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Commissioner:	C. Rechtschaffen
Admin. Law Judge:	K. J. Bemesderfer
CalAdvocates Project Mgr.:	Shelly Lyser
CalAdvocates Expert Witness:	Adam Clark

Public Advocates Office

California Public Utilities Commission

Public Advocates Office Testimony on the Proposed Transfer of Control of Sprint to T-Mobile: Sprint's Financial Condition, Capital Investment, and Innovation

- PUBLIC -

San Francisco, California
January 7, 2019

MEMORANDUM

This report was prepared by Adam Clark of the Public Advocates Office under the general supervision of Program & Project Supervisor, Shelly Lyser. Attachment A to this testimony is a statement of qualifications from Adam Clark. The Public Advocates Office is represented in this proceeding by legal counsel, Travis Foss.

This testimony is comprised of the following chapters:

Section	Description
I	**Sprint's Financial Condition**: Analysis and discussion on Sprint's financial condition.
II	**Capital Investments**: Analysis and discussion on the proposed merger's likely impacts on capital investments in California.
III	**Innovation**: A discussion on T-Mobile and Sprint's history of disruptive innovation in the mobile wireless market.
IV	**Conclusion.**

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ATTACHMENTS

SUMMARY

On October 4, 2018, the assigned Administrative Law Judge issued an Amended Scoping Memo outlining issues relevant to determining whether the proposed merger[1] is in the public interest.[2] This testimony addresses Sprint's financial condition as a standalone company, the proposed merger's likely impact on capital investment in California, and the proposed merger's potential impact on innovation in the wireless telecommunications market. To prepare this testimony, I reviewed the Applications and accompanying documents, the Joint Applicants' responses to data requests from Public Advocates Office, and other publicly available information. Key findings include:

- Sprint is financially viable as a standalone company. It does not need to merge with T-Mobile to remain financially viable.
- Sprint has continued to invest in its network.
- Sprint and T-Mobile are both currently deploying 5G network equipment in select markets.
- Sprint plans to increase its network investments in California to improve its services and deploy 5G wireless services.
- New T-Mobile's planned capital expenditures for investments in California across the next five years are less than the combined planned investments of Sprint and T-Mobile as standalone companies.
- As standalone companies, both T-Mobile and Sprint have a robust history of innovation and consumer-friendly offerings.

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[1] On July 13, 2018, T-Mobile USA, Inc. ("T-Mobile") and Sprint Corporation's ("Sprint") California subsidiaries, collectively "Joint Applicants", submitted Applications 18-07-011 and 18-07-012 ("Applications") seeking review and approval from the California Public Utilities Commission ("CPUC" or "Commission") for the transfer of control of Sprint Spectrum L.P. (U-3062-C), Virgin Mobile USA, L.P. (U-4327-C), and Sprint Communications Company L.P. (U-5112-C) to T-Mobile. The Applications are part of a larger nationwide deal in which T-Mobile would acquire Sprint and all of Sprint's subsidiaries to form a combined entity referred to for purposes of this proceeding as "New T-Mobile." (*In the Matter of Applications of T-Mobile US, Inc. and Sprint Corporation for Consent to Transfer Control of Licenses and Authorizations*, WT Docket No.18-197.)

[2] Amended Scoping Memo at page 2.

Both Sprint and T-Mobile are financially viable as standalone companies. Sprint does not need the merger to remain financially viable. Further, the proposed merger will likely produce harms caused by the loss of Sprint as a competitive facilities-based provider, as demonstrated by the testimonies of the Public Advocates Office witnesses Kristina Donnelly, Eileen Odell, Cameron Reed, and Dr. Lee Selwyn. If the Commission does not deny the merger, it should develop mitigating conditions that are enforceable, measurable, able to be tracked and monitored on an on-going basis that address the following areas:

- Require New T-Mobile to complete the California specific capital investments that the Joint Applicants claim the merger will produce.
- Require New T-Mobile to surpass the level of capital investments in California planned by T-Mobile and Sprint as standalone companies, in total, from 2019 through 2023.
- Require New T-Mobile to submit annual reports on its capital investments in California and include, at minimum, the information listed in Attachment B.

I. SPRINT DOES NOT NEED TO MERGE WITH T-MOBILE TO BE FINANCIALLY VIABLE.

Sprint's financial condition indicates the company can continue competing in California's mobile wireless telecommunications market as a standalone service provider. Contrary to the Joint Applicant's representations,[3] Sprint's financial health is improving and is reasonably comparable to that of T-Mobile, AT&T, and Verizon. The Joint Applicants describe Sprint's business challenges, including the need for financial resources to invest in its network, and portray Sprint as a financially burden company that cannot compete as a standalone entity.[4] However, while Sprint faced financial hardships in the past, the company since returned to financial stability. Sprint's recent successes and solid financial footing will allow the company to invest in its network, improve service quality, and roll out 5G technology in California.[5] The information and analysis presented below demonstrates Sprint's financial health and supports the company's viability as a standalone service provider and competitor to T-Mobile, AT&T, and Verizon.

Sprint's financial condition has improved considerably in recent years. Sprint failed to generate positive net income over the past decade and posted a net loss every year from 2009 through 2016. However, the company recently began to improve its bottom line though a variety of cost savings and customer acquisition initiatives.[6] Following a failed attempt to acquire T-Mobile in 2014,[7] Sprint appointed a new Chief Executive Officer, Marcelo Claure, who began concentrated efforts to improve the company's performance.[8] These efforts have allowed Sprint

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[3] A.18-07-012 at page 28. *See also*, the Description of Transaction, Public Interest Statement, and Related Demonstrations, WTB Docket No. 18-197, filed June 18, 2018 ("Public Interest Statement") at page 98.

[4] A.18-07-012 at pages 28 to 29. *See also,* Public Interest Statement at page 98.

[5] Refer to the Testimony of Public Advocates Office's witness Cameron Reed for analysis and discussion on Sprint's network, spectrum and technical capabilities to deploy 5G.

[6] Public Interest Statement at Appendix F (Declaration of Brandon Dow Draper) at page 2.

[7] "Sprint Drops Bid to Buy T-Mobile, Changes CEO." *Reuters.* August 5, 2014. Available at, https://www.reuters.com/article/us-sprint-corp-tmobile/sprint-drops-bid-to-buy-t-mobile-changes-ceo-idUSKBN0G52JV20140806.

[8] "Sprint CEO Marcelo Claure Outlines Shake-up of Entire Company." *The Kansas City Star.* September 11, 2014. Available at, https://www.kansascity.com/news/business/article2063795.html.

to improve its financial condition as evidenced by three consecutive year-over-year improvements its bottom line. Most recently, in 2017, Sprint made a profit of $7.4 million.[9] Sprint's recent multiyear upward trend and return to profitability is a positive sign for the company's outlook. Still, net income is only one piece of the puzzle and it is important to evaluate other financial indicators to better assess the company's overall financial health.

To evaluate Sprint's financial condition, I reviewed the company's recent financial statements to calculate key metrics on liquidity, solvency, profitability, and cash flow. I calculated the same metrics for T-Mobile, AT&T, and Verizon. In the sections below, I compare the results of all four companies relative to each other. The analysis below culminates with an aggregate score to evaluate Sprint's overall financial condition, relative to its peers, by combining the results of four categories of financial health – liquidity, solvency, profitability, and cash flow.

A. Liquidity

Liquidity metrics provide insights to a company's ability to meet near term financial obligations. To assess Sprint's liquidity, I analyzed the following four metrics: current ratio, quick ratio, interest coverage ratio, and cash flow from operations to current debt. Figure 1 below presents Sprint's liquidity metrics for each year from 2013 to 2017. Refer to Attachment C for the liquidity metrics of T-Mobile, Verizon, and AT&T. With each of these liquidity metrics, a higher number indicates a healthier financial position, an increased ability to meet near-term debt obligations, and a lower risk of defaulting.

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[9] Sprint reported net income of $7.4 billion for the fiscal year ending March 31, 2018. Sprint's 2017 profit includes a $7.1 billion non-cash benefit related to the company's remeasurement of its excess deferred tax assets and liabilities. Refer to Sprint's Annual Report Form 10-K for the fiscal year ended March 31, 2018 available at https://investor.t-mobile.com/financial-performance/sec-filings/default.aspx.

Figure 1. Sprint Liquidity Metrics.

	2013	2014	2015	2016	2017
Current Ratio	1.19	0.89	0.57	1.13	1.32
Quick Ratio	1.01	0.59	0.31	1.00	1.17
Interest Coverage Ratio	0.33	(0.91)	0.15	0.69	1.13
CFO to Current Debt	2.63	1.88	(0.09)	(0.65)	2.93

The current ratio is equal to a company's current assets to its current liabilities and measures a company's ability to pay short-term and long-term obligations. A current ratio greater than one generally indicates an ability to meet debt obligations. Sprint's 2017 current ratio (1.32) is higher than both AT&T's (0.97) and Verizon's (0.91) and indicates a healthy ability to meet debt obligations.

The quick ratio is similar to the current ratio but measures current debt against only the most liquid assets (including cash, marketable securities, and accounts receivable). A quick ratio above one indicates that the company's liquid assets are sufficient to cover its current liabilities. Sprint's 2017 quick ratio of 1.17 implies adequate liquidity and indicates the company has $1.17 of liquid assets available to cover each $1 of its current liabilities.

