constrained by the limit that you had in prepaid before.

Philip A. Cusick

JPMorgan Securities LLC

Okay. Okay. All right. Thank you very much.

Jud Henry

Head-Investor Relations

That's all the time we have for questions. But before we end the call, I'd like to turn it back to Marcelo for some closing comments. If you have any additional questions following the call, please contact the Sprint Investor Relations team at 1-800-259-3755 or investor.relations@sprint.com.

Marcelo?

R. Marcelo Claure

President, Chief Executive Officer & Director

Thank you. So I want to thank everyone for joining us today and for your interest in Sprint. We reach some very important milestones in our turnaround this quarter as we returned to positive postpaid phone net additions for the first time in over two years, as well as posting the lowest postpaid churn rate in the company's history and defined seasonality by improving sequentially as well. I'm impressed and encouraged by the work of both Gunther and John and their teams as our network is getting better every day. As we execute on our densification plan I expect our network to be even greater in the future. Our number one focus now is improving on the cash flow of the business, including plans to aggressively take additional cost out of the business by simplifying the way we operate. I'm confident that we're in a path to return Sprint to growth, profitability and ultimately free cash flow positive. Thank you.

Operator: This does conclude today's conference call. Thank you for your participation. You may now disconnect.

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