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Hearing Date:	
Witness:	Brandon Dow Draper
ALJ:	Karl Bemesderfer
Commissioner:	Clifford Rechtschaffen

REBUTTAL TESTIMONY OF BRANDON DOW DRAPER

CHIEF COMMERCIAL OFFICER

SPRINT CORPORATION

ON BEHALF OF SPRINT SPECTRUM L.P. (U3062C)

AND VIRGIN MOBILE USA, L.P. (U4327C)

– PUBLIC –

January 29, 2019

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ATTACHMENTS

I. WITNESS BACKGROUND

Q1: Please state your name and business address.

A1: My name is Brandon Dow Draper. My business address is 6550 Sprint Parkway, Overland Park, Kansas 66251.

Q2: On whose behalf are you testifying?

A2: I am testifying in this proceeding on behalf of Sprint Spectrum L.P. (U3062C) and Virgin Mobile USA, L.P. (U4327C).

Q3: Who is your employer?

A3: I am employed by Sprint United Management Company, a wholly owned affiliate of Sprint Corporation.

Q4: What is your current position with Sprint?

A4: I am Chief Commercial Officer for Sprint Corporation. I have held this position since 2017. In this role, I am responsible for commercial strategy, including marketing and sales, for the Sprint, Boost Mobile, and Virgin Mobile brands, totaling over 40 million retail subscribers. I oversee more than 14,000 employees in my organization, and I am responsible for the vast majority of Sprint's $32 billion in annual net operating revenues.

Q5: Please summarize your educational and professional background.

A5: I have more than 13 years of business and financial-planning experience in the wireless industry. Prior to becoming Sprint's Chief Commercial Officer in 2017, I served as President of Sprint Prepaid Group, which included brands such as Boost Mobile, Virgin Mobile, and Sprint Prepaid, from 2013 to 2016. As President of the Sprint Prepaid Group, I expanded the contract-free business and implemented marketing strategies to keep the company's prepaid brands value-driven and competitive. In late 2014, I also assumed responsibility for managing business development for Sprint's Wholesale segment. Before joining Sprint in 2013, I served in several management roles at Clearwire Corporation. I was Senior Vice President (SVP) and General Manager of Retail at Clearwire from 2011 to 2013, and I was Vice President for Product Development and Innovation from 2009 to 2011. Before Clearwire, I held various positions at Alltel Wireless, including SVP of Device and Data Services and SVP of Financial Planning and Analysis. There, I played an integral role in the sale of Alltel to TPG Capital and Goldman Sachs for $25 billion. I have also held executive positions at Western Wireless and McKinsey & Company. While at McKinsey, I was involved in strategy and marketing engagements for various industries, including software, automotive, commercial aviation, and telecommunications. I hold a BS in Business from the University of Colorado at Boulder and an MBA from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill.

Q6: Are you generally familiar with these proceedings at the Commission?

A6: Yes. I understand that T-Mobile and Sprint have submitted two filings with the Commission. One filing seeks approval of the transfer of Sprint Communications, a wireline provider in the state, to T-Mobile. The other filing provides the Commission with information about the wireless merger. My understanding is that the Commission has set these hearings to consider various issues related to those filings.

Q7: What is the purpose and scope of your testimony?

A7: The purpose and scope of my testimony is to provide the CPUC with information on (1) Sprint's trajectory as a standalone company, including our financial and network challenges; (2) the competition that Sprint faces in the wireless industry; and (3) Sprint's standalone plans for rolling out 5G services in California and other places in the U.S. My testimony is also intended to correct certain misconceptions in Adam Clark's and CWA's testimony about the state of Sprint's financial situation, to address statements in the testimony of Eileen Odell, Dr. Lee Selwyn, and CWA concerning competition in the postpaid and prepaid segments, and to respond to assertions in the testimony of Cameron Reed about Sprint's standalone plans for building out a 5G network.

II. CHALLENGES SPRINT FACES TO BE AN EFFECTIVE COMPETITOR

Q8: How would you describe Sprint's competitive position in the wireless industry?

A8: Just a few years ago, Sprint was in dire financial straits. It lagged behind other carriers who were well ahead in deploying 4G LTE and was not generating the cash needed to support vital capital investments without adding billions of dollars in new debt to a very large debt load. In short, Sprint's path was unsustainable. Thanks to extensive cost-cutting and other efforts of our management, Sprint is more financially stable now than in those years, and it has shown improvement in a number of financial metrics.

But these successes in certain metrics do not paint a complete picture. Sprint continues to face significant structural and other challenges that I discuss in this testimony, including its lack of low-band spectrum, insufficient scale, limited network coverage, high churn rate, and substantial debt burdens. These challenges have and will continue to limit Sprint's ability to be a competitive check in the wireless marketplace, and in particular to compete effectively against the two largest nationwide carriers, AT&T and Verizon, which account for the vast majority of mobile-wireless subscribers.

While I am very proud of what Sprint has been able to accomplish, there is a limit to what we can do on our own. Against this backdrop, a merger with T-Mobile is the best way to deploy Sprint's assets and create a strong competitive force in the wireless marketplace that can take the fight to Verizon and AT&T—all in the interest of consumers, employees, and other stakeholders in California and nationwide.

III. SPRINT'S FINANCIAL CONDITION

Q9: Mr. Clark states in his testimony that "while Sprint faced financial hardships in the past, the company since returned to financial stability." (Clark Testimony at 7:9-7:10). Has Sprint's financial position improved, as he suggests?

A9: Yes, but only in some respects. For example, as Mr. Clark points out in his testimony, Sprint was net-income positive in FY2017 for the first time in 11 years. (Clark Testimony at 7:15-8:5). However, the vast majority of Sprint's FY2017 net income—$7.1 billion of the $7.4 billion—was due to one-time tax reform benefits rather than improvements in operational performance. Attachment A displays Sprint's net income through Q2 FY2018, with the non-cash benefits from tax reform removed from Sprint's net income. Putting aside those non-cash benefits of tax reform, Sprint was able to return to very modest profitability in FY2017 in large part by reducing costs and shifting from the company's prior practice of subsidizing device purchases to financing them through leasing, which enables Sprint to defer a substantial amount of device promotional cost into the future. However, the company continues to face challenges not reflected in Mr. Clark's snapshots of certain financial metrics and comparisons to other wireless carriers that impact how effective Sprint can be as a standalone competitor. I will discuss these challenges below.

