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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 Fourth Quarter 2014 Conference Call. During today's conference call, all participants will be in a listen-only mode. Following their remarks, the conference will be open 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 of Investor Relations, Sprint Corp.

Thank you, Marianne. Good morning and welcome to Sprint's quarterly earnings call. Joining me on the call today are Sprint CEO Marcelo Claire and our CFO, Joe Euteneuer. 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 Investor Relations website at www.sprint.com/investors.

Slide two 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 our risk factors in our SEC filings, which I encourage you to review. Turning to slide three, 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.

I would also like to remind you that our financial results include a predecessor period related to the results of operations of Sprint Communications, Inc., prior to the closing of the SoftBank transaction on July 10, 2013 and the applicable successor periods. In order to present financial results in a way that offers investors a more

meaningful comparison of the year-over-year or the year-to-date results, we have combined the results of operations for the predecessor and successor periods of fiscal 2013.

Trended financial information metrics on a combined basis can be found at our Investor Relations website. In addition, I would like to mention that in April, we began expanding the procurement of devices for some indirect channels to be sourced directly by our affiliate Brightstar from some device OEMs. We are working very closely with our SoftBank companies to maximize the efficiency of the business and as a result, will leverage Brightstar to handle inventory fulfillment for our dealers and retailers. This will have no material impact to our adjusted EBITDA or operating income but is expected to reduce equipment revenue and cost of products.

For example, the applicable devices sourced by Brightstar will not be reflected as equipment revenue and cost of product in our financial statements as it did when Sprint sold the inventory to the indirect channels. Instead that same net amount previously recognized as net subsidy will now flow through SG&A. The actual expected amount of decline in equipment revenue and costs and associated increase in SG&A, will depend on the actual sales channel and device mix of sales in the given period, but again will have no material impact to adjusted EBITDA or operating income.

Let's move on to earnings for our fourth fiscal quarter of 2014 on slide four. Basic and diluted net loss per common share for the quarter was \$0.06 compared to \$0.04 in the year-ago quarter, and there were no material items of a non-operational nature. 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 CEO Marcelo Claude.

R. Marcelo Claude

President, Chief Executive Officer & Director

Thank you, Jud, and good morning, everyone. I'm very proud of the Sprint team for successfully executing phase one of our turnaround strategy from September to December of last year and stopping the decline in a number of business. Now we have embarked on the next phase to focus on improving the basics and operational effectiveness of the business. The first phase of our turnaround strategy included implementing many significant changes in a short amount of time to stop the decline of customers seen through the prior quarters.

I was primarily focused on four overarching priorities: improving our customer acquisition by revamping our offers in advertising; listening to customers to understand why they were leaving Sprint; improving the network experience by focusing on optimization; and expanding LTE coverage and simplifying the customer experience. As we reported last quarter, this resulted in our highest-ever prime mix of postpaid gross additions. In addition, we saw third-party validation of our network improvements from RootMetrics and Nielsen and we saw our Net Promoter Score begin to improve.

However, one of the biggest disappointments in the third quarter was our postpaid churn of 2.3%. As we began the year in January, we shifted gears to the next phase of our transformation, which is focused on addressing the basics to improve the operational effectiveness of the business. This includes improving on how we listen to our customer needs and making our network more consistent and more reliable. As a result, our fiscal fourth quarter results included the most total company net additions in nearly three years, a reduction in our postpaid churn in the quarter by a remarkable rate and continued improvement in the network and customer experience, which I will now walk you through.

Moving to slide six, Sprint's customer acquisition results have gotten better as a result of improved sales and marketing offers and execution. As you can see in the top-left chart, in our fourth fiscal quarter of 2014, we added over 1.2 million total net additions to the Sprint platform compared to net losses of 383,000 a year ago and marked 2.2 million total net additions to the Sprint platform in the last two quarters combined. This is significant and it's an improvement in a short period of time. This growth included 757,000 retail net additions and 492,000 wholesale net additions in the quarter.

Shifting to the top-right chart, Sprint platform postpaid net additions were 211,000 this quarter, improving over 400,000 year over year, an increase by seven times compared to the 30,000 last quarter, which is remarkable considering last quarter was a big holiday period. Also, this marks the first time in nearly two years that we have posted consecutive quarters of postpaid growth. We continued to balance focus on both quantity and quality as postpaid gross additions were the highest in eight years for a March quarter and our prime mix of gross additions were the highest on record for a March quarter.

Also, our prime gross additions were up 65% year over year through our targeted offers to those high-quality customers. And on the bottom-left graph, postpaid net losses of 201,000 improved for the fourth consecutive quarter by nearly 500,000 year over year. While we're not happy with losing postpaid phones, we're very pleased with the progress, and our goal remains to have positive postpaid net additions, which we expect to achieve this year.

Postpaid tablet net additions were 349,000 in the quarter, compared to 189,000 last quarter and 516,000 a year ago. Also, Sprint was postpaid net port positive for the quarter for the first time in nearly three years and has improved sequentially against every carrier. On the bottom right, you will see that prepaid net additions on the Sprint platform were 546,000, which led the industry for the second consecutive quarter. Our prepaid gross additions were the highest on record and up 40% year over year, driven by the continued success of the Boost brand. I will note, however, that we do expect lower prepaid net additions in the fiscal first quarter due to the re-certification impact from Assurance space and general prepaid seasonality. We expect to see continued strength from prepaid through the balance of the year.