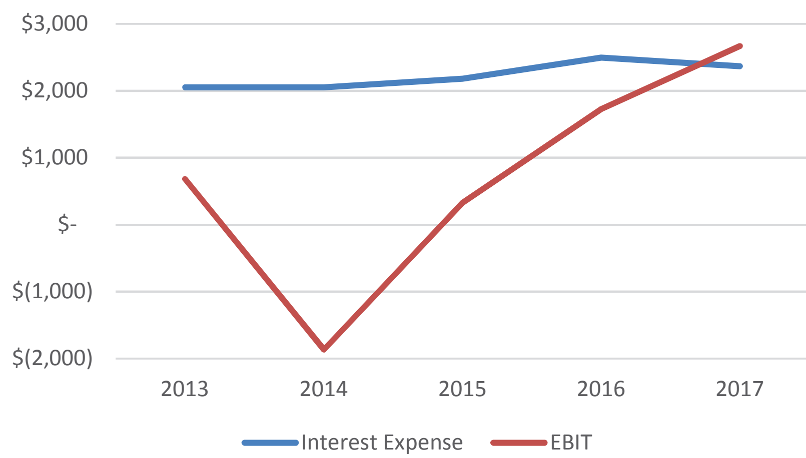
The interest coverage ratio measures earnings before interest and taxes ("EBIT") to interest payments to assess whether a company's profits are enough to pay off its interest expenses. An interest coverage ratio of two or more is typically considered a healthy position, whereas a coverage ratio below one indicates the company might not meet its short-term interest payment obligations. Sprint's 2017 interest coverage ratio (1.13) falls between these thresholds, indicating some risk concerning the company's interest expense obligations (which were $2,365 million for fiscal year 2017).[10] However, the company's position is improving and does not necessarily indicate an insurmountable financial burden. Sprint's interest coverage ratio has improved each year since 2014 because the company has successfully increased its earnings while its annual interest expense has remained relatively stable, as demonstrated by Figure 2

[10] Sprint Annual Report Form10-K for fiscal year ended March 31, 2018.

below. Sprint expects its revenue to climb in the current fiscal year,[11] which may provide the company a larger financial cushion over its debt interest obligations. Furthermore, Sprint has sizable upcoming debt maturities, as discussed in more detail below, and its interest expenses may decline upon fulfillment of those obligations.

Figure 2. Sprint Interest Expense vs EBIT.

(Millions)



Finally, cash flow from operations to current debt measures the amount of cash generated from operations that a company might use to pay off its upcoming liabilities. Sprint's 2015 and 2016 ratios of cash flow from operations to current debt are negative because the company did not generate positive cash flow from operations in 2015 and 2016. (I separately analyze the Sprint's cash flows below at page 21.) For the purposes of this liquidity assessment, Sprint's 2015 and 2016 results would be cause for concern if not for the company's subsequent satisfactory fulfillment of its debt obligations and its return to a healthier ratio of cash flow from operations to current liabilities in 2017 (2.93). For reference, Sprint posted a higher ratio of cash flow from operations to current liabilities than AT&T (1.02) in 2017.

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[11] Andrew Davies (Sprint CFO). *Bank of America Merrill Lynch Leveraged Finance Conference*. December 5, 2018. "This last quarter we returned to wireless service revenue growth year-on-year. We expect that level of wireless service revenue growth to continue for the foreseeable future." Webcast available at, http://investors.sprint.com/news-and-events/past-events/event-details/2018/Bank-of-America-Merrill-Lynch-Leveraged-Finance-Conference-2018/default.aspx.

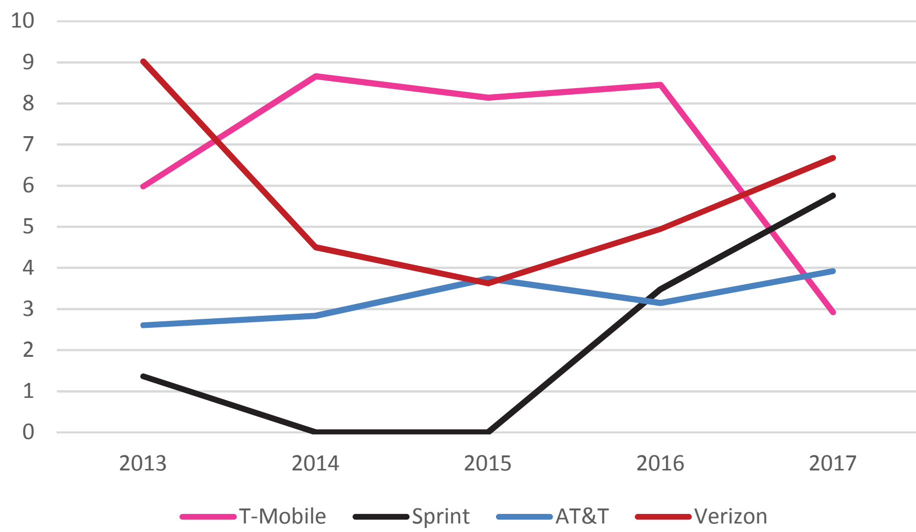
Sprint's liquidity ratios indicate the company can meet its short-term debt obligations. Sprint's Chief Financial Officer ("CFO") Andrew Mark Davies recently confirmed this assessment while addressing the company's second quarter results for the current fiscal year 2018:

> "We continued to have strong liquidity with over $11 billion of general-purpose availability including nearly $9 billion of cash, cash equivalents and short-term investments as we've pre-funded a significant portion of our capital investments and debt maturities for this fiscal year."[12]

To compare Sprint's ability to meet short-term debt obligations against the other three national mobile wireless carriers, I developed a score for each company by measuring each of the liquidity ratios against the highest and lowest within the group. Figure 3 below depicts the companies' aggregate liquidity scores. The aggregate scores for each company provide a comparison relative to the other three companies separately for 2013 through 2017. The aggregate scores are on a scale of zero to ten – where a score of ten would indicate the company held the most favorable liquidity ratios across the board for the year.

[12] Andrew Davies (Sprint CFO). *Sprint Second Quarter Fiscal Year 2018 Results Earnings Call*. October 31, 2018.

Figure 3. Liquidity Scores.



Sprint's liquidity score has improved consistently since 2015 and the company finished its fiscal year 2017 in a more favorable position than both AT&T and T-Mobile while only slightly trailing Verizon. Sprint's ability to meet its near-term financial obligation is relatively similar to that of the other three carriers.

B. Solvency

Solvency measures a company's ability to meet its financial obligations, achieve long-term growth, and sustain profitability. Solvency relates to a company's leveraged status by assessing the degree to which the company relies on debt financing. A highly leveraged company with inadequate solvency may be unable to pay its debts and is at an increased risk of bankruptcy.

Sprint has upcoming debt maturities of $26.3 billion across the next five years (2019 through 2023).[13] The Joint Applicants point to these debt obligations as insurmountable burdens that will keep the company from successfully competing.[14] To test these claims, it is necessary to

[13] Sprint's *Annual Report Form 10-K* for fiscal year ended March 31, 2018 at page 54.
[14] A.18-07-012 at page 28. *See also,* Public Interest Statement at page 98.

evaluate Sprint's debt relative to other aspects of the company's financial condition in order assess significance and potential impact on the business. Debt financing can impact financial flexibility but is also a useful method of obtaining the capital necessary to operate and fund growth opportunities. Sprint's reliance on debt appears reasonable relative to the size of the company, as demonstrated below.

To assess Sprint's solvency, I analyzed the following four metrics: debt to equity, debt to capital, liabilities to assets, and debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"). Figure 4 below presents Sprint's solvency metrics for each year from 2013 to 2017. With each of these ratios, a higher number suggests the company increasingly relies on debt and indicates more risk.

Figure 4. Sprint Solvency Metrics.

	2013	2014	2015	2016	2017
Debt to Equity	1.29	1.55	1.72	2.18	1.55
Debt to Capital	0.56	0.61	0.63	0.69	0.61
Liabilities to Assets	0.70	0.74	0.75	0.78	0.69
Debt to EBITDA	7.85	6.37	4.79	4.26	3.67

As these ratios show, Sprint's solvency has improved from 2016 to 2017 and has been in relatively good condition at several points over the last five years. Debt to equity measures the capital contributed by creditors against the capital contributed by shareholders and demonstrates the extent to which shareholders' equity can fulfill obligations to creditors. In general, a debt to equity ratio below two is a healthy position, although a company's debt to equity ratios can vary significantly depending on circumstances. Sprint's 2017 debt to equity ratio of 1.55 indicates a healthy financial position, especially considering the mobile wireless business necessitates large investments in fixed assets which can justify increased reliance on debt. For comparison, Verizon's ratio of debt to equity was 4.50 in 2016 and 2.62 in 2017. (Refer to Attachment D for the solvency metrics for T-Mobile, Verizon, and AT&T.)

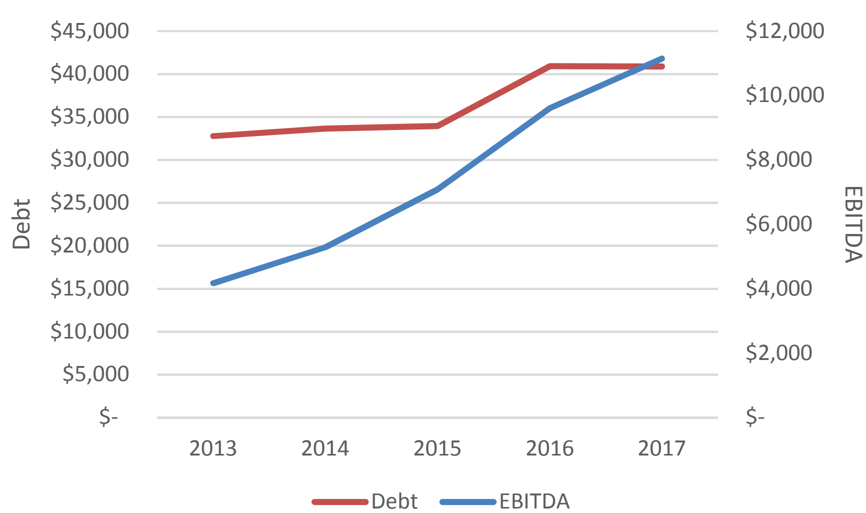
Debt to capital measures a company's financial leverage and equals short and long-term borrowings (including capital lease obligations) divided by total capital. Sprint's debt to capital ratio was 0.61 in 2017, an improvement over the previous year's figure of 0.69, which indicates the company is becoming less reliant on debt financing within its capital structure.

