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OVERVIEW:

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PRESENTATION

Operator

Good afternoon. (Operator Instructions). Please note this event is being recorded. I would now like to turn the conference over to Jud Henry, Senior Vice President and Head of Investor Relations for T-Mobile US. Please go ahead, sir.

Jud Henry - *T-Mobile US, Inc. - SVP of IR*

All right. Welcome to T-Mobile's Fourth Quarter and Full Year 2023 Earnings Call. Joining me on the call today are Mike Sievert, our President and CEO; Peter Osvaldik, our CFO; and as well as other members of the senior leadership team.

During this call, we will make forward-looking statements, which involve risks and uncertainties that may cause actual results to differ materially from our forward-looking statements. We provide a comprehensive list of risk factors in our SEC filings, which I encourage you to review.

Our earnings release, investor fact book and other documents related to our results as well as reconciliations between GAAP and non-GAAP results discussed on this call can be found in the Quarterly Results section of the Investor Relations website. With that, let's get it over to Mike to tell us about our results.

G. Michael Sievert - *T-Mobile US, Inc. - President, CEO & Director*

Thanks, Jud. Welcome, everybody. As you can see if you're viewing online, I'm here with a good cross-section of our senior team once again. We're coming to you today from Bellevue, Washington and looking forward to a great discussion.

But first, I'd like to take a moment to reflect on a historic year for T-Mobile and the exciting momentum that we bring into 2024. '23 was another year for T-Mobile of industry-leading growth in both customers and key financials, including all-time record results across many metrics.

It was also a year where T-Mobile became established as the overall network leader built on our extensive advantages in 5G. And it was the year that we effectively completed the biggest, arguably the most successful, telecommunications merger integration in the world, delivering synergies bigger and faster than even our own ambitious goals and doing it while also accelerating 5G investment in this country, to the benefit of consumers and businesses.

Our remarkably consistent best value best network strategy delivered industry-leading postpaid phone net additions of 3.1 million in 2023. This was driven by our highest postpaid phone gross adds in company history, up 2% for the year and up 6% in Q4, and by our lowest postpaid phone churn in company history for the year.

Our net adds essentially matched our great results from '22 despite industry postpaid phone adds decreasing year-over-year. You know what that means? It means that our unique formula enabled us to take a higher share of postpaid phone net adds than a year ago. In fact, '23 was our highest share of postpaid phone net adds since the merger, showing the ongoing durability of our differentiated strategy.

And we finished the year on a high note, with Q4 postpaid phone net adds of 934,000, highest in the industry by a wide margin, and we did it with rising ARPA, up almost 2%, delivering industry-leading growth in postpaid service revenue and core EBITDA in Q4 while also nearly doubling our adjusted free cash flow.

Let's talk about broadband. We added over 2.1 million customers in '23, our biggest growth year yet, with more net new customers than the other largest providers combined as our product just continues to resonate in the market. And we finished strong with 541,000 nets in Q4, making us one of the largest ISPs in the nation, with 4.8 million customers and counting at year-end.

At T-Mobile, our network is the key enabler of our growth, not only for the success that we've had to date, but also for years to come. I predicted years ago that our well-established 5G leadership would eventually translate into overall network leadership, and that was proven loud and clear in 2023 by leading third-parties like Ookla and OpenSignal time and again, with T-Mobile sweeping every category of their test for overall network performance.

Listen, it boils down to this. T-Mobile has the broadest and the deepest and the most advanced 5G network in the U.S. today, and we have the assets and capabilities to further extend our network leadership in '24 and beyond. Okay. One final network point. We recently celebrated a pivotal moment in our groundbreaking alliance with SpaceX by kicking off testing of direct satellite to cellular communications. Our teams are really excited about what's coming.

Let me just remind you of one thing. Our network leadership still isn't yet fully recognized by millions of network seekers who are still potential future customers for T-Mobile. And yet that same network leadership is already driving our strong win share, particularly in underpenetrated areas like enterprise and government and also in smaller markets and rural areas in our consumer business. Let me just double-click on that growth momentum.

T-Mobile for Business delivered the highest postpaid phone net adds in company history in 2023, and we exited the year with great momentum, with Q4 being our highest quarterly net adds ever. Meanwhile, in our consumer group, we continued to grow our share of households, both in smaller markets and rural areas where we are well on our way to our 2025 targets, and even in the top 100 markets, where we grew our share year-over-year on the strength of our network and our compelling value proposition.