These results reflect the positive reception to our offers and advertising, including the Cut Your Bill in Half campaign, innovative bundles of services and device leasing such as the Best Buy One Plan, a worry-free data experience with larger data buckets than competitors and attractive unlimited plans for individuals and families. For businesses, we launched Workplace-as-a-Service, providing all the communication technology needed to run a business, offered on a predictable per-user, per-month basis, and the customer response so far has been very positive.

As you can see from slide seven, I also like to look at how Sprint is performing relative to the other national carriers that we compete with to put our turnaround progress in perspective. Looking at the top-left graph, Sprint retail net addition of 757,000 actually beat Verizon and AT&T compared to a gap of over 1.1 million a year ago, and we have closed the gap with T-Mobile to only 400,000 from 2.4 million a year ago. On the top right, our postpaid net additions are admittedly trailing our competitors, but the gap to Verizon and AT&T is closing dramatically compared to the 800,000 difference a year ago, and we have closed the gap with T-Mobile by more than 40%.

However, when I look at the most important metric, postpaid phones, on the bottom-left chart, Sprint's losses were directly in line with Verizon, and we beat AT&T for the second consecutive quarter, while closing the distance to T-Mobile's net additions by nearly 40%. Lastly, our industry-leading prepaid net additions in the quarter, on the bottom-right graph, were more than the other three competitors combined, improving from a distant fourth a year ago due to a 910,000 year-over-year improvement in our prepaid results. We have a good

momentum as the only carrier on a positive trajectory, and we will continue to compete aggressively one quarter at a time.

Moving to slide eight, the only way to truly measure customer satisfaction is by churn because churn represents the voice of the customer. In order for us to improve our customer trends, we must reduce our churn by fundamentally transforming the customer experience. Perhaps the biggest accomplishment to date in our turnaround was a dramatic reduction in our postpaid churn rate this quarter and I'm extremely proud of the team for the work they have done to help make that happen.

This is a top priority in this space of our turnaround strategy, and the cost of retention is significantly less than the cost of acquisition and we believe we can generate good financial and shareholder volume just by keeping more of our customers longer. I'm happy to report that the Sprint platform postpaid churn of 1.84% improved 46 basis points from last quarter's high of 2.3% marking the biggest sequential improvement in nearly 7 years. This was the best sequential improvement in the industry despite what John Legere prematurely tried to take credit for last week.

Most importantly, the majority of improvement came from voluntary churn which had the best sequential improvement in nearly 11 years as a result of improving network satisfaction as well as higher levels of re-engagement from customers to upgrade devices or adopt offers that better fit their needs. This higher level of customer engagement can be seen in our postpaid upgrade rate for the fourth quarter of 7.5%, which is up from 7% a year ago. In addition, our postpaid port-outs in the quarter were down 30% year-over-year sequentially. I suspect that we also saw sequential improvement in our involuntary churn as a result of our disciplined credit policy.

Turning to our network on slide nine, we have continued to make progress in our goal of providing a network that delivers a consistent reliability, capacity and speed that our customers demand. Besides a continuous focus on optimization, we have also expanded the breadth and depth of our LTE network as it reached nearly 280 million people at the end of March and a continued expansion of the 800 megahertz and 2.5 gigahertz LTE overlays have greatly improved the overall network performance.

We have seen immediate improvements in the consistency and reliability of royalty performance as we turned up 800 megahertz LTE in several markets already. In addition, we're seeing the ramp up in average download speeds as we expanded coverage of the 2.5 gigahertz LTE deployment. And we're in the process of enabling 2x20 TDD carrier aggregation within the 2.5 gigahertz plan which will further improve the speed and capacity of the network.

This progress was recognized by independent mobile analytics firm, RootMetrics, which widely regarded among the most comprehensive independent network testing firms. In the second half 2014, Sprint overall network score improved to third-place ahead of T-Mobile with notable progress in reliability as well as call and text performance. Further evidence of the continuous improvements can be seen in our testing so far in the first half of 2015 with additional market results coming out every week.

Sprint had been awarded a total of 104 first-place RootScore Awards for overall reliability, speed, data, call, or text network performance in the 77 markets measured to date in the first half of 2015, compared to only 12 awards in those same 77 markets in the first half of 2014. Yes that is correct, we have improved from 12 wins to 104 wins in one year and that is a remarkable progress in our network.

We are also now winning in major markets including shared first-place awards for best overall network in Las Vegas, shared awards for network reliability and call performance in Pittsburgh, St. Louis, San Antonio, as well as sharing the number one rankings for the fastest data speeds in Denver and Salt Lake City. In addition, we

continue to deploy indoor solutions to enhance the customer experience in public venues across the country, including the major venues in our hometown Kansas City. As an example, outside Kansas City, Sprint recently won the Data RootScore Award leading the competition in data reliability and data speed at the Toyota Center in Houston. This result give us the confidence that plan is working and we will work to replicate this success across the country.