The liabilities to assets ratio measure the amount of total assets financed by debt instead of investors. Sprint's 2017 ratio of liabilities to assets (0.69) was the company's lowest in the previous five fiscal years, another indication that Sprint is becoming less reliant on debt financing. For comparison, in 2017, T-Mobile and AT&T each had a 0.68 ratio of liabilities to assets and Verizon held a 0.83 ratio of liabilities to assets.

Finally, the debt to EBITDA ratio measures the amount of income available to service debt obligations before deducting interest, taxes, depreciation and amortization. A high ratio of debt to EBITDA indicates a company with significant debt obligations. Companies with a high debt to EBITDA ratio may have a lower credit rating and are more likely to offer higher yields on bonds. While most companies have a debt to EBITDA ratio higher than one, a ratio higher than four can indicate a less healthy financial condition. Sprint's debt to EBITDA ratio was above four from 2013 through 2016 but decreased to 3.67 in 2017 as the company improved its financial condition. Sprint improved its debt to EBITDA ratio by growing its annual EBITDA at a faster rate than increases to its debt, as demonstrated in Figure 5 below.

Figure 5. Sprint's Debt and EBITDA.

(Millions)



Although improving, Sprint's solvency scores indicate that the company owns significant debt obligations and is moderately to highly leveraged. This can influence Sprint's ability to borrow capital. The three largest credit-rating agencies score Sprint's credit rating at the higher-end of the "speculative" territory based on Sprint's current ability to meet its obligations and tempered by a material risk of default.

Figure 6. Sprint's Credit Rating.

Agency	Rating Type	Credit Rating[15]	Rating Definition
Fitch Ratings	Long-Term Issuer Default Rating	B+	"B-ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment."[16]
Moody's Investor Services	Long-Term Corporate Family Ratings	B2	"Obligations rated B are considered speculative and are subject to high credit risk."[17]
Standard and Poor's Financial Services	Local Currency Long-Term	B	A 'B' rating suggests the company currently has the capacity to meet its financial commitments, but also carries at least some vulnerability to nonpayment. Further, adverse business, financial, or economic conditions will likely impair the company's capacity or willingness to meet its financial commitments.[18]

Sprint's suboptimal credit ratings mean lenders will charge the company more to borrow money. The speculative nature of Sprint's debt offerings requires the company to pay higher

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15 Sprint's rating is available from Fitch Ratings at https://www.fitchratings.com/site/pr/10051921; Moody's Investor Services at https://www.moodys.com/credit-ratings/Sprint-Corporation-credit-rating-823536068; and, Standard & Poor's Financial Services at https://www.standardandpoors.com/en_US/web/guest/ratings/entity/-/org-details/sectorCode/CORP/entityId/556115.

16 Fitch Rating's rating definitions are available at https://www.fitchratings.com/site/definitions.

17 Moody's Investor Service. *Rating Symbols and Definitions.* November 2018. Available at, https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

18 S&P Global Ratings. *S&P Global Ratings Definitions.* October 31, 2018. Available at, https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352.

yields in exchange for the borrowed capital.[19] Costly debt is not ideal for Sprint as the company works to improve its profitability and cash flow condition (which are discussed in more detail below). Fortunately for Sprint, the company owns vast amounts of valuable spectrum which it recently used as leverage to borrow capital at lower interest rates. In total, Sprint has made available $7 billion in spectrum-backed bonds, including the recent issuance of $3.9 billion in March 2018.[20] Sprint's spectrum-backed notes allow the company to pay a much lower annual interest rate than it would otherwise obtain through the issuance of high-yield bonds. Sprint can potentially issue even more spectrum-backed bonds in the future, as it has currently dedicated only 14% of its total spectrum holdings to its spectrum-backed financing. Sprint's spectrum-backed notes will help facilitate the necessary investments to maintain and upgrade Sprint's network.[21]

To compare Sprint's leveraged status against the other three nationwide mobile wireless providers, I developed a score for each company by measuring its solvency ratios against the highest and lowest in the group. Figure 6 below depicts the companies' aggregate solvency scores. The aggregate scores for each company are a means to compare the companies' solvency relative to the other three companies separately for each year from 2013 through 2017. The aggregate scores are on a scale of zero to ten – where a score of ten would indicate the company was the most solvent (compared to the other three companies) for that year.

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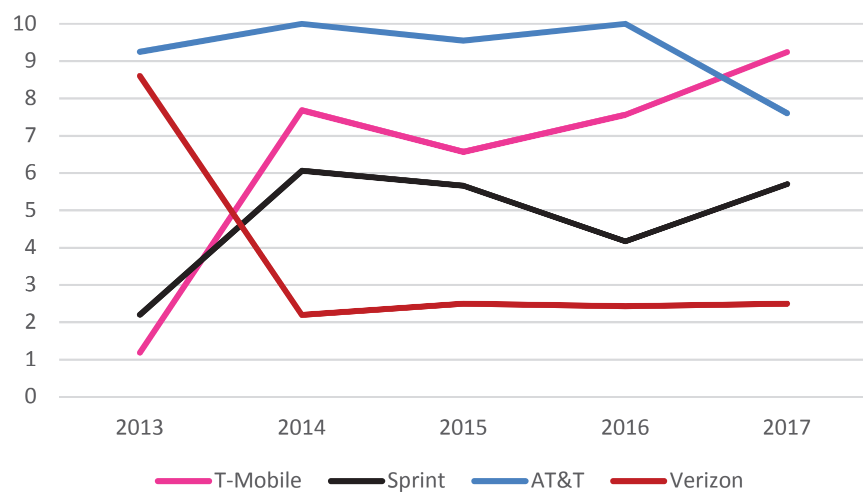
[19] Smith, Molly. "Sprint Sells $1.5 Billion in First Junk Bond Offering Since 2015." *Bloomberg News*. February 20, 2018. Available at, https://www.bloomberg.com/news/articles/2018-02-20/sprint-to-sell-1-billion-of-junk-bonds-as-it-builds-5g-network.

[20] Sprint's *Annual Report Form 10-K* for the fiscal year ended March 31, 2018 at page 51.

[21] Andrew Davies (Sprint's Chief Financial Officer) at *Bank of America Merrill Lynch Leveraged Finance Conference* (December 5, 2018), "We've recently improved the liquidity again by expanding the term loan B by just over a billion dollars and more importantly, in many regards from my respect, putting in place this amendment to the term loan B documentation *which then allows us to potentially significantly up size the spectrum notes if the merger didn't get approved, and if we had to pay for standalone life*" [Emphasis added]. Available at, http://investors.sprint.com/news-and-events/past-events/event-details/2018/Bank-of-America-Merrill-Lynch-Leveraged-Finance-Conference-2018/default.aspx.

Figure 6. Solvency Scores.



Sprint's scores indicate the company's reliance on debt financing ranks in the middle of the pack as compared to the other three national mobile wireless telecommunications providers. Sprint's solvency metrics significantly trailed both AT&T and Verizon in 2013, but more recent metrics indicate Sprint is now similarly situated to AT&T and (relatively) less leveraged than Verizon.

C. Profitability

Profitability is the measure of a company's ability to generate earnings relative to its associated expenses. Assessing Sprint's profitability helps to gauge the company's overall performance and its ability to access capital and resources. To evaluate Sprint's profitability, I examine the following four metrics: gross margin, EBITDA margin, net profit margin, and return on assets. For these profitability metrics, a higher value indicates a more favorable condition. Figures 7 below presents Sprint's profitability metrics for each year from 2013 to 2017. Refer to Attachment E for the profitability metrics of T-Mobile, Verizon, and AT&T.

Figure 7. Sprint Profitability Metrics.

(Percent)

	2013	2014	2015	2016	2017
Gross Margin	42.7	45.1	51.7	53.8	58.6
EBITDA Margin	11.8	15.3	22.0	28.8	34.4
Net Profit Margin	(8.5)	(9.7)	(6.2)	(3.6)	22.8
Return on Assets	(3.6)	(4.0)	(2.5)	(1.4)	8.6

The gross margin ratio is equal to gross profits divided by total revenue and measures the portion of sales revenue a company keeps as profit after paying for the cost of the goods or services sold. Sprint's gross margin has increased every year since 2013, which indicates the company has increased the percentage of revenue it retains after accounting for the cost of goods sold and services provided. Sprint finished its most recent fiscal year with a gross margin of 58.6 percent, which outpaced both T-Mobile (56.4 percent) and AT&T (51.8 percent) while slightly trailing Verizon (59.1 percent).

EBITDA margin, which is equal to EBITDA divided by total revenue, depicts a company's profitability (before interest, taxes, depreciation, and amortization) as a percentage of its total revenue. Sprint's EBITDA margin indicates the company has consistently improved its operating profitability in recent years. As was the case with gross margin, Sprint successfully increased its EBITDA margin every year from 2013 to 2017. This demonstrates that Sprint was able to lower its operating expenses in relation to its total revenue, and suggests the company is trending towards a healthier financial condition. Indeed, Sprint has focused on cutting its operating expenses for the past several years,[22] and was able to lower its operating expenses from \$20.8 billion in 2013 to \$14.8 billion in 2017.[23] Sprint is now collecting the profits made

[22] "Sprint's Robbiati: We Can Cut $2B in Operating Expenses, $500M on Equipment Spending." *Fierce Wireless.* October 9, 2015. Available at, https://www.fiercewireless.com/wireless/sprint-s-robbiati-we-can-cut-2b-operating-expenses-500m-equipment-spending.

