April 15, 2019

REDACTED – FOR PUBLIC INSPECTION

Via Electronic Filing
Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: *Applications of T-Mobile US, Inc. and Sprint Corporation for Consent to Transfer Control of Licenses and Authorizations*, WT Docket No. 18-197

Dear Ms. Dortch:

Sprint Corporation ("Sprint," or the "Company") hereby responds to certain commenters regarding Sprint's significant service quality, scale, and financial challenges, in connection with the Federal Communication Commission's ("Commission's") review of the proposed merger of T-Mobile US, Inc. and Sprint. This letter contains information designated as "Highly Confidential" pursuant to the Protective Order in this proceeding, including with respect to Attachments A and B herein.[1] Nonetheless, no designation of confidentiality is made for portions of documents that have previously been made public. Accordingly, pursuant to the procedures set forth in the Protective Order, a copy of the Highly Confidential Filing is being provided to the Secretary's Office. In addition, two copies of the Highly Confidential Filing are being hand delivered to Charles Mathias (in Kathy Harris's stead), Wireless Telecommunications

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[1] *Applications of T-Mobile US, Inc. and Sprint Corporation for Consent to Transfer Control of Licenses and Authorization*, Protective Order, DA 18-624 (rel. Jun. 15, 2018) ("Protective Order").

Bureau. A copy of the Redacted Highly Confidential Filing is also being filed electronically through the Commission's Electronic Comment Filing System.

Some commenters have claimed that Sprint's public statements and internal documents undermine the assertion that Sprint faces significant service quality, scale, and financial challenges that impact its future competitive relevance. Sprint is unlikely to play a meaningful competitive role as a standalone company in the years to come, and any assessment of the impact its proposed merger will have on competition or the public interest should account for its diminished ability to be an effective competitor absent the transaction.

Sprint is in a very difficult situation that is only getting worse. Sprint's network lacks the coverage and consistency that customers demand. Sprint's lack of low band spectrum is at the root of these network problems, and that problem cannot be fixed because there is no low band spectrum available that Sprint could buy. As a result, Sprint is losing customers—which then reduces revenues and cash flow—further limiting its ability to invest in its network and service its debt. Simply put, Sprint is not on a sustainable competitive path.

The financial analysts who follow Sprint and the wireless industry have recognized that Sprint has fundamental problems and is unlikely to be an effective competitor going forward absent the merger with T-Mobile US, Inc. ("T-Mobile"). Those analysts understand the need to consider more than the handful of isolated metrics that can be viewed as positive for Sprint. In their analyses, they see the same fundamental problems that Sprint has communicated to the Commission and in its public disclosures: Sprint's network is deficient, it is losing customers, and it cannot generate enough cash to invest in its network, pay its debt obligations, and compete effectively. Indeed, those parties suggesting Sprint's future is fine are substituting their judgment for the judgment of the financial analysts who follow the Company as part of their professional duties.

Sprint's key internal documents paint the same picture. This is perhaps seen most clearly in Sprint's assessment of its standalone prospects as part of evaluating whether to enter into the proposed transaction with T-Mobile. Those documents—along with the objective facts surrounding Sprint's negotiations with T-Mobile—reflect that Sprint had no clear path to competitive relevance, whether on a standalone basis or with a partner other than T-Mobile. This reality, and the underlying reasons for it, are reflected in documents that were presented to Sprint's Board of Directors. Following Sprint's failure to reach a deal with T-Mobile in November 2017, Michel Combes analyzed Sprint's options and reported to Sprint's senior management and Board of Directors on a number of occasions. In March 2018, Mr. Combes presented his analysis, concluding that a merger with T-Mobile presented the best path forward. Sprint then entered into a merger agreement with T-Mobile in April 2018—on less attractive terms than the deal it had discussed less than six months before.

Sprint's standalone difficulties were further emphasized at Board meetings in January 2019, where the Board was told that many of Sprint's most recent commercial metrics were well below plan and trending downward. Again, in March 2019, the Board was reminded of the litany of issues facing Sprint (*e.g.*, lack of low band spectrum, struggling brand, inadequate scale, and customer expectations increasing), all factors "reinforcing [the] criticality of [the] T-Mobile deal."[2]

Sprint's challenges are amply reflected in Sprint's other ordinary course business documents as well—though one can also find within the millions of pages that Sprint produced to the Commission documents that, at least in part, strive to preserve a degree of optimism for the future and highlight areas where Sprint has had some degree of success. It is not surprising that Sprint management would seek to emphasize these areas, in the belief that striving for aggressive targets is more likely to yield better results than dwelling on persistent structural deficiencies about which line employees can do little to solve.

Nevertheless, Sprint's ordinary course documents speak volumes about Sprint's fundamental weaknesses in the three areas that matter most: Sprint's network, its customer base, and its challenge to generate positive cash flow. A fair reading of these ordinary course documents shows the basis for Mr. Combes' own expert assessment of Sprint's unsustainable competitive relevance arising from structural problems that the company *cannot* resolve on its own.

I. Sprint's Public Statements About Select Improvements in Financial Metrics Do Not Alter the Fundamental Challenges It Faces as a Standalone Company

We understand that some parties have expressed skepticism about the extent of the challenges faced by Sprint as a standalone company and believe that Sprint's public statements may be inconsistent with this view. For example, as DISH points out in its April 8, 2019 letter to

[2] Attachment A at 8 (Materials for a Meeting of the Sprint Board of Directors (Mar. 29, 2019)).

the Commission, Sprint's 3Q FY2018 earnings report highlights some of the more positive metrics from Sprint's last quarter.[3]

As a threshold matter, Sprint's public documents, including SEC filings and financial press releases, identify substantial and persistent commercial risk factors, including specifically with respect to Sprint's network quality, subscriber gains and losses, and its competitive situation.[4] However, Sprint appreciates that isolated excerpts from public statements on which others have seized can be used to suggest that Sprint is doing well and is on an upward trajectory. However, the positive metrics identified by DISH and others are narrowly focused on the few areas where Sprint has shown improvement—even if that improvement is unlikely to alter Sprint's overall trajectory or improve its competitive situation. For example, with respect to the statements advanced by DISH, despite minor improvements in a few financial metrics relative to its own historic performance, Sprint is not performing well when compared to other wireless companies. Sprint continues to have the lowest wireless service revenue and postpaid service revenue of any major carrier, and its total company service revenue continues to decline.[5] Sprint's operating income has been boosted by the Company's shift to handset leasing, and other short-term, nonrecurring factors, such as lower customer acquisition costs resulting from attracting fewer new customers. Operating income has also benefitted from Sprint's decision to

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[3] *See, e.g.*, Letter from Pantelis Michalopolous, Counsel to DISH Network Corporation, to Marlene H. Dortch, Federal Communications Commission, WT Docket No. 18-197 (Apr. 8, 2019).