Furthermore, if you look at the overall RootScores over the last few years including preliminary first half 2015 results, you will see two things. Overall scores have improved slightly with each testing period for all carriers but significantly for Sprint. And the gap between the highest and lowest carrier scores has narrowed dramatically over time to where all carriers are in much tighter band indicating the difference among carriers is less discernible to consumers. This is particularly amazing to me given the amount of money the other carriers spend trying to convince customers that their networks are head and shoulders above the rest. I watch the acts of my competitors, and I find it amusing that T-Mobile claims the fastest network, that AT&T claims the strongest LTE signal or that Verizon claims the most reliable network making you think they have twice the coverage, this just further clouds the consumer's perception of network experiences.

In addition, at Sprint, we're embracing Wi-Fi as a complementary layer to the network by leveraging the in-building coverage and capacity that it provides where customer spends most of their time, including at work or in their homes. We now support Wi-Fi calling on 27 devices including the latest generation of iPhones as well as the rich portfolio of Android smartphones. These valuable features further enhanced by a recent collaboration with Boingo, it enables Wi-Fi roaming and provide Sprint customers with a free seamless and secure connection on capable devices in 35 major airports across the country.

Turning to slide 10, we're continuing to develop a customer-first culture across all touch points. As a result of these efforts, we're seeing positive feedback from customers based on the sequential improvement in our Net Promoter Scores month after month, reaching the highest levels in nearly two years in March with a score of nine. This is a dramatic improvement considering our Net Promoter Score was basically zero from February through August last year and had gone negative in May. We were the only national carrier to have a negative score. Increased customer satisfaction can also be seen in the slide that our calls to care per customer were at record lows this quarter for both postpaid and prepaid, with postpaid calls per customer being down more than 20% year-over-year.

Our network team remains focused on optimization of the network and we're now getting positive feedback from our customers indicating further improvements in customer satisfactions and market continues to improve. We're focused on serving and satisfying our customers. Our retail [ph] and care (17:03) employees are becoming more energized every day as they see the impact their interaction with our customers has on customer lives and our business results. In addition we're listening to our permanent employees and making changes to our systems, process and procedures to make it easier for them to do what they do best, taking care of our customers.

Speaking of our people, I continue to be amazed by the increased energy and engagement from our front line and corporate line employees. As we became a customer-centric company, it is just as important to make sure that our employees are feeling good about working at Sprint and one key measurement is employee pride. According to our latest employee survey, the percentage of employees responding favorably to a statement, I'm proud to work at Sprint, improved from 63% in fiscal third quarter to a record high, 81%, in the fourth quarter. I think this is so important because before we can persuade our customers that Sprint is a good company for them, we have to be able to look around and say we feel [indiscernible] (18:03) about the place we work.

As we look ahead on slide 11, we're beginning to improve our business performance and can begin spending more time developing and implementing strategies to offer customers a differentiated experience to drive long-term

profitable growth. We will continue to develop simple and compelling offers to attract quality customers and continue with aggressive marketing. While our marketing has been fairly silent regarding our network recently, don't be surprised to hear that we're more than just the best value in wireless given the significant improvement in our network, particularly in a local market basis where we're winning performance awards.

In Sprint's customer-centric culture, we're passionate about listening and understanding customers' pain points and making changes to enhance their experience. One of the main complaints from customers who travel to top destinations in Latin America and Europe and Japan, is how shocked they are when they return home, to find huge roaming bills; most customers don't want to take that risk so what they do is they turn off their data roaming while traveling and they're missing out on all the fun and benefits of having a mobile phone. We have removed that pain for them by offering free international value roaming with the option to buy high speed data coupled with the ability to use Wi-Fi calling. We will continue to expand this offer to more countries in the future.

We have also created virtual bundle sub-service and device leasing reducing the complexity and making as one monthly one like the Unlimited Plus Plan and for the launch of the Galaxy S6. These all-in offers have been well received by consumers. In addition, we strive to meet customers' unique needs by developing offers that are simple and address the evolving ways in which customers consume data and use their devices.

We're also making it easier for customers to switch to Sprint by providing additional points of distribution. With the recent closing of our transaction with RadioShack, we have more than doubled our company-owned doors available to customers with 1,435 new doors providing a very fast and cost-efficient expansion of our distribution. We continue to optimize our distribution model to make sure we have enough doors in the right locations to attract and serve customers.

This also includes revolutionizing the wireless shopping experience by introducing Sprint Direct 2 You, delivering the first-ever wireless customer service where retail-trained experts take the in-store experience directly to the customer and set up the new device wherever and whenever the customer wants. We have launched it in Kansas City, Chicago, and Miami so far and the customer response has been amazing. We will continue to expand to more markets throughout the year and we bring this breakthrough experience to more customers, ultimately creating 5,000 mobile retail stores.

We're also focused on further reducing churn by continuing to transform the customer experience. With tight focus on network improvement we will engage our high-value customers and employ proactive, real-time and individualized retention tactics based on their specific behavior and needs.