Q10: Mr. Clark states that Sprint generated $10.1 billion in operating cash flow in FY2017, representing a $13.4 billion improvement compared to FY2016. (Clark Testimony 22:11-23:1). Does that mean that Sprint has dramatically increased its revenues in FY2017 and is generating billions more in cash that it can invest in its business?

A10: No. Mr. Clark's analysis of operating cash flow is another example of how looking at certain metrics in isolation can give an incomplete and inaccurate picture of the overall financial health of a company. For Sprint in particular, comparing year-over-year trends in operating cash can be misleading. Sprint changed from a practice of financing handsets to its current practice of leasing handsets. In a leasing model, Sprint, not the customer, retains ownership title to the handset and handsets are considered a "capital expense" and not an "operating expense." Therefore, handsets are "depreciated" over time and not expensed in a manner that would be included in operating cash flow. Sprint has and continues to be transparent with investors about the lease-impacting accounting changes and regularly uses metrics such as "EBITDA less handset depreciation." Sprint also reports a "free cash flow" metric which normalizes for the lease accounting differences and more accurately depicts Sprint's true cash flow position. Mr. Clark recognizes in his testimony (Clark Testimony 23 n.33) that $9.4 billion of the $10.06 billion operating cash figure for FY2017 is simply a result of this change in accounting, but he nonetheless concludes on page 23 that this accounting adjustment "will help to facilitate higher levels of network investments." This conclusion is not true. The increase in operating cash flow in FY2017 does not indicate that Sprint has more money to invest in its business. It simply shows that Sprint changed the way it treats handset costs as a matter of accounting.

Mr. Clark also presents in Table 9 of his report a year-over-year bar chart showing Sprint's operating cash flow from 2010 to 2017 and comparing it to T-Mobile. (Clark Testimony 22). Because of the accounting change I discussed, of course Sprint's FY2017 looks like a huge improvement over every year since 2010. But after backing out the impact of the change in accounting policies in FY2017—which is the only way to do an "apples to apples" comparison of Sprint's actual trajectory over time—Sprint's FY2017 figure would be worse than every year since 2010, except for FY2015 and FY2016 when its cash flow from operations was negative. Attachment B displays Sprint's operating cash flow through FY2017, with the effects of the 2017 change in accounting policies removed from Sprint's operating cash flow.

Sprint believes it is more important to look at its operational cash generation and cash needs on a holistic basis as is detailed in its reported "free cash flow" metric.

This accounts for Sprint's cash position including profit generated from operations, interest expenses, and all capital expenditures for network, IT, devices, and other items. Free cash flow also allows for a more accurate comparison of Sprint's performance year-over-year since the inputs to Sprint's calculations of this metric have not changed as a result of Sprint's switch from a handset-financing to a handset-leasing model. Attachment C compares Sprint's free cash flow against the operating cash flow that Mr. Clark uses in his Figure 9 (which is unadjusted to take into account the reality of the handset-leasing change). As Attachment C shows, the reality is that Sprint's free cash flow is not providing billions of dollars available for investment in Sprint's business. Indeed, in FY2017, free cash flow was only marginally positive. In addition, we have guided Wall Street that we will be free cash flow negative again in FY2018 as we begin increasing our network investment once more.

Q11: How is Sprint performing in other financial metrics?

A11: As Mr. Clark and CWA note in their filings, in FY2017 Sprint achieved positive metrics across several financial performance measures, such as EBITDA growth and free cash flow. (Clark Testimony at 22:9-22:13, 24:20-25:2; CWA Testimony at 36-40). However, these improvements do not provide a complete picture of Sprint's current financial condition. For example, EBITDA—which is a measure of earnings before interest, taxes, depreciation and amortization—is not a useful metric for comparing Sprint against its competitors because Sprint and its competitors include different things in their EBITDA calculations. Because Sprint has shifted from subsidizing device purchases to financing them through leasing (as I just discussed), as an accounting matter, it now recognizes the cost of device purchases through asset depreciation and not as operating expenses. Attachment D reflects Sprint's adjusted EBITDA for fiscal years 2008-2017 as well as Sprint's adjusted EBITDA for fiscal years 2014-2017 without the change to accounting for handset depreciation I just described. Additionally, there are other accounting differences between Sprint and its competitors, including how bad debt is recognized. The economics of the wireless business are complex, and any analysis comparing the wireless carriers must account for those differences and complexities.

As for our recent improvements in free cash flow, Sprint was only able to increase its free cash flow in recent years by significantly reducing Sprint's investment in its wireless network and through a series of difficult but necessary transformations and workforce reductions that eliminated billions of dollars in costs. In other words, we achieved this financial stabilization by reducing our network investment to historically low levels and shrinking the size of the company. For example, as part of Sprint's efforts to remove costs from the company, in the past five calendar years (2014-2018), Sprint eliminated **[BHC-AEO]** [redacted] **[EHC-AEO]**[1] jobs nationally, with **[BHC-AEO]** [redacted] **[EHC-AEO]** of those jobs located in California.

Q12: Mr. Clark's testimony suggests that Sprint's improvements in free cash flow indicate that Sprint's financial condition has improved. (Clark Testimony 10, 21-26). Do you agree?

A12: Mr. Clark's analysis fails to account for the fact that Sprint would have been cash-flow negative in FY2017 had it invested in its network at anywhere close to the same rate as other national wireless carriers. Attachment E overlays Sprint's free cash flow against its cap ex spending. This past underinvestment in Sprint's network, spurred by its efforts to stabilize the company's financials, has and will continue to prevent Sprint from competing as effectively as the other major national carriers in terms of network quality and perception. Sprint's network challenges led the company to increase its capital spending in FY2018, and its current plan is to continue to invest at a higher rate than recent years; however, at current projections, this investment will require the company to become more indebted. The company must constantly manage

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[1] Throughout this testimony, confidential information is designated by the labels "[BHC-AEO]" and "[EHC-AEO]." BHC-AEO stands for "Begin Highly Confidential-Attorneys Eyes Only" and EHC-AEO stands for "End Highly Confidential-Attorneys Eyes Only."

its cash flow and assess how to balance capex spend, debt financing, and spending on promotions to drive near-term growth.

