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TMUS.OQ - Q2 2021 T-Mobile US Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 net income of $978m and diluted EPS of $0.78.

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PRESENTATION

Operator

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

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

Thank you. Welcome to T-Mobile's Second Quarter 2021 Earnings Call. Joining me on the call today are Mike Sievert, our President and CEO; Peter Osvaldik, our CFO; as well as other members of the senior leadership team.

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

Our earnings release, investor fact book and other documents related to our Q2 results as well as reconciliations between GAAP and non-GAAP results discussed on this call can be found on the Quarterly Results section of our Investor Relations website.

I would like to remind everyone that historical results prior to the second quarter of 2020 represent standalone T-Mobile prior to the merger with Sprint. I would also like to note that we are in the quiet period for Auction 110 and will not comment directly or indirectly on that spectrum.

With that, let me now turn it over to Mike.

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

Okay. Thanks, Jud. Hi, everybody. Wow, it is so great to be coming to you live from our Bellevue, Washington headquarters here, all gathered together, with increasing numbers of our employees with each passing week. And it's just great to feel the energy of this team, and it's no doubt fueled by this quarter's fantastic results.

T-Mobile delivered another outstanding quarter of profitable and industry-leading growth, beating our numbers across the board and leading the industry in postpaid net subscriber growth and service revenue growth yet again. And we did it while simultaneously delivering record core adjusted EBITDA and free cash flow above expectations, all of this while accelerating the transition of Sprint customer traffic onto the T-Mobile network, further extending our 5G network lead and increasing our expected merger synergies for the year.

And these results all culminate in a 16% year-over-year increase in free cash flow, 16%, which is just the beginning of our rapid free cash flow expansion journey and the unlocking of massive shareholder value. Listen, we're just past halftime in the game here for 2021, and our team is feeling more confident than ever. So we're increasing our guidance expectations across the board with today's announcement.

Net additions, core EBITDA, synergies, CapEx investments and cash flow outlooks for the year are all being increased today. These results stem from our focus on executing on our 3 core ambitions that I've talked with you about before. Delivering industry-leading profitable growth by expanding our addressable market and growing customer relationships; delivering substantial enterprise value by realizing merger synergies faster and bigger while transforming our business; and positioning the company for long-term success with sustained 5G leadership, our strong brand and the best customer experiences.

Let's start by talking about growth. Our 1.3 million postpaid nets were the best in the industry. And we continue to lead the industry in postpaid phone growth year-to-date as well, adding another 627,000 postpaid phone net adds in Q2, above our plan and consensus. This includes another strong quarter of growth from T-Mobile for Business driven by customer wins in key industries, including airlines, automotive and retail and government agencies such as the Department of Veteran Affairs and the U.S. Army.

But importantly, our reliable, profitable growth is the product of our progress on churn. T-Mobile again produced the biggest sequential improvement in postpaid phone churn compared to all other wireless operators this quarter, delivering 0.87%. We continue to make great strides in improving churn for both our T-Mobile and Sprint customers by providing them with best-in-class experiences, and we continue to see the lowest churn in the entire industry from our loyal T-Mobile-branded customers.

Our T-Mobile brand's consumer churn is lower than Verizon's, and this quarter, so is our business churn. This achievement is a testament to our awesome customer-loving team and also to our synergy-backed model, which allows us to sustainably deliver the best value while rapidly building fame as America's best 5G network. And unlike the other guys, we've got room to run. Our higher Sprint churn is rapidly improving, giving us ongoing potential tailwinds in this area.

Speaking of our customer-loving team, just this morning, we were awarded the #1 ranking from J.D. Power in U.S. customer care performance for the 22nd time. And our Net Promoter Score for customer care among our Sprint customers is up 48% year-over-year. The way we care for our customers is part of our secret sauce and it's an important moat around our business.

Now with all the line growth we've been seeing in the industry, another strong metric to watch is postpaid accounts, which represents new overall customer billing relationships. As we said during our Analyst Day, our strategy is built upon establishing new account relationships and growing them over time with additional products and services to drive ARPA growth.

This quarter, we delivered our highest-ever postpaid account growth at 349,000, and we continue to focus on capturing quality, profitable growth. I'll say it again, this quarter's account growth was our highest ever, at least in all the years I've been here. That's over 600,000 net postpaid accounts added year-to-date, compared to Verizon, which is still negative for so far this year, and AT&T, who doesn't want to share account growth information.

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In addition, we are the largest prepaid provider in the country, and we're consistently growing and delivering strong ARPUs in this valuable customer segment despite our size and despite the ongoing industry growth of postpaid at the expense of prepaid. In Q2, we delivered 76,000 net adds, which reflected record low industry-leading prepaid churn of just 2.62%.

Okay. Let's discuss the financial outcomes. One thing that continues to distinguish us as an investment is that only T-Mobile is converting that record service revenue and our synergy-backed model into industry-leading core EBITDA, adjusted EBITDA, free cash flow growth. What's even more exciting is that we're delivering these results before we begin to fully capitalize on our 5G leadership and before we fully tap into the new market opportunities and underpenetrated segments we've been discussing.

Peter will tell you more about our financial results here in a minute, but what I'll say is that T-Mobile showed again today that we consistently deliver smart growth on the top line metrics while consistently leading on financial outcomes, like core EBITDA and cash flow, pacing nicely to unlock the massive cash flows we outlined in our 5-year plan, a plan that promised outcomes, we are reiterating here today, built around consistent, disciplined, market-leading profitable growth.

Our opportunities are enabled by the fact that we already have America's largest, fastest and most reliable 5G network. And as we continue to pull further away from the pack with the pace of our network build, we're clearly beginning to differentiate ourselves, not just on 5G but on network performance overall.

Already, this year, 7 third-party network reports show that T-Mobile customers get the fastest 5G speeds and spend the most time connected to 5G. While others are clutching to the work of a single paid consultant to support their network claims, our 5G leadership is showing up loud and clear, time and again, in reports that are coming from multiple, independent, industry-leading firms that look at real customer usage from billions of device measurements.

Now I know we all spend a lot of time talking about 5G and for good reason. But we have also quietly eliminated the legacy advantages that AT&T and Verizon previously enjoyed on LTE, which is where most traffic remains today. In fact, the latest Ookla data shows that T-Mobile customers get the fastest overall network speeds nationwide, and T-Mobile swept every mobile category in Ookla's latest report. This is in addition to OpenSignal's latest findings that T-Mobile delivers the best 4G availability and umlaut's latest report, which highlights again that T-Mobile has the most reliable network overall. So whether customers are on 4G, LTE or 5G, they are covered by a far-reaching and speedy network at T-Mobile.