Furthermore, we're continuing to invest to unlock the true potential for network infrastructure and spectrum portfolio. We're focused on substantially completing the 800 megahertz LTE build by the end of this year, where rebanding is complete, and we will continue to expand 2.5 gigahertz LTE footprint to enhance the capacity and speeds of the network. While our near-term focus is to expand 800 megahertz and 2.5 gigahertz LTE equipment on our existing site, we have developed a thorough design and implementation plan to further evolve our network to be better across all categories.

As we discussed last quarter, this includes significantly densifying our network by increasing the number of sites across all spectrum bands, including various potential forms of macro sites and small cells to increase the coverage and capacity of the network and transition to an LTE network over time including VoLTE. This will include leveraging existing and developing technology advancements to maximize capital efficiency while maintaining a continuous focus on improving the customer experience throughout the process.

As part of this process, we recently issued RFPs to various vendors to gather information on specific solutions and pricing and we're very pleased with the significant potential savings we are seeing compared to our Network Vision pricing. We will provide further updates in the future as this process continues to evolve. Ultimately, we must deliver a simplified customer experience across all touch points and become the easiest carrier to do business with. We plan to continue to innovate new offers and solutions that enhance the way customers live, work, and play through their mobile devices.

Regarding our cost structure, we continue to drive towards having the lowest-cost operating in the business. When I started I made it clear that we needed to address this issue, which is why we created a team dedicated to improving procurement and operational efficiency. We're seeing the early fruits of this cost initiative which will span the many new turnaround initiatives we're implementing to attract and retain customers and improve the customer experience. In addition, we're already scoping out initiatives to eliminate cost over each of the next few years as we continue to reinvent how we operate and focus on our spending and our acquiring, retaining, and serving our customers.

Lastly, turning to page 12, the Hispanic population in the United States continues to grow at more than 54 million, representing the second-largest racial or ethnic group in the country and is projected to grow dramatically, fueling over half of the total U.S. population growth. Also, Hispanics are active users of mobile technology. An analysis by the Pew Research Center showed the usage of smartphone, mobile Internet, and social networking sites among this group is as high as it is for the overall U.S. population and sometimes even higher. Additionally the U.S. Hispanic market is estimated to have \$1.2 trillion in buying power. Our research shows that Hispanics tend to spend most on their mobile phones.

Sprint is committed to engaging, connecting, and providing wireless services to the Hispanic consumer. The Hispanic market is a very important part of our business, and we recently announced that Roger Solé joined the team on May 1 as Senior Vice President for Hispanic Market and Innovation. Roger is known to me as one of the industry's leading innovators and has a proven track record at TIM Brasil and Telefonica's Brazilian operator, Vivo. I look forward to working with Roger to help strengthen Sprint's commitments to the Hispanic customer.

I will now turn the call over to Joe – for Joe to take you through our financial results.

Joseph J. Euteneuer
Chief Financial Officer

Thank you, Marcelo. I'll now walk you through our financial results for the fiscal fourth quarter.

Moving to revenue on slide 13, consolidated net operating revenue of \$8.3 billion declined \$593 million or 6.7% year over year. Wireless operating revenue declined \$482 million or 5.8% year over year, as declines in postpaid service revenues, due to losses of high MRC phone connections over the course of the year, and a shift to rate plans offered in conjunction with device financing programs was offset by higher equipment revenue from higher sales, and a higher take rate on Sprint Easy Pay.

Wireless operating revenues will continue to see pressure until we begin to grow postpaid phone connections and as a result of increased adoption of device leasing, for which we recognize no equipment revenue up front, but rather on a monthly basis over time. Also, as Jud mentioned in the opening, the shift of inventory sourcing for indirect channels to Brightstar will also reduce equipment revenues, but as we also mentioned, will not materially impact adjusted EBITDA and will help working capital.

Wireline operating revenue declined \$102 million or 13% year over year as a result of voice rate and volume declines, cable voice over IP migrations, and the annual intercompany rate refresh, with the intercompany impact being neutral to consolidated adjusted EBITDA. Sprint platform postpaid average total billings per user, if you add monthly equipment installment billings and lease revenue to service revenue, were \$61.71, which was down less than 4% year over year, primarily related to a higher mix of tablets as well as a shift to rate plans offered in conjunction with device financing programs that have an offsetting impact of higher equipment installment billings and lease revenue.

In fact, we estimate that phone-only average total billings per customer actually increased slightly year over year. This underscores our discipline to maintain the actual monthly cash flows stream from our phone customers. Also keep in mind that this does not include the residual value of leased devices, which are not included in what we bill the customer over the lease term. If you assume for example that the estimated residual value of an iPhone 6 at the end of 24 months is around \$175, then the total return for the subset of our base that is on leasing is actually higher than their average billings per user as defined today. Sprint platform prepaid ARPU of \$27.50 for the quarter increased \$1.05 year over year, primarily driven by changes in the mix of our customer base towards our higher-ARPU prepaid brands.