Q13: Do the improved financial metrics that Mr. Clark identifies suggest that Sprint has turned the corner?

A13: No, the financial stabilization that Sprint has achieved is just that: stabilization. Mr. Clark examines only a limited number of financial metrics that provide only a snapshot in time. These metrics do not capture Sprint's long-term financial trajectory or its ability to compete effectively in the future. Sprint's historically low levels of network investment, which are reflected in the reduced amounts of capex in recent years, are unsustainable and prevent Sprint from providing network coverage comparable to that of its competitors. As a result, Sprint is investing between $5 and $5.5 billion in FY2018 and has plans to invest an additional $5-6 billion in total capex per year over the next two years. Investments will focus on Massive MIMO, small cells, tower upgrades, and new towers to increase our deployment of 2.5 GHz spectrum and to roll out 5G services in several major urban centers beginning with nine cities in the first half of FY2019.

Q14: How does Sprint's network investment compare with that of other national wireless carriers?

A14: Even with our recent plans for accelerated network investment, we still are unable to spend at parity with Verizon and AT&T, which have continually outspent us and have huge scale advantages—much less "catch up" from previous underinvestment. Attachment F compares Sprint's cap ex against the cap ex spending of Verizon, AT&T, and T-Mobile. The importance of the scale difference cannot be overstated. Because AT&T and Verizon have significantly more subscribers than Sprint, they can spread these network costs over a much larger customer base, resulting in a far lower cost per subscriber for a given level of capital spend. And, even as we increase our spending on our network, it may be the case that we will need to be less aggressive in the pricing and promotions we offer in the marketplace.

Moreover, even with this investment, Sprint will not be able to come close to matching the capabilities of New T-Mobile to compete and win in the marketplace. New T-Mobile would have the scale, complementary spectrum assets, and network density to compete far more effectively than Sprint can on its own.

Q15: Mr. Clark suggests in his testimony that Sprint's performance in FY2017 portends positive results going forward. Has Sprint continued to see improvements in its financial position in FY2018?

A15: The issues that Sprint has faced in recent years that I identify in this testimony have continued into FY2018. For example, Sprint's challenges growing its customer base have continued. Two important measures of success in the wireless business are postpaid handset gross adds (total number of postpaid phone subscribers added in a given period) and postpaid handset churn (percentage of postpaid handset subscribers who drop service in a given period). Sprint has recently experienced both declines in postpaid handset gross adds and increases in postpaid handset churn. While Sprint's postpaid handset gross adds increased slightly from 5.39 million in FY2016 to 5.62 million in FY2017, they sharply declined in FY2018. Sprint realized just 2.49 million postpaid handset gross adds in the first two quarters of FY2018. As for churn, Sprint's postpaid handset churn has increased from 1.48% in FY2016 to 1.62% in FY2017. In its most recent quarter (2Q FY2018), Sprint's postpaid handset churn rate increased further to 1.73%. Mr. Clark never considers the publicly available information on subscriber additions and churn in his testimony, and these metrics directly relate to the number of customers Sprint has and can expect to have going forward—which is critical to any assessment of Sprint's future prospects. Again, by focusing only on a few accounting metrics, Mr. Clark ignores other indicia that are critical to an accurate assessment of the current or future financial position of any wireless carrier.

Q16: Has Sprint considered using spectrum as collateral to help it finance its network improvements, as Mr. Clark proposes in his testimony (Clark Testimony at 16:3-16:11)?

A16: We have used spectrum-backed notes to obtain loans to support our network-expansion efforts in the past. However, Sprint already carries a high debt load, and further accumulation of debt will have a detrimental impact to our future cash flow because interest must be paid on the debt. With more debt comes greater overall interest payments, and paying more interest leaves less money to invest in its business. Moreover, the use of spectrum for purposes of financing depends on the willingness of investors to take on the risks associated with further collateralizing our spectrum, as well as the valuation of the spectrum at the time of the financing. For those reasons, spectrum-backed bonds are not a comprehensive solution to Sprint's cash-flow problems.

IV. SPRINT'S NETWORK CHALLENGES

Q17: How would you describe the current state of Sprint's network?

A17: Sprint continues to work to improve its network to meet the needs of its customers, and as Mr. Clark and CWA note in their filings, we have steadily been improving our network, with more investment to come. (Clark Testimony 30:6-32:7; CWA Testimony 36-37). But as a standalone company, Sprint faces substantial challenges arising from our lack of scale and practical limitations on our ability to improve our network coverage, including inside buildings and in less-densely populated suburban, exurban, and rural areas. In addition, to supplement our network we rely on roaming both "out-of-footprint" and "in-footprint" to provide coverage in less-densely populated areas and areas where our network coverage is poor, which both increases our costs and can result in a lower-quality experience for our customers. In short, while Sprint has areas in its network that offer great user experience, we suffer from inconsistent performance across that footprint, which has a detrimental effect on our ability to attract and retain subscribers.

Standalone Sprint cannot achieve the kind of ubiquitous network coverage, capacity, and performance that would be unlocked by the combination of Sprint and T-Mobile's complementary assets and scale. This combination will enable New T-Mobile to offer unmatched coverage, capacity, and quality, both for LTE and for 5G, bringing compelling value propositions to wireless customers.

Q18: Does Sprint face any technical obstacles preventing it from improving its network on its own?