Speaking of far-reaching, did all of you catch Neville's blog earlier this week? He announced that T-Mobile's Extended Range 5G now reaches 305 million people. That's nearly everybody. And we surpassed our year-end milestone roughly 6 months ahead of schedule, thanks to the terrific momentum of our team. Think of it this way. Our 5G network covers 92% of interstate highway miles across 5G, across America, with 5G, 92%, today, compared to just 68% for AT&T and only 51% for Verizon, as an example.

However, where we are really unlocking transformative experiences for our customers is with our game-changing Ultra Capacity 5G, which, as you know, we are rolling out at an unprecedented pace. We already cover half of the U.S. population, delivering average download speeds to -- of 350 megabits per second to 165 million people with Ultra Capacity 5G. And we continue to increase both the breadth and depth of our mid-band deployment, providing a 50% increase in our customers' average 5G download speeds just since the beginning of this year, according to billions of real-time device measurements by OpenSignal.

That's because we're not just rolling out Ultra Capacity 5G to more of the population, targeting 200 million people by year-end, but we are also adding spectrum, targeting 100 megahertz before year-end, about what AT&T and Verizon will light up sometime next year with C-band combined. We're well ahead in our 5G leadership. What I hope, is also becoming increasingly clear, is that T-Mobile is positioned to maintain our 5G leadership for the duration of the 5G era, thanks to our superior spectrum portfolio, our unprecedented deployment momentum and our synergy-backed model.

We're doing just what we said we would do during the merger process, leading America into the 5G era and doing it without leaving rural areas behind. And this leadership is beginning to really matter to customers. The 5G era is here, and 7 out of 10 customers say they are excited about it.

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T-Mobile's 5G network perception is rapidly changing. And just since March, T-Mobile has seen a 25% increase in people viewing us as the leader in 5G.

Now at 26%, we're closing in on Verizon's stagnant 35% number on this metric. And we're way ahead of AT&T. And as for business customers, already, over 40% of enterprise decision-makers think of T-Mobile as a leader in 5G. With 5G quickly becoming one of the top things that customers say they're looking for in their next wireless provider, our network is increasingly becoming a catalyst for them to choose T-Mobile.

This network progress is also helping to fuel the rapid realization of merger synergies and our continued progress on integration. For the second quarter in a row, we are raising our synergy guidance for 2021. This progress includes continuing to migrate Sprint customers to the T-Mobile network and improve their experience, which is key to unlocking synergies. We've already moved 1/3 of Sprint customers to the T-Mobile network. And this is important, we're now carrying approximately 80% of the total Sprint customer traffic on the T-Mobile network. This is all within just 5 quarters of closing the merger.

And as planned, we're also expanding into new and underpenetrated businesses. We commercially launched our broad 5G Home Internet offering at the beginning of the second quarter. We continue to see great customer satisfaction, and product demand continues to put us on track for our target of 500,000 Home Internet customers this year, even with demand exceeding our supply for modems at times earlier this year. And we're already seeing third-party recognition, including PCMagazine recently publishing its Readers' Choice awards, where T-Mobile Home Internet is ranked higher than every single cable provider by actual customers for overall satisfaction and likelihood to recommend.

For enterprise and government, our plan is built on taking share in core wireless, and it's well on track, as I discussed earlier. But in addition, our 5G network creates a platform for growth beyond core wireless. And we are focused on helping customers realize value from emerging technologies, such as private networks and mobile edge compute, which are exciting potential upsides to our plan. We're already in trial programs with major enterprises in these areas, including 12 of the Fortune 50, even though we don't issue empty press releases about it every week.

Meanwhile, we're building our best value, best network, best customer experiences formula to smaller markets and rural areas as well, which make up 40% of U.S. households. We've kicked off initiatives to add significantly more points of distribution to reach beyond urban areas as well as new initiatives and offers. We're already seeing some early success as smaller markets and rural areas drove nearly 1/3 of our new postpaid account activations in Q2, up from about 1/4 last year. The potential here is super exciting.

So as I get ready to turn it over to Peter to take you through our financials, I want to take a moment to thank our team for delivering another remarkable quarter, delivering the highest postpaid customer growth and service revenue growth in the industry, while translating that into the highest core adjusted EBITDA and free cash flow growth in the industry. We continue to execute our integration playbook to unlock merger synergies ahead of schedule. And we further expanded our 5G lead with the nation's largest, fastest and most reliable 5G network, planting the seeds for our future success.

So okay, let me turn it over to Peter to take you through the financials and our guidance.

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

All right. Thanks, Mike. As you can see, we continue to have strong momentum across the business. We beat expectations yet again in Q2 as we delivered on our winning playbook. So let me briefly discuss these great results.

Service revenues grew to $14.5 billion, up an industry-leading 10% year-over-year or roughly 6%, normalizing for the Boost MVNO, and 2% sequentially driven primarily by our continued customer growth. Both cost of services and SG&A expenses, excluding merger-related costs, were lower as a percentage of service revenue on a year-over-year and sequential basis, reflecting the continued scale benefits we are delivering from merger synergy realization. Net income of $978 million and diluted earnings per share of $0.78 were both also better than consensus expectations.

Core adjusted EBITDA was a record $6 billion and up 7% year-over-year driven by continued profitable service revenue growth and synergy realization. Net cash provided by operating activities grew to $3.8 billion driven by our strong operating performance and synergy realization,

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while cash purchases of property and equipment, including capitalized interest, amounted to $3.3 billion, which was up $1 billion from a year ago as we continue to aggressively invest in the buildout of our nationwide 5G network.

Free cash flow, excluding gross payments for settlement of interest rate swaps, amounted to $1.7 billion, which grew an industry best 16% from a year ago even with a significantly higher CapEx investment and was also fully burdened by merger-related costs of $190 million.

Postpaid ARPA, or average revenue per account, was $133.55 as we continue to deepen customer account relationships. Postpaid phone ARPU was $47.61, up from the low watermark in Q1 as we foreshadowed. We expect continued tailwinds from premium service revenue adoption, including benefits from Magenta MAX, to be partially offset by the remaining tail of Sprint customer rate plan migrations and growing lines per account. Overall, we continue to expect full year 2021 postpaid phone ARPU dilution to be less than 1% compared to 2020.

