

COMPANY PROFILE

T-Mobile US, Inc.

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COMPANY OVERVIEW

T-Mobile US, Inc. (T-Mobile or "the company") is a provider of wireless communication services in the US. The company offers voice, messaging, and data services to its customers in the postpaid, prepaid and wholesale markets. It also offers a range of wireless devices, including smartphones, tablets and other mobile communication devices, and accessories. The company primarily operates in the US, where it is headquartered in Bellevue, Washington.

The company reported revenues of (US Dollars) US\$37,242 million for the fiscal year ended December 2016 (FY2016), an increase of 16.2% over FY2015. In FY2016, the company's operating margin was 10.2%, compared to an operating margin of 6.4% in FY2015. In FY2016, the company recorded a net margin of 3.9%, compared to a net margin of 2.3% in FY2015.

KEY FACTS

Head Office	T-Mobile US, Inc. 12920 SE 38th Street BELLEVUE Washington BELLEVUE Washington USA
Phone	1 425 3784000
Fax	
Web Address	www.t-mobile.com
Revenue / turnover (USD Mn)	37,242.0
Financial Year End	December
Employees	50,000
NASDAQ Ticker	TMUS

SWOT ANALYSIS

T-Mobile US, Inc. (T-Mobile or "the company") is a provider of wireless communication services in the US. The company offers voice, messaging, and data services to its customers in the postpaid, prepaid and wholesale markets. The company's aggressive pricing strategy enabled it to drive subscriber growth and enhance its market share. However, intense competition may negatively impact the company's market share, its ability to strengthen its market presence and adversely impact its overall business, results of operations and cash flows.

<p>Strength</p> <p>Aggressive Pricing Model Leading to Subscriber Growth and Increased Market Share Improved Profits, Margins and Cash Flow Continued Investment in Network Infrastructure and Spectrum Licenses</p>	<p>Weakness</p> <p>Declining Postpaid ARPU Lack of Scale as Compared to Peers</p>
<p>Opportunity</p> <p>Growing Penetration of Smart Devices in the US Strong Outlook for High-Bandwidth Mobile Communications Robust Growth in Cellular M2M Market</p>	<p>Threat</p> <p>Intense Competition Regulatory Environment Saturation in Wireless Market in the US</p>

Strength

Aggressive Pricing Model Leading to Subscriber Growth and Increased Market Share

T-Mobile adopted an aggressive pricing model and a low cost strategy that enabled the company drive significant subscriber growth and enhance its revenue base. The company's low-cost business operating model enables it to simplify its business and drive operational efficiencies and cost savings in areas, such as network optimization, customer roaming and customer service. The company's Un-carrier initiative enabled it to offer low cost offers to its customers. As part of its Un-carrier initiative, in 2017, the company introduced Un-carrier Next, where monthly wireless service fees and taxes are included in advertised monthly recurring charge for T-Mobile ONE. The company also introduced Kickback on T-Mobile ONE, where participating customers who use 2 GB or less of data in a month, will get an up to a \$10 credit on their next month's bill per qualifying line and the Un-contract for T-Mobile ONE with the price guarantee on an unlimited 4G LTE plan, which allows T-Mobile ONE customers to keep their price for service until they decide to change it. Also, the company launched T-Mobile ONE plan in 2016 which provides its customers unlimited calls, unlimited text and unlimited high-speed 4G LTE data on their device. T-Mobile ONE Plus customers also receive unlimited High Definition Video Day Passes, Voicemail to Text, NameID, unlimited Gogo in-flight internet passes on capable domestic flights and up to two times faster speeds when traveling abroad in 140+ countries and destinations. The T-Mobile ONE Plus International

services provides high-speed 4G LTE mobile hotspot data in the US, Mexico and Canada.

The aggressive pricing strategies of the company revolutionized the mobile communications market in the US and provided significant competitive advantages to the company. These would also enable the company to drive significant growth in the customer base and lead to strong revenue growth in the future.