[23] Here, operating expenses are equal to Sprint's cost of sales plus other sales, general, and administrative expenses, and adjusted for hurricane and other non-recurring charges. *See,* Sprint's *Q4 FY 2017 Results Conference Call Presentation* (May 2nd, 2018) at page 6. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2017/q4/02_4QFY17-Slides-Final.pdf.

possible, at least in part, by reductions to its operating expenses.[24] Sprint expects to make additional cost reductions in the future which should allow the company to continue to grow its EBITDA margin.[25]

The net profit margin is the percentage of revenue remaining after accounting for all associated expenses and is equal to net income divided by total revenue. The return on assets metrics, which is equal to net income divided by total assets, is a measure of how well a company is using its assets to generate profits. Sprint's net profit margin and return on assets are negative from 2013 through 2016 because of the company's failure to achieve net income. Sprint posted a successful fiscal year 2017 with net income ($7.4 billion), which produced a healthy net profit margin and return on assets.[26]

Sprint's profitability metrics demonstrate an upward trend across the past five fiscal years and culminate with a return to profitability in 2017. Sprint's net income in 2017 is a positive sign for the company's prospects as a standalone entity. Moreover, Sprint continues to improve its bottom line. In its most recently completed fiscal quarter (for the period ending September 30, 2018), Sprint posted its fourth consecutive quarter of net income and its eleventh consecutive quarter of positive operating income.[27] Also, in the fiscal second quarter of 2018, Sprint grew its wireless service revenue year-over-year for the first time in nearly five years.[28] Sprint's

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[24] "Sprint Swings to a Profit, Helped by Cost Cuts." *Reuters.* August 1, 2017. Available at, https://www.cnbc.com/2017/08/01/sprint-swings-to-a-profit-helped-by-cost-cuts.html.

[25] Andrew Davies (Sprint's Chief Financial Officer) at *Bank of America Merrill Lynch Leveraged Finance Conference* (December 5, 2018), "This last quarter we returned to wireless service revenue growth year-on-year. We expect that level of wireless service revenue growth to continue for the foreseeable future. So there's a revenue growth story. *We didn't talk about it earlier but even though we've made significant cost reductions in the past, we still think there's room to grow to get more cost reductions*." [Emphasis added]. Available at, http://investors.sprint.com/news-and-events/past-events/event-details/2018/Bank-of-America-Merrill-Lynch-Leveraged-Finance-Conference-2018/default.aspx.

[26] Sprint's 2017 net profit margin and return on assets are net of any financial impacts the companies realized in 2017 as a result of the *Tax Cut and Jobs Act*.

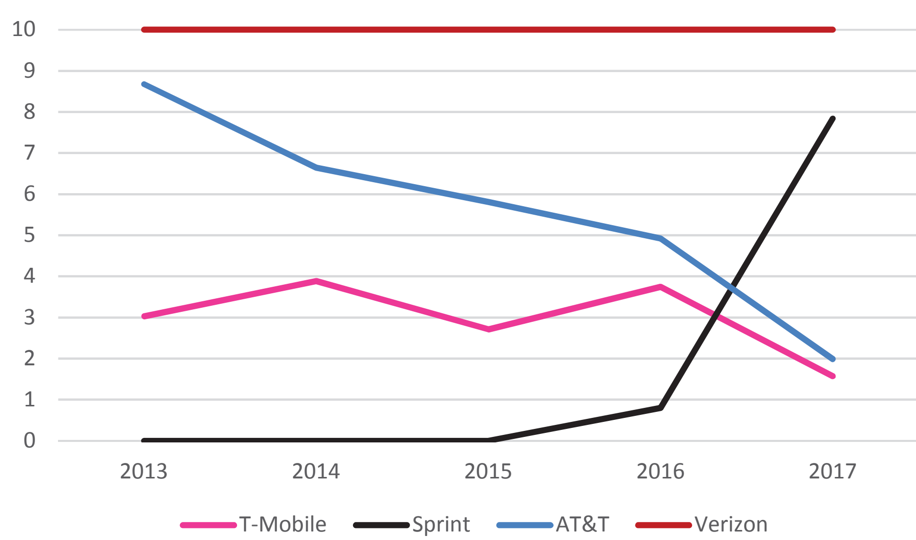
[27] *Sprint Quarterly Investor Update Fiscal 2Q18*. October 31, 2018. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2018/Q2/03_Fiscal-2Q18-Sprint-Quarterly-Investor-Update-FINAL.PDF.

[28] Excluding the effects of a new revenue standard issued by the Financial Accounting Standards Board in May 2014 and adopted by Sprint beginning on April 1, 2018. For more information see Sprint's *Quarterly Report Form 10-Q* (September 30, 2018) at pages 7 to 8.

profitability is growing and highlights the company's ability to compete without the proposed merger.

To compare Sprint's profitability against the other three nationwide mobile wireless providers, I developed a score for each company by measuring its profitability ratios against the highest and lowest of the group. Figure 8 below depicts the companies' aggregate profitability scores. As with the above discussed categories of financial metrics, the aggregate scores for each company are a means to compare the companies' condition relative to the other three companies separately for each year from 2013 through 2017. The aggregate profitability scores are on a scale of zero to ten – where a score of ten would indicate the company was the most profitable, relative to its revenue and assets, in a particular year.

Figure 8. Profitability Scores.



Sprint's profitability scores are low for 2013 through 2016 – years in which the company failed to generate net profit. Sprint consistently posted the worst profitability metrics across the board as compared to the other three companies each year from 2013 through 2016. However, Sprint's profitability ranking improved in 2017, where Sprint ranked above both AT&T and T-Mobile. Once again, it is important to note the impacts of the recent tax rate change (which produced nonrecurring benefits related to the companies' deferred tax assets and liabilities). For Sprint, the tax rate change created a $7.1 billion non-cash benefit which accounted for 95 percent of the company's 2017 profits. T-Mobile, AT&T, and Verizon also realized several billions in tax benefits each in 2017.[29] Without the effects of the tax rate change, Sprint still posted net income in 2017 of approximately $303 million, its first annual profits in eleven years. Sprint's return to profitability was driven by a decrease to its cost of service, which decreased $1.1 billion (16%) from 2016 to 2017 primarily due to the outsourcing of Sprint's device insurance program to a third party vendor.[30] In addition, Sprint's transformation initiatives and network improvements allowed the company to reduce its network costs, including labor and backhaul expenses, in 2017.[31]

D. Cash Flow

Cash flow describes the receipt and the disbursement of cash that results from a company's operating, finance, and investment activities. An analysis of a company's cash flow measures the money flowing in and out of a business and can provide valuable insights on the company's ability to pay expenses, meet debt obligations, invest, and grow. Cash flow is therefore a key indicator of a company's overall financial condition and viability. A healthy cash flow usually indicates a viable business and is a strong indicator of a healthy overall financial condition. On the other hand, a persistent negative cash flow (especially operational cash flows) can indicate serious trouble for a business, including potential bankruptcy.

Figure 9 below depicts the cash flow from operations for Sprint and T-Mobile for 2010 through 2017.

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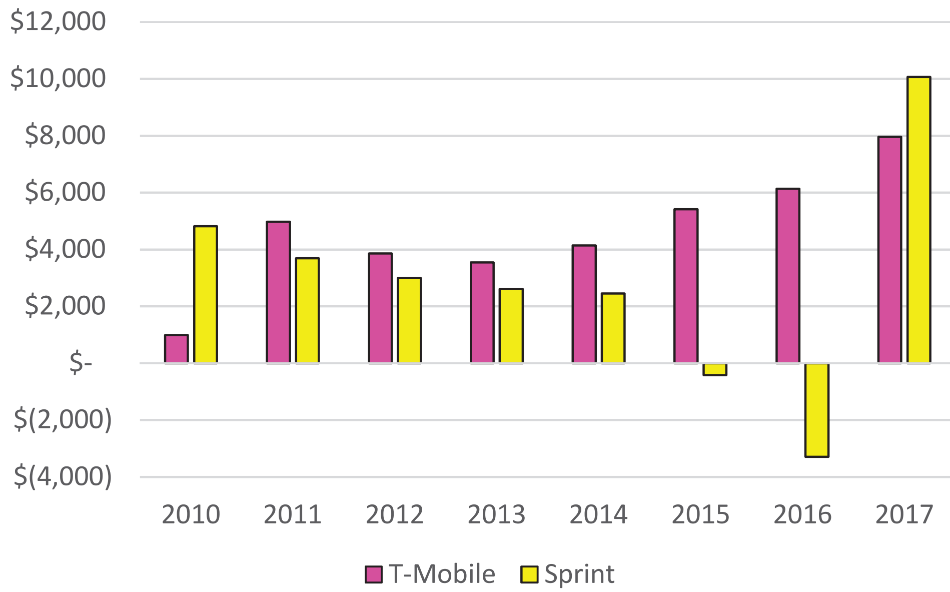
[29] As a result of the *Tax Cut and Jobs Act*, T-Mobile realized tax benefits of $2.2 billion in 2017, AT&T realized tax benefits of $20.3 billion in 2017, and Verizon realized tax benefits of $16.8 billion in 2017. Refer to the companies' Annual Reports Forms 10-K for the fiscal year ended December 31, 2017.

[30] Sprint *Annual Report Form10-K* for the fiscal year ended March 31, 2018 at page 44.

[31] *Id.*

Figure 9. Cash Flow from Operations.[32]

(Millions)



T-Mobile and Sprint operations are similar in size, which allows for a direct comparison of the company's total cash flow from operations.