A18: Yes. Sprint's ability to build a competitive standalone network is constrained by its lack of low-band spectrum. As Dr. Selwyn points out in his testimony, Sprint does have *some* low- and mid-band spectrum assets, including some deployed in California. (Selwyn Testimony 159:3-160:5). However, Sprint has only a very thin layer of low-band spectrum, which poses significant capacity challenges on that band and impedes network performance and quality. Most of our network's capacity is provided by our 2.5 GHz spectrum, and customers who access the network in areas of good 2.5 GHz coverage experience high speeds. However, this 2.5 GHz spectrum does not propagate as far as low-band spectrum and, without sufficient density of cell sites, is relatively weak at delivering a good signal inside buildings, which is very important to the user experience. The poor in-building propagation of Sprint's spectrum is a particularly significant disadvantage because most consumption of wireless data occurs indoors. And when subscribers drop off of our 2.5 GHz spectrum onto our PCS spectrum or 800 MHz spectrum, they receive much lower speeds. This results in an inconsistent user experience as subscribers move across the network.

Q19: How does Sprint's network footprint compare nationally to that of Verizon and AT&T?

A19: At a national level, Sprint's network footprint covers less geography and fewer POPs than the other national carriers, including Verizon and AT&T. Sprint's current LTE network covers around **[BHC-AEO]** [redacted] **[EHC-AEO]** POPs nationally, corresponding to about **[BHC-AEO]** [redacted] **[EHC-AEO]** square miles of coverage (only **[BHC-AEO]** [redacted] **[EHC-AEO]** of the U.S.). However, only **[BHC-AEO]** [redacted] **[EHC-AEO]** POPs are covered by Sprint's 2.5 GHz spectrum that provides high capacity and competitive data speeds, corresponding to **[BHC-AEO]** [redacted] **[EHC-AEO]** square miles of coverage in the U.S. (only **[BHC-AEO]** [redacted] **[EHC-AEO]** of the U.S.). These numbers are even lower when accounting for in-building coverage, where only **[BHC-AEO]** [redacted] **[EHC-AEO]** POPs have 2.5 GHz spectrum coverage.

In California specifically, Sprint's current LTE network covers around **[BHC-AEO]** [redacted] **[EHC-AEO]** POPs, corresponding to **[BHC-AEO]** [redacted] **[EHC-AEO]** square miles of coverage (only **[BHC-AEO]** [redacted] **[EHC-AEO]** of California). However, only **[BHC-AEO]** [redacted] **[EHC-AEO]** POPs are covered by Sprint's 2.5 GHz spectrum, corresponding to **[BHC-AEO]** [redacted] **[EHC-AEO]** square miles of coverage in California (only **[BHC-AEO]** [redacted] **[EHC-AEO]** of California). These numbers are even lower when accounting for in-building coverage, where only **[BHC-AEO]** [redacted] **[EHC-AEO]** POPs have 2.5 GHz spectrum coverage.

Q20: How does Sprint's network performance compare to that of Verizon and AT&T?

A20: Historically, Sprint has scored relatively poorly in measurements of customer satisfaction, and its network and data performance metrics generally lag behind those of Verizon and AT&T. For example, in 2017 several third parties that measure network performance, including Ookla and OpenSignal, ranked Sprint behind Verizon and AT&T in nearly all performance-related categories in major national markets, including metrics particularly relevant to the consumer experience, such as data download speed. In addition, Sprint's net promoter score for network is routinely well below that of Verizon, AT&T, and T-Mobile. As Mr. Clark and CWA point out in their respective testimonies, Sprint has worked hard and has improved its network compared to past performance. (Clark Testimony 30:6-32:7; CWA Testimony 37). Despite these improvements, however, the reality is that Verizon and AT&T are still considered leaders in network quality.

Q21: In his testimony, Mr. Clark points out that Ookla recently recognized Sprint as the "most improved" network among national carriers, and "named Sprint as having the fastest average download speeds in 123 cities nationwide." (Clark Testimony 31:2-31:6). Do those numbers indicate Sprint's network has improved compared to its competitors?

A21: These reports provide an incomplete picture. While Sprint has improved its network performance, it is a relative metric: given its network challenges, Sprint had the most room to improve on a nationwide basis. Even with these relative improvements compared to Sprint's previous performance, Sprint has not surpassed (or even caught up to) the other national carriers. Further, not only does Sprint's strong data-speed performance in *some* cities not reflect Sprint's performance on a nationwide basis, it may not even reflect overall performance or customer satisfaction *throughout* the winning cities. Sprint has a much smaller coverage footprint than Verizon and AT&T, which means that Sprint customers in any given city may experience good coverage in some areas but little or no coverage in others. A lack of coverage is particularly problematic for a product like wireless telephonic service, where product mobility is important. Finally, the inconsistency in our network speeds due to the difference in performance on our limited 2.5 GHz coverage versus our other spectrum bands means that even in cities where we have high average download speeds, we still face significant challenges stemming from our difficulty providing a consistent user experience. When subscribers drop off of our 2.5 GHz coverage, they receive much slower speeds, meaning that even within our network footprint, our customers have inconsistent data experience.

Q22: Why wouldn't roaming agreements resolve Sprint's coverage issues?

A22: Sprint has relied on roaming agreements for years, but roaming agreements cannot solve Sprint's network-experience issues. Because of the limited reach of Sprint's own network, we must rely on roaming agreements to provide services outside our network footprint. Indeed, there are many areas of the country where our subscribers have coverage due solely to our roaming agreements. However, these roaming agreements are often extremely expensive and often lead to a poor customer experience as Sprint must reduce throughput in order to afford offering a nationwide network to its customers, which is often a requirement of consumers considering any wireless provider.

Q23: I understand that Sprint entered into a roaming agreement with T-Mobile as part of the merger transaction. Why isn't that agreement a solution to Sprint's coverage issues?

A23: Like all of Sprint's roaming agreements, this agreement does not provide a permanent or comprehensive solution. The T-Mobile roaming agreement is only a four-year agreement. Moreover, the roaming agreement only provides for LTE data roaming in T-Mobile's footprint—neither voice nor 5G data roaming is included. The agreement also significantly limits the number of Sprint subscribers that can simultaneously access the network and places limits both on which sites can be used by Sprint and on which spectrum is accessible based on congestion criteria.

V. SPRINT'S PRICING AND PROMOTIONAL ACTIVITIES

Q24: Why can't Sprint continue its strategy of aggressive pricing and promotions, as Mr. Clark proposes (Clark Testimony at 7:10-7:11)?