We're executing our balanced growth playbook with great and consistent success, and the best part is we still have a lot of room to run. All of this added up to delivering the highest consolidated service revenue growth in the industry in '23, and it was an industry that continues to grow service revenues and cash flows while simultaneously seeing customers win from healthy competition that delivers more value and better networks.

On that all-important postpaid service revenue metric, we delivered 6% growth in 2023, way above our next closest competitor. That growth led to core adjusted EBITDA growth of over 10% and free cash flow growth of nearly 80%. All of this enables our substantial stockholder return model, which has returned \$17 billion to stockholders so far through the end of '23, including our first-ever quarterly dividend in Q4.

Now Peter will share our guidance with you in a moment, but the short version is this. We see continued strong customer and revenue growth translating into rapid growth in cash flows in 2024 and beyond and supporting our ambitious plans for shareholder returns that we've already shared with you.

Before I wrap up, because this is a year-end report, I want to touch on some of the ways we're building a connected world where everyone can thrive. We believe reliable and affordable wireless and Internet service is a necessity for all in today's highly connected and digital world, and that's why we are so proud to have connected nearly 6 million students and provided \$6.4 billion in products and services so far under our flagship initiative Project 10Million and our other education initiatives.

We've also partnered with Welcome.US to provide service through Metro by T-Mobile to refugees entering the U.S. as part of a multiyear commitment of 200,000 lines. It is difficult to imagine restarting a new life in a new country without the connectivity that most of us take for granted. We are also working hard to create a more sustainable future, and we are proud to be the first U.S. wireless provider to commit to achieving net-zero emissions across our entire carbon footprint by 2040 using SBTi's net-zero standard.

All right. Let me just wrap up with why I am so excited about what's ahead. We are now entering a period of tremendous value creation at T-Mobile, driven by ongoing growth leadership and by having completed both a historic merger and a massive 5G network build that are foundational to unlocking the cash flow potential of this business. Our network is now a differentiated competitive advantage that complements our well-established value leadership.

This unique and powerful formula means that our significant growth and value creation opportunities only continue to scale, and they have lots of room to run. As we enter 2024 with momentum, I could not be more proud of this team and of our employees who remind us every day that it's better over here at T-Mobile. All right, Peter. Over to you to talk about our key financial highlights as well as our 2024 guidance.

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

All right. Well, thank you, Mike. As you can see, our 2023 results highlighted our strong execution in accelerating our merger integration while leveraging our network leadership and fame for value to deliver industry-leading growth in both traditional postpaid and broadband customers. Our land and expand strategy also led to industry-leading growth in postpaid account net adds as well as ARPA growth of 1.3%.

Before I jump into our guidance, I would also like to take a moment to note a couple of items impacting our Q4 earnings per share. In December of 2023, we issued 48.8 million shares to SoftBank as the 45-day VWAP of our stock price reached the threshold price under the letter agreement from 2020. This obviously increased our share count, which impacted our diluted EPS as it is treated as if those shares had been issued for the full quarter.

We expect that dilution to be more than offset by our ongoing share repurchases in 2024. We also accelerated depreciation on certain technology assets in Q4 and would anticipate a year-over-year increase in depreciation and amortization of approximately \$500 million to \$1 billion in full year 2024 as we continue to modernize our network and technology systems and platforms.

Mike already highlighted our best-in-class growth in both the top line and the bottom line and how our industry-leading conversion of service revenue to free cash flow continues to differentiate T-Mobile, so let me jump into how we expect that growth to continue in 2024.

Starting with customers, we expect total postpaid net customer additions to be between 5 million and 5.5 million, the same starting guidance as last year, reflecting continued focus on profitable growth as we execute our differentiated strategy even while expecting total industry net additions to moderate.

This assumes roughly half of postpaid net adds will be phones, and the guidance also assumes the final portion of deactivations of our lower ARPU postpaid other data devices in the education sector, with most of that impact already having been accelerated into the second half of 2023.

As we noted last quarter, we had always anticipated many of these connections, which supported educational institutions through the pandemic would roll off as the emergency connectivity program wound down and things returned to normal.

Turning to core adjusted EBITDA. We expect it to be between \$31.3 billion and \$31.9 billion, up nearly 9% year-over-year at the midpoint and above the midpoint of our Capital Markets Day guidance for 2024. This is 3x the growth rate of peers and a year-over-year dollar increase comparable to what we delivered in 2023 despite no material incremental merger synergy benefits in 2024.