Improved Profits, Margins and Cash Flow

T-Mobile witnessed a significant growth in its margins in the last few years. The company reported an operating profit of \$3,802 million in FY2016 compared to an operating profit of \$1,416 million in FY2014 growing at a compound annual growth rate (CAGR) of 64% during 2014-16 periods. Similarly, it recorded a net income of \$1,405 million in FY2016 compared to a net profit of \$247 million in FY2014. As a result, the company's operating margin increased from 4.8% in FY2014 to 10.2% in FY2016; and its net profit margin increased from 0.8% in FY2014 to 3.8% in FY2016. The significant growth in the margins was attributed to strong revenue growth across various service lines. The revenues across these service lines increased due to the increase in the customer base driven by the company's Un-carrier strategy and promotional activities. The revenue growth was also driven by focused cost control and synergies realized from the MetroPCS business combination. In addition, the company had a strong cash position. Its cash flows from operations increased from \$4,146 million in FY2014 to \$6,135 million in FY2016 at a CAGR of 22% during that period. T-Mobile's significant margins would enable it to fund its operating requirements, including capital expenditures; share repurchases; quarterly cash dividends; and pursue strategic investments to drive future growth.

Continued Investment in Network Infrastructure and Spectrum Licenses

T-Mobile has been investing significantly over the years on its network enhancement to provide faster high-bandwidth mobile communications services. The company's network transformation strategy is focused on network modernization and fourth generation (4G) evolutions. Over the last few years, the company invested primarily in modernizing its network to support growing demand for high bandwidth solutions. The company's capital expenditures were primarily associated with the continued expansion of its network coverage. Further, the company expects its cash capital expenditures for property and equipment to be in the range of \$4.8 billion to \$5.1 billion in 2017. This does not include purchases of spectrum licenses. The company is also focused on expanding its network coverage through an aggressive spectrum acquisition strategy. As part of this strategy, T-Mobile owned an average of 86 MHz of spectrum across the top 25 markets in the US which comprised of an average of 12 MHz in the 700 MHz band, 30 MHz in the 1900 MHz PCS band and 44 MHz in the AWS band. The company entered into and closed on various agreements for the acquisition and exchange of 700 MHz A-Block, AWS and PCS spectrum licenses. The company also intends to acquire spectrum licenses in private party transactions and future Federal Communications Commission (FCC) spectrum license auctions, including the broadcast incentive auction of low-band 600 MHz spectrum licenses. The company owns 700 MHz A-Block spectrum covering 272 million people or approximately 84% of the US population. The spectrum covers all of the top 10 market areas and 29 of the top 30 market areas in the US.

The company's significant investments in network infrastructure enabled it to expand its network coverage and establish itself as one of the fastest 4G services providers in the US. It also enabled it to expand its customer base and drive significant revenues. In addition, well established network provides competitive

advantages to the company enabling it to penetrate into competitor's markets and strengthen its leadership position in the US wireless communications market.

Weakness

Declining Postpaid ARPU

T-Mobile witnessed a significant decline in its branded postpaid average revenue per user (ARPU) over the last few years. T-Mobile's branded postpaid ARPU declined from \$49.4 in FY2014 to \$47.4 in FY2016 at a compound annual rate change (CARC) of 2% during 2014-16 periods. The decrease was primarily due to an increase in the non-cash net revenue deferral for Data Stash. The significant decline in branded postpaid ARPU, could impact the profitability of the T-Mobile and affect its future business prospects.

Lack of Scale as Compared to Peers

The company lacks scale when compared to other major wireless communications service providers in the US, including AT&T and Verizon Communications. For instance, Verizon Communications generated revenues of \$125,980 million for the year ended December 31, 2016 (FY2016). Similarly, AT&T generated revenues of \$163,786 million during the same period. Comparatively, T-Mobile generated revenues of \$37,242 million in FY2016. Furthermore, AT&T offers wireline communications services, internet protocol (IP) broadband, and television (TV) services over its network. Similarly, Verizon offers a range of wireline services, including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services. However, T-Mobile's operations and its network expansion are focused on wireless communications services, which limit its presence.