A24: With its limited financial resources, Sprint has prioritized investment in promotional discounts over the past three years, and as a result, it has underinvested in its network. However, this strategy was not successful in generating enough subscribers to offset the reduced revenue per user, making it financially unsustainable. For example, in the past year many customers who signed up for Sprint service based on a promotion with a low introductory rate for a limited time have seen announced "step ups" in their rate plans as the promotions expired, and they were transferred onto our standard rack rate plans. As a result, many subscribers have chosen to leave Sprint. Compounding this problem, Sprint's network quality challenges have made it difficult to retain subscribers, leading to the highest churn in the industry. As a result, despite heavy promotional activity in 2016, 2017, and 2018, Sprint has had a continuous decline in wireless-service revenue and has lost several hundred thousand customer accounts (one account can have several lines) in each of those years. And Sprint subsequently began to take action to stabilize revenue growth in 2018 not through promotional activities, but by significantly raising prices for many customers in its base.

The net result of all this is that Sprint is losing ground on two fronts: Sprint is losing customers because it must increase prices so it can invest in its network, but it cannot afford to spend what it would take to catch Sprint's network up to AT&T and Verizon because it must offer prices lower than them in order to stay competitive. Thus, Sprint is losing share *and* underinvesting in its network.

Q25: In his testimony, Mr. Clark asserts that Sprint has "a well-established record of successfully disrupting the mobile market through innovation and consumer-friendly service offerings." (Clark Testimony at 33:4-33:5). Do you agree with that statement?

A25: While Sprint is proud of its record, Sprint's prior practice of offering aggressive promotional discounts at the expense of reduced network spending has consequences. As explained above, going forward Sprint may have no choice but to be less aggressive with its pricing and promotions while it prioritizes investment in its network, including 5G deployment.

Q26: Which carriers does Sprint target with its promotions?

A26: Sprint has principally targeted its advertising and promotional campaigns at Verizon and AT&T. Those carriers are the obvious targets because Verizon and AT&T represent the largest sources of opportunities to gain new subscribers that are seeking to switch wireless providers. Between them, they have almost 190 million customers—a significant majority of U.S. subscribers. Verizon in particular is a natural target for Sprint because, unlike AT&T and T-Mobile, Verizon has historically utilized the same CDMA technology in its devices as Sprint. As a result, Sprint is able to offer bring-your-own-device ("BYOD") promotions to Verizon customers, because a greater number of those customers' handsets will also work on Sprint's network.

Q27: Have these efforts been successful?

A27: Sprint's efforts to win subscribers from Verizon and AT&T have met with only limited success. For example, Sprint developed a marketing campaign targeting Verizon customers featuring Paul Marcarelli, Verizon's former "Can you hear me now?" spokesman, which benchmarked Sprint's network and pricing against Verizon's pricing. Sprint also recently launched a promotional campaign aimed at Verizon customers offering 12 months of free "Sprint Unlimited" service, including unlimited talk, text messaging, 4G LTE data, HD streaming video, and 10 gigabytes of data per line for mobile hot spot access each month. Sprint has also continuously promoted prices that would save Verizon customers hundreds of dollars a year (*e.g.*, promotions offering 50% off Verizon prices). Yet, these measures have had limited success in attracting new subscribers, and a number of Verizon customers who do switch to Sprint subsequently switch back to Verizon. The net results show that in almost every month of 2017 and 2018, **[BHC-AEO]** [redacted] **[EHC-AEO]**. The results against Verizon are disappointing, and the story is not significantly different when compared against AT&T. Thus, as a standalone company, Sprint is unlikely to take meaningful share from Verizon and AT&T.

Q28: Can Sprint overcome these value-perception issues?

A28: To improve our ability to attract and maintain subscribers, we must improve both the performance and the perception of our network, as well as how customers view our customer service and our "price/value." Sprint generally lags all competitors in network and customer-service perception. Sprint has committed to continue investing in its network and has achieved some improvements in certain network performance metrics, but these improvements are limited as Sprint's network still significantly lags that of its main competitors, and it lacks the resources and spectrum assets to catch up.

Additionally, Sprint has not been able to invest heavily in customer service. In fact, Sprint's operating expenses for customer care have declined from **[BHC-AEO]** [redacted] **[EHC-AEO]** to **[BHC-AEO]** [redacted] **EHC-AEO]**, over the last several years, and Sprint has been unable to shift those resources to "onshore" support as others in the industry have done. A combination of low perceptions of network performance and customer service greatly reduces the attractiveness and value perception of Sprint as a choice for consumers—no matter how attractive the pricing.

VI. SPRINT'S ABILITY TO RETAIN SUBSCRIBERS

Q29: How has Sprint performed recently in terms of maintaining subscribers?

A29: Sprint has not been able to drive sustained growth in our customer base or lower churn over the same period that we have been using aggressive customer-acquisition strategies. Sprint continues to have the highest churn among the major carriers and is the only carrier with a rising churn rate. In 2017, Sprint's postpaid handset churn rate was 1.62%, around twice that of AT&T's and Verizon's rates, which were 0.86% and 0.78%, respectively. And Sprint's postpaid handset churn rates have only increased in 2Q FY2018 to 1.73%. For comparison, Attachment G provides the churn rates over time for each of Sprint, AT&T, Verizon, and T-Mobile. In California specifically, Sprint's postpaid handset churn rate in 2Q FY2018 was **[BHC-AEO]** [redacted] **[EHC-AEO]** and Sprint **[BHC-AEO]** [redacted] **[EHC-AEO]** in California over the past year.

Q30: What contributes to Sprint's higher churn rate?

A30: Sprint's internal analysis has shown that a lack of coverage and a lack of a consistent, high-speed user experience in many places where Sprint does offer coverage are major drivers of Sprint's comparably higher churn rate. Even though Sprint has improved in certain Ookla performance metrics, network-satisfaction scores remain low. Sprint survey data also show that we are consistently ranked last in customer perception of which wireless provider provides the "best value," even though Sprint has historically had lower prices than AT&T and Verizon.