Our sustained growth represents the power of our industry-leading service revenue growth, the operating leverage of our profitable growth model and the opportunity to continue to drive operating efficiencies in the business. We would expect slightly different shaping across the quarters now that we are past the integration.

For example, we would expect slightly less sequential improvement from Q4 2023 to Q1 of this year than we saw last year as we achieved full run rate synergies in Q4 2023 and no longer have that as an incremental sequential factor as we had in past Q4 to Q1 progressions. We would expect the operating leverage and efficiencies to drive EBITDA this year to build throughout the year, layered against the seasonal trends of the business.

We expect cash CapEx to be between \$8.6 billion and \$9.4 billion as we deliver a capital efficiency unmatched in the industry on the back of our network integration and 5G leadership. Our pull forward of CapEx into 2022 and 2023 has provided us with a broad multilayer 5G network on which we can now deploy additional spectrum for capacity across those existing radios without material incremental CapEx required. Our capital-efficient and data-informed customer-driven coverage approach guides us as we continue to enhance and further expand our network.

Our expectations for free cash flow, including payments for merger-related costs, is in the range of \$16.3 billion to \$16.9 billion. This is up approximately 22% over last year at the midpoint and 5x the expected growth rate of our next closest competitor, thanks to our margin expansion and capital efficiency, and does not assume any material net cash inflows from securitization, and this also represents a free cash flow to service revenue margin multiple percentage points higher than peers.

We expect Q1 free cash flow to be approximately 20% of that full year midpoint given several items that fall early in the year. First, we expect Q1 to be the peak CapEx quarter at probably 30% of the full year midpoint of the CapEx guidance I just shared with you. Second, we expect approximately half of the \$600 million to \$700 million of anticipated full year '24 cash merger-related costs to be in Q1.

Third, we have cash severance for workforce actions taken late last year. Fourth, the monthly payments to Cogent following the Wireline sale will taper after April. And finally, there are working capital seasonality elements coming off the higher holiday sales period. And finally, as we continue to execute our strategy of winning and expanding account relationships, we expect full year postpaid ARPA to be up approximately 2% in 2024, further acceleration of the growth we saw in 2023.

In closing, we expect '24 to be another year of profitable growth as we continue to extend our network leadership and further scale our differentiated growth opportunities. We expect this to continue to translate into industry-leading growth in service revenue, core adjusted EBITDA and free cash flow, delivering the highest free cash flow margin in the industry to unlock shareholder value.

I couldn't be more excited about the continued enormous value creation opportunity that we have in front of us for years to come. And with that, I will now turn the call back to Jud to begin the Q&A. Jud?

QUESTIONS AND ANSWERS

Jud Henry - *T-Mobile US, Inc. - SVP of IR*

All right. Let's get to your questions. (Operator Instructions) We'll start with a question on the phone. Operator, first question please.

Operator

The first question is from Simon Flannery with Morgan Stanley.

Simon William Flannery - *Morgan Stanley, Research Division - MD*

Great. I was wondering if you could give us a little bit more update on where you are on some of the smaller markets in terms of your market share gain and how that's factoring into your guide for this year, and the same sort of thing for enterprise and government. Where are we in that status?

And perhaps on fixed wireless, it was a strong result despite some seasonality. Where are you in terms of exploring additional capacity options on a cost-effective manner?

G. Michael Sievert - *T-Mobile US, Inc. - President, CEO & Director*

Okay. Let's start with smaller markets and rural areas. Jon, why don't you jump in?

Jon A. Freier - *T-Mobile US, Inc. - President of Consumer Group*

Yes, you bet. Simon, I'm just delighted with what's happening here in smaller markets and rural areas. I've been talking to all of you about this since our Analyst Day event back in March of 2021. And back in that time, we were at a 13% share of household position, and we set this incredibly ambitious goal to get to 20% by the end of the year 2025 across the entire segment, which, by the way, is 140 million people, 40% of the U.S., about 50 million households.

And I updated you last time when we, during our Q3 earnings report, about our share-taking progress in those markets and some of the really good results that we're seeing, and I'm pleased to tell you that we've now arrived at a share of household position in smaller markets of rural areas of about 17.5%. And so I'm really, really pleased by that.

And the last time I talked to you about this was about 9 months ago, and we were at 16.5%, so a full percentage point since that time. And when you look at what we're doing with the 5G network build that Ulf and his team have been doing, the distribution expansion and bringing this incredible marketing infrastructure out to smaller markets and rural areas, people are just loving what we're doing.