The company's lack of scale reduces its bargaining power. Furthermore, larger peers with higher resources at their disposal are better equipped to capture market share from smaller players like T-Mobile.

Opportunity

Growing Penetration of Smart Devices in the US

T-Mobile is poised to benefit from the growing smartphones markets in the US. According to industry estimates, global smartphone shipments are expected to grow from 1.5 billion unit shipments in 2015 to 1.9 billion unit shipments in 2020, growing at a CAGR of 6% during 2016-20 periods. The US market is also expected to follow the same growth trend. Further, smartphone penetration was nearly 81% in the US in 2016.

The company offers a range of wireless devices, including smartphones, tablets and other mobile communication devices, which are manufactured by various suppliers. Further, in 2017, the company added the LG G6 to its devices portfolio. Also, T-Mobile introduced iPhone 7 and iPhone 7 Plus (PRODUCT) RED Special Edition and iPhone SE models. The company added the Galaxy S8 and Galaxy S8+ to its devices portfolio. Further in 2017, the company introduced the A30 TABLET and LG

Stylo 3 PLUS. The company is well poised to exploit the demand for these data intensive mobile devices which will enable T-Mobile to enhance its revenues.

Strong Outlook for High-Bandwidth Mobile Communications

The US mobile broadband market grew strongly over the historical period and is expected to continue growing in the coming period. The growth in mobile broadband is primarily attributable to the high data consumption by mobile devices, including smartphones and tablets. Industry estimates suggest that the global mobile data traffic is expected to grow from 7.2 exabytes (EB) in 2016 to 49 EB per month by 2021 at a CAGR of 47% during 2016-21 periods. In addition, it is expected that by 2021, 63% of the mobile devices and connections in North America will have 4G capability.

T-Mobile has a robust network infrastructure which enables it to cater to the increasing demand for high-bandwidth mobile communications. The company's LTE network covered 314 million people in 2016. According to industry estimates, the global LTE subscriptions reached 1.7 billion in 2016 and North America had 283 million subscriptions. In addition, there is also an increasing demand for Voice over LTE (VoLTE) solutions which are offered over the high bandwidth LTE network. T-Mobile is a pioneer in the introduction of VoLTE in the US. The data traffic growth coupled with the company's well established network will enable T-Mobile to sustain revenue growth. The company can leverage its leadership position in the wireless market to further drive ARPU by tapping into the trend of growing mobile traffic.

Robust Growth in Cellular M2M Market

The cellular machine-to-machine (M2M) market is expected to grow at a robust rate in the future. According to industry estimates, the global M2M services market is expected to reach \$88.9 billion by 2021, growing at a CAGR of over 29% during 2017-21 periods. Further, the global M2M connections are expected to reach 3.3 billion by 2021 from 0.7 billion in 2016, representing a CAGR of 34% during the forecast period.

The company offers a range of solutions to the M2M market, including eSIM solutions. In addition, the company offers a range of SIM products, including Mini-SIM, Ruggedized SIM, Micro SIM (3FF), and Embedded SIM. The company's embedded SIM finds applications in telematics and smart grid infrastructure solutions. The company's strong focus on the M2M market coupled with the robust outlook of the end market will further increase the demand for its solutions and enhance its market share in the coming years.

Threat

Intense Competition

The wireless telecommunications industry in the US, in which the company operates, is highly competitive. The company's competitors include national carriers, numerous smaller regional carriers and mobile virtual network operators (MVNOs). In addition, the company competes with other providers who offer similar communications services, such as voice and messaging, using alternative technologies or services. The competition is based on various factors, including pricing, market saturation, service and

product offerings, customer experience, network investment and quality, development and deployment of technologies, availability of additional spectrum licenses, and regulatory changes. The company's major competitors include AT&T and Verizon Communications. Further, these two players are significantly larger than the company and enjoy greater resources and scale advantages. Furthermore, these two players currently serve a significant percentage of all wireless customers and hold significant spectrum and other resources.