In addition, higher prices in the last year (resulting from the expiration of subscriber device and rate-plan promotions, as well as the base-price increases most customers have received this year) have resulted in increased churn and thus fewer subscribers. When non-handset devices and prepaid-to-postpaid conversions (which do not represent incremental subscribers to the company) are backed out of Sprint's postpaid subscriber totals, Sprint lost postpaid subscribers in the second quarter of FY2018. We know that many of these recent losses are due in part to "step up" promotional device and rate-plan strategies that we have been using over the past few years. If this continues, the lost revenues from decreased numbers of subscribers could overcome any short-term gains in revenues from the promotional "step ups" and base price increases.

VII. GAP BETWEEN SPRINT AND AT&T AND VERIZON

Q31: Is Sprint a close competitor with Verizon and AT&T?

A31: Sprint is currently in the fifth and final year of our five-year “Sprint Now” plan to address our commercial challenges by cutting costs while simultaneously working to improve our network. However, despite significant reforms to our cost structure and ongoing efforts to improve our network, Sprint’s ability to challenge AT&T and Verizon as a standalone firm will continue to be constrained by our lack of scale and distribution, inconsistent network quality, and limitations on our ability to make simultaneous investments in network, brand, and customer promotions.

Q32: How do Sprint’s financial-performance metrics compare to those of AT&T and Verizon?

A32: AT&T and Verizon continue to account for the vast majority of mobile-wireless subscribers. Verizon and AT&T maintain shares of mobile wireless service revenues of about 37% and 32%, respectively, compared to 13% for Sprint. AT&T and Verizon also continue to account for the majority of EBITDA and free cash flow. In 2017, AT&T and Verizon accounted for approximately 80% of adjusted wireless EBITDA, and each of Verizon and AT&T had EBITDA far higher than that of the combined EBITDA of Sprint and T-Mobile. Despite the stabilization of Sprint’s finances over the past few years, Sprint’s ability to drive competition is limited. Sprint’s service revenue declined 25% from 2013 to 2018. And while net adds have nominally increased, the number of net adds without the “free lines” promotions has decreased, as have the net number of accounts.

Q33: How large is Sprint’s distribution network compared to those of AT&T and Verizon?

A33: AT&T and Verizon have much larger distribution networks than Sprint, which serve to drive customer acquisition and retention (through branding, convenience, and improved customer service experiences). For example, Verizon currently has around 6,500 Verizon-branded stores for distribution, and AT&T has around 5,000, compared to Sprint's 3,800 stores. Not only has Sprint fallen behind in retail distribution, but when it has opened new stores, the payback on investment in these new stores is exceedingly long (if it is even positive), driven by low customer addition and retention rates. This reality makes it infeasible for Sprint to invest what it would need to in order to open sufficient stores to meaningfully close the distribution gap with AT&T and Verizon. Sprint's retail distribution footprint also mirrors the limited geographic footprint of its wireless network, meaning that there are substantial areas of California, and the United States generally, where Sprint has no branded stores.

Q34: Can Sprint catch up to Verizon and AT&T by investing in it network?

A34: Sprint has committed to increase capital investments in its network, including its network assets in California, as Mr. Clark notes in his testimony (Clark Testimony 31:7-32:7). However, its capex per subscriber, $62 in 2017, is still significantly behind that of AT&T ($102) and Verizon ($90) and in no manner addresses the prior years of deficient spending. In total, Verizon and AT&T each invested about four times more in their networks than Sprint in 2017. The composition of Sprint's spectrum holdings and its lack of scale mean that Sprint will not be able to close the coverage, breadth, and performance gap with AT&T and Verizon without the ability to greatly increase its network spending.

Q35: Why doesn't Sprint match Verizon's and AT&T's network spending?

A35: Sprint cannot afford it. Sprint has a much, much smaller subscriber base than AT&T or Verizon, meaning that we have fewer customers over which to spread out our costs. The economics of building a nationwide network are much less favorable with a much smaller customer base. Though Sprint's transformative cost reductions have yielded positive free cash flow for the first time in many years, that result was achieved only during a period of suppressed spending on network capital during FY2016 and FY2017.

VIII. COMPETITION BETWEEN SPRINT AND T-MOBILE

Q36: Who do you consider to be Sprint's competitors in the wireless industry?

A36: Sprint competes against a broad set of companies in the wireless-service marketplace, including Verizon, AT&T, T-Mobile, TracFone, and regional carriers, as well as cable companies like Comcast, Charter, and Altice that have recently entered or will soon enter the mobile-wireless space.

Q37: Does Sprint principally target T-Mobile with its promotions, as CWA suggests in its testimony (CWA Testimony 21-25)?

A37: Sprint does at times target T-Mobile with advertising and promotional campaigns, as it would with *any* competitor. However, Sprint principally targets its advertising and promotional campaigns at Verizon and AT&T, not T-Mobile. This is because Verizon and AT&T have the most subscribers and represent the largest sources of opportunities to gain new subscribers.

For example, CWA discusses the 55+ promotion (which provides discounts on wireless service for senior citizens) that was initially launched by T-Mobile in late 2017. (CWA Testimony 23-24). Sprint's goal in launching its own 55+ promotion was *not* to target T-Mobile, as CWA suggests. Rather, Sprint recognized that T-Mobile had devised a successful strategy to attack AT&T and Verizon, and launched a similar promotion also targeted at stealing customers *from AT&T and Verizon*.

Q38: Against which companies does Sprint compete for prepaid wireless services?

A38: Like Sprint's branded postpaid services, Sprint's prepaid brands, including Boost Mobile and Virgin Mobile, compete directly with many different competitors, including AT&T, Verizon, T-Mobile, MetroPCS, Cricket, TracFone, and a variety of other MVNOs. TracFone is the leader in the prepaid segment, and Cricket, which is owned by AT&T, has been particularly successful in the prepaid space as well.

Q39: Do Boost Mobile and Virgin Mobile target MetroPCS with their promotions, as CWA suggests in its testimony (CWA Testimony 25-27)?

