

Written Testimony of Marcelo Claure, Executive Chairman, Sprint Corporation

**Before the Senate Committee on the Judiciary
Subcommittee on Antitrust, Competition Policy and Consumer Rights
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Chairman Lee, Ranking Member Klobuchar, Members of the Subcommittee, thank you for the opportunity to appear today to share my perspective on why this merger will be good for American consumers, good for Sprint employees, and good for U.S. technological leadership and the next generation of entrepreneurs.

This is a critical time in the evolution of the wireless industry, and it is a particularly critical time for the customers, employees, and shareholders of Sprint. I have spent my career driving innovation and competition in the wireless industry. I served as Sprint's CEO from August 2014 until May 31, 2018, when I transitioned to my current role as Sprint's Executive Chairman. I am also the Chairman of CTIA – The Wireless Association, a trade association representing the U.S. wireless communications industry, and I am expected to serve on the Board of the New T-Mobile following the completion of the merger.

I know John Legere will be elaborating on his vision for the new company and all that he hopes to achieve. For my part, I would like to focus on why joining with T-Mobile now represents the best opportunity for Sprint to continue to be a force for competitiveness and innovation in the industry. I also want to explain the considerations that led us to this merger.

It is no secret that in recent years, Sprint has had to chart a course through daunting obstacles. Over the last decade, the company had lost over \$25 billion. For all the talent and work of our employees, our path was simply not sustainable.

I am proud of what Sprint has done to stabilize itself and to put us in position to seize the important opportunity that we have today to address some of those longstanding challenges.

Currently, Sprint is in the fourth year of its “Sprint Now” five-year plan to turn around the company. We made difficult but necessary changes that have enabled us to cut billions of dollars in costs, improve our networks, and do better at attracting and retaining subscribers. In 2017, Sprint became net income positive for the first time in 11 years, and we achieved positive metrics across several other financial performance measures. Today, we are a more stable company financially than we have been in a very long time, and that financial stability has enabled us to embark on new, much-needed investments in our network aimed at trying to catch up with technological innovation in our industry. We have also been able to undertake initiatives such as the 1Million Project, which gives mobile devices and free high-speed internet access to high school students who don’t have reliable connectivity at home.

Sprint’s employees rightly take pride in all that we have accomplished together and are optimistic about the future. But as CEO and now Executive Chairman, I am acutely aware of what it has taken to get us to this point and the challenges that lie ahead. Sprint’s employee headcount has fallen from 40,000 in 2011 to 30,000 in 2017, a 25 percent decrease that was a painful but necessary step to stabilize our financial position. We are still the most highly leveraged company in the S&P 500, with approximately \$32 billion in net debt. And we have offered aggressive subscription promotions in an attempt to gain scale, creating challenges for our ability to make additional investments.

Even with all of this effort, we still are unable to spend at parity with Verizon and AT&T, much less catch up to their previous investments. As a result, we continue to face difficult questions about how best to attract additional customers, improve our network, and find ways to challenge the two dominant players in the wireless market, AT&T and Verizon.

There is an urgent need for us to answer these questions because the wireless industry today is at an inflection point. It is poised to deploy the next leap forward in wireless technology—the fifth generation of wireless service—called 5G. Sprint may lead the market with a truly mobile 5G offering, which is a significant achievement. But our plan anticipates a limited 5G build over time that will lack broad coverage. Given the characteristics of our mix of spectrum and the size of the capital expenditures involved, Sprint will be able to deliver 5G only in limited areas, focusing on population-dense metropolitan areas. Consequently, Sprint as a standalone company cannot fully seize the tremendous opportunity that 5G creates much less match what a merged Sprint and T-Mobile could do together as a competitor and innovator.

It is important to understand that our plans for 5G in the absence of a merger would necessarily be limited by our spectrum portfolio, lack of scale, and resource constraints. In particular, our limited low-band spectrum cannot provide a basis for launching a ubiquitous coverage layer for 5G, and building ubiquitous nationwide 5G coverage using only Sprint's 2.5 GHz spectrum would be impractical and economically infeasible. To be sure, Sprint's 2.5 GHz spectrum will deliver very high speeds and support substantial capacity, but due to the propagation characteristics of 2.5 GHz, it would not provide a blanket of coverage outside of major metropolitan and suburban areas. Moreover, rolling out this more limited 5G network would require Sprint to invest \$20-\$25 billion in the next four years.