Consolidated adjusted EBITDA of \$1.74 billion was down \$101 million or 5% from the year-ago period, as seen on slide 14. The decline was driven by lower operating revenues that I mentioned, partially offset by improved operating expenses from the continued focus on cost cutting. Cost of services of \$2.4 billion improved by \$241 million or 9.2% year over year, primarily driven by reduced spend related to the completion of the 3G and voice network replacement, improved wireline international rates, and reduced wireless postpaid roaming expenses as a result of Network Vision and optimization, partially offset by increased wireless service and repair costs.

Cost of products or equipment expenses was \$1.8 billion in the quarter improving \$211 million or 10.4% year-over-year driven by lower non-lease sales volumes as customer preference shift towards device leasing options, partially offset by changes in device sales mix as the company has increased phone sales. Postpaid devices finance grew to 53% this quarter with roughly 37% selecting our leasing plans. This compares with device financing take rates of 46% last quarter and 29% a year ago.

Selling, general and administration expenses in the quarter were \$2.3 billion which was an improvement of \$40 million or 1.7% from the year-ago quarter driven by labor reductions and a shift in postpaid sales to more cost effective direct channels, partially offset by an increase in prepaid selling expenses.

Operating income was \$318 million in the quarter compared to operating income of \$420 million in the year-ago quarter driven by an increase in depreciation, fewer non-recurring expenses and the lower adjusted EBITDA as we discussed. Depreciation and amortization expense of \$1.5 billion for the quarter increased \$157 million year-over-year primarily related to depreciation on leased devices.

Turning to CapEx and cash flows on slide 15, cash capital expenditures were \$2 billion in the quarter compared to \$1.5 billion in the year-ago quarter. The increased spending was primarily associated with the introduction of device leasing in our indirect channels, where we purchased the title to the devices from the dealers and retailers as well as the build-out of our 2.5 GHz spectrum. Free cash flow was negative \$914 million for the quarter compared to negative \$1.1 billion in the year-ago quarter due to favorable changes to working capital, partially offset by higher capital expenditures. Within working capital, we did have \$1 billion included in accounts and notes receivable related to installment billing. Total net receivables related to installment billing were \$1.4 billion, up nearly \$800 million year-over-year.

As a result, we ended the quarter with a total liquidity position of \$7.5 billion including cash, cash equivalents and short-term investments of \$4.2 billion as well as \$2.8 billion of undrawn borrowing capacity under our revolving bank credit facility and approximately \$500 million of undrawn capacity under our service receivables financing agreement at the end of the quarter. Subsequent to the end of the quarter, Sprint amended the service receivables facility and increased its size from \$1.3 billion to \$3.3 billion by including equipment receivables. In addition, we currently have \$1.4 billion in undrawn availability under our network vendor financing to be utilized towards the purchase of 2.5 GHz network equipment.

As we look ahead, we have no significant debt maturities due until December of 2016. We will continue to manage our capital structure and position ourselves to have adequate liquidity to grow the business and fund investments in the network. Over the near term, we expect to leverage the capacity under our receivables facility and the vendor financing on the 2.5 GHz build and expect to explore the securitization of our device leases. As always, we will continue to rely on our ability to access the market on all available forms of liquidity.

Looking ahead to fiscal 2015 on slide 16, we are focused on our operational goals to: return to positive postpaid phone net additions, improving our postpaid churn and continuing to improve the efficiency of the operating model. As a result, we expect consolidated adjusted EBITDA to be between \$6.5 billion and \$6.9 billion for fiscal 2015, a roughly 12% year-over-year improvement at the midpoint of the range. In addition, we remain focused on maximizing our capital efficiency while continuing to improve the performance of the network through the deployment of the 2.5 GHz LTE and 2 x 20 carrier aggregation as well as beginning the densification that Marcelo discussed.

While we haven't finalized all the details of the densification, we currently expect capital expenditures to be approximately \$5 billion for fiscal 2015 at this point in time, excluding the CapEx associated with leased devices and indirect channels, which will be subject to take rates, device mix and channel mix. We plan to provide further updates in the future as our network plans continue to evolve.

I'll now turn the call back over to Jud.

Jud Henry

Head of Investor Relations, Sprint Corp.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Amir Rozwadowski of Barclays.

Amir Rozwadowski

Barclays Capital, Inc.

Q

Thank you very much, and good morning, Marcelo, Joe and Jud. I was wondering if we could talk briefly on the subscriber momentum. I think you had mentioned that the expectation is to return to positive phone-only net adds. Was wondering is that for the duration of 2015 or is that exiting 2015 in terms of a trajectory? And then I've got a brief follow-up question if I may.

R. Marcelo Claure

President, Chief Executive Officer & Director

A

Hi, Amir. I feel that we have very good momentum as it relates to subscriber acquisition in our different businesses. If we look at the postpaid business, we have gone from only adding 30,000 customers on the last quarter, which was a big deal as a company and not added customers for a very long time, we have been losing customers, to adding now more than 200,000 customers. So, we believe our overall postpaid business will continue to grow every single quarter.

Getting to postpaid handset losses, we've had several days or several months in which we are achieving that, but we haven't been able to do it across every month. And in many cases, our consumer business is mainly positive.