A39: Sprint's prepaid brands launch promotions targeting all of their competitors in the market. For example, as CWA notes, Boost's promotion offering half-cost plans for customers who switch to Boost was marketed at both MetroPCS and Cricket customers. (CWA Testimony 25). Indeed, most of Sprint's promotions offering specials for customers who switch, for both postpaid and prepaid brands, are available to customers who switch from any other carrier.

Q40: Will this merger improve competition in mobile wireless?

A40: Absolutely. A combination with T-Mobile will allow the combined firm to immediately become a more effective competitor in LTE and to develop a superior 5G network. The combined company will have a significantly improved cost structure, the highest-quality network, and the scale, resources, and access to capital necessary to disrupt the market by aggressively competing with AT&T and Verizon and offering wireless customers even better value for their money.

IX. CONVERGENCE OF POSTPAID AND PREPAID

Q41: Are postpaid and prepaid wireless services independent product markets, as Eileen Odell, Dr. Lee Selwyn, and CWA suggest in their respective testimonies (Odell Testimony 10–12; Selwyn Testimony 59:1-17; CWA Testimony 6)?

A41: Because I previously ran Sprint's prepaid business and now have responsibility for both postpaid and prepaid services, I have seen firsthand how these segments have converged, and the lines between prepaid and postpaid service plans have become increasingly blurred. For example, Sprint is now offering high-end smartphones like the iPhone to prepaid Boost Mobile and Virgin Mobile customers, whereas they used to be available only on Sprint postpaid plans. Similarly, Sprint is now offering prepaid service plans that include features that have historically been available only to postpaid customers, such as Wi-Fi calling and mobile hot spot capability. In addition, in the past, prepaid service plans did not include extending credit to customers; that was a feature exclusive to postpaid. However, Sprint's flagship prepaid brand, Boost Mobile, is now offering service plans that extend credit for device purchases and term financing options to customers who have consistently paid their bills through the BoostUP! program. This program permits Boost customers to migrate to postpaid without a credit check. Thus, there is little effective difference between today's prepaid offerings and traditional postpaid offerings. This is also consistent across the industry. Prepaid brands, including those from MVNOs, offer services that are virtually the same as postpaid services.

Q42: Are there differences between prepaid and postpaid service plan terms and pricing?

A42: Today, most postpaid and prepaid offerings do not require an annual contract. Prepaid and postpaid rate-plan pricing is also converging. For example, a common family plan offer in the prepaid space is four lines for $100 per month. Last year, the

Sprint postpaid brand began offering rate plans with free third, fourth or fifth lines. This essentially offered a three-, four- or five-line postpaid account for $100 per month.

X. COMPETITION AT THE NATIONAL LEVEL

Q43: Do you compete with other wireless carriers at the local level, as Dr. Lee Selwyn and CWA suggest in their filings (Selwyn Testimony at 22–58; CWA Testimony 12)?

A43: With very limited exceptions, Sprint's pricing plans are set on a national basis. For example, when Sprint introduced its Unlimited for All plans in the middle of last year, those promotions were rolled out on a national basis. Similarly, a significant majority of Sprint's advertising spend is set at the national level. In certain circumstances Sprint may launch a local advertising campaign to test a new promotion before introducing the plan nationally. However, those advertising campaigns run for only a limited time and are the exception rather than the rule.

XI. COMPETITION OUTSIDE OF TRADITIONAL WIRELESS SERVICES

Q44: In addition to the convergence of prepaid and postpaid options that you described, do you see other significant changes in the wireless industry?

A44: Traditional industry lines are blurring as wireless providers begin to provide subscribers with proprietary content, and traditional content providers like cable companies are moving to offer their subscribers wireless telephony.

In addition, "consumer IoT" is becoming more important as technology like connected cars, trackers, sport devices, health monitors, and more move into the mainstream. These technologies are likely to become an important part of a consumer's choice of carrier, and network coverage and scale are essential to effectively compete in these areas.

Q45: Do you agree with Dr. Selwyn's and CWA's assessment that cable companies are not effective competitors against facilities-based carriers (Selwyn Testimony at 125-32; CWA Testimony 6-8)?

A45: No. As CWA acknowledges in its testimony, in the year and a half since Comcast launched Xfinity Mobile, we have already seen subscriber metrics showing that Xfinity Mobile has taken more than half a million subscribers from the traditional facilities-based carriers. (CWA Testimony 7). In addition, Xfinity Mobile has recently ranked #2 in terms of gross wireless customer additions. Moreover, Comcast and Charter also benefit from the fact that many consumers of wireless services are already subscribers for these companies' cable and Wi-Fi services. Therefore, for many new subscribers, switching to Xfinity Mobile is as easy as adding another service to their existing bill.

Q46: Why can't Sprint bolster its value proposition beyond wireless services?

A46: As Mr. Clark and CWA detail in their filings, Sprint has had some one-off video partnerships, such as its agreement with Hulu to provide customers with access to Hulu's library of movies and television shows on their mobile devices. (Clark Testimony 35:11-36:2; CWA Testimony 24). However, these partnerships have not driven meaningful share to Sprint or shifted customer perception of the company's offerings. Sprint has no current plans to move more significantly into video offerings.

As a standalone company, Sprint does not have the size or scale to independently expand its offerings to compete with AT&T and Verizon, who have the ability both to vertically integrate into content channels and to form numerous strategic alliances with content providers. For example, Verizon has pushed aggressively into content and digital media, including partnerships with Vice, Viacom, ESPN, CBS Sports, and the NFL, as well as strategic acquisitions of AOL and Yahoo. AT&T, for its part, acquired DIRECTV, and its recent merger with Time Warner (including its subsidiary, HBO) will only increase its content integration.

XII. COMPETITION FOR PROVIDING WHOLESALE SERVICES

Q47: Does Sprint currently offer wholesale services to MVNOs?