[4] *See, e.g.*, Sprint Corporation, Annual Report (Form 10-K), at 16-18 (August 7, 2018) (for the fiscal year ended March 31, 2018).

[5] Attachment B at 36-37 (Competitive Results Summary, Calendar 4Q18 (Feb. 20, 2019)).

raise prices for its plans, which is likely to continue. Sprint's free cash flow, which is a much better indicator of its ability to fund its operations and network investments, has been overwhelmingly negative.[6]

Sprint's postpaid net additions recently have been driven by "free lines" offered to Sprint customers and the inclusion of less valuable tablet and other non-phone devices, as well as pre to post migrations that do not represent "new" Sprint customers. Sprint *lost* **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** Sprint postpaid handset subscribers in 3Q FY2018 and is expected to lose over **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** postpaid handset subscribers for all of FY2018 when excluding these pre to post migrations.[7] While these public statements and the individual metrics cited are all accurate, they are incomplete and none are a substitute for a realistic analysis of the key factors that are most probative of Sprint's overall competitive position and prospects.

Similarly, Sprint's ability to point to some network improvements does not negate the fact that its network performance continues to fall further behind the competition. While Sprint has touted having "the most improved network" in public statements, these claims are relative to Sprint's prior performance and do not reflect improvement as compared to other wireless

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6 *Id.* at 42.

7 Sprint Branded Postpaid Handset Net Adds (without adoption of Topic 606). Excludes BoostUp! Subscribers. Sprint publicly reports Boost customers with device financing plans as postpaid. Internally, B10.6A and Scenario A classify those customers as prepaid because they belong to Boost. Attachment B at 24.

companies.[8] Despite some improvements, Sprint still lags behind competitors in network experience, satisfaction, and perception, and is falling further behind. The most telling measures of network performance, including customer perception and churn, show that Sprint's network deficiencies compared to its competitors are only getting worse.

II. Analyst Reports Increasingly Recognize Sprint's Fundamental Challenges

Analysts following Sprint and the wireless industry dive deeply into the key fundamentals of the companies. Analyst reports have increasingly agreed that Sprint's position absent the merger is almost untenable for all the reasons identified in Sprint's ordinary course business documents: poor network quality, customer losses, and difficulty in generating sufficient revenues.

In a report released as recently as April 6, 2019, New Street Research stated that "Sprint is largely irrelevant to competitive dynamics and pricing in the wireless market, and they are growing more irrelevant by the day. They have been offering five lines for $100 for the last two years and, and they still haven't been able to grow customers. That is an ARPU of $20 compared to an industry average for postpaid phones of $54."[9] The report concluded that Sprint's difficulty in attracting customers despite aggressive promotional activity is due to Sprint's poor network quality—"[w]e suspect customers aren't flocking to Sprint, despite prices that are less than half of what they can get elsewhere, because service quality matters to most of

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8 Dr. John Saw, *Continued progress on our Next-Gen Network Build*, SPRINT NEWSROOM (Jan. 31, 2019), https://newsroom.sprint.com/fyq318-network-progress.htm.

9 Jonathan Chaplin, *Mobile / Sprint: Regulators and Investors May Be Making the Same Mistake*, NEW STREET RESEARCH at 3 (Apr. 6, 2019).

the market. The utility of wireless is so high, and prices have come down enough at all the carriers, such that very few customers are willing to trade a decent network for low prices."[10]

Several other analysts have reached the same conclusion, stating "Sprint has bought growth in the past via heavy promotions but subsequently disappointed customers with relatively poor network quality, leaving its brand reputation weak"[11] and "a significant portion of customers have chosen Sprint primarily based on price and will quickly switch to a carrier with a better network as the pricing gap narrows."[12] Notably, while Sprint has referred to its capacity advantage in public statements, analysts note that Sprint has "failed to take share in part because they have deployed capacity poorly and in part because of other operational challenges. Sprint has 30% fewer cell sites than peers, but with spectrum that propagates less well."[13]

Reporting by MoffettNathanson, an industry analysis firm with extensive media and communications expertise, noted that Sprint's industry-high churn is worsening.[14] This report also noted that Sprint is not generating adequate cash flow, stating that "Sprint's EBITDA was wildly overstated" due to its shift to handset leasing and "[a]djusted for [Sprint's] accounting

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10 *Id.*

11 Michael Hodel, *Sprint's Fiscal 3Q Not as Bad as Feared; Firm's Position Remains Precarious*, MORNINGSTAR EQUITY RESEARCH, at 1 (Jan. 31, 2019).

12 Michael Hodel, *Sprint Posts Customer Losses as Promotions End; FVE Remains $5.75*, MORNINGSTAR EQUITY RESEARCH, at 1 (Oct. 31, 2018).

13 *Wireless Trends Review: If T-Mobile Can't Buy Sprint They May Need to Take Up Price*, NEW STREET RESEARCH, at 11 n.1 (Mar. 21, 2019).