And we continue to strengthen our balance sheet and lower our cost of capital. In May, we issued senior notes in an aggregate amount of $3 billion at an average interest rate of approximately 2.97%, including setting a record in the high-yield market for the lowest yield ever for a 5-year tranche, underscoring our momentum as we progress towards our goal of an all investment-grade capital structure. We used the proceeds to retire 3 notes with coupons roughly double the cost of the newly raised debt.

Amazing execution yet again by the team all around to deliver these strong Q2 results. So let's touch on how this momentum impacts our outlook for 2021 with another beat and raise quarter from T-Mobile, as Mike mentioned.

Our guidance reflects the OpEx investments ahead of us, both in the network and growth initiatives that Mike discussed, while simultaneously delivering on our promise of continued profitable growth. We now expect total postpaid net additions to be between 5 million and 5.3 million, taking the low end above the top of our prior guidance range of 4.4 million to 4.9 million, reflecting continued profitable growth and prudent share-taking opportunities from expected increased switching activity in the second half of the year. This also assumes a higher mix of postpaid phone net additions as a percentage of the total postpaid net additions in the second half.

Core adjusted EBITDA is now expected to be between $23 billion and $23.3 billion, primarily driven by service revenue growth and our expectation for higher merger synergies in 2021, which are now expected to be between $2.9 billion and $3.2 billion as we continue our progress towards rapid synergy realization.

We continue to expect merger-related costs, which are not included in core adjusted EBITDA, to be between $2.7 billion and $3 billion before taxes, with the second half being relatively evenly split between Q3 and Q4.

Net cash provided by operating activities, including payments for merger-related costs, is now expected to be in the range of $13.6 billion to $13.9 billion, up from our prior guidance of $13.2 billion to $13.6 billion. We expect cash CapEx to now be between $12 billion and $12.3 billion, up from our prior guidance to be at the high end of the original range of $11.7 billion to $12.0 billion as we continue the robust pace of our 5G deployment and network integration.

Together, this results in free cash flow, including payments for merger-related costs, increasing to $5.2 billion to $5.5 billion, which does not assume any material proceeds from securitization. This reflects our increasingly strong cash flow generation more than fully funding higher levels of capital investment. And finally, we now expect our full year effective tax rate to be between 23% and 25%, the improvement versus our prior guide being primarily driven by certain state tax benefits.

All together, our strong momentum and execution enable us to continue to invest in our network and the business to deliver significant expansion in future free cash flow. We're on track with our plans to unlock significant value for our shareholders, potentially including substantial share repurchases ahead in the future.

All right. Let's get to your questions. You can ask questions via phone or via Twitter. We will start with a question on the phone. Operator, first question, please.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Jonathan Chaplin with New Street Research.

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

Just one for me. I'm wondering if you could give us some more context on the DISH deal. It would be great to get a little bit more of an understanding of kind of the mechanics behind the scenes and the reasons why you let that relationship go. But also, I would love to get some context from you on how you think that sort of the new deal that they've got with AT&T impacts the wireless industry overall?

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

Thanks, Jonathan. I mean, well, first of all, Peter, you owe me $100. The first question was, in fact, about DISH. Let me point out a couple of things.

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

I hate to be predictable.

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

Yes. Let me point out a couple of things about this. One is, I want to make sure people understand, particularly investors understand, that when we presented to you our 5-year plan, we had already factored in rapid declines for DISH revenue into our plans. And so that's kind of in the run rate. I'll get to it. It could go a little faster than we had thought. But I want to make sure you understand that. And then we have done that for a number of reasons.

One, we can observe a rapid decline in customers over at DISH. And we don't have a lot of knowledge about their operations, and so there's no reason for us to do anything other than drag right on that when we make our plans.

And secondly, we took them at their word that they would build a facilities-based network and vacate ours as soon as possible. So all of that was built into our run rate. So much so that in our 5-year planning horizon, by the end of it, we had substantially taken out all of the DISH revenues in our plans and the vast majority of them by the end of our planning period.

Now it's possible that with this development with AT&T that they will move faster than even we anticipated in moving off our network. And that will open up some -- both opportunities as well as some gaps in our financial plan.

And I want to make sure a couple of things are clear. First of all, we've looked at this carefully, and we are here today reiterating every aspect of our 5-year plan, both in the medium term and in the long term that we communicated earlier this year, and there's a couple of reasons for that. When we look at this, yes, one of the things I've learned in wireless is that every time you've got a good guy coming at you there's some opposing bad guy you have to manage. Like great growth, it's going to cost you an EBITDA, for example, and you've got to manage that, or in AT&T's case, billions and billions of dollars in future revenue reversals hung up on their balance sheet.

But on the other hand, when you get a bad guy, like potentially DISH moving faster off our network than we had thought, it opens up opportunities. And one of the things that we see right away is that when they move off of our network that's going to open up both management attention, but more importantly, capacity.

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And so many things in our plan are predicated on available capacity. Like, for example, home broadband, where we don't think we're going to be so much paced by the demand, we're going to be paced by the available network capacity, so there's an opportunity to go faster; or enterprise share-taking, where our ability to put ambitious offers in front of customers is paced by what? Available capacity or ability to bring in new wholesale partners or double-down with our existing ones.

This is something that, ultimately, when we look at it, we're not really that displeased, which gets to the core premise of your question because it's going to allow us to do what we do best, focus on our knitting and get after share-taking and building this great network. And that's always been sort of the core premise of the 5-year plan that we put in front of you.

I'll say a couple of things to wrap up. One, we like and respect the DISH team, and we're here for them. So to the extent that they want us we're here. More or less, it's up to them. We will honor every obligation and continue to honor every obligation that we've made to both them and to the government. And overall, we're going to get after growing our core business and working with our core partners. And we're here today, after looking at it carefully, to reiterate every single promise that we made to you in our 5-year plan.

Operator

And our next question comes from Craig Moffett with MoffettNathanson.

Craig Eder Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner*

I may cost you another $100 because I'm going to go back to the DISH deal one more time. And just -- the duration of the DISH deal is quite a bit longer than what you were willing to offer when you originally signed the deal. Can you just talk about were you willing to extend the deal or was the duration a significant part of the negotiation?

And then, I guess, just a more general question. Where's all the growth in the market coming from? I mean we're seeing growth that's now, what, 5x population growth rate in total phone subscriptions. Can you just talk about what it is that's driving that kind of growth and how sustainable you think that will be for how long?