Given these difficulties, I believe Sprint can contribute most effectively to the rollout of the next generation of wireless services—with all of the consumer and economic benefits that entails—by combining our assets and know-how with T-Mobile. That is what makes me so excited about this merger. Through this transaction, the combined company will be able to build a transformative 5G network in America and unlock the promise of 5G faster and for more customers

than either company could on a standalone basis. America and the world are racing to be the first to create the next generation of wireless technology, and the advantages of being a first mover cannot be overstated. For this reason, as you will hear today, this merger will allow the combined company to dramatically accelerate the promise of nationwide 5G in the United States, deliver better performance and value to our customers, and create new jobs and opportunities for American workers.

I. What the Transaction Means for the Race to 5G

U.S. companies are in a race for 5G leadership, and the stakes could not be higher. A robust and ubiquitous 5G network will provide customers with incredibly fast speeds and massive capacity, and will create an ecosystem where the best creative minds can develop applications and uses to benefit consumers. A recent independent analysis by Accenture concludes that the United States is positioned to invest \$275 billion in 5G, creating three million jobs and adding \$500 billion to our economy. This merger will accelerate that investment.

This is not just about faster wireless service for our subscribers—it is about ensuring that the United States leads in the next generation of innovation, which will rely on the massive capacity that 5G can unleash. The possible use cases for 5G include wearables, smart buildings, smart cities, smart agriculture, and safer self-driving cars. 5G will also include applications we can only imagine. The impact of the 4G/LTE deployment helps illustrate how critical it is for the United States to win the race to 5G. That generation of technology ushered in companies such as Uber and Airbnb. Indeed, it helped create the entire “on-demand” economy—new businesses and types of jobs that simply didn’t exist before 4G. America led the world in the deployment of 4G. And, as a result, the United States got the benefit of the jobs and increased economic productivity that it facilitated. Much of the technological innovation enabled by 4G, and many of the companies built using that innovation, were U.S. companies—creating new U.S. jobs. An analysis by Recon

Analytics concluded that, by leading when the market evolved to 4G a number of years ago, the United States boosted annual GDP in 2016 by nearly \$100 billion and resulted in a stunning 84% increase in wireless-related jobs in just a three-year period (2011-2014).

Winning the race to 5G will require massive new investment and the right combination of spectrum. As John will describe in greater detail, the New T-Mobile has committed to spend nearly \$40 billion—far beyond what Sprint has been able to spend in recent years or what it could spend alone—to achieve this world-class network and to increase its retail footprint to market this new technology, creating thousands of U.S. jobs directly and indirectly.

It is important to understand that the promise of 5G lies not just in better and faster performance from mobile devices. The New T-Mobile will have the speed and capacity to substitute in many areas for in-home broadband, including areas that currently have few or no options for reliable in-home broadband, finally creating real competition in these areas. As a result, the new technology will enable the combined company to increase broadband coverage into more rural areas, along with improved signal quality and increased network capacity in places where neither company can profitably do so on its own. In short, the New T-Mobile will generate significantly improved and expanded services to unserved and underserved rural areas and create real choice for consumers.

The blazing speed and enhanced capacity of the New T-Mobile's 5G network will enable it to offer consumers and businesses more choices and cost savings. This improved performance is especially important to our prepaid consumers and those on a tight budget for whom their mobile wireless connection is increasingly their best and, in some cases, their only reliable connection to the internet. The New T-Mobile's 5G network will also serve as a platform for new video options, including, but not limited to, video programming offered by the New T-Mobile itself.

II. What the Transaction Means for Competition

For years, Sprint has recognized the challenges posed by the fact that it competed in an industry dominated by two main players: Verizon and AT&T. Seven years ago, my predecessor Dan Hesse sat before this Subcommittee and explained why a proposed merger between AT&T and T-Mobile would have made our industry less competitive and would have been devastating to Sprint. At that time, AT&T and Verizon together had two-thirds of the market, and the proposed merger would have taken a key disrupter off the field, leaving the market dominated by two behemoths. That merger did not go forward, because the government recognized that it was not in the public interest to let one of the two biggest providers get even bigger.