14 *Sprint CQ4 2018 Earnings: Do Politics Matter?*, MOFFETTNATHANSON RESEARCH, at 3 (Jan. 31, 2019) ("Sprint's post-paid phone churn rate of 1.84% continues to rise, albeit by a little less than StreetAccount consensus (1.87%) had projected. Still, the 13 bps increase relative to a year ago stands in sharp contrast to [its] peers.").

puts and takes, and one is left with a less encouraging picture. EBITDA on an accounting-adjusted based *fell* sequentially (again), and was actually *down*, not up, YoY. . . The divergence between this relatively flat trend and the much more positive trend in as-reported EBITDA is extraordinary."[15] Additionally, the report removed handset financing accounting treatment from Sprint's adjusted free cash flow, finding close to $800 million more in free cash flow losses than what was reported by Sprint.[16] MoffettNathanson warned that "[i]t's hard to grow free cash flow when 'real' EBITDA is falling and capital spending is rising. And it is hard to pay down debt when FCF is negative."[17] Analysts agreed that these negative trends were likely to continue, with Sprint's performance only getting worse in coming years:

- BTIG (Feb. 27, 2019): "Sprint is getting worse . . . Rising churn and declining gross additions in post-paid and pre-paid clearly make it challenging for Sprint to grow service revenue. We expect those trends to worsen in 2019."[18]

- Barclays (Jan. 31, 2019): "[W]e note that Sprint FCF continues to be bolstered by ABS, it is losing share in high-quality postpaid phone while gaining share in higher-churn wearable and other device subs, and has ~$2bn debt maturing in 2019. All of these

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15 *Id.* at 5.

16 *Id.* at 7 ("For most companies, free cash flow is something akin to 'truth.' But at Sprint, there are two separate lenses through which one can view free cash flow. Sprint's as-reported free cash flow was meaningfully negative, at $-1.2B, versus a modest loss of $130M a year ago. A slightly more accurate picture eliminates the benefit of handset financing. . . Through that lens, free cash flow was -$908M, still significantly worse than consensus, and a stark reversal from last year's gain of $397M."). Sprint notes that it believes its reporting of EBITDA had been appropriate under accepted accounting principles and references the MoffettNathanson report simply to reflect how analysts are viewing Sprint and its challenges.

17 *Id.* at 5.

18 Walter Piecyk, *Does Regulatory Approval Even Matter for T-Mobile? Lowering Targets on Reduced Sprint Outlook*, BTIG RESEARCH, at 1 (Feb. 27, 2019).

factors could leave S exposed if competition increases and/or macro the environmental turns."[19]

- Morningstar (Oct. 31, 2018): "We expect Sprint will continue to struggle to balance growth and profitability on its own, with a network that lags its rivals and a core brand that has suffered reputationally for a decade."[20]

As New Street described in its recent report, Sprint's poor network and its resultant current inability to stabilize its customer base despite low pricing has put the company in a very difficult position: "They could restructure their balance sheet through a Chapter 11 process, which might eliminate their cash burn. But not for long. They are losing customers at current prices; if they cut price further they will be back to burning cash quickly and cutting price may not help stabilize subscribers. Sprint needs a good deal of capital to survive and who, in their right mind, would give it to them given the state of affairs described here."[21] MoffettNathanson similarly noted the effect of Sprint's limited network spending, stating that "by having starved its network of capital for so many years, Sprint has avoided a tremendous amount of associated opex that would otherwise have depressed 'real' EBITDA still further."[22] Several analysts have noted that a merger with T-Mobile is critical for Sprint's viability:

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19 *S: Not quite the bottom*, BARCLAYS RESEARCH, at 1 (Jan. 31, 2019).

20 Michael Hodel, *Sprint Posts Customer Losses as Promotions End; FVE Remains $5,75*, MORNINGSTAR EQUITY RESEARCH, at 1 (Oct. 31, 2018).

21 Johnathan Chaplin, *Mobile / Sprint: Regulators and Investors May Be Making the Same Mistake*, NEW STREET RESEARCH, at 4 (Apr. 6, 2019).

22 *Sprint CQ4 2018 Earnings: Do Politics Matter?*, MOFFETTNATHANSON RESEARCH, at 8 (Jan. 31, 2019).

- BTIG (Feb. 27, 2019): "It's hard to factor if Sprint could endure another round of material cost cutting if the deal is not approved."[23]

- New Street Research (Mar. 21, 2019): "Sprint's results this quarter were uninspired, as the company saw revenue and EBITDA growth stagnate, with postpaid phone subs declining for the second consecutive quarter. We continue to believe the standalone Sprint story is challenged, and will require a significant turnaround that may take several years. However, we think the T-Mobile merger would provide a transformational opportunity."[24]

In summary, an increasing number of recent analyst reports written by independent third-parties familiar with the wireless market and Sprint's complete financial reporting have concluded that Sprint has fundamental problems and lacks a clear path to competitive relevance as a standalone company. They conclude that its network quality and perception are so poor that Sprint would be extremely challenged to attract and retain sufficient customers even with aggressively low pricing, which in turn reduces revenues and worsens Sprint's competitive position as a standalone firm. These are the conclusions of financial analysts whose job it is to follow Sprint, and they base their opinions on the totality of Sprint's results, not one or two individual metrics in a particular quarter. Others who claim that Sprint is doing fine are substituting their judgment for that of these professionals.

III. Discussions with T-Mobile and Sprint's Board Reflect Sprint's Weaknesses as a Standalone Firm

The history of transaction discussions between Sprint and T-Mobile—including Sprint's willingness to enter into a transaction with a significantly *lower* valuation of the Company just

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23 Walter Piecyk, *Does Regulatory Approval Even Matter For T-Mobile? Lowering Targets on Reduced Sprint Outlook*, BTIG RESEARCH, at 2 (Feb. 27, 2019).

24 *Wireless Trends Review: If T-Mobile Can't Buy Sprint They May Need to Take Up Price*, NEW STREET RESEARCH, at 4 (Mar. 21, 2019).

months after failing to reach agreement with T-Mobile—and the materials presented to the Sprint Board during and after that time confirm Sprint's weakness as a standalone firm.

Sprint and T-Mobile were engaged in discussions about a potential strategic transaction throughout late 2017. On November 4, 2017, Sprint's then-CEO Marcelo Claure met with T-Mobile and Deutsche Telekom representatives in an attempt to finalize key open items remaining in a draft term sheet agreed upon by the parties. During these negotiations Deutsche Telekom and Sprint discussed an exchange ratio equivalent to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** Sprint shares for each T-Mobile U.S. share, but no deal was reached.[25]

In January 2018, Sprint hired Michel Combes to replace Tarek Robbiati as Sprint's Chief Financial Officer. Mr. Combes has a reputation for being "globally respected as a turnaround strategist" who had "delivered two of the most successful turnarounds in the telecommunications industry in recent history."[26]

Mr. Combes was asked by Mr. Claure (Sprint CEO) to conduct an assessment of Sprint's standalone prospects. The result of that assessment was a determination by Mr. Combes that due to the major challenges that Sprint was facing, it would continue to struggle to be a meaningful competitive option in the marketplace on a standalone basis. Other potential transactions were

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25 SPR-FCC-04671873 at SPR-FCC-04671905.