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

Yes. Let's jump in on both of those, and then I might ask Peter or Jon to add to it. As for the agreement, one of the things, obviously, to point out, and I think everybody knows this, is that our arrangement with DISH is a product of a merger remedy package. And it's highly negotiated. And it wasn't something that we looked at in our business plan and had built in originally. We've planned to operate the Boost business. So it was part of a remedy package. And in that sense, we were sort of thrust together and asked to negotiate this.

We did have a shorter term than what we saw communicated in the AT&T agreement, but I don't really have much comment on that. I'm not privy to what interactions happen between them and -- between DISH and AT&T.

I'm very immersed in the interactions we've had with DISH. And yes, it had a certain term and it had it for a reason. Because remember, the remedy package was meant for DISH to get after building their own facilities-based network as fast as possible and to move their revenues and their customers onto that as fast as possible. That was always the intention. And some are asking whether this still enables that or still, we'll see that happen or not. I don't know. You'll have to check with them.

As it relates to the second question, what we'll see going forward, one of you guys want to jump in?

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

Yes. Let me jump in on just DISH one more because I know we have -- before it costs me $300. We have some questions coming in on the impact. And as Mike said, right, we're here today reiterating the mid- and long-term guidance that we put out there at Analyst Day. And there's been some questions out there around, well, is it $2.5 billion of revenue currently? I think there's some extrapolation perhaps from DISH's cost-to-service line item. I'm just here to say it's already less than $2 billion on an annual basis in 2021.

And again, because we assumed DISH would be a successful competitor and would build out their own facilities and take customers off, that was already reflected as a decrease in the run rate. But also, one of the things that we talked about at Analyst Day is the prudent plan that we put in front of you, right, with multiple upside opportunities. And that included things, as Mike alluded to, mobile edge compute, virtual networking, but also the ability to either slow down the ARPU dilution that was assumed in the plan as we expanded relationships, go deeper, faster in smaller markets, rural areas and a whole host of other factors, the ability to grow ARPA on a faster rate as we deepen relationships.

And what you're really seeing in 2021 and what's encouraging is the success that we've had to date from a new account perspective, from an ARPA growth perspective, from the ARPU stability that we're giving you. So we're here to absolutely reaffirm everything in the mid- and long-term guidance, all the way down to free cash flow. I see some questions on Twitter coming in that way. So I just wanted to make sure that was out there.

And again, that's the focus of this team. We put out prudent plans and then our job is to beat them. And that's why we're here reaffirming things.

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

And we still see the upsides that we saw then.

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

Absolutely.

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

Very exciting potential. So as it relates to accounts, this is one I know that everybody is asking this, and all of us only have a lens on our own business. And so we really can't give you all that much to go on. I can tell you a few things.

One, as you heard in my remarks, that we're making sure that everybody understands where our focus is. And our focus is on growing profitable overall account relationships. 600,000 of them on the postpaid side so far this year. This last quarter, the biggest new account quarter in our history.

And accounts are a great metric because they're a totally new billing relationship. It's probably somebody porting over, and they're an important metric.

I heard during the earnings season, one of my competitors sort of said, "Hey, we're focused on quality growth and not all accounts are created equal." And what I would say to that is, but service revenues are. And T-Mobile led again on service revenue growth with 10%, normalized for some things last year, 6% overall service revenue growth, the best in the industry.

And so look, there's some prepaid to postpaid transference going on. There's some deepening of account relationships with add lines going on. There's a lot of dynamics, but it's one of the reasons why I want to make sure that you're hearing us focusing on our knitting about growing overall profitable relationships that result in the market's best service revenue and EBITDA growth.

Does anyone want to pile on and say where things are coming from?

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Jon A. Freier - *T-Mobile US, Inc. - EVP of Consumer Markets*

I think that's perfect. I mean the only thing I would add, Mike, and, Hi, Craig, is, yes, there's a big transference from the prepaid category to the postpaid category. You're seeing that happen more from a macro perspective, lots and lots of people from prepaid moving into the postpaid based on the economic realities that you're seeing in the country, which makes our prepaid growth that much more impressive.

When you think about us being the leading prepaid provider in the entire industry and putting up another 76,000 postpaid phones -- excuse me, prepaid nets, and having our industry -- or a record-low churn on prepaid, just really incredible in terms of what's happening in that space. And that's a big draw into postpaid specifically, is what you're seeing from a macro perspective in prepaid.

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

You bet. So let's do another one from the phone, and then let's see if somebody is scanning the ones coming in on Twitter. We can pick 1 or 2 of those, if you want to call them out. But first, let's go back to the phone.

Operator

And our next phone question will come from Brett Feldman with Goldman Sachs.

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

So as you highlighted during your remarks, this was a pretty solid churn quarter. As you observe the Sprint customer base kind of go through this transition into a T-Mobile customer base, what are the points along the way that seem to be correlated with step-function improvements in churn among those legacy Sprint customers?

And as you look out over the next couple of quarters, as you continue to go through the process, how often are we going to be hitting those? Because I think that the real focus here is, it seems like you're making great headway at moving the base over, so how low can churn go? And how quickly can it get there as you move through that process?

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

Yes. Thanks, Brett. I mean we have a lot of work left to do, and we're pleased with our progress. We're ahead of schedule. But this next year is a really critical time. And remember, in an integration like ours, there are separate -- we designed this to be able to do separate discrete events when it comes to the migration.

One is when do you migrate the substantial portion of their network traffic. Two is when do you migrate their account relationship in terms of the core network that they're attached to. Three is when do you migrate their rate plan to a destination rate plan. Four is when do you migrate their biller because that can be a discrete event. And finally, when do you start telling them they're T-Mobile, migrate their brand. All of these can be discrete events. And all of them can contribute to churn improvement.

By the way, there's some bumpiness. We're actually starting the process long promised of turning down the network on the source side and adding that capacity to the destination side. And that will create mostly delight, but it will also create some bumpiness.

So there will be opportunities netted out with some pressures, and overall, it looks like a net opportunity to us. But we're entering a really acute stage here over the next 12 months, where we will begin doing billing migrations at a faster pace, we'll begin doing brand migrations. The way we serve people with our exclusive team of experts model, we'll be starting to ramping -- to ramp up and we'll simultaneously start turning down those network sites that are not keep sites so that we can start to get you those concrete synergy flows.

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And all those things will be happening simultaneously. And so far, we're just delighted with how it's going. But at the same time, we see lots of opportunity to put an arm around and love those Sprint customers, and we're all over it.