But despite the substantial competitive efforts of Sprint and T-Mobile over the past seven years, AT&T and Verizon's grip on the market is just as strong today. They *still* together hold two-thirds of the market. And they have increasingly found ways to use their scale to cement their advantages rather than to compete vigorously with others in the marketplace. A huge and increasingly insurmountable gap remains between Sprint and both AT&T and Verizon.

The merger today is critical to disrupting the marketplace and weakening the iron grip these giants have had on our industry. Even after the merger, the New T-Mobile will still be third in market share and will still be dwarfed by AT&T and Verizon in market capitalization. But it will be a much stronger competitor and a true threat to the two giants' longstanding dominance. As part of the deal negotiations, executives from Sprint and T-Mobile extensively discussed the future of the combined company, and it became clear we share a common vision.

For both Sprint and T-Mobile, this transaction is about the opportunity to create a better product for consumers than either company could achieve independently, continuing to offer innovative services and consumer value, and ultimately becoming the best wireless carrier in the United States. By joining forces, our two companies will have an opportunity to go head-to-head

with the giants and to make the marketplace more competitive and innovative. In turn, this should spur AT&T and Verizon to accelerate and become more ambitious in their own 5G plans.

The network that the New T-Mobile will be able to offer would transform the industry. Combining the complementary assets of both companies will enable a network that will offer unmatched coverage, capacity, and quality—both for current LTE customers and for the future 5G network that the New T-Mobile will be able to deploy. The combined network will surpass the quality of the networks offered by Verizon and AT&T, giving consumers more and better options than they have today.

The transaction provides tremendous synergies, estimated at about \$43 billion, and also provides much-needed economies of scale. The synergies and scale will allow the New T-Mobile to make the investments necessary to achieve its vision. Building and maintaining a national wireless network requires billions of dollars in capital expenses and operating expenses each year. Currently, T-Mobile and Sprint each have roughly half the number of subscribers as Verizon and AT&T. That means those fixed costs are spread over a much smaller base of customers, making it difficult to invest as much as Verizon and AT&T. In 2017, Verizon and AT&T each invested about four times more in their networks than Sprint. The synergies and scale of the combined company will create economic incentives for the New T-Mobile to build a world-class network, and to expand the geographic reach of its network to more Americans.

In addition, the combined company will be focused on continuing the disruptive “Un-carrier” actions that have become synonymous with the T-Mobile brand. Led by John and T-Mobile’s Mike Sievert, and drawing on the best that both T-Mobile and Sprint have to offer, the management team will be second-to-none. John and Mike have a vision for the New T-Mobile as a disruptive player in the industry and a force for innovation. This will be exciting for all the New

T-Mobile employees. And as a prospective member of the Board of Directors of the New T-Mobile, I am eager to be part of the combined company and help realize that vision.

Finally, it is important to appreciate that in addition to AT&T and Verizon, the wireless industry is increasingly seeing competition from a growing number of companies from other sectors with different business models, including Comcast, Charter, DISH, TracFone, and Google. These large, well-capitalized competitors are pushing into wireless because, just as we do, they see untapped potential for success if they are able to deliver better results to customers.

III. What the Transaction Means for Americans

Simply put, this transaction will bring benefits all across the country—in urban, suburban and rural America. The combined company will deliver a far superior network, delivering tremendous value to consumers. Together, the New T-Mobile can supercharge the wireless industry with innovation, disruption, and an obsessive dedication to our customers. These benefits will be felt in several areas:

4G LTE. In the near term, the combined company will offer better 4G LTE services. The combined network will be anchored on the existing T-Mobile 4G LTE network and augmented with contributions from Sprint's network to improve coverage, consistency, speed, and capacity. Approximately 20 million Sprint subscribers have compatible handsets that will allow them to access this combined network immediately after the merger closes, and the number of customers who can access this improved 4G LTE network will only increase over time.

5G. Together, as I have discussed, Sprint and T-Mobile will be the first to deliver a nationwide 5G network with unmatched breadth and depth. They will be able to do this faster than either could hope to achieve as standalone companies. In particular, Sprint and T-Mobile have complementary spectrum holdings that, when combined, will be perfect for 5G.