So we believe that in the next two quarters, we're going to reach that momentum because we're building momentum. And then hopefully, we will stay in the path of adding postpaid handsets rather than losing them. Now what I want to make sure you understand is, we only lost 201,000, which – that's a big gain when we compare that to previous quarters. I go back and I was looking at some of the data before and we lost 201,000, but when you compare that to the previous year, at the same time, we were losing 700,000 customers. So this is a gain of 500,000 customers that we feel it's a great gain and we're building the right momentum.

Amir Rozwadowski

Barclays Capital, Inc.

Q

Thank you very much, Marcelo. And then with respect to your network improvement initiatives, first of all, thank you for the color in terms of what you folks are doing from a densification perspective. But it does seem like you're working through plans. Do you believe that that \$5 billion in CapEx is sufficient enough to meet the plans as they stand today? And then if we think about the longer-term spectrum position for the company, how do you feel about the 600 MHz spectrum auction that's set to commence next year and potential funding required in order to participate? Thanks very much.

R. Marcelo Claure

President, Chief Executive Officer & Director

A

So we're managing our networks, as you can see, I think the best way to look at the good job that my team is doing managing the network is based on the deployment that we've been doing of finalizing our 800 megahertz LTE and rapidly deploying 2.5 GHz for a plan that we've already had approved. And that, as you have seen had – the Root Metric studies basically shows that in some markets we're number one, in other markets we're number two, in

other markets we're number three and that's a significant improvement from just being dead last number four mainly in every single market.

So we feel very good about what is going on with our network. We have a clear plan for our network for the continued deployment in 2015. And we're finalizing the long-term plan. And the long-term plan is called Sprint next-generation network and it's predicated upon a massive densification of our network. The only way you're going to get the true outcome or you're going to be able to truly unload the value of the rich spectrum that we have is by massively densifying our network. So where we are right now, we're in the last final stage. It's pretty public that we have had RFPs for the last couple of months. And where we are right now is figure out what is the right combination between macro sites and between small cells and that's where we sit today. We have a – when you look at the potential output of [indiscernible] (38:22) next-generation plan, I mean the numbers that we're looking from a speed, from a coverage, from a capacity are fascinating.

So we feel very good that our network, each is going to get substantially better. As it relates to CapEx for your question, what we say is we expect that fiscal 2015 accrued CapEx is going to be approximately \$5 billion. And the reason for that is that is mainly contemplated as what we are doing right now with our 2.5 GHz deployment and the next-generation network, you really don't see it comping to much effort, only toward spending in 2016. So we feel very good about that.

As it relates to the 600 MHz spectrum option, we all know it's an opportunity – once-in-a-lifetime opportunity to acquire low banded spectrum and a critical input for cost-effective deployment of wide area coverage. So to us, it's important to understand what are the auction rules going to be to make sure that smaller carriers like us have a fair opportunity to acquire this competitive input. And as you know, AT&T and Verizon currently control over 75% of the old low band spectrum. We're looking at it every day, want to make sure that the rules are right and we want to make sure that we're keeping the future band as clear or remaining TV stations as possible.

As it relates to funding, we have different funding strategies that are predicated, like we said before, potential debt issuance, potential equity issuance, or potential sale of our spectrum over to the [indiscernible] (39:55) spectrum that we won't use. So I feel that we have very clear alternatives if we decide to pursue the 600 MHz spectrum.

Amir Rozwadowski

Barclays Capital, Inc.

Q

Perfect. Thank you very much for the incremental color, Marcelo.

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

Kevin Smithen

Macquarie Capital (USA), Inc.

Q

Thanks. Can you talk about the impact of the new former RadioShack stores on gross adds this year? How many Sprint gross adds came from these stores when they were managed by RadioShack and what market share did Sprint have among all the activations there? And kind of what are the – just walk us through some of the economics of lease cost and when you expect to ramp up marketing and what kind of CapEx is needed to turn these into Sprint-branded stores?

R. Marcelo Claure

President, Chief Executive Officer & Director

A

What you're seeing right now is in our original plan, we were due to open the Sprint RadioShack stores at the beginning of June. But we decided to – proactively, to go at it a little earlier. And so far, we have over 500 stores that are fully deployed and we have the other 1,000 being operated today by RadioShack employees. So I would say that so far, the gross adds generated from RadioShack are immaterial due to the fact that we've been doing this I think for less than a month.

Now RadioShack is going to play an important part of our growth going forward. At this point in time, we're not prepared to share how many activations or how many new customers we plan to bring. But what you're going to see is we are changing the stores so they feel more like a Sprint company-owned retail store. And as we do this transformation, they become an important part of our stores, definitely as it relates to the quantity of stores that we're going to have.

When you look at Sprint today, we have about 1,000 company-owned stores, so this is going to take us from 1,000 to over 2,400 company-owned stores, and so it's a massive growth. And the way we negotiated our agreement, I think, it was the lowest available way for us to reach distribution at a pretty low cost, considering that it is a joint agreement in which all we do is we pay a percentage of the rent, and we pay for certain amount of [ph] pictures, (42:29) which most of them were being subsidized by our equipment partners. So we felt this was the easiest way for us to gain mass distribution as we were lagging behind our competitors.