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

If you don't mind, if I can ask a quick follow-up. Early in the process, there was a lot of questions about whether the Sprint customer base had the potential to have the churn profile of the legacy T-Mobile base. Now that you're several quarters in and some of those customers have been with you for a while, what's your latest assessment there? Do you think that the long-term churn profile, that acquired base, can match or get close to what you've historically shown us?

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

Absolutely. And one of the ways you can look at that is when we look underneath that there are different kinds of situations of Sprint customers. For example, people who are happily into a device payment plan that was given to them on fair terms and who have a great rate plan, their churn is already remarkably low. And most of their data is on the T-Mobile network. And so we see that situation in our base.

On the other hand, people who have a situation that's less palatable to them from a variety of promotions that had raising prices or the way their device plan works or they're not in a device relationship with us, and they're kind of a jump, yes, those churn numbers are still higher. And our job is to welcome them to T-Mobile, with the great taxes and fees included in rate plans and Netflix On Us and T-Mobile Tuesdays and Team of Experts care and of course, the best 5G network in the country. And that's happening at pace, but we're only working our way through the base.

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

And Brett, to your point, this is one of those areas of opportunity that we highlighted at Analyst Day, where the plan over the medium term was really to close the gap in half for T-Mobile. So to the extent that we get through this period, this next period of 12, 18 months, roll out all the benefits of T-Mobile, it's an opportunity, right, as we see maybe closer alignment during that period through the Magenta base.

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

That could wind up being a nice upside because only closing half the gap, yes, that's what's written into our plan.

All right. What are we seeing on Twitter before we go back to the phone?

Janice V. Kapner - *T-Mobile US, Inc. - EVP of Communications & Community Engagement*

Well, you've got -- Walt's got a couple of good questions in here. One about 2.5 gigahertz deployment, which I'm sure Neville could hit, and a little bit about on postpaid phone gross adds and add a lines, which I think we have some great insights on.

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

As Walt doesn't do the calls anymore, he's just a digital...

Janice V. Kapner - *T-Mobile US, Inc. - EVP of Communications & Community Engagement*

He's on Twitter.

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

Okay. Fair enough.

Janice V. Kapner - *T-Mobile US, Inc. - EVP of Communications & Community Engagement*

You got in multiple questions that way though.

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

All right. Well, let's read it out. So we'll go to one. Let's see. Does the DISH move to T impact free cash flow guidance? No.

Why is there only 40 megahertz of 2.5 gig in some markets? When will it be 100 megahertz or 160 everywhere?

Let's talk about that because how our advantage, Neville, translates into not only people-covered POPs, but megahertz deployed to those POPs, to geek out on an old industry term, megahertz POPs, the difference between what we can offer in the next few months versus AT&T and Verizon and then how that translates into a year's long advantage, it's pretty stark. Maybe you can talk about where we are and where we're going.

Neville R. Ray - *T-Mobile US, Inc. - President of Technology*

Yes. Absolutely. So if we pick up on Mike's comments earlier and the 165 million covered people we have already today with our Ultra Capacity mid-band solution with 35 million away from an end-of-year goal of 200 million people covered with the Ultra Capacity solution, which is a nationwide claim basis. So that's the progress we're making. We're super close. It's July. I'm very confident about our ability to hit the 200 million.

And to your question, Walt, that's the point in time we're targeting, on average, 100 megahertz of spectrum, will be available across that footprint, 100 megahertz of the 2.5 gigahertz spectrum, the best mid-band spectrum there is out there in this 5G category. So that's exciting.

And if you compare and contrast that to what AT&T and Verizon have announced to date, they're talking about 100 million people covered at some point in time in the new year. And between them, on their C-band spectrum holdings, they have 100 megahertz. Verizon 60 and AT&T 40. So when you compound the footprint and the spectrum available, obviously, we have a massive lead. And the good news is that, that lead is there, and it's durable and it's sustainable as we move into the coming years. AT&T and Verizon will try and match what we will do this year by the end of 2023, when they get more C-band spectrum available in the second tranche.

Of course, we get C-band spectrum at the end of 2023, too. But the important piece is we're not sitting at 200 million covered POPs at the end of this year. Our goal is to be at 300 million covered POPs by the end of '23 and to double that spectrum position from 100 megahertz of mid-band to 200 megahertz. And then your question, Walt, you mentioned 160 megahertz of 2.5. Our plan is to have all of that deployed for 5G, plus additional mid-band from our AWS and PCS holdings, to set us up for an incredible leadership position that AT&T and Verizon will spend many years trying to match.

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

Well, I was expecting a follow-up question. I forgot he's on Twitter. Okay. So good. So let's go back to the phone, and we'll get ready for another Twitter one after this.

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Operator

Our next question comes from Phil Cusick with JPMorgan.

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

You noted the fact that the phone increase was driven in part by T-Mobile for Business. Where are you on that? Can you quantify the size of that customer base and the growth? And then similar on home broadband, can you tell us what the contribution was there in the quarter and how that should pace from here?

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

Beautiful. Well, we'll turn it over to the leaders of those 2 business groups.

I am just delighted with what we're seeing on T-Mobile for Business. It's a big contributor. We outpaced Verizon this quarter, fantastic. Even outpaced Verizon on churn. So people wonder whether we're for real in business. We're for real. Maybe Mike, you can talk about what's driving it and then we'll flip over and talk about what we're seeing in home broadband.

Michael J. Katz - *T-Mobile US, Inc. - Executive VP of T-Mobile for Business*

Yes. Thanks, Mike. I'm really pleased with what we saw this quarter. And as we talked about in Analyst Day, our focus has really been going after the postpaid core connection opportunity because if you look at all the opportunities in enterprise, core connectivity still is the largest opportunity, both from number of subscribers but also from revenue. So we've been really focused on taking share there. And we've been really leveraging several very distinct strategies to go do that.

First and foremost, it's network. And it's all the things that Neville just talked about with 5G. We have a distinct advantage right now in the 5G network. We've got a huge lead that, right now, our competitors can't touch. And that matters in this enterprise space.

And so we've been using that to really get conversations started with enterprise, using it to get into testing with enterprise. And when they test us side-by-side, we win. We simply win because we can't be touched in 5G right now.