In addition, joint ventures, mergers, acquisitions and strategic alliances in the wireless industry have resulted in and are expected to result in larger competitors competing for a limited number of customers. Also, the largest competitors may be able to enter into exclusive handset, device, or content arrangements, execute pervasive advertising and marketing campaigns, or otherwise improve their cost position relative to the company. The refusal of large competitors to provide critical access to resources and inputs, such as roaming services on reasonable terms, may improve their position within the wireless broadband mobile services industry. These factors, together with the effects of the increasing aggregate penetration of wireless services in all metropolitan areas and the ability of these larger competitors to use resources to build out their networks and to quickly deploy advanced technologies, increases the competitive pressure on smaller carriers like T-Mobile to attract and retain customers. Intense competition may negatively impact the company's market share, its ability to strengthen its market presence and would adversely impact the company's overall business, results of operations and cash flows.

Regulatory Environment

The company, as part of its operations across the US, Puerto Rico and the US Virgin Islands is subject to regulatory and legislative action by applicable local, state and federal governmental entities. The US Federal Communications Commission (FCC) regulates the licensing, construction, modification, operation, ownership, sale, and interconnection of wireless communications systems, along with other state and local regulatory agencies. For example, the FCC has rules regarding provision of 911 and E-911 services, porting telephone numbers, interconnection, roaming, internet openness or net neutrality, disabilities access, privacy and cybersecurity, consumer protection, and the universal service and Lifeline programs. The company's operations are also regulated by, the Federal Trade Commission (FTC) and other federal agencies, such as the Consumer Financial Protection Board (CFPB) that have jurisdiction over consumer protection and elimination and prevention of anticompetitive business practices with respect to the provision of non-common carrier services.

The company is also subject to regulatory oversight by the FCC, FTC, and/or other federal agencies, as well as judicial review and actions, on issues related to the wireless industry that include, but are not limited to: roaming, spectrum allocation and licensing, pole attachments, intercarrier compensation, Universal Service Fund (USF), net neutrality, special access, 911 services, consumer protection, consumer privacy, and cybersecurity. In addition, wireless communications providers must be licensed by the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. Furthermore, in 2015, the FCC's new net neutrality rules became effective, with the exception of enhanced transparency requirements, which are expected to become effective in 2017. In 2016, the FCC also adopted a new broadband privacy regime that applies to its operations. Both sets of rules subject some of the company's initiatives and practices to more burdensome requirements and heightened scrutiny by federal and state regulators, the public, edge providers, and private litigants

regarding whether such initiatives or practices are compliant.

Non-compliance with these regulations may result in revocation of licenses, or any related fines or forfeitures. In addition, the FCC periodically reviews its policies on how to evaluate a carrier's spectrum holdings in the context of transactions and auctions. A change in these policies could affect spectrum resources and competition among the company and other carriers. Enactment of additional state or federal regulations may increase T-Mobile's costs of providing services or requires it to change its services. Failure to comply with applicable regulations could have a material adverse effect on the company's business and results of operations.

Saturation in Wireless Market in the US

The US wireless market has become increasingly saturated with wireless connections having exceeded the population in 2011. This has made the acquisition of new subscribers, especially those that pay for higher-margin data plans, tough for the wireless carriers. According to industry estimates, wireless penetration in the US is approximately 121% driving 13.7 trillion MBs of wireless data traffic. Accordingly, mobile phone subscription growth will be negatively impacted as the companies will not be able to drive this growth by market penetration in the years ahead. As the wireless industry continues to mature, the future wireless growth will increasingly depend on the company's ability to offer innovative data services to customers, which in turn, will depend on the availability of additional spectrum. The impending saturation will impact T-Mobile's growth prospects.

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