T-Mobile's cash flow from operations fluctuated from year to year but displayed consistent growth from 2010 through 2017 on an overall basis. T-Mobile reported $7.96 billion in total cash flows from operations for 2017. Sprint, on the other hand, saw its cash flows from operations decline year over year from 2010 through 2016, reaching a low of negative $3.29 billion in 2016. Sprint's negative cash flow from operations in 2015 and 2016 is cause for concern, but the company rebounded during 2017 and recorded $10.06 billion in positive cash flow from operations. Sprint generate higher cash flow from operations than did T-Mobile in 2017. Sprint's cash flows from operating activities increased by $13.4 billion from 2016 to

[32] T-Mobile and Sprint *Annual Report Forms 10-K* for fiscal years 2010 to 2017.

2017.[33] Sprint also increased its total cash holdings in recent years: Sprint added $3.7 billion in cash during fiscal year 2017 and ended with $6.7 billion in total cash.[34] Moreover, Sprint continues to improve cash flow. In its most recently completed fiscal quarter (for the period ending September 30, 2018), Sprint posted adjusted free cash flow[35] of $525 million compared to $420 million in the second fiscal quarter of 2017 and $8 million in the prior quarter.[36] Sprint's improved cash flow, relative to 2015 and 2016, will help to facilitate higher levels of network investments, which demonstrates the company's ability to compete without the proposed merger.

To further assess Sprint's cash flow, I examine the following three metrics: operating cash flow ratio, asset efficiency, and cash flow from operations to sales. The operating cash flow ratio is calculated by dividing cash flow from operations to current liabilities. This ratio is a measure of the extent to which a company's cash flows generated from its operations can cover its current liabilities. The asset efficiency metric, which is equal to a company's cash from operating activities divided by its total assets, is a measure of how well a company is able to use its assets to generate cash flow via its operating activities. Finally, the cash flow from operations to sales metric is calculated by dividing cash flow from operating activities by total revenue. The cash flow from operations to sales metric measures the company's ability to turn its sales into cash. With all three of these cash flow metrics, a higher value indicates a more favorable condition.

Figures 10 below presents Sprint's cash flow metrics for each year from 2013 to 2017. Refer to Attachment F for the cash flow metrics of T-Mobile, Verizon, and AT&T.

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[33] This increase includes a $9.4 billion increase due to a change in the company's accounting for certain receivables related to the sale/lease of customer devices, which were previously classified as investing activities. *See,* Sprint's *Annual Report Form 10-K* for the fiscal year ended March 31, 2018 at 48.

[34] *Id,* at F-7.

[35] Adjusted free cash flow is the cash provided by operating activities less the cash used in investing activities (other than short-term investments and equity method investments) plus the proceeds from device financings and sales of receivables, net of repayments.

[36] *Sprint Quarterly Investor Update Fiscal 2Q18*. October 31, 2018. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2018/Q2/03_Fiscal-2Q18-Sprint-Quarterly-Investor-Update-FINAL.PDF.

Figure 10. Cash Flow Metrics.

(Percent)

	2013	2014	2015	2016	2017
Operating Cash Flow Ratio	26.9	22.4	(3.5)	(26.4)	93.2
Asset Efficiency	3.1	3.0	(0.5)	(3.9)	11.8
CFO to Sales	7.4	7.1	(1.3)	(9.9)	31.0

Sprint's cash flow metrics indicates the company struggled to generate significant positive cash flow from its operating activities from 2013 through 2016. Sprint's cash flow metrics turned negative in 2015 and 2016 because the company realized negative cash flow from its operating activities. In 2017, however, Sprint generated $10.1 billion in cash from its operating activities, which boosted all three of its cash flow metrics to the highest levels in the past five years. Sprint's cash flow metrics indicate the company's financial condition is improving, and its 2017 metrics show the company was able to generate significant levels of cash flow from its operations.

Sprint continues to improve its cash flow condition in the current fiscal year 2018. Sprint's CFO, Andrew Davies, recently explained to investors:

> "[Sprint's] net cash provided by operating activities of $2.9 billion improved by $125 million year-over-year while adjusted free cash flow, which had been positive for six of the last seven quarters, was $525 million in the quarter and improved by over $100 million year-on-year even with the significant increase in network cash CapEx."[37]

Sprint continues to increase its free cash flow, at least in part, by growing its EBITDA. Sprint recently issued guidance to investors estimating a year-over-year increase of $1.4 billion to its EBITDA.[38] Sprint estimates it will generate total EBITDA of $12.55 billion for the current

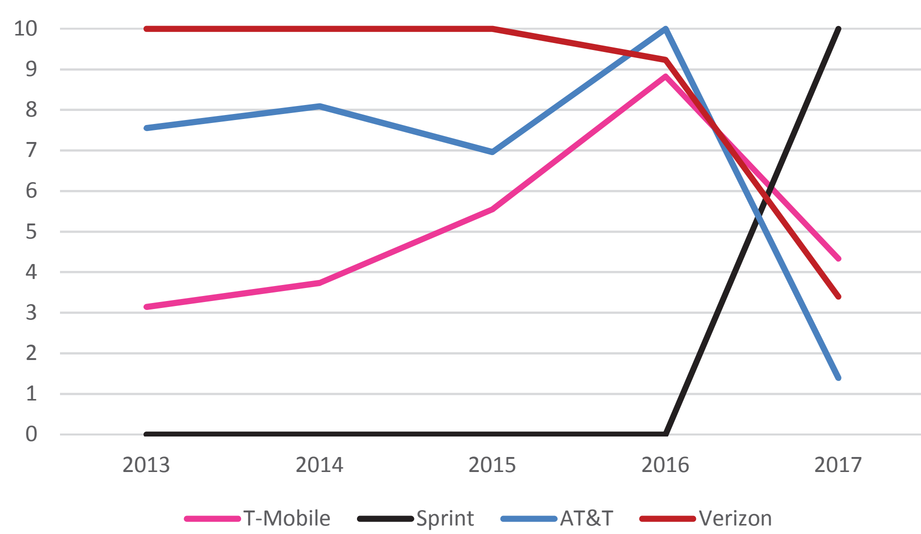
[37] Andrew Davies (Sprint Chief Financial Officer). *Sprint's Second Quarter 2018 Results Earnings Call*. October 31, 2018. Webcast available at, http://investors.sprint.com/news-and-events/past-events/event-details/2018/Fiscal-2Q18-Earnings-Call/default.aspx.

[38] *Sprint Quarterly Investor Update Fiscal 2Q18* (October 31, 2018) at page 17. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2018/Q2/03_Fiscal-2Q18-Sprint-Quarterly-Investor-Update-FINAL.PDF.

fiscal year 2018.[39] The higher EBITDA will contribute to Sprint's free cash flow, which the company uses to fund its "Next-Gen" network initiatives[40] and other expenses.

To compare Sprint's cash flow metrics against the other three nationwide mobile wireless providers, I developed a score for each company by measuring its cash flow metrics against the highest and lowest of the group. Figure 11 below depicts the companies' aggregate cash flow scores. As with the above discussed categories of financial metrics, the aggregate scores for each company are a means to compare the companies' condition relative to the other three companies separately for each year from 2013 through 2017. The aggregate cash flow scores are on a scale of zero to ten – where a score of ten would indicate the company had the highest values for all three cash flow metrics in a particular year.

Figure 11. Cash Flow Scores.



Sprint's cash flow scores indicate the company was the worst of the major wireless mobile service providers at generating significant positive cash flow from its operating activities

[39] *Sprint Quarterly Investor Update Fiscal 2Q18* (October 31, 2018) at page 19. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2018/Q2/03_Fiscal-2Q18-Sprint-Quarterly-Investor-Update-FINAL.PDF.

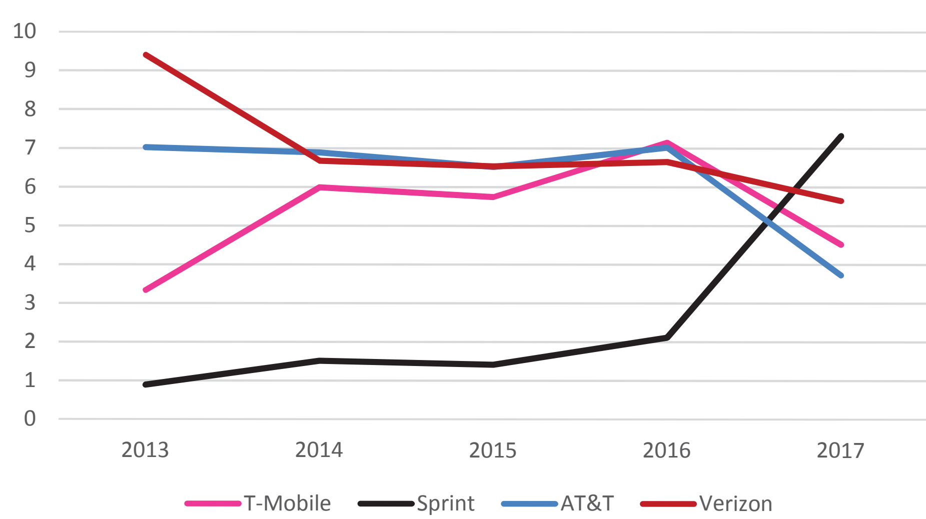
[40] "Sprint's Next-Gen Network Build Gains Momentum." Sprint Press Release. August 1, 2018. Available at, http://investors.sprint.com/news-and-events/press-releases/press-release-details/2018/Sprints-Next-Gen-Network-Build-Gains-Momentum/default.aspx.

from 2013 through 2016. In 2017, Sprint's cash flow score jumped to the best in class as the company generated significant cash flow from operating activities. As previously explained, a sizable portion of Sprint's 2017 cash flow from operating activities was due to an accounting change wherein certain cash generations were reclassified from investing activities to operating activities. Nonetheless, Sprint still improved its cash flows from operating activities in 2017 by approximately $4 billion, apart from the accounting change.