We're having a lot of fun doing it, and I got to tell you that it looks like we're really in a place where we can achieve that 20% goal by 2025 based on where we are, but I'm really more excited, and I think the more compelling opportunity is what we can do beyond the 20%. I don't have anything

to tell you about right here, right now about that, but I tell you, I'm getting really excited about what we can be doing beyond this 20% goal as you think about our continued velocity in these particular markets.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Absolutely. Great, Jon. And also on fixed wireless, the product is just really resonating. Maybe Mike, you can say what -- some of the things that we're doing to respond to this ongoing growth and the acceptance of the product in the marketplace.

Michael J. Katz - T-Mobile US, Inc. - President of Marketing, Strategy & Products

Yes. I mean one thing that is kind of just amazing when you look back at it, we've essentially been in the market with our fixed wireless product for 2 years, and in 2 years, we've gone from a launch product to what you saw at the end of Q4, which is nearly 5 million customers on fixed wireless, making us one of the largest ISPs in America, with a product that still leads versus every other industry in customer satisfaction.

So we're really proud of what's been built here, and continued momentum. We saw gross adds this year, the highest they've ever been. So we have a lot of demand for this product. And so one of the decisions you saw us recently take was reverting back to our standard pricing in our fixed wireless product. We've been -- so moving away from our promotional pricing that we've been on for the last 2 years to our standard pricing, which we put into market earlier this month.

And we think that still offers the best value inside the broadband business and the best experience as demonstrated by the NPS scores that I just talked about. So we think there's still room to grow in HSI. We still -- with a 5 million customer base, still runway in front of us to grow both in new customers but also in services. We think having a 5 million customer broadband base gives us the opportunity to bring more services into the home, which the team is actively exploring.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

And then finally, Simon and not to steal your thunder, Ulf, just to make the short version. We haven't drawn any new conclusions versus what we previously told you about possible models beyond this initial capital-light model that we have for high-speed Internet.

As you know, our forecast all along have said that model takes us to 7 million to 8 million subscribers. We're well on our way. We'll monitor that as we get closer, and we got a lot of time left. So stay tuned if we're able to provide you with an update on that in the future, but no update today.

Operator

The next question is from Craig Moffett with MoffettNathanson.

Craig Eder Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

You just talked about the pricing of FWA and the move to your standard pricing. I wonder if you could just talk about the outlook for pricing of your mobile service as well. How do you see ARPU playing out over the course of 2024? And there's been a lot of talk that we're in a market where prices are rising, generally. Should we sort of think about baking that into our expectations for the coming year?

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Thanks, Craig. A couple of things. First of all, you heard Peter guide a confident guide on 2% growth in ARPA on the year, and that's terrific to see. And obviously, there's this ongoing trend that customers who buy T-Mobile can't get enough of it, and they're moving up our rate card, and that's great to see.

So we're in a great spot. And before I say more about what opportunities we might see, I'll remind everybody listening that we're in an era of unprecedented value that consumers and businesses are realizing from this category generally. I've mentioned previously that typically today, across the category, not just at T-Mobile, customers are getting 3x more data than just 5 years ago, and at 4x greater speeds industry-wide than 5 years ago.

So there's tremendous value being given to customers in this category and if there are ways for us to find optimizations in terms of how we deliver that enormous value so that we can be more competitive and more efficient at how we operate, including looking in our rate card and looking at our rate plans and looking at our policies and procedures, we'll find those opportunities.

Q4, we took some of those opportunities. We found a more efficient way to handle auto pay discounts with our customers and fully put that through the base throughout Q4, and that's an important optimization. Right now, taking a lead from Netflix as they've changed their portfolio, we've made changes to the Netflix benefits that we give, which have been well accepted by customers.

So there's a theme here. We may find optimizations, but we will be guided by a couple of things. One, what customers accept and appreciate, because that's really important. And number two, we have no intentions of sacrificing our brand position as the value leader in terms of what you get for what you pay in this marketplace.

That's always been a differentiator for us, and we will defend that jealously. But I'd tell you, there's opportunities that could be there in an era of unprecedented value being seen by consumers and businesses. And if we can take those and meet those guidelines that I've laid out, we'll do so.

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Yes. And Craig, with respect to ARPU, I mean, as we've talked about multiple times, it's very much a mix-driven metric. And on the consumer side, we have seen continued growth in ARPU. Now that's offset with some of the success and tremendous value creation that we've had in enterprise and government. Those are obviously lower ARPU customers with high CLVs, larger ARPAs.