26 Press Release, SPRINT CORP., Sprint Names Accomplished Telecom and Cable Industry Executive Michel Combes as President & Chief Financial Officer (Jan. 4, 2018), https://investors.sprint.com/news-and-events/press-releases/press-release-details/2018/Sprint-Names-Accomplished-Telecom-and-Cable-Industry-Executive-Michel-Combes-as-President--Chief-Financial-Officer/default.aspx.

considered at the time, but no other deal addressed Sprint's core weaknesses: lack of low band spectrum, inadequate scale, huge debt load, and challenge to generate free cash flow.

In March 2018, Mr. Combes presented his findings to senior Sprint management. Mr. Combes concluded that in order for Sprint to achieve its "base" standalone projections it had to meet several assumptions, including that: (1) "Our network will be comparable with peers with **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in investments + flawless execution," (2) "We can spend the same opex as today, yet add **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**subs, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**, and **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**," and (3) "We can add **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** of SOGA, reduce churn by **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**, increase ARPU by **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**" in the face of competitive pressure and declining subscriber metrics.[27] The message was clear: achieving such assumptions was not realistic and Sprint's turnaround efforts were failing.

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[27] SPR-FCC-04244029 at SPR-FCC-04244040.

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Mr. Combes also highlighted a very difficult and uncertain future for Sprint as a standalone company and projected significantly reduced downside valuations for standalone Sprint.[28]

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28 *Id.* at SPR-FCC-04244031.

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On April 8, 2018, Mr. Combes also presented an adjusted plan of record—designated B10.6A—to Sprint's Board of Directors.[29] B10.6A incorporated FY2017 financial results and reflected increased network spending, reduced operating expenses, and the impact of tax reform. B10.6A also accounted for a significant underperformance in subscriber growth during the last two quarters of FY2017. B10.6A was approved by the Board of Directors and adopted as Sprint's new plan of record. B10.6A remains the Company's official plan of record today but Sprint's results have continued to fall short of the projections.

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[29] SPR-FCC-04671954. When Mr. Combes joined Sprint in January 2018, the company's board-approved plan of record was B10.6, which was first presented to Sprint's Board of Directors in October 2017. "B10.6A" was an "adjusted" view of this plan.

During that same meeting, Mr. Combes also presented a risk-adjusted "downside" case, Scenario A. This downside case did not replace B10.6.A as the plan of record but was considered a potentially realistic appraisal of the company's prospects and accounted for additional downside adjustments based on four major risks: (1) increased success of cable competitors; (2) historically low industry churn rates; (3) changes to competitor pricing and promotions; and (4) the possible acceleration of 5G investment and rollout by competitors. However, Mr. Combes told the Board **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

Shortly after Mr. Combes' assessment of the Sprint standalone case, the Sprint Board of Directors recommended a strategic transaction with T-Mobile, and on April 29, 2018, Sprint and T-Mobile entered into a definitive agreement to merge.[31] The fact that Sprint's Board accepted an offer that was less attractive than the deal it was negotiating less than six months earlier is unusual and indicative of how challenged Sprint's situation had become. The final terms that were accepted by the Sprint Board included a fixed exchange ratio equivalent to 9.75 Sprint shares for each T-Mobile US share, a substantially less favorable valuation than the **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** Sprint shares for each T-Mobile share that had been offered by Deutsche Telekom in November 2017.[32]

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30 *Id.* at SPR-FCC-04671955.

31 Press Release, T-MOBILE, T-Mobile and Sprint to Combine, Accelerating 5G Innovation & Increasing Competition (Apr. 29, 2018), https://www.t-mobile.com/news/5gforall.

32 SPR-FCC-04671873 at SPR-FCC-04671905.

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Sprint Board documents after the announcement of the deal continue to reflect the increasingly difficult competitive challenges Sprint would face as a standalone company. The struggles and structural challenges that led Sprint to accept T-Mobile's lower offer have been repeatedly confirmed in presentations to its Board of Directors.

For example, on April 30, 2018, the Audit Committee was advised that postpaid handset gross and net adds were declining, with "postpaid phone churn expected to be down [year over year] for all national carriers *except Sprint*;" EBITDA was flattening, and free cash flow had turned negative.[33] In October and November 2018, the Board was informed that Sprint

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[33] SPR-FCC-12605340 at SPR-FCC-12605343–345 (attributing increased net income "mostly…to additional benefits from tax reform").

"miss[ed]" subscriber results and churn pressure "[c]ontinue[d]," with "postpaid phone SoGA down **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** and [at] its lowest level in **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**."[34]

In January 2019, the Audit Committee was told that net adds decreased year-over-year, postpaid handset churn rose, and service revenue, EBITDA (less handset depreciation), operating income, and free cash flow had all declined from the prior quarter.[35] And a full session of the Board was informed that Sprint was ranked last in network quality, customer service, and price value; "new customer growth [was] down;" and key commercial metrics were trending downward and behind budget.[36]

In the most recent meeting of Sprint's Board, which took place on March 29, 2019, Mr. Combes again highlighted how Sprint's deficient network assets, lack of scale, and struggling finances would continue to hamper the company's standalone prospects:[37]

- "Sprint is losing relevance with its customers (primarily due to network and spectrum deficiencies) evident by decline in postpaid gross adds and increase in churn, resulting in drastic reductions in postpaid NAs in last 3 years."
- "Losing scale, evident by total service revenue decreasing in the past 3 years."

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34 SPR-FCC-14140558 at SPR-FCC-14140560, SPR-FCC-14140563 (October 2018 Audit Committee presentation); and SPR-FCC-14141223 at SPR-FCC-14141243, SPR-FCC-14141274–275.