As independent entities, both companies would deploy 5G on their available spectrum, and, as a result of the spectrum they hold, each company's 5G network would have deficiencies. Sprint's planned 5G holdings are in mid-band spectrum, specifically the 2.5 GHz band. A rollout of truly nationwide coverage on this spectrum would require too many cellular radios to be economical or practical, and therefore Sprint's independent 5G network would have coverage gaps. T-Mobile's planned 5G spectrum holdings, on the other hand, are primarily in low band spectrum, specifically in the 600 MHz band. Signals sent over this spectrum travel far, making it ideal for extending geographic coverage. However, T-Mobile has a fixed amount of spectrum for 5G, so it will have very limited capacity, and the network will quickly get congested during those times when customers most want to use it.

By bringing these resources together, the merger will create conditions for both nationwide coverage and massive amounts of network capacity, allowing for a 5G user experience that is robust and ubiquitous. While others may advertise a 5G network sooner, perhaps with coverage and capacity deficiencies noted in the fine print, the New T-Mobile will be the first to truly deliver 5G. Being faster to develop a "true 5G" network will help ensure that America will lead the development of the 5G ecosystem, which will be a significant boon for the American economy. If America can lead in 5G the way that this country led in 4G, it will benefit not only American consumers, but also all of the American companies that will develop the products, applications, and tools that will bring 5G to consumers across the world.

Lower Prices. I believe that this transaction will increase, not reduce, competition. By building a network with a huge increase in capacity, New T-Mobile will have powerful incentives to fill that network by offering low prices to consumers. The vision that John and Mike have for the New T-Mobile is that of a "supercharged maverick," with the scale and resources to make a

significant impact on the wireless marketplace for the better. This means the combined company will continuously look for ways to offer more for less, so it can grow its subscriber base and improve value propositions for American consumers. Raising prices would alienate its customer base and leave the company with idle capacity.

Jobs. One of the things that excites me most about this merger is that it will enable us to add employees in the United States and to bring jobs that have moved offshore back home. I appreciate that executives' claims that mergers will create jobs are often met with skepticism. But here, this merger puts the combined company in a unique position to unlock the growth that will come with 5G. By joining forces, the combined company will be able to make the investments needed to create a network that neither company could create on its own. The New T-Mobile is committed to spending nearly \$40 billion over the next three years to build its 5G network, while also creating thousands of jobs across the country. And, as previously mentioned, leading the world in 5G will create opportunities for other U.S. companies to develop products and applications and to start and grow businesses that will employ thousands and thousands more people. On balance, this deal will create far more jobs than the status quo.

Impact on Rural Customers. A key benefit of the transaction, particularly for Sprint subscribers, will be the dramatic increase in rural 5G coverage due to the combined company's 600 MHz spectrum and the strong incentives to add customers created by the enormous capacity of the combined company's network. Because of the current geographic footprint of Sprint's network, our customers are too often forced to rely on roaming agreements for service coverage in rural areas where they cannot access our network, resulting in an inferior experience. But by adding Sprint's 2.5 GHz spectrum to T-Mobile's current spectrum portfolio, New T-Mobile will

be able to reach more rural customers and to provide rural customers with mobile and in-home broadband service at greater speeds and more consistent signal levels.

The more favorable economics are not limited to wireless telephony. The new combined 5G network will have the speeds and capacity to effectively compete with in-home broadband in many areas. Rural consumers typically have only one or at most two choices for in-home broadband today. The New T-Mobile would provide another option and inject competition for the benefit of these relatively underserved rural customers.

In short, I truly believe that the New T-Mobile will build the best wireless network this country has ever seen, far faster than what either Sprint or T-Mobile could do on its own. To fill that new network, the New T-Mobile will have strong incentives to offer a tremendous new product at a great price. By having the best-in-class network, the new company will be able to compete for customers who have been reluctant to use Sprint or T-Mobile because of concerns that the quality of their individual networks is not as good as those offered by Verizon or AT&T. The transaction will give these customers more and better options. AT&T and Verizon have long prided themselves, and promoted themselves, as having the best network quality. With the New T-Mobile offering an unrivaled network experience, Verizon and AT&T will be forced to compete harder and invest more—and sooner—than they would absent the competitive spur of this transaction. Their increased investment will lead to more competition, better service, and more jobs, all to the benefit of American consumers.

I thank the Subcommittee again for giving me the opportunity to share my perspective, and Sprint's perspective, on what will be a procompetitive merger that will benefit American consumers, American workers, and the American economy.