Kevin Smithen

Macquarie Capital (USA), Inc.

Q

Thanks. Can you walk us through some of the free cash or puts and takes of the EIP factoring agreement, Joe? When will you get paid? What kind of payment did you receive in the March quarter? And is there any kind of lag here between payment from the factoring and the accruals?

Joseph J. Euteneuer

Chief Financial Officer

A

We took less cash than we actually could have, Kevin, but it's already been repaid. So, remember, it's like a revolving facility and continues to grow with the growth of the receivables, both – not only on the service receivables side, but now that we've added in the installment billing to it that we've increased the size of the facility to over \$3 billion, as we said.

Kevin Smithen

Macquarie Capital (USA), Inc.

Q

Thanks.

R. Marcelo Claire

President, Chief Executive Officer & Director

A

One important point to note is that we have had this installment billing facility for a long time. And what we've done is now, our business continues to grow. So now, we have increased the size of the facility to \$3.3 billion. So this has been in place now, I think, for well over a year in anticipation of the growth of our financing needs.

Operator: And your next question comes from John Hodulik of UBS Securities.

John C. Hodulik

UBS Securities LLC

Q

Great. Thanks. Two questions. First, Marcelo, you talked, I think, in your prepared remarks, about some of the change in porting ratios you were seeing. If you'd give us a little bit more color on that, that would be great in terms of who you're doing better against and where those subscribers are coming from. And then a follow-up about the distribution you said going from 1,000 stores to 2,400 stores. Maybe if you could add some more detail in terms of productivity of those new doors, the proportionate increase in gross adds as the number of doors you have. But if you can just sort of help us there and when we, or how we should think about gross adds with this new distribution. Thanks.

R. Marcelo Claire

President, Chief Executive Officer & Director

A

Fair enough. Let's start with the porting. So this is an interesting way to measure it, and I will tell you how we do it. So, for example, when we look at other carriers, for example T-Mobile's quoting their earnings as it relates to their porting, we have no idea how they get to the numbers that they quote. I mean, they're completely, vastly different than what we're seeing.

So what we do is we don't provide carrier-specific trends, but what I can tell you is we basically measure port-ins and port-outs in a postpaid world from AT&T, T-Mobile, and Verizon, and we have been postpaid network positive for the whole quarter, which is the first time that that happened in three years. Obviously, we're taking more customers from the larger carriers than the smaller carriers because they have a bigger base, but we are net port positive in April when you add all the large carriers. So a couple of further interesting things is, we almost have 5x as many prepaid port-ins from T-Mobile than postpaid in the March quarter because we have a lot of customers that aren't meeting our credit standards for postpays.

Now let me add one more thing. When we compare our ports and being positive and if we go back a year ago we were negative – if I'm not mistaken I think as high as 400,000 or 500,000 negative port-out, our ratio was negative 500,000 and I'll confirm that, so we feel very good for the first time in a long time we are port-in positive.

As it relates to RadioShack and productivity in RadioShack, we have set up a low business case that basically addresses – that takes into consideration the low cost of operating a RadioShack store for us. It's a model in which we pay a percent of the rent, we pay a percent of the utilities and basically all we have to do is put between one to one-and-a-half times full-time employees to be able to manage the store.

So we expect some low productivity in comparison to other company-owned retail, but the cost of operating are significantly lower and different than any other stores. So, if the business plan works as we have planned, RadioShack will become one of the lowest-cost of acquisition of customers and we're going to see it throughout time as we start marketing these stores, as the neighborhood knows that they can procure their Sprint phones in the former RadioShack stores, I expect to see a nice growth in our business but for purposes of modeling, it's by far the lowest cost of acquisition, but also our expectations are that they will operate significant less productivity than one of our own company-owned retail.

John C. Hodulik

UBS Securities LLC

Q

Got it. Thanks for the help, Marcelo.

Operator: And your next question comes from the line of Jennifer Fritzsche of Wells Fargo.

Jennifer M. Fritzsche
Wells Fargo Securities LLC

Q

Thank you for taking my question. Just to follow up a little bit on John's question, since the rollout of the Cut Your Bill in Half, have you seen any what I'd characterize as almost like a boomerang effect where people have switched because of the price but due to maybe a perceived weaker network experience have switched back? It doesn't sound like you're seeing that but I just want to ask that to make sure. And then secondly and I'm not sure if you can answer this, Marcelo, but can you talk a little bit about SoftBank's view in terms of balancing the network spend with profitability? How are they thinking about it? If you could talk us through the current thoughts there?

R. Marcelo Claure
President, Chief Executive Officer & Director

A

Yes. So Cut Your Bill in Half continues to work very well for us. We have less than 10% of customers who walk in to a Sprint store to cut their bill in half and then they realize Sprint has offers that are better than Cut Your Bill in Half as it relates to us potentially granting data to their customers. The effect of the promotion you can see it as being port-in positive and then our returns are at the lowest that they have been in a very long time so therefore customers are getting a phone from Sprint and they're using it and they are extremely satisfied.