35 SPR-FCC-14140001 at SPR-FCC-14140012–13.

36 SPR-FCC-14140298 at SPR-FCC-14140306, SPR-FCC-14140308, SPR-FCC-14140330.

37 Attachment A at 2.

- "Free cash flow negative every year, except when network investment is cut to unhealthy levels (e.g., 2011, 2016, 2017) – this is not a viable strategy going forward as a competitive network is imperative to a standalone strategy."

- "This has constricted our ability to sufficiently invest in network and/or acquire spectrum, resulting in an inferior product and poor customer experience."

The materials presented to Sprint's Board repeat what has been disclosed previously. Sprint is in a perilous condition, with limited ability to extricate itself through means (such as continued aggressive pricing) within its own control. And the fundamental problems that caused the Sprint Board to conclude that without a merger with T-Mobile the company would struggle to be competitively relevant—the poor network quality, customer losses, and challenge to generate free cash flow—have only become more pronounced in the year following the announcement of the deal.

IV. Sprint's Corporate Culture Encourages Ambitious Goals

In both public facing and internal materials, various Sprint executives have provided forward-looking projections reflecting ambitious goals for the Company's performance and prospects. Sprint has a management philosophy to encourage ambitious goals and target setting to drive its operations.[38] Sprint has often failed to meet its internal targets, leading its plan of record to regularly be pushed out and adjusted downward.[39]

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[38] SPR-FCC-04671954 at SPR-FCC-04671955.

[39] SPR-FCC-02223448.

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As seen in its 2018 results, Sprint has again significantly underperformed against its projections. While Sprint's postpaid handset gross adds increased slightly from **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in FY2016 to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in FY2017, postpaid handset gross adds declined to only **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in the first three quarters of FY 2018 (annualizing at **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**). As for churn, Sprint's postpaid handset churn increased from **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in FY2016 to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in FY2017, climbing further to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY**

CONFIDENTIAL] in 3Q 2018.[40] Notably, Sprint is annualizing for FY2018 **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** below its projected postpaid handset gross adds of **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in its plan of record. These are critical metrics, because they directly relate to the number of customers Sprint has and can expect to have going forward—which is critical to any assessment of Sprint's future competitive prospects. Current customer losses mean a loss of future revenue, so underperforming in subscriber gains and churn signal major financial losses going forward.

Sprint's failure to achieve its internal goals is reflected in contemporaneous business documents:

- "Another risk to add is our overall 2018 beginning subscriber count . . . [w]e are falling well behind MQ3, and I'm guessing that is true for b10.6 as well."[41]

- "Last year we faced a similar situation [with missing targets], and I had to call a meeting on a Saturday morning to alert everyone. Unfortunately, it looks like we're at it again: Preliminary MQ4 submissions point to a miss of the [transformation office] open target of **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**[42]

- "I think our stand-alone case will continue to deteriorate past a point that is our current view of worst case. That has been the trend for the past 5 quarters or so."[43]

- "[T]he door growth slides seem to indicate that one month into the new year we're already saying our forecast is going to be significantly off budget."[44]

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40 Attachment B at 23.

41 SPR-FCC-11586795 at SPR-FCC-11586798.

42 SPR-FCC-12519794 at SPR-FCC-12519795.

43 SPR-FCC-01163326.

44 SPR-FCC-02220906.

Following the failure to reach a deal with T-Mobile in 2017, then CEO and current Executive Chairman of the Sprint Board of Directors, Marcelo Claure, challenged his leadership team to re-examine Sprint's business and difficulties as a standalone firm and to be "brutally honest" in their assessments and discussions with each other.[45] When Mr. Claure presented his assessment of the Sprint business to his leadership team in late November 2017, he painted a sobering picture about the status of Sprint's network, cost transformation efforts, customer growth, profitability, internal culture, and customer experience.[46]

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45 SPR-FCC-03954963 at SPR-FCC-03954965.

46 *Id*. at SPR-FCC-03954966–67.

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Other Sprint documents reflect that there was recognition by some executives that Sprint's challenges were difficult and growing. As one said, "I'm not sure I can [say 'we are really good and going to take it to great.'] I don't agree we are really good. We are actually bad."[47] Others felt that some at the Company were "in denial" about some of Sprint's challenges: "Could we please ALL stop living in denial and pretend that Sprint does not have a $36bn dollar [debt] problem?"[48]

V. Ordinary Course Documents Focusing on Key Fundamentals Reflect Sprint's Problems

Over the course of the Commission's review of the proposed transaction, Sprint has submitted over fourteen million pages of documents for the record. As with the isolated excerpts selected by others from Sprint's public statements discussed above, Sprint appreciates that selected ordinary course documents from this massive depository (or parts of those documents) may reflect optimism about Sprint's standalone prospects.

However, seen in their entirety the ordinary course documents reflect a fuller and more accurate view of Sprint's problems. For example, while Marcelo Claure's January 31, 2018 "State of the Business" presentation to the Sprint Board of Directors stated that, "[t]he **first 3 years** of Sprint's turnaround have been **record setting** …," "Sprint has turned around its brand, taking it from the **lowest brand perception** to **most improved brand**," and "we've grown our business while delivering **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL] in cost reduction** . . .which has delivered **record financial results**," that

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47 SPR-FCC-11684427.

48 SPR-FCC-11609665.

same presentation highlighted Sprint's ongoing challenges: "But while we did great in some areas, we **didn't do well in others**."[49] That same presentation goes on to say that, "[Sprint's] innovative **network plan failed** . . . [a]nd we've **underinvested** in our business," "[o]ur network performance **lags competitors** . . . and to make matters worse the **market has been commoditized**; All carriers offer Unlimited."[50] It continues, "[a]s a result, we now have the **highest churn in 3 years**," and "Sprint is **losing momentum**, while competitors are gaining."[51] Mr. Claure concludes by saying. "[t]he **next 2 years** in the life of Sprint are going to be **very complex**," as "[o]ur failure to invest in our network has **negatively impacted customer satisfaction**…and the gap is widening."[52]

Taken as a whole, while Sprint's documents may identify some successes, the overall picture is one of a company with fundamental problems. Indeed, the ordinary course documents focusing on the most important aspects of Sprint's business reflect the fundamental problems that it faces as a standalone company: Sprint's overall network performance, its declining customer base, and key metrics all highlight Sprint's difficulties.