And so that's why the focus on, one, the customer value differential that we're bringing, and our ARPA playbook, we believe, is the right way to go. And you can see that demonstrated in what we delivered in 2023 and Q4. From a postpaid service revenue perspective, that's where you're kind of focused in with postpaid ARPU. And frankly, what we see from a service revenue opportunity in 2024 is even larger percentage growth than what we delivered in 2023.

So more than the 3.1% full year growth we'll see in '24 despite, of course, some slight ongoing headwinds in wholesale with the offset of TracFone and other carriers. So we couldn't be more excited about, this is the right playbook that delivers the most value creation in the industry.

Operator

The next question comes from Jonathan Chaplin from New Street.

Jonathan Chaplin - *New Street Research LLP - US Team Head of Communications Services*

Actually, just a few sort of housekeeping questions, actually. I'm wondering if you can give us what the number of ACP subs in your base is and whether you're sort of anticipating using some of those if the benefit goes away and how that sort of factors into guidance. And then ditto on bonus depreciation. If bonus depreciation gets extended, how would that impact your free cash flow guidance?

G. Michael Sievert - *T-Mobile US, Inc. - President, CEO & Director*

I'll start on ACP, and then hand it to Peter to finish on ACP and take the bonus depreciation question. When it comes to the number of subscribers in our reported base, it's substantially none. There's a very, very small amount of Metro customers, and that's it.

So it's constrained to our Assurance Wireless business, which is not reported as subscribers and to our wholesale business. And as it relates to ACP and what's happening to it, obviously, that's in motion. You may have noticed that our EBITDA guide was a tiny bit wider this year. I would tell you that all the outcomes that we see for ACP are fully embedded in the guide that we gave you on EBITDA.

And look, our risk profile around ACP is a little different than, say, a broadband company. They went very big into it, committed lots of customers and numbers to it, and also, I think one -- subscribers that may or may not stick around. Mobile is different. Mobile is a product that customers will keep, and if they lose that discount, our job, and I think our team is up to the task, is to go win them over with our high-value offers.

And we have some of the best brands in the space with incredible value propositions. And as other wireless providers see the same thing happen, we will get after it and position our brands as the place that those people land. So there's a risk profile around it for T-Mobile, but I think much smaller than with other players, and it's fully embedded in the guidance. That said, I'll let Peter pick up there as well as talk about the bonus depreciation.

Peter Osvaldik - *T-Mobile US, Inc. - Executive VP & CFO*

Yes. And just housekeeping-wise, again, we don't participate in ACP on the postpaid side. We have a little immaterial amount through Metro and the rest. Assurance isn't reported in our subscriber counts and of course, wholesale customers are not either. So that's it with respect to ACP.

And on bonus depreciation, look, we're continuing to monitor the developments. And of course, we're very supportive of a tax regime that stimulates investment into the network, and the U.S. leadership on this front. With regards to '24, we're not anticipating to be a significant cash taxpayer, so it wouldn't impact the guide for 2024. And we'll see where it goes. And of course, as it develops, we could update you later in the year for outer years.

Operator

The next question is from John Hodulik with UBS.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

If we could talk a little bit about competition, that would be great. I guess, from -- we can take it from both sides. First, from a gross adds standpoint, you guys saw some acceleration in phone gross adds quarter-to-quarter, so just what you're seeing in terms of sort of competitive offers in the market in the fourth quarter and maybe into the first quarter.

And then on the other side, churn ticked up for after the first time in a while, I think. So what's potentially driving that in terms of postpaid phone churn? And do you expect it to that to remain elevated or keep moving in that direction? Or what should we expect there?

G. Michael Sievert - *T-Mobile US, Inc. - President, CEO & Director*

I'll start on churn and maybe hand it to Mike on competition. Churn was up 9 basis points sequentially. And if you look at the last several years since we completed the merger, from Q3 to Q4, the average is 10 basis points sequentially. So it's right in line, maybe even a little better, than past sequential moves.

Our business tends to be seasonal, with Q4 being a higher time period of churn. And that being said, I was really pleased with getting the 9 basis points, given some of the optimizations that were fully implemented in Q4 that I mentioned in response to an earlier question.

Look, there's no question in my mind that we are on a journey towards the best churn in this industry. And that's because we have the best value and the best network and a history of being able to treat customers with respect. And so we'll find that journey making its way.