We're also really focused on disrupting in enterprise, specifically around simplicity and value. One of the things that you heard us talk earlier in the year when we launched WFX solutions was how complex the enterprise space is with core wireless, still lots of pooled plans and sharing. And when you're doing that across tens of thousands of employees, it's incredibly complex. So complex, in fact, that we see enterprises hiring third-party companies to manage it. And we've really seen enterprise respond favorably when we can come in and offer a much more simple, much more straightforward value proposition.

So those have been some of the big key sets we're doing it. And like Mike said, it's really translated into incredible results. We beat Verizon again in total postpaid adds, and that growth is translating both into year-over-year revenue improvements that are double digit and the network is really resonating with the base, where we saw both year-over-year and sequential decreases in churn from our postpaid customers. And you heard Mike mention in the opening comments, lower than Verizon this quarter. So...

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

We're talking about blended, not just on the T-Mobile side, but overall.

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Michael J. Katz - *T-Mobile US, Inc. - Executive VP of T-Mobile for Business*

Blended overall.

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

Yes. Terrific. Well done. Your second part of your` question, Phil, was about home broadband. And we're just out of the gates. We're really pleased with what we're seeing. Dow Draper leads all of our emerging businesses. And one of the things I'll say to tee up Dow is that one of our early insights is that it sure doesn't look like this is going to be about demand. This is going to be paced by network capacity, as I mentioned in my answer on DISH, by device capacity for a minute here as we recover from COVID, but not by demand. And by the way, the customer experience is pretty exciting too. But Dow, why don't you tell us what you're seeing?

Brandon Draper - *T-Mobile US, Inc. - EVP of Emerging Products*

Yes. No. Thanks, Mike. First off, thanks for the question, Phil, because we're super enthusiastic about this business. And as you -- as we talked about, previous this year, we really entered '21 with 100,000 customers in a pilot. And then we officially launched in April to 30 million households with our 5G Home Internet service.

And there's really -- it's early days here. To basically echo what Mike said, we started and what we've learned is that, one, is the customer satisfaction and what customers are telling us about the product is really positive. Our customer satisfaction scores are very high in an industry that is known for basically bottom-of-the-barrel customer satisfaction metrics. And so that's really great to see. And it's nice to get the results of the survey in PCMagazine's Readers' Choice article. And so it's great to see that.

And then what that's also translating to is we are seeing demand outpace -- really outpace supply in the second quarter. And we've done a lot of things where we're working to catch up with that. We think we're going to be caught back up here in the next month. And so what that means is our aspiration was to end the year with 500,000 Home broadband customers, and we feel really good about that trajectory.

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

Terrific. Thanks, Phil. What else do we have on Twitter?

Janice V. Kapner - *T-Mobile US, Inc. - EVP of Communications & Community Engagement*

I think we should go to -- there's a couple in here about prepaid, which you touched on, but there's lots of -- we'll go from Bill Ho.

Prepaid seems to have a resurgence given yesterday's aggressive offer. Given the comments on postpaid and prepaid blurring, has anything triggered this second half prepaid thinking? And any color on this amazing stellar drop in prepaid churn? And he kind of goes on about the aggressive offer that we just launched.

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

Well, one of the things, it's 5G. Look, we just -- as a company, we don't believe that 5G is for rich people on postpaid plans. We think it's for everybody. And that's really important. And we're moving absolutely ambitiously to make sure everybody gets a chance to see and experience this remarkable network.

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And by the way, with prepaid customers, that's even more important for so many of them because their phone, for many of them, is their only connection to the Internet, and it has to be a great connection. And it's just such an advantage for us to have the nation's leading prepaid brand on the nation's leading 5G network. And we never held back.

From day 1, we said, "Hey, that's for you also." And right now, we have an incredible offer for people to switch from Boost or Cricket, that don't seem to be going at a fast pace to introduce prepaid customers to 5G, and not only to give them a great rate plan but also to give them a brand-new Samsung Galaxy 5G phone.

And so it's a fantastic offer. Really, it's about celebrating this 5G moment and getting people to come see what our network leadership is all about. And I think that's a contributor. That network leadership, both on 4G and 5G, is certainly a contributor to the lowest churn we've ever seen or anybody has ever seen from a major prepaid brand.

So let's go back to the phone.

Operator

And we'll go to Doug Mitchelson with Crédit Suisse.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

You mentioned in the prepared remarks you're expecting higher switching activity in the second half of the year. So I'm just curious if that's something you're already seeing. And is that suggesting that there will be a higher churn environment for the higher -- the entire industry as a result? Just curious of the implications there.

And then, for Neville, beyond putting more spectrum into use, since the growth in fixed wireless might be constrained by you delivering capacity to the team versus demand for the product, is there other things that are happening in the future years beyond that to drive capacity? Are you going to go back and touch the towers again? Are there going to be software updates? Are there sort of new antenna deployments that you're not doing this go-around? Anything on capacity beyond putting the spectrum to use would be helpful.

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

So I'll start and hand it to Neville and then we'll go back to your first question. It's funny. It's the opposite -- the question we often get asked is actually the opposite, the converse of yours, which is you're building all this incredible capacity, what are the use cases? Tell us, please, Neville, about 5G use cases. How are you going to fill up all that capacity? And it's really important you asked the question the way you did because wireless home broadband is one of the killer apps of 5G.

And that's why I mentioned earlier that anything that frees up capacity to allow us to go faster on this multibillion-dollar opportunity is a good guy. And -- but maybe we can talk about that whole equation on what you're seeing when it comes to enabling home broadband and other high-capacity applications, Neville.

Neville R. Ray - *T-Mobile US, Inc. - President of Technology*

Yes. I mean, I think, obviously, the heart of the opportunity is spectrum. And we are in a -- this strong position, and I outlined for you the pace at which we're deploying that 5G spectrum, which is going to create a fairly sharp contrast with our competition. I mean I love our messaging on 5G for all. And part of that is the prepaid segment of the customer base that we just talked about. But it's also really hitting all corners of the United States, right, going into rural markets, small-town America and bringing 5G capacity and capability at an incredible pace. And I think that's going to position us for a long-term advantage in those market areas.

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That capacity and capability going into those marketplaces is going to open up enormous opportunity on in-home broadband. So it's not just the application of a great set of spectrum. It's where and how and the pace at which we do it.

I think the other piece is, not to get too geeky, right, but 5G is just really beginning. And the features and capabilities and the spectral efficiency that we can secure from a 5G bearer, we're at the very beginning of that journey. We're only just now rolling out 5G in the mid-band space. And if you look at what happened with LTE over a decade-plus, material improvements in the capacity and capability of what we could support with our radio network, and that's going to come with 5G, too. There's a very rich future and road map to enhance the capacity and capability that we can bring.