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49 SPR-FCC-12602887 at SPR-FCC-12602890–96 (emphasis in original).

50 *Id.* at SPR-FCC-12602897–900 (emphasis in original).

51 *Id.* at SPR-FCC-12602901–902 (emphasis in original).

52 *Id.* at SPR-FCC-12602903–904 (emphasis in original).

A. Network

Past technology decisions[53] and years of underinvestment[54] in its product—its network—have put Sprint at a substantial disadvantage relative to its competitors. But more importantly, Sprint has an **unfixable** lack of sufficient low-band spectrum. Sprint's spectrum problem is unfixable because there is no low-band spectrum available for purchase, and none is expected to be available in the near term that could help Sprint as it builds out a 5G network.[55]

Because 2.5 GHz spectrum propagates much less than low band spectrum, it is economically infeasible to use it to build out a truly nationwide network. A nationwide network would require far too many cell sites and massive amounts of CapEx and OpEx. This structural obstacle results in a limited geographic footprint, with inconsistent coverage and poor in-building penetration.

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53 For example, the Sprint Nextel transaction (2005) resulted in Sprint running two networks (CDMA and iDEN) for years in parallel at substantial cost and integration challenges and eventually led to a write off of nearly $30B in 2008. The Sprint/Clearwire investment in 4G WiMax technology (2008), before LTE became leading 4G standard, required Sprint to replace WiMax equipment with LTE. The Sprint Monopole network build plan (2015) resulted in a **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**, and a substantial delay in the Company's network deployment plan before it returned to a macro tower-centric build. SPR-FCC-11534214 at SPR-FCC-11534228.

54 Sprint has historically invested far less in network CapEx than larger carriers, exacerbating its disadvantages. "The lack of network Investment is killing us and it takes 18 months to recover." SPR-FCC-04195255. "We underinvested on our network, while competitors keep or increased investments." SPR-FCC-10782432 at SPR-FCC-10782433.

55 Sprint chose not to participate in the 600 MHz auction in 2016 partly due to lack of financial resources and the need to spend cash on more immediate network needs, and partly because at the time it expected to successfully densify its network using monopoles, which would have reduced the need for low band spectrum.

As a result, Sprint's LTE network footprint today covers a much smaller geographic area and significantly fewer POPs than other national carriers,[56] and Sprint customers have inconsistent network experiences both inside and outside of Sprint's network footprint.[57] These issues have led to customer dissatisfaction, persistently negative customer perception, and industry-high churn. Another problem Sprint faces with respect to customer experience of its network is that because it relies on CDMA for voice, most of its users cannot use voice and data simultaneously (and will not be able to do so until migration to VOLTE). The move to 5G will only exacerbate Sprint's network consistency problems because Sprint will not have any low band spectrum deployed for 5G. As a result, the change in customer experience as customers drop off its 5G network down to LTE will be even more pronounced, and more frustrating, for Sprint's customers.

Sprint's documents show that its network ranks last and lags behind other industry participants by a large margin in several key industry metrics. For example, Sprint's Net Promoter Score ("NPS")—a leading indicator of customer satisfaction used in the industry—is routinely the lowest across all providers across key metrics.[58] As a senior executive noted, "we

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[56] Sprint's current LTE network covers far fewer square miles and POPs (1.1 million square miles and 307 POPs million) than AT&T (2.2 million square miles and 326 million POPs) or Verizon (2.6 million square miles and 325 million POPs).

[57] Outside of Sprint's geographic footprint, customers roam and have inferior data experience. In-footprint, Sprint's network suffers from inconsistent coverage, and poor in-building penetration, resulting in poor customer experience and in-footprint roaming.

[58] The industry metric Net Promoter Score shows Sprint score is significantly lower than its competitors as of July 2018. Sprint's NPS score hovered at **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**, compared to AT&T **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**, Verizon **[BEGIN**

have the lowest NPS in the industry and a network that lags our competitors."[59] Sprint management also updated the Sprint Board on this topic in January 2019, noting that, "Net promoter [score] gaps continue in all areas for Sprint."[60]

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While Sprint continues to work towards improving its network, its gains have been primarily limited to marketed speeds in areas where its 2.5 GHz spectrum has been deployed.

HIGHLY CONFIDENTIAL] [redacted] **[END HIGHLY CONFIDENTIAL]** and T-Mobile **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**. SPR-FCC-11874043 at SPR-FCC-11874046.

59 SPR-FCC-11103310.

60 SPR-FCC-14140298 at SPR-FCC-14140308.

61 SPR-FCC-00838645 at SPR-FCC-00838650.

However, Sprint's network perception and experience continue to decline because Sprint has not been able to fix the fundamental flaws in its network, coverage, and consistency that continue to frustrate and dissatisfy customers. "Despite more awards (RootMetrics, Neilson, etc.), our network is not great. We lost 2 years on a failed monopole program and delayed mini macro program while our competitors have advanced. ½ of our towers haven't been upgraded. We have the worst network quality scores in the industry."[62]

Importantly, even where Sprint has improved its network compared to its own previous performance, it has not improved relative to other wireless carriers. Customer demands for network performance are increasing, and Sprint continues to fall behind the other major carriers. Sprint's Chief Technology Officer, John Saw, explained to current CEO, Michel Combes, how the perception of Sprint's network continues to decline despite network improvements as Sprint slipped from the #1 carrier in Denver, CO to #4: "even if our scores & performance have improved from previous test results, our competitors have not been sitting still and they have improved even more themselves."[63]

In fact, even though Sprint's network has nominally improved year-over-year, Sprint Customer Quality Satisfaction ratings have fallen every single year since 2015, as competitors continue to outspend and out-build Sprint on network development and customer demands and expectations of their mobile network continue to rise.

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[62] SPR-FCC-03954963 at SPR-FCC-03954966.

[63] SPR-FCC-03823232.

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Notwithstanding Sprint's aggressive pricing and promotions, Sprint's Price/Value proposition scores poorly in customer surveys because product quality is critical to making a competitive wireless offering. As noted in a Sprint "State of the Business" presentation, even a "[b]est price strategy cannot overcome worst network perception."[64]

64 SPR-FCC-04407636 at SPR-FCC-04407644.

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Due to the factors outlined above, dissatisfaction with the Sprint network has led to industry-high postpaid handset churn among the major carriers; Sprint is losing subscribers at a much greater rate than competitors; and the gap is steadily widening.