A47: Sprint does offer wholesale services to a range of MVNOs, but wholesale revenue accounts for a very small part of Sprint's wireless revenues—just about **[BHC-AEO]** [redacted] **[EHC-AEO]** of wireless revenues in FY2017. Further, Sprint's share of wholesale wireless services is very small in part because Sprint has a limited ability to provide services for TracFone, which makes up the lion's share of the MVNO market. We estimate that Sprint has provided less than **[BHC-AEO]** [redacted] **[EHC-AEO]** of TracFone's wireless services since 2015, and our share of TracFone subscribers has been trending down over that period of time.

Q48: Will the merger lessen competition in the wholesale market?

A48: Just the opposite. MVNOs that seek to offer nationwide services value network quality. Yet, as TracFone—the largest MVNO in the U.S.—noted in comments before the FCC, Sprint and T-Mobile have not historically offered sufficient speeds or coverage in all geographies. Indeed, as a standalone company, Sprint's lack of network coverage and consistency hamper its ability to win meaningful share of the wholesale market. New T-Mobile, on the other hand, will be a much stronger competitor for providing wholesale network than either Sprint or T-Mobile would be on their own, due to its dramatically improved network quality. The New T-Mobile will have much, much more network capacity than either of Sprint or T-Mobile, which will provide the tools to compete aggressively for MVNO customers.

XIII. COMPETITION FOR ENTERPRISE AND GOVERNMENT CUSTOMERS

Q49: Does Sprint compete for enterprise and government customers?

A49: Sprint's enterprise segment has been unable to meaningfully compete for the roughly 40 million customers who contract for wireless services through their employer. Enterprise customers represent about $180 billion in annual revenues, and this segment is dominated by AT&T and Verizon. Sprint estimates that it has **[BHC-AEO]**[redacted]**[EHC-AEO]** share of the total wireless enterprise business.

Q50: Why has Sprint struggled to compete for enterprise and government customers?

A50: Enterprise and government customers make sophisticated judgments and are highly sensitive to network coverage and quality. Large enterprise customers with nationwide operations are particularly sensitive to having a consistent and dependable network experience for their employees. As such, Sprint is significantly disadvantaged in competing for these contracts due to customer concerns about the quality and geographic coverage of Sprint's network. As a result of these network challenges, for the vast majority of enterprise and government customers there are only two network choices: AT&T and Verizon.

Q51: Will a merger between T-Mobile and Sprint improve competition for enterprise and government customers?

A51: Absolutely. Whereas Sprint, along with T-Mobile, individually have been unable to overcome their respective challenges to meet the demands of enterprise and government customers or to meaningfully compete with AT&T and Verizon, New T-Mobile will be able to provide real competition to AT&T and Verizon in these segments for the first time. By offering an improved LTE network and the best 5G network, and with the subscriber scale to invest more in its business than either predecessor company can alone, New T-Mobile will be able to provide these customers with the services they require and give customers a viable third competitive option.

XIV. STANDALONE PLANS FOR 5G

Q52: When does Sprint plan to roll out 5G under its current business plans?

A52: Sprint plans to roll out 5G services in nine major cities, including Los Angeles, beginning in the first half of FY2019. By 2021, the majority of new Sprint handsets sold will likely have 5G capability, and the 5G network and associated wireless services will be a key driver of pricing and strategy decisions.

Q53: What will be the geographic reach of Sprint's planned 5G network?

A53: As CWA notes in its testimony, standalone Sprint is working to be a leader in rolling out a mobile 5G offering. (CWA Testimony 32). However, its plan anticipates a limited 5G build over time. Sprint's standalone 5G network will be built on 2.5 GHz spectrum utilizing Massive MIMO equipment, which will support 4G LTE and 5G simultaneously. However, the network will lack broad geographic coverage due to both Sprint's spectrum limitations (very little low-band spectrum holdings and the limitations of Sprint's 2.5 GHz spectrum) as well as Sprint's financial challenges, such as Sprint's limited subscriber scale and financial capabilities. As CWA acknowledges, rural customers will bear the brunt of these 5G coverage limitations because standalone Sprint "lack[s] the tools to offer 5G in rural parts of the country." (CWA Testimony 32). The limited ability to densely deploy our 2.5 GHz spectrum means that geographic coverage will remain a challenge, especially for the 60 million wireless customers who live in less populated exurban and rural areas. In short, Sprint's 5G network will be limited to major metropolitan and surrounding areas rather than providing the ubiquitous coverage that the merger would create.

Q54: What benefits to the development of 5G technology would the merger provide that could not be achieved by each company on a standalone basis?

A54: As CWA notes in its testimony, Sprint and T-Mobile each have plans to launch some form of 5G this year (CWA Testimony 32), but each of our plans have significant weaknesses as standalone companies. Sprint has the ability to offer 5G capacity in geographically limited areas, while T-Mobile has the ability to offer 5G coverage more broadly, but will lack the ability to provide high capacity in areas of higher use. By combining Sprint's 2.5 GHz spectrum with T-Mobile's low-band spectrum, along with the subscriber scale to justify significantly enhanced network investment, the proposed merger will enable the combined company to deliver a nationwide 5G network faster and with more breadth and depth than Sprint could do on its own. This merger is about enabling the full potential of 5G on a faster timeframe and with broader geographic reach to the benefit of U.S. consumers, including Californians, and importantly to rural areas.

Q55: Does this conclude your testimony?

A55: Yes.

ATTACHMENT A

—PUBLIC VERSION—
(ENTIRE ATTACHMENT SUBMITTED UNDER SEAL)

ATTACHMENT B

—PUBLIC VERSION—
(ENTIRE ATTACHMENT SUBMITTED UNDER SEAL)

ATTACHMENT C

—PUBLIC VERSION—
(ENTIRE ATTACHMENT SUBMITTED UNDER SEAL)

ATTACHMENT D

—PUBLIC VERSION—
(ENTIRE ATTACHMENT SUBMITTED UNDER SEAL)

ATTACHMENT E

—PUBLIC VERSION—
(ENTIRE ATTACHMENT SUBMITTED UNDER SEAL)

ATTACHMENT F

—PUBLIC VERSION—
(ENTIRE ATTACHMENT SUBMITTED UNDER SEAL)

ATTACHMENT G

—PUBLIC VERSION—
(ENTIRE ATTACHMENT SUBMITTED UNDER SEAL)