I think the best way to look at it is churn. Churn basically tells you – churn and 14-day customer returns is basically, it tells you how the customers are feeling about their Sprint experience. And churn, a 46 basis point drop in churn makes it the largest churn in the industry and our returns continue to be significantly lower than that they had before. So, we feel very good about that customers are coming in, especially Verizon and AT&T customers and they come up some of them with the perception that the quality of our network is going to be significantly less, and I'll tell you most of them realize that the gap between Sprint and Verizon or AT&T in network performance it is not what it used to be. We have done incredible improvement to our network and as I said we have so many first-place finishes. I think we've gone from 12 last year to over 104, I mean that's a huge improvement and I can tell you that customers are very happy and satisfied when they're using our network.

As it relates to what are SoftBank's involvement, SoftBank has been very involved, Masa personally himself has been working very hard with their engineers and our engineers basically to define what is that next generation network. And to us, it's going to be, well we do know is there's going to be a massive densification of our network and when you massively densify any network the results that you get when you have so much spectrum are spectacular and you can see it already in places where we've done some of that, where our network is better than AT&T in many different places. Where we are right now is in the absolute final stage, and if we're going to select who the vendor partners are going to be and what is going to be the combination between macro cells and small cells, and where we're going to start first the densification of our network. So we feel very good about the future of our network. Masa and SoftBank are 100% behind the concept of densifying the network and as you've seen from our results, our network just keeps on getting better every day.

Jennifer M. Fritzsche
Wells Fargo Securities LLC

Q

Great. Thank you very much.

Operator: Your next question comes from the line of Ana Goshko of Bank of America Merrill Lynch.

Ana Goshko
Bank of America Merrill Lynch

Q

Hi. Thanks very much. I wanted to put a finer point on some of the liquidity sources that have been mentioned. So as of now, is the \$3.3 billion of receivables facility available and then on the \$1.4 billion vendor for 2.5 GHz, do you expect to be able to use that this year based upon the 2.5 GHz spending plan within the CapEx budget?

Joseph J. Euteneuer
Chief Financial Officer

A

Sure. Ana, so a couple of things. In regards to the liquidity you're right, the total size of the installment billing along with the service receivables is the new \$3.3 billion, and it's fully available based on the quantity of receivables we have outstanding. So that receivable balance continues to grow as we grow into the size of the facility. In regards to the vendor financing it is fully available to us and we do plan on continuing to use it as we deploy the 2.5 GHz.

Ana Goshko
Bank of America Merrill Lynch

Q

Okay. And then so a bigger question or picture, the cash burn this quarter was about \$900 million, it was larger than that last quarter. And I think it's well known that as the company continues to put customers on the financing plans that the cash used upfront. So I wanted to ask what the company's overall comfort level is with the current liquidity sources. And at what point do you think you need to go back into the market either on a debt basis or an equity basis and what would be the factors that would determine whether you would raise more debt or raise equity?

Joseph J. Euteneuer
Chief Financial Officer

A

I mean, so right now the good news is that we continue to outperform in our subscriber basis, and we're going to continue to use the securitization of the service and IB we have, along with now moving to securitize the lease receivables which has been the greatest gains that we've been having, and we're getting that started now, we will believe we will have that in place and between those three securitizations, the ability to securitize inventory, the benefit we're getting from working capital as a result of Brightstar taking some of the inventory purchases, those will be our immediate short-term needs of liquidity. And when you think about the capital, we have the vendor financing in place for the 2.5 GHz, and ultimately what you see through the initial reads of the RFPs is that we're able to get a lot more done for a lot less along with being able to get favorable financing terms ultimately when we decide on what direction we're going in regards to the final capital program.

Ana Goshko
Bank of America Merrill Lynch

Q

Okay. So that sounds like overall comfort for the foreseeable future is liquidity or is...?

Joseph J. Euteneuer
Chief Financial Officer

A

Yeah, no, we're very comfortable with the liquidity here in the short-term, and as I said it will ultimately – we'll look at two things. One, the continued growth of the business, and two, the final outcome of what we're going to do on a capital standpoint.

Ana Goshko
Bank of America Merrill Lynch

Q

Okay. Thanks.

Jud Henry

Head of Investor Relations, Sprint Corp.

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 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 Claire

President, Chief Executive Officer & Director

Thank you. And before I give my closing statement, I misspoke as it relates to total networks. In reality, if you go back a year ago we were losing, we were net port negative 550,000 customers. So the fact that we are net port positive to 10,000 customers that marks a tremendous improvement going from negative 551,000 to positive 10,000.

Now as it relates to this call, I want to thank everyone for joining us today and for your interest in Sprint. I think in this call we have shared our strategy and we'll continue to build a winning culture with daily challenges of getting better at Sprint. We acknowledge the progress we've made in improving the business while remaining humbled by the challenges to reach our goals, or having positive postpaid phone additions. We want to continue to build our network and we will continue to put good offers for new and existing customers. We're going to make sure that we treat our customers right at all touch points, and we're going to improve the efficiency of the operating model. To reach these goals we've got to continue to innovate and execute quickly to identify unique solutions that's going to help us to drive Sprint towards a sustainable profitable growth. Thank you for your time.

Operator: Thank you for participating in today's conference. You may now disconnect.

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