B. Customer Losses and Scale

Customers are the lifeblood of any company and serve as a bellwether for future prospects. Sprint's documents are replete with illustrations of its difficulties attracting and retaining customers. In an industry with high fixed costs and where scale is critical, Sprint's mounting customer losses are devastating and a harbinger of future challenges that are even

65 SPR-FCC-14140298 at SPR-FCC-14140306, SPR-FCC-14140308, SPR-FCC-14140330.

greater than what Sprint is experiencing today.[66] Simply put, if Sprint cannot attract and retain paying customers, its future competitive prospects are bleak.

Sprint's churn rates remain highest among the major carriers—nearly 2x that of Verizon, AT&T and T-Mobile, and unlike its competitors, Sprint's churn is increasing.[67]

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Sprint's churn is driven by a number of reinforcing factors that will continue to drive churn rates higher in the future. The primary reason for Sprint's extreme (and increasing) churn

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66 SPR-FCC-11238737 at SPR-FCC-11238814 ("Sprint continues to lag competitors due to a lack of scale").

67 Attachment B at 23; *see also* SPR-FCC-11238737 at SPR-FCC-11238779 ("All competitors but Sprint saw rolling mobile phone churn improvements"); and SPR-FCC-11830961 at SPR-FCC-11830964 ("Postpaid phone churn of 1.55% increased y/y for 7th consecutive quarter and remains well above competitors.").

rates is its poor network quality.[68] As described above, many of Sprint's network issues stem from unfixable structural issues, and the gap in network quality and customer perception between Sprint and its competitors continues to grow. Second, due to years of unsustainable promotions, including significant amounts of "free" lines where customers pay nothing for their Sprint service for a time and are later "stepped up" to full rates, Sprint has attracted a profile of customers that are significantly more likely to churn than other customers. In FY2019 alone, Sprint has planned for **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** rate plan step ups and **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] [**END HIGHLY CONFIDENTIAL]** device step ups as promotional rates on both plans and devices expire. Contemporaneous business documents reflect that Sprint anticipates significant upcoming pressure on churn rates—what it internally refers to as a self-inflicted "*churn bomb*"—as customers are stepped up from promotional service plan and device pricing in the coming year.[69]

Sprint has also been challenged in its ability to add new customers, as its Share of Gross Adds, or "SOGA," hit historically low levels in 2018, due to the same network quality issues, as

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[68] SPR-FCC-10818415 at SPR-FCC-10818422 ("[n]etwork is the primary reason for churn"); and SPR-FCC-01942200 at SPR-FCC-01942202 ("48% of our customers leave us because of network").

[69] SPR-FCC-03954963 at SPR-FCC-03955039 ("Churn 'bomb' coming. . . [W]e have WAY under-forecasted step-up impact. Need a complete rethink on brand and offer strategy/structure.").

well as a significant disadvantage in retail distribution relative to its competitors.[70] Sprint's current postpaid phone SOGA has dropped to nearly **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] [**END HIGHLY CONFIDENTIAL]**, and continues to trend far below Verizon and AT&T, as others—including Cable Companies—continue to see growth in SOGA:[71] Sprint anticipates even further pressure on gross adds going forward, with its postpaid phone SOGA expected to fall even further off its historical lows.[72]

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70 SPR-FCC-14140558 at SPR-FCC-14140563 ("Sprint postpaid phone SoGA down **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** y/y and hit its lowest level in 3 years.").

71 Attachment B at 22.

72 SPR-FCC-14140001 at SPR-FCC-14140015 ("Sprint postpaid phone SOGA expected to be down **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** y/y.").

With increasing churn and declining SOGA, Sprint has started to see handset net *losses*, and is losing postpaid handset subscribers. Sprint's Competitive Results Summary dated February 2019 shows that Sprint turned net add negative in 2018.[73] Not only did Sprint remain behind Verizon and AT&T throughout the course of the year, it also dropped below both TracFone, and the cable companies by year-end.[74] Sprint's FY2018 postpaid handset net losses are expected to be **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**.[75]

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73 Attachment B at 20.

74 *Id.*

75 Sprint Branded Postpaid Handset Net Adds (without adoption of Topic 606). Excludes BoostUp! Subscribers.

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C. Cash Flow/Financials

While Sprint, as noted above, has highlighted improvements in certain financial metrics, its overall commercial health is poor and declining. Sprint is highly leveraged and is not generating sufficient cash flow to service and support its debt at the same time as investing adequately in its business. Declining service revenues, flattening EBITDA (less handset depreciation), negative free cash flow, and the burden of debt service are all major challenges. The recent improvements in some financial metrics simply cannot, and do not, overcome these fundamental challenges: "We're seeing good Adj. EBITDA and Net Income growth, but [i]mproved profits largely driven by volume misses and accounting benefits of leasing versus improvements in business fundamentals. Despite significant investments in distribution, productivity is declining. Customer profitability is declining."[76]

Sprint's results demonstrate that it is far underperforming against its plan of record in key metrics.[77] And Sprint's operations will soon shift even more unfavorably with its failure to grow subscribers and revenue. Sprint's plan of record assumes Sprint will grow by significantly increasing its subscriber base, but 2018 results demonstrate that Sprint has dramatically underperformed its projections for subscriber growth, which are critical to achieving its long-term financial forecasts. Over the mid- to long-term Sprint cannot achieve the revenue, EBITDA, and free cash flow forecasted in its plan of record with its subscriber misses, foreshadowing even greater problems in the future. Put another way, Sprint is "slipping, not gaining ground and each month will get more challenging to hit."[78]

Sprint does not generate sufficient cash to fund its network and operations, and free cash flow has been overwhelmingly negative. When Sprint has invested in its network, its free cash flow has been negative. Indeed, free cash flow has *only* been positive when Sprint has cut network spending to a fraction of what its competitors invest in their networks. For FY2018, Sprint has already generated a negative cash flow of **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** billion in the first three quarters of FY2018.

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76 SPR-FCC-03954963 at SPR-FCC-03954967.