So you add all those pieces together, this is an incredible 5G factory that we're building. And to Mike's comment, I mean, we're excited about all of the opportunities with which we can fill up this capacity bucket that we'll roll out over the next 3, 4, 5 years. But that leadership opportunity, especially in the near term, is going to be critical across the country and especially in those major markets where we make the first stop.

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

Cool. All right. Your first question was about switching and trends we're seeing with churn in the second half. I'll tee it up and hand it to Jon. A lot of this is seasonal. I mean second half is usually a period with higher switching activity and higher churn.

This year, there's the additional dynamic of COVID, which is a little bit of a wildcard. But the broad trends, notwithstanding Delta variant, do look like a continuation of opening up. And then, of course, in the fall time, in prior years, we've generally had a big, important new phone launches. And as you take all that together, we've made sure, as you saw in the guidance, to fund our plan to compete profitably, ambitiously, reasonably, but to compete in the second half to make sure that we're competitive.

But Jon, why don't you say what you're seeing?

Jon A. Freier - *T-Mobile US, Inc. - EVP of Consumer Markets*

Yes, that's exactly what I was going to say, Mike, that seasonally, in the second half of the year, you have 3 big moments. You've got a big back-to-school moment that will be much more of a prominent moment this year versus perhaps last year. Then, like Mike said, you have a premium smartphone introduction that's typically in the fall time frame, you never know, but typically in the fall time frame. And then, of course, you have a holiday period.

So what we're seeing is we're seeing the continued reopening. We've been seeing that. I think I said last quarter that there were some places throughout the country, even last quarter, like Texas and Florida and some states like that that were fully open and then other places like New York and California still gradually reopening. We're still seeing that in terms of those states and some of those big markets that are still gradually reopening. We expect that to continue. Like Mike said just a few moments ago, we don't know where Delta is going or any other kind of variants that might be out there, but we're well in the position of a post-vaccine environment to be able to manage that.

We expect there to be much more activity in the second half of the year versus the first half. We're prepared to win in that space. That's where we win the most. That's what we love, to see that kind of competitive activity. And there's more people evaluating their options out there. We love that because we want them to look at T-Mobile and when they look at T-Mobile, when they're in the market to shop and perhaps switch, they pick us more than not. So we're excited about it.

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

All right. You bet. Okay. Let's go back to the phone.

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Operator

Our next phone question will come from John Hodulik with UBS.

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

Okay. Great. Maybe let's go back to the rural and suburban strategy. It's nice to hear that the contribution in terms of accounts has ticked up to 1/3 of the new accounts this quarter. How high can that go? And do you expect it to continue to tick up?

And I guess, along with that, how far through the investment phase are we? You talked about hiring local expects and increasing distribution. Is that in the run rate? Or should we expect more?

And then lastly, along with that, you guys talked about sort of getting on the synergies, especially the taking down and decommissioning the Sprint network. And it seems there's an equation there, with either some increased investment on distribution and -- but eventually, we're going to see the costs come through. When do we see that inflection and the synergies override the new investments and we start to see acceleration in the adjusted EBITDA number?

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

Terrific. Well, first of all, let me just say on small markets and rural areas, my opinion, I'll toss it to Jon, is we're in the first inning. We're just getting going. A lot of these investments around distribution, around a new way of distributing product, around new offers, around reputation, where those things take a little time, it's just at the very first inning. And yet, we're seeing the market respond. So that -- that makes us very optimistic.

Peter, I think, rightly pointed out, that in our 5-year plan we shared with you, there were a number of important upsides. And one of them is, we would hope there might be a chance to exceed our migration from the 13% market share we had today to the destination of 20% in the 5-year horizon that we communicated to you. I just told you that in this quarter, in the first inning, we're seeing about 1/3 of our activations come from those markets. Pretty exciting. So -- and Jon, some of these questions are about, okay, what have we accomplished and what's next and what can we expect.

Jon A. Freier - *T-Mobile US, Inc. - EVP of Consumer Markets*

Yes, like Mike said, I too just am so excited and increasingly enthusiastic about this opportunity for us. And as Mike highlighted in his opening comments, this is a huge opportunity for us. It's roughly 40% of the market, call it, 15 million households, 140 million people, call it, a low-teens market share. So we have a huge opportunity.

Specifically to the activities, we said this year that we would be opening 200 retail stores, that's well on pace to be able to get done, also hiring 1,000 mobile Hometown Experts. And these 1,000 Hometown Experts, just remember, are going into cities, in towns where it doesn't really make a whole lot of economic sense to build brick-and-mortar distribution. So this is more extending our reach into places that we ordinarily couldn't get to with retail distribution. That's well on pace as well.

So 200 stores for this year, 1,000 Hometown Experts this year. We made a commitment to have up to 2,500 Hometown Experts. So we'll have 1,000 this year as a downpayment on that 2,500 and then the balance of that coming into the future quarters and into the next couple of years.

So we're just increasingly excited about it. Like Mike said, almost 1/3 of our postpaid new accounts coming in from smaller markets, rural areas, up from, call it, 1/4 in 2020. And it's a big opportunity.

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It is in the first inning. It's a slow burn. We got a lot of perception to change, but we're capitalizing with this distribution push based on the incredible network that Neville and his team are building out there and bringing 5G to a lot of these places. I mean it's incredible when you think about it. There's not really a 5G strategy, I think, from some of our competitors in rural America. And they shouldn't be left behind, and we have a huge opportunity to go out there and bring Ultra Capacity 5G in so many places and be able to make a big difference to these markets.

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

Terrific. There was a question -- the second part of this question was about synergies.

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

Synergies and EBITDA. So I think the run rate, as Jon mentioned, it's really -- continues in the second half from an investment perspective, both in distribution here, both in, as we talked before, bringing our Team of Experts model into the Sprint base on a more full basis.

So there continues to be investments in also the second half, of course, as we said, with the larger switching opportunities, with more of the "phone launches" that we don't know about but may know about and of course, holiday season and such. And then our promotional constructs, as you know, tend to be more front-loaded. We don't hang that up on the balance sheet. But as we go through that that tends to impact core EBITDA in period.

So you'll see a lot of that, the investments, the promotions that we anticipate to be higher as we have more switching and a higher postpaid phone net add in the second half. That all comes through in core EBITDA. But all that is offset by the continuation of synergy unlock.