'24 is going to be an interesting year because as I mentioned earlier, there are optimizations across the board that we may find are in our best interest to take as long as they don't put at risk our superior value proposition, as long as there are things that will be well accepted or even appreciated by customers.

And so I can't give you specifics on the guide. I can tell you that with this churn, 9 basis points higher sequentially, we delivered a big beat in postpaid net additions on phones of 934,000, bigger than we guided even during the middle of the quarter. And so we're very comfortable with the formula. And we're comfortable with the formula in part because competition has been remarkably consistent. I'll let Mike talk about what we're seeing.

Michael J. Katz - *T-Mobile US, Inc. - President of Marketing, Strategy & Products*

Yes. This has always been a really competitive environment in the industry and -- dynamic and competitive. And honestly, that's the way we like it. For us, when there's lots of competition and customers are looking around shopping, T-Mobile ends up being the net winner.

And you see that both in '23 with -- and in Q4, specifically, with T-Mobile having the highest share of net adds, and you saw it consistently throughout the year with the account growth that T-Mobile posted, which was highest by far in the industry.

What we saw in Q4 I would describe as generally consistent with what we saw last year. Offers were pretty much the same. Very aggressive, but pretty consistent with previous year. I think what's been different is the way that T-Mobile -- or what's evolved, maybe I should say, is the way that T-Mobile competes.

Mike and Peter both talked about this value proposition we have of best value, which historically has always been the thing that T-Mobile has owned. And then more recently, developed the best network. And those two things together really creates a unique value proposition that's unmatched in the industry and is resonating with customers.

You saw it again in Q4, and you continue to see us enhance it as we did this year with the launch of the Go5G plans; the launch of Phone Freedom, which in a shopping time like Q4 as customers are looking to upgrade, we think really resonated; and you saw it in the net add performance.

Operator

The next question is from Michael Rollins with Citi.

Michael Ian Rollins - Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Just two questions, if I could. First, when you look at the core EBITDA margin profile, are you still targeting to get to a margin at or above 50%? And how do you see the pacing to get there?

And then second, was there anything specific that influenced the pace of share buyback dollars? I think it was down a little bit year-over-year, down sequentially, and maybe put that into the context of your current capital return goals that you highlighted a few months back.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

All right. Let's start with core EBITDA and core EBITDA margin. Peter?

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

All right. Well, Mike, certainly, our long-run aspiration is to continue to see margin expansion in core EBITDA. But much like you see us focus really, the primary focus here is to continue to be the leader and continue expanding in our ability to deliver free cash flow margin relative to service revenue because that takes out all the noise of relative differentials and how P&Ls are recognized, backhaul, et cetera, and really provides a true color for value creation. And that's where we're already in a leadership position and continue to see more expansion opportunity there.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Great. And you obviously saw us in Q4 take some investments to make sure that we could have a beat on customers and revenues, and that's just helping with our confident guide in 2024. So when we see opportunities like that, we take them. We've talked with you many times about that in the past.

Second question was about share buybacks. What happened in Q4? There was a little bit of a slowdown. What are we seeing now? What do people expect?

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Naturally, Mike, I think what you saw was a little bit of a tapering, we're not going to talk about day-to-day dynamics, but a little bit of a tapering of the share buyback program as we were nearing that issuance and that trigger point of the SoftBank share. So we're past that now. We're confident in our ability to deliver what we've signed up for here, which is another incremental up to \$16 billion currently authorized in share buybacks and dividends for 2024 and pacing towards that.

Operator

The next question is from Eric Luebchow with Wells Fargo.

Eric Thomas Luebchow - Wells Fargo Securities, LLC, Research Division - Associate Analyst

Appreciate it. Maybe I just wanted to touch on the cost side of the business. I know you mentioned you're at your target merger synergy run rate and you had the headcount reduction earlier this year. What other initiatives are on the table to kind of help you keep moving leverage up in the business, either on the technology side in distribution of small markets or anything else that you could comment on?

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Yes, I'll just start by kind of reminding everybody that, as Peter already pointed out, the '24 guide at the midpoint is higher than our earlier Capital Markets Day guide, and it's 9% year-over-year, which is 3x the expectation of our peers, and so it's really terrific to see this business scaling.

And without the incremental year-over-year benefit of big expansions and synergies, that's mostly behind us almost entirely. And so that's really great to see. It obviously comes from ongoing progression of valuable customers, some of the