77 SPR-FCC-14140298 at SPR-FCC-14140330 (showing service revenue, adjusted EBITDA less handset depreciation, operating income and net income are all down year over year and below budget).

78 SPR-FCC-04284314.

Because it does not generate sufficient cash, Sprint has relied substantially on debt. As a result, Sprint's net debt burden has more than doubled from less than $15 billion in 2011 to a projected **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in 2018, while its Net Debt-to-EBITDA Ratio has grown to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** (well above the standard investment grade threshold).

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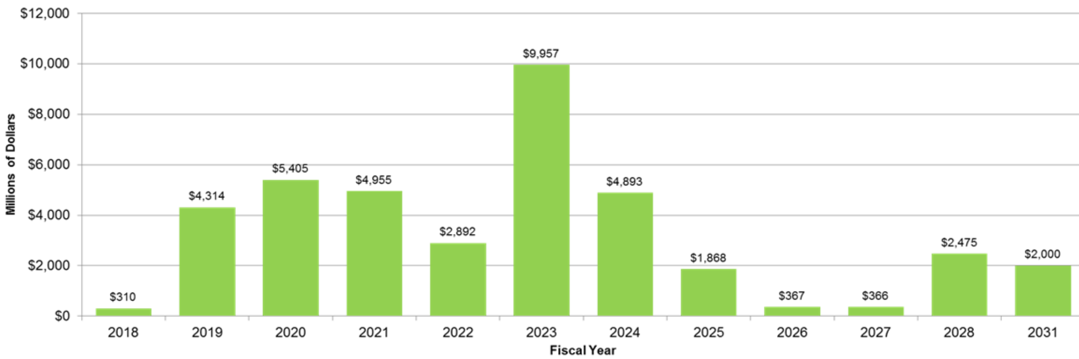
As a result, Sprint spends billions each year servicing its debt. Sprint had $2.4 billion in Interest Expense in FY2017 and has paid over $2 billion in Interest Expense for each of the last five years. Now, Sprint faces an impending "liquidity wall" as debt maturities for FY2019–2021 were $14.7 billion as of year-end 2018—an amount nearly as great as what Sprint plans to spend in capex in the same time period under its plan of record, and even greater than the liquidity available to fund its short-term operations. Impending debt maturities will require either cutbacks in the investments needed to compete effectively, significant additional financing, or a combination of both.[79]

Debt Maturities as of December 31, 2018[80]



Adding to its $40 billion total debt burden will only worsen, not improve, Sprint's fundamental challenges, as additional debt means increasing its already significant interest expense payments, and financing operations and network build through debt means Sprint must plan for debt servicing, maturities, and refinancing risk. Additionally, Sprint's ability to access additional debt financing could be limited. At a basic level, lenders will not provide financing unless business fundamentals support repayment from future cash flows. Further, Sprint's high Net Debt-to-EBITDA and low Interest Coverage ratios will sharply limit Sprint's borrowing capacity.

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79 SPR-FCC-11609665 at SPR-FCC-11609666 ("There is no-way we can solve and reduce $36bn of debt, by spending our way out of it. We all need to get real, and put the company FIRST.").

80 Investor Relations, *Fixed Income, Debt Maturities as of December 31, 2018*, SPRINT CORP., https://investors.sprint.com/financials/default.aspx.

The risks and negative effects of additional borrowing also apply to any spectrum-backed financing. About six billion dollars of Sprint's current $40 billion of debt is backed by spectrum. Fourteen percent of Sprint's total spectrum holdings, an amount then valued at **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**, is subject to a requirement of a forced sale in the event of default. Because Sprint's remaining spectrum is less valuable, Sprint would have to devote even more additional collateral to its existing program before expanding its spectrum-backed borrowing. Moreover, the availability of any spectrum-backed financing is heavily dependent on market demand—there is no guarantee that Sprint can continually refinance its looming debt maturities at sustainable rates.

Sprint's balance sheet is part of the "vicious cycle" it has been caught in for the past several years. Sprint's network shortcomings result in degraded customer experiences and perception, which in turn lead to customer churn. Churn, in turn, leads to fewer subscribers, decreased revenues, and negative cash flows. Due to revenue and cash shortages, Sprint has cut costs, which has further resulted in an inability to improve network quality issues, re-starting this vicious cycle:

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If anything, recent results have shown the vicious cycle getting worse, not better. For example, Sprint's postpaid handset churn has increased from **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in FY2017 to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in 3Q FY2018.[81] Its service revenue has declined from **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** in FY2017 to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** annualized in FY2018 and its reported free cash flow has dropped from **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END**

[81] Attachment B at 23.

HIGHLY CONFIDENTIAL] in FY2017 to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** through the first three quarters of FY2018.

In short, Sprint's standalone competitive future is in peril. It does not have the network assets required to improve its coverage and consistency problems, and the move to 5G will only make these deficiencies more apparent. As a result, Sprint is losing customers and scale, which further reduces Sprint's ability to generate the revenues required to invest in its business. And these problems are only getting worse. Sprint is performing so far below its plan of record in terms of subscribers that its potential future revenues will be even lower—precisely at a time when Sprint is required to invest massively in its network. Sprint cannot fund the necessary investments and service its debt to maintain its current competitive status, much less improve its position from its distant fourth rank. As a result, going forward Sprint's competitive relevance as a standalone company is highly uncertain.

VI. Sprint Standalone Future

Absent completing its transaction with T-Mobile, Sprint will have limited options, and is likely to be forced down either a repositioning path and/or a restructuring path. Repositioning would require additional cost cutting, which at a minimum would mean additional reductions to an already thin workforce, and even further scaling back of Sprint's operations and ability to be a meaningful competitive constraint. Restructuring would result in a Company that looks very different from Sprint today and carries with it the risk that Sprint would be forced into the sale of spectrum used to collateralize a portion of its current $40 billion of debt—spectrum that would need to operate its mobile network. Either of these paths will only serve to strengthen Verizon and AT&T and further entrench their dominant positions.

If you have any questions regarding this submission, please contact the undersigned.

Respectfully submitted,

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Attachments

ATTACHMENT A

[REDACTED IN FULL]

ATTACHMENT B

[REDACTED IN FULL]