E. Aggregate Financial Condition Scores

The final step in my analysis of Sprint's financial condition involves the production of a cumulative financial condition score, which is equal to the average of each company's liquidity score, profitability score, solvency score, and cash flow score, per year. The cumulative financial condition scores are a means to compare the companies' condition relative to the other three companies separately for each year from 2013 through 2017. The cumulative financial condition scores are on a scale of zero to ten and a higher score indicates better overall financial health relative to the other companies. The Figure 12 below depicts the company's cumulative financial condition scores for 2013 through 2017.

Figure 12. Cumulative Financial Condition Scores.



Sprint once again trails the pack in years 2013 through 2016 but posts the top cumulative financial condition score in 2017. Some of Sprint's improvements from 2016 to 2017 are attributable to the company's nonrecurring tax benefits and accounting changes, as previously discussed. Still, Sprint's recent improvements to its financial condition are significant and, at worst, the company's overall financial condition is on par with T-Mobile, AT&T and Verizon in 2017. Sprint's year-over-year improvement and 2017 cumulative financial condition score indicate that the company is financially stable and can continue to compete in California's mobile wireless telecommunications market.

Moreover, in the current fiscal year 2018, Sprint continues to improve its financial condition. Sprint recently reported year-over-year increases to its net income, operating income, adjusted EBITDA, net cash by operating activities, and adjusted free cash flow.[41] Sprint increased its expectation for adjusted EBITDA in the current fiscal year 2018 to a range of $12.4 billion to $12.7 billion.[42] Sprint also increased its expectation for cash capital expenditures (excluding leased devices) to a range of $5 billion to $5.5 billion for the current fiscal year 2018.[43] Sprint's most recent quarterly report included the following financial successes:

- Growing wireless service revenue year-over-year for the first time in nearly five years;
- A fourth consecutive quarter of net income ($196 million);
- An 11th consecutive quarter of operating income ($778 million);
- Net cash provided by operating activities of $2.9 billion;
- An adjusted free cash flow of $525 million; and,
- Positive adjusted free cash flow in six of the last seven quarters.[44]

Sprint Chief Executive Officer, Marcelo Claure, recently explained:

> "[Sprint's] fiscal 2017 results demonstrate… another milestone in our five-year turnaround plan. We delivered customer growth. We

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[41] "Sprint Reports Year-over-year Growth in Wireless Service Revenue with Fiscal Year 2018 Second Quarter Results." *Sprint News Release*. October 31, 2018. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2018/Q2/01_Fiscal-2Q18-Earnings-Release-FINAL.PDF.

[42] *Id.*

[43] "Sprint Reports Year-over-year Growth in Wireless Service Revenue with Fiscal Year 2018 Second Quarter Results." *Sprint News Release*. October 31, 2018. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2018/Q2/01_Fiscal-2Q18-Earnings-Release-FINAL.PDF.

[44] *Id.*

> delivered profitability and improved network performance and we've done all of those at the same time. We've delivered the highest retail phone net adds in five years. We continue to grow our postpaid customer business and prepaid customer base. We have improved profitability. We've delivered net income for the first time in 11 years. We have our highest operating income in company's history and we have our highest adjusted EBITDA in 11 years."[45]

Indeed, Sprint's financial condition improved substantially since 2014 and the company's most recent fiscal year results indicate Sprint can continue competing in California's mobile wireless market as a standalone service provider. Sprint's financial condition does not indicate the merger is necessary. Metrics on Sprint's liquidity and solvency show the company's reliance on debt is reasonable relative to the earnings and assets in comparison to T-Mobile, AT&T, and Verizon. Sprint significantly improved its profitability and cash flow in the past couple of years, which provides additional support for the company's ongoing viability. On an overall basis, Sprint's financial condition is now similar to that of T-Mobile, AT&T, and Verizon. Sprint's financial condition will not prevent the company making capital investments necessary to compete, including with the deployment of 5G technology in California, as further discussed below.[46]

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[45] Marcelo Claure. *Sprint Corporation 4Q17 Earnings Conference Call.* May 2, 2018. Webcast available at, http://investors.sprint.com/news-and-events/past-events/event-details/2018/Fiscal-4Q17-Earnings-Call/default.aspx.

[46] Refer to the Testimony of Public Advocates Office's witness Cameron Reed for analysis and discussion on Sprint's network, spectrum and technical capabilities to deploy 5G. *See also*, Andrew Davies (Sprint Chief Financial Officer) at *Bank of America Merrill Lynch Leveraged Finance Conference* (December 5, 2018), "I really don't feel that my decision-making [on spending and network investments] is constrained at all by any balance sheet or liquidity considerations." Available at, http://investors.sprint.com/news-and-events/past-events/event-details/2018/Bank-of-America-Merrill-Lynch-Leveraged-Finance-Conference-2018/default.aspx.

II. THE PROPOSED MERGER WILL NOT INCREASE CAPITAL INVESTMENTS IN CALIFORNIA.

As part of the Commission's review of the Applications, it should assess the proposed merger's likely impacts on the companies' capital investments in California.[47] Maintaining or expanding a mobile wireless telecommunications network is capital intensive and requires sufficient investments to provide customers with high quality of service. Furthermore, the deployment of 5G technology will also require significant capital investments from service providers to install the next generation of equipment and infrastructure.

The Joint Applicants fail to provide sufficient evidence that the proposed merger will increase capital investment in California as a benefit to the public interest. In fact, New T-Mobile's planned capital expenditures for investments in California across the next five years are less than the combined planned investments of Sprint and T-Mobile as standalone companies, as depicted in Figure 13 below.

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[47] The Amended Scoping Memo seeks information on merger's potential impact on the quality of, and access to, service to California customers. *See,* Amended Scoping Memo at page 3. Information on planned capital expenditures in California will help the Commission to determine the merger's potential impacts on the availability and quality of services.

Figure 13. Capital Investments in California.

(Millions)

[BEGIN CONFIDENTIAL]

	Sprint[48]	T-Mobile[49]	Sprint + T-Mobile	New T-Mobile[50]
2019	[redacted]			
2020				
2021				
2022				
2023				
Total				

[END CONFIDENTIAL]

The Joint Applicant's also portray Sprint as unable to make significant investments to improve its services in California.[51] However, this appears to be inaccurate, as Sprint's recent capital investments have already produced tangible benefits for consumers, indicating the company has the ability to make substantial investments to improve its service offerings without the merger. For example, Sprint's "Next-Gen Network" investments have allowed the company to increase its network speeds. Some of Sprint's most recent network improvements are not within California, but still provide tangible evidence of the company's ability to improve and compete on its own: Sprint now claims to offer the fastest download speeds in Boston[52] as well

[48] Exhibit A-1: Sprint's Response to Public Advocates Office Data Request 1-33.

[49] Exhibit A-2: T-Mobile's Response to Public Advocates Office Data Request 1-33.

[50] T-Mobile provided the Public Advocates Office with estimates of the network capital expenditures that New T-Mobile could invest in California in future years. T-Mobile provided a range for each year and the annual amounts listed in Figure 13 are the midpoint of each estimated range per year. These estimates do not account for certain capital investments that T-Mobile is currently unable to estimate on a California-specific basis, including capital investment in stores. *See,* Exhibit A-3: T-Mobile's Response to Public Advocates Office Data Request 1-30.

[51] Application 18-7-012 at page 28. "As is true for T-Mobile, Sprint cannot maximize the value of its spectrum as it also lacks the spectrum, sites and sufficient financial resources to build a robust nationwide 5G network on its own to enable capacity, coverage, and quality comparable to New T-Mobile's network."

[52] "Sprint Tops the Charts in Boston for Fastest Download Speeds and Most Improved Network." *Sprint Press Release.* December 10, 2018. Available at, http://investors.sprint.com/news-and-events/press-releases/press-release-details/2018/Sprint-Tops-the-Charts-in-Boston-for-Fastest-Download-Speeds-and-Most-Improved-Network/default.aspx.

as the fastest download speeds and most reliable data services in New York City.[53] Further, recent analysis performed by Ookla, a third party organization that provides network testing applications, data and analysis, recently named Sprint as having the fastest average download speeds in 123 cities nationwide.[54] Ookla also recently recognized Sprint as the "most improved" network among national carriers after measuring a 31.5 percent year-over-year increase for Sprint's national average download speeds.[55]

Sprint's substantial network investments will continue without the merger. Sprint's board recently approved an increase to the company's total planned capital expenditures (excluding handsets) for fiscal years 2018 through 2022 by **<< BEGIN SPRINT CONFIDENTIAL >>** [redacted] **<< END SPRINT CONFIDENTIAL >>**.[56] In response to a data request from the Public Advocates Office, Sprint explains that, "[t]he increase was adopted in order to allow Sprint **<< BEGIN SPRINT CONFIDENTIAL >>** [redacted] **<< END SPRINT CONFIDENTIAL >>**."[57]

When adopting its **<< BEGIN SPRINT CONFIDENTIAL >>** [redacted]

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[53] "Sprint Takes Manhattan for Fastest Download Speeds and Data Reliability." *Sprint Press Release*. November 29, 2018. Available at, http://investors.sprint.com/news-and-events/press-releases/press-release-details/2018/Sprint-Takes-Manhattan-for-Fastest-Download-Speeds-and-Data-Reliability/default.aspx.

[54] "Sprint Reports Year-over-year Growth in Wireless Service Revenue with Fiscal Year 2018 Second Quarter Results." *Sprint News Release*. October 31, 2018. Available at, http://s21.q4cdn.com/487940486/files/doc_financials/quarterly/2018/Q2/01_Fiscal-2Q18-Earnings-Release-FINAL.PDF.

[55] *Id.*

[56] Exhibit A-4: Sprint's Response to Public Advocates Office Data Request 1-29.