And I think you've asked when is the inflection point, in particular as it regards to the network. Well, we're starting. We are still targeting 7,000, 8,000 decoms by the end of this year And with the pace that Neville is going, we feel confident about what we put out there at Analyst Day. And so you see, by 2023, we're already assuming we will overachieve against the $6 billion and ultimately on our way to $7.5 billion of run rate synergies by 2024.

So very exciting, and you're already seeing that happen when you look at the year-over-year margin as a percentage of service revenue. The competition obviously both went down in terms of margin as a percentage of service revenue and we went up. So you see the power of those synergies and that unlock already starting. Very exciting.

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

Terrific. So we'll go back to the phone and then maybe do we have a couple more on Twitter as well?

Janice V. Kapner - *T-Mobile US, Inc. - EVP of Communications & Community Engagement*

Maybe one and then you have a...

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

Oh, I have to go? When do I have to go?

Janice V. Kapner - *T-Mobile US, Inc. - EVP of Communications & Community Engagement*

Really after one more phone call and...

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

Okay. Great.

Operator

We'll go to Simon Flannery with Morgan Stanley.

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

So coming back to the fixed wireless, the home broadband, maybe, Neville, you could just talk a little bit about the learnings that you're seeing and this critique about your ability to handle the usage of the typical broadband customers. So what are you seeing so far?

And I think you've been advertising a speed around 100 megabits a second. But at the same time, you're saying your Ultra Capacity network is averaging at 350 megabits a second. So what's the upgrade path for those speeds as you roll this network and add more spectrum in there? And then any color on where the customers are coming from? Are these coming from DSL, coming from cable and new to broadband? Any color there would be great.

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

We'll go to Neville for the first and Dow for the second?

Neville R. Ray - *T-Mobile US, Inc. - President of Technology*

Yes. So -- thanks, Simon. I mean obviously, so far, we're making great progress. I mean Dow and the team have been working really hard to get this business moving. And the network is moving at a real pace to support the capacity and capabilities that are required. The real sweet spot on this program is really the Ultra Capacity. And you've heard us multiple times now talk about the pace and rollout of that Ultra Capacity layer. And that's what really brings this home broadband solution to life and allows us to move into these higher-tier speeds.

I mean we've committed that, and we've talked for many months now around the speeds and capabilities that we can support across this network, across this entire network, and those speeds being north of 400 megabits per second. And that all comes to life as we realize all of that spectrum I talked about earlier on moving on to a 5G layer and a massive rollout unlike, I think, anything the U.S. has seen on a mid-band spectrum layer.

And so our ability to support the growth is absolutely there. The economics are there because we have a deep and heavy layer of mid-band spectrum in 2.5 gigahertz. And so we can secure these upgrades and the economics with almost a single radio deployment to leverage and unleash the 2.5 gigahertz spectrum. Very tough to do this stuff if you have to pull together lots of fragmented bands of spectrum as, for example, AT&T has to do.

So for us, big, big multi-lane highway being opened up, not just in Metro where we've been focused primarily for the last 4 quarters or so, but across the nation. And our ability to really transform that home broadband space in many parts of the country, where there's very little competition and very poor service at times, is absolutely there for us to go run at.

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

Terrific. Cool. All right. So where are we going now? Last question?

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Janice V. Kapner - *T-Mobile US, Inc. - EVP of Communications & Community Engagement*

You can do -- you have to move...

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

I have to go. But we're going to take the last question. Therefore, we'll go to the phone and operator?

Operator

Our next question will come from Michael Rollins with Citi.

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

A couple of follow-up questions. First, on ARPU, just curious if you can unpack what's happening in the ARPU in the quarter and for the year in terms of some of the helps and hurts and how Magenta MAX may also be contributing.

And then just taking a step back, what's the expected pace going forward to introduce new Un-carrier initiatives? And when you look at the totality of the value that you're offering, are you seeing a continued evolution in the take rates for services such as Netflix or the T-Mobile Tuesday program.

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

Okay. First to Peter and then to Jon. And I'll make my thank yous and excuses. I've got to do one on-air hit. So thank you, guys, and we'll hand it to Peter.

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

All right. Yes. Thank you, Mike, and thanks, Mike, for the question. So ARPU and really the story of ARPA. I'm very pleased, like I said in the prepared remarks, around what's happening with ARPU and really a lot of tailwind that we're seeing with the adoption of Magenta MAX, which is just really a manifestation, is another use case of the power of this network and bringing this differentiated product out into the marketplace and the ability for Jon and team on the consumer side to really translate that into value from an ARPU perspective. So that's a lot of the tailwind that we saw from a value-add service on a sequential basis.

Remember, we told you, Q1 was going to be the low watermark as we really focused in Q1 on moving a significant portion of the Sprint base into their target rate plans. And a little bit of that will continue throughout the latter part of this year. And of course, there's going to be continued investment in terms of expanding account relationships because remember, this plan is built on ARPA growth, not ARPU growth.

ARPU is still throughout the duration of the plan, through the end of '23, expected to decline roughly 1% on a year-over-year basis. So those are a lot of the puts and takes. Again, the ARPU trajectory this year, very, very confident in less than 1% dilution given all the tailwinds there.

And the other part that also is an impact here is business. And you heard about the success in business. Business tends to have larger, particularly enterprise and government, larger account sizes. So you typically see that coming in at a lower ARPU than the average consumer, but also tremendously valuable customer relationships there. So very happy there.

In terms of Un-carrier, I wish I could just -- maybe I'll Twitter you out exactly what we're going to do from an Un-carrier perspective and when it's coming. But the one thing that's true from this team, maniacal focus on profitable growth but never losing that entrepreneurial spirit that we have.

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So there's more on the horizon, I'm sure, when it comes to Un-carrier moves. So we are not done solving the pain points in this industry or new industries like home broadband. So really appreciate it, Mike. Thank you.

And I think probably, with that, we'll have to, at this point, conclude the call. So thank you, everybody, for tuning in. It's just an amazing set of results again, another beat and raise quarter for T-Mobile. And we're just very optimistic about where we're going. I'm very glad that you could spend the time with us. So operator, can you now please conclude the call?

Operator

Ladies and gentlemen, this concludes the T-Mobile US Second Quarter 2021 Earnings Call. If you have any further questions, you may contact the Investor Relations or Media departments. Thank you for your participation. You may now disconnect, and have a pleasant day.

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