[57] *Id.*

[redacted] << END SPRINT CONFIDENTIAL >> in total non-handset capital expenditures in fiscal years 2018 through 2022.[59]

The merger is likely to decrease competition in California's mobile wireless market,[60] which will disincentivize New T-Mobile from increasing capital investments in California. The Joint Applicants fail to provide any specific California-specific data on capital expenditures in the Applications, stating only, "[T]he expected synergies and anticipated capital expenditures have been calculated based on national data. There is no California-specific data available."[61] However, the Joint Applicant's provided the Public Advocates Office with California-specific estimates for future capital expenditures, which indicate the merger will not increase investments in California. If the Commission fails to deny the proposed merger, it should require New T-Mobile to complete the investments in California's rural areas that the Joint Applicant's currently offer as evidence that the merger will benefit the public interest. Also, if the Commission fails to deny the proposed merger, it should require New T-Mobile to surpass the level of capital investments in California planned by T-Mobile and Sprint as standalone companies, in total, from 2019 through 2023.

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[58] Exhibit A-4: Sprint's Response to Public Advocates Office Data Request 1-29.

[59] *Id.*

[60] Refer to the Testimony of Public Advocates Office's witness Dr. Lee Selwyn for analysis and discussion on how the merger will decrease competition in California's mobile wireless telecommunications market.

[61] Application 18-07-012 at page 23.

III. T-MOBILE AND SPRINT CAN CONTINUE TO PROVIDE INNOVATIVE SERVICE OFFERINGS WITHOUT THE MERGER.

T-Mobile and Sprint are an important source of competition among the mobile wireless carriers and both companies have a well-established track record of successfully disrupting the mobile market through innovation and consumer-friendly service offerings. The Joint Applicant's tout their successful market disruptions as evidence that the merger will benefit consumers. However, the Joint Applicant's provide aspirational, uncommitted, and vague promises to continue their innovative behavior. The Commission should not confuse these aspirational promises with statements of fact, and instead should recognize that the merger will eliminate an innovative disrupter while at the same time further consolidating the market which will counteract the incentive for service providers to innovate. The Commission should view T-Mobile and Sprint's track record of innovation as clear evidence that the merger is not in the public interest.

Prior to the implementation of its "uncarrier" strategy, T-Mobile was struggling. T-Mobile CEO John Legere explains that prior to his implementation of the "uncarrier" business strategy in September of 2012:

> "T-Mobile had not yet begun deploying 4G LTE technology. We had no LTE. We were behind all of the competitors in the market and our network was uncompetitive. We were hemorrhaging over two million customers a year, the financial position of the company was strained, and the implications of not investing in new mobile technologies was painfully obvious."[62]

AT&T's failed attempt to acquire the struggling T-Mobile was a turning point for T-Mobile and the broader mobile wireless telecommunications market. AT&T ended its bid to acquire T-Mobile amid stiff opposition from regulators in 2011.[63] The following year, T-Mobile's new CEO John Legere implemented the company's now infamous "uncarrier" strategy.

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[62] Public Interest Statement at Appendix A (Declaration of John Legere, Chief Executive Officer of T-Mobile US, Inc.) at page 4.

[63] "AT&T Ends $39 Billion Bid for T-Mobile." *New York Times.* December 19, 2011. Available at, https://dealbook.nytimes.com/2011/12/19/att-withdraws-39-bid-for-t-mobile/.

T-Mobile defines its "uncarrier" strategy as a dedication to innovation and consumer-friendly offerings. By all accounts, the "uncarrier" strategy has been tremendously successful for T-Mobile. T-Mobile's market capitalization has increased significantly since its failed merger with AT&T. T-Mobile track record strongly indicates that a "smaller" company can successfully provide significant competition and innovation to deliver benefits to consumers.

T-Mobile's "uncarrier" business model has brought the company success and – more importantly – delivered tangible benefits to consumers. Again, T-Mobile CEO John Legere explains:

> "Only six years ago, wireless customers dealt with onerous service agreements, unnecessary termination fees, and penalties for over-usage, just to name a few ridiculous restrictions that consumers simply accepted and lived with. Today, thanks to T-Mobile's consumer-first approach, U.S. wireless customers have true freedom to choose the plans and options that work best for them. The Un-carrier approach developed under my leadership has forced dramatic change in the wireless industry..."[64]

Since its implementation, T-Mobile's "uncarrier" strategy has delivered significant benefits to consumers in California with innovative service offerings, perks and discounts, including:

- Eliminating service contracts and data caps.[65]
- Consumer-friendly billing where taxes and fees are included in the price the service plan.[66]
- Free unlimited access to Netflix.[67]
- Special discounts and access to concert tickets via a partnership with LiveNation.[68]

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[64] Public Interest Statement at Appendix A (Declaration of John Legere, Chief Executive Officer of T-Mobile US, Inc.) at page 4.

[65] https://www.t-mobile.com/our-story/un-carrier-history

[66] "T-Mobile ONE Now Includes Monthly Taxes & Fees." *T-Mobile Press Release*. January 22, 2017. Available at, https://www.t-mobile.com/news/t-mobile-one-now-available.

[67] "America's Best Unlimited Just Got Even Better — T-Mobile Now Includes Netflix On Us." *T-Mobile Press Release.* September 5, 2017. Available at, https://www.t-mobile.com/news/T-Mobilebile-uncarrier-netflix.

[68] https://www.t-mobile.com/offers/live-nation-ticket-discount

- T-Mobile customers receive at no additional cost a 12-month subscription of unlimited, ad-free music on Pandora.[69]
- Phone upgrade plans that eliminated previous contractual waiting periods and gave consumers more freedom in deciding when to upgrade their device.[70]

Sprint also provides valuable market innovations that benefit consumers and provokes competition between service providers. Sprint first announced its intentions to release unlimited plans in 2008,[71] [72] spurring Verizon to announce its own unlimited plans mere days before Sprint's official announcement.[73] Sprint was the first to market with a 4G phone, announcing the release of the HTC Evo in 2010.[74] In December of 2014, Sprint returned to customer growth after launching its half-off rate plan promotion that targeted Verizon and AT&T by giving customers that switch the same amount of data at half the cost.[75] In November of 2017, Sprint began to offer its "Sprint Unlimited" customers free access to Hulu's streaming video content service.[76] Sprint has continued its partnership with HTC and recently announced a "5G mobile smart hub" set for release in the first half of 2019.[77] Ryan Sullivan, Vice president of Product

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[69] "Pandora Teams up with T-Mobile as an Un-carrier Partner for Unlimited Ad-free Music." *Pandora Press Release.* August 15, 2018. Available at, http://blog.pandora.com/us/pandora-teams-up-with-t-mobile-as-an-un-carrier-partner-for-unlimited-ad-free-music/.

[70] "T-Mobile Announces Boldest Moves Yet as America's Un-carrier." *T-Mobile Press Release*. July, 9, 2013. Available at, https://www.t-mobile.com/news/t-mobile-announces-boldest-moves-yet-as-americas-un-carrier.

[71] Cauley, Leslie. "Sprint CEO Aims for Winning Strategy." *USA Today.* February 10, 2018. Available at, https://usatoday30.usatoday.com/tech/wireless/2008-02-10-sprint_N.htm.

[72] "Sprint Launches Revolutionary $99.99 Simply Everything Plan." *Sprint Press Release.* February 28, 2008. Available at, https://newsroom.sprint.com/sprint-launches-revolutionary-9999-simply-everythingsm-plan.htm.

[73] Hansell, Saul. "Verizon Stabs Sprint With Unlimited Wireless Plan." *New York Times.* February 19, 2008. Available at, https://bits.blogs.nytimes.com/2008/02/19/verizon-stabs-sprint-with-unlimited-wireless-plan.

[74] Barrett, Brian. "Sprint's HTC Evo, the First Ever 4G Phone: Meet the New Terrific. March 23, 2010." *Gizmodo.* Available at, https://gizmodo.com/5500343/sprints-htc-evo-the-first-ever-4g-phone-meet-the-new-terrific.

[75] "Sprint's Offer: Cut Your Wireless Bill in Half Event." *Sprint Press Release.* December 2, 2014. Available at, https://newsroom.sprint.com/sprints-offer-cut-your-wireless-bill-in-half-event.htm.

[76] "Sprint Says Hello to Hulu!" *Sprint Press Release*. November 15, 2017. Available at, http://investors.sprint.com/news-and-events/press-releases/press-release-details/2017/Sprint-Says-Hello-to-Hulu/default.aspx.

[77] "Sprint and HTC Announce Innovative 5G Mobile Smart Hub Coming in First Half of 2019." *Sprint Press Release.* November 27, 2018. Available at, https://newsroom.sprint.com/sprint-and-htc-announce-innovative-5g-mobile-smart-hub-coming-in-first-half-2019.htm

Engineering and Development at Sprint, explains that Sprint will begin to compete in the in-home internet access space with the introduction of the new HTC "5G mobile smart hub."[78]

T-Mobile and Sprint have demonstrated even the third and fourth largest mobile wireless providers, though smaller than the top two wireless carriers, can successfully innovate and disrupt the market to grow their company and deliver benefits to consumers. Despite being smaller than AT&T and Verizon, T-Mobile and Sprint have a track record of successfully disrupting the mobile market through innovative, consumer friendly service offerings. In fact, AT&T and Verizon have been forced to respond to T-Mobile and Sprint's market disruption by making their service offerings more consumer friendly.[79] These examples clearly demonstrate the importance of competition from smaller, more disruptive companies. Permitting the Joint Applicants to merge will create a bigger company that more closely resembles the size of the less innovative AT&T and Verizon, which will be counterproductive to promoting innovation within the mobile wireless market.[80]

IV. CONCLUSION

T-Mobile and Sprint are financially healthy, profitable, and viable businesses that can continue to compete in California as separate companies. T-Mobile and Sprint both significant capital investment plans and plans for future innovation. The public interest is better served if T-

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[78] Segan, Sascha. "Sprint: We'll Have 5G Home Internet and Samsung Devices, Too." *PCMag*. December 4, 2018. Available at, https://www.pcmag.com/news/365271/sprint-well-have-5g-home-internet-and-samsung-devices-too.

[79] For example, in response to T-Mobile's JUMP! program, both AT&T and Verizon responded by also implementing new programs to offer customers more consumer-friendly device upgrade plans. Refer to, https://www.techhive.com/article/2044469/atandt-and-verizon-scramble-to-compete-with-t-mobiles-jump-device-upgrade-plan.html. Also, Verizon responded to T-Mobile's "Binge On" service with a zero-rated streaming video service of its own called "Go90." Refer to, https://www.fiercewireless.com/wireless/verizon-follows-t-mobile-s-binge-zero-rated-streaming-video-through-go90.

[80] Refer to the Testimony of Public Advocates Office's witness Dr. Lee Selwyn for analysis and discussion on how the merger will likely decrease innovation within the mobile wireless telecommunications market.

Mobile and Sprint remained competitors, as competition provides both companies a greater incentive to invest, innovate, and provide continuing value to California's customers.[81]

[81] The proposed merger will likely produce harms caused by the loss of Sprint as a competitive facilities-based provider, as demonstrated by the testimonies of the Public Advocates Office witnesses Kristina Donnelly, Eileen Odell, Cameron Reed, and Dr. Lee Selwyn.

ATTACHMENTS

ATTACHMENT A

Statement of Qualifications and Experience

My name is Adam Clark. My business address is 505 Van Ness Avenue, San Francisco, California, 94102. I am a Public Utility Regulatory Analyst V with the California Public Utilities Commission ("CPUC") in the Communications and Water Policy Branch of the Public Advocates Office. I received a Bachelor of Arts Degree in Business Economics and Sociology from the University of California at Santa Barbara in 2006. I have attended the Western National Association of Regulatory Utility Commissioners/ Michigan State University Utility Rate School.

I joined the Public Advocates Office in October 2014, where I work to advance the organization's mission and advocate on behalf of public utility customers. In my time with the Public Advocates Office, I have performed extensive research and analysis on a wide array of communications issues to inform the Public Advocates Office decision-making and policy positions. I have provided expert witness testimony on behalf of the Public Advocates Office to several CPUC proceedings, including on communications market competition (I.15-11-007), industry mergers and acquisitions (A.15-07-009, A.15-03-005, and A.14-04-013), general rate cases of small local exchange carriers (A.16-10-003 and A.17-10-003), right of way access (I.17-16-027 and R.17-06-028), and Pacific Gas & Electric's application for a Certificate of Public Convenience and Necessity (A.17-04-010). I have also authored and/or contributed analysis to numerous Public Advocates Office comments, reports and filings on communications issues related to public purpose programs (R.13-10-010 and R.12-10-012), quality of service, protests of industry Advise Letters, industry Resolutions, state legislation, Federal Communications Commission proceedings and requests for information, and rural call completion (I.14-05-012).

Prior to my time with the Public Advocates Office, I held the position of Regulatory Analyst in the CPUC's Communications Division commencing June 2007, where I worked on various issues, including: inter-carrier compensation reform, public purpose programs, merger proceedings, market analysis, policy development, and broadband deployment. I analyzed Advice Letters seeking CPUC approval for telecommunication tariff changes and rate revisions. I analyzed project proposals for California Advanced Services Fund, as well as project proposals for the American Recovery and Reinvestment Act. I performed extensive research on California's telecommunications and broadband markets and contributed to numerous reports and assessments on those markets, including comments filed by the CPUC in response to inquiries by the Federal Communications Commission. I also aided the CPUC in review of proposed mergers and acquisitions in telecommunications markets.

ATTACHMENT B

New T-Mobile should submit annual reports on its capital investments in California and include, at minimum, the following information:

PROJECT NAME

LOCATION OF PROJECT

PROJECT DESCRIPTION

SERVICES AFFECTED

LOCATION OF SERVICES AFFECTED (CENSUS BLOCK NUMBERS)

SERVICE AREA AFFECTED (SQUARE MILES)

ESTIMATED POPULATION OF SERVICE AREA AFFECTED

MAJOR EQUIPMENT INSTALLED

CHANGES TO BROADBAND DOWNLOAD SPEEDS (If Applicable)

CHANGES TO BROADBAND DOWNLOAD SPEEDS (If Applicable)

DESCRIPTION OF IMPACTS TO 9-1-1 SERVICE

DESCRIPTION OF IMPACTS TO SAFETY AND EMERGENCY SERVICES

START DATE

TARGET COMPLETION DATE

ACTUAL COMPLETION DATE

TOTAL CAPITAL COST ($)

ATTACHMENT C

Liquidity Metrics

		2013	2014	2015	2016	2017
T-Mobile	Current Ratio	2.11	1.59	1.56	1.58	0.77
	Quick Ratio	1.64	1.18	1.24	1.04	0.47
	Interest Coverage Ratio	1.04	1.31	1.65	2.35	2.89
	CFO to Current Debt	14.53	47.66	29.75	17.33	4.94
Sprint	Current Ratio	1.19	0.89	0.57	1.13	1.32
	Quick Ratio	1.01	0.59	0.31	1.00	1.17
	Interest Coverage Ratio	0.33	(0.91)	0.15	0.69	1.13
	CFO to Current Debt	2.63	1.88	(0.09)	(0.65)	2.93
AT&T	Current Ratio	0.66	0.90	0.75	0.76	0.97
	Quick Ratio	0.46	0.62	0.45	0.45	0.82
	Interest Coverage Ratio	8.12	3.87	6.02	5.04	3.40
	CFO to Current Debt	6.33	5.17	4.70	4.00	1.02
Verizon	Current Ratio	2.62	1.05	0.64	0.87	0.91
	Quick Ratio	2.46	0.90	0.52	0.67	0.77
	Interest Coverage Ratio	10.98	3.11	5.74	4.80	4.35
	CFO to Current Debt	9.87	11.20	6.01	8.62	7.33

ATTACHMENT D

Solvency Metrics

		2013	2014	2015	2016	2017
T-Mobile	Debt to Equity	1.42	1.40	1.59	1.52	1.26
	Debt to Capital	0.59	0.58	0.61	0.60	0.56
	Liabilities to Assets	0.71	0.72	0.73	0.72	0.68
	Debt to EBITDA	4.37	3.77	3.66	2.70	2.60
Sprint	Debt to Equity	1.29	1.55	1.72	2.18	1.55
	Debt to Capital	0.56	0.61	0.63	0.69	0.61
	Liabilities to Assets	0.70	0.74	0.75	0.78	0.69
	Debt to EBITDA	7.85	6.37	4.79	4.26	3.67
AT&T	Debt to Equity	0.82	0.91	1.02	1.00	1.16
	Debt to Capital	0.45	0.48	0.51	0.50	0.54
	Liabilities to Assets	0.67	0.70	0.69	0.69	0.68
	Debt to EBITDA	1.52	2.68	2.70	2.46	3.63
Verizon	Debt to Equity	0.98	8.28	6.15	4.50	2.62
	Debt to Capital	0.50	0.89	0.86	0.82	0.72
	Liabilities to Assets	0.65	0.94	0.93	0.90	0.83
	Debt to EBITDA	1.93	3.13	2.24	2.51	2.64

ATTACHMENT E

Profitability Metrics (Percent).

		2013	2014	2015	2016	2017
T-Mobile	Gross Margin	49.8	47.9	54.1	55.9	56.4
	EBITDA Margin	18.9	19.7	22.1	27.5	26.8
	Net Profit Margin	0.1	0.8	2.3	3.9	11.2
	Return on Assets	0.1	0.4	1.2	2.2	6.4
Sprint	Gross Margin	42.7	45.1	51.7	53.8	58.6
	EBITDA Margin	11.8	15.3	22.0	28.8	34.4
	Net Profit Margin	(8.5)	(9.7)	(6.2)	(3.6)	22.8
	Return on Assets	(3.6)	(4.0)	(2.5)	(1.4)	8.6
AT&T	Gross Margin	60.2	54.6	54.3	53.1	51.8
	EBITDA Margin	38.2	23.0	31.9	30.6	28.2
	Net Profit Margin	14.5	5.1	9.3	8.1	18.6
	Return on Assets	6.7	2.3	3.4	3.3	6.7
Verizon	Gross Margin	62.8	60.7	60.1	59.2	59.1
	EBITDA Margin	40.3	28.4	37.3	34.1	35.2
	Net Profit Margin	19.5	9.4	14.0	10.8	24.2
	Return on Assets	8.6	5.1	7.5	5.6	11.9

ATTACHMENT F

Cash Flow Metrics (Percent)

		2013	2014	2015	2016	2017
T-Mobile	Operating Cash Flow Ratio	61.0	47.2	56.8	68.0	69.1
	Asset Efficiency	7.1	7.3	8.7	9.3	11.3
	CFO to Sales	14.5	14.0	16.7	16.4	19.6
Sprint	Operating Cash Flow Ratio	26.9	22.4	(3.5)	(26.4)	93.2
	Asset Efficiency	3.1	3.0	(0.5)	(3.9)	11.8
	CFO to Sales	7.4	7.1	(1.3)	(9.9)	31.0
AT&T	Operating Cash Flow Ratio	99.4	84.1	75.0	77.8	48.1
	Asset Efficiency	12.5	10.6	8.9	9.7	8.8
	CFO to Sales	27.0	23.7	24.4	24.0	24.4
Verizon	Operating Cash Flow Ratio	143.5	109.4	111.3	75.2	76.6
	Asset Efficiency	14.2	13.2	16.0	9.3	9.8
	CFO to Sales	32.2	24.1	29.7	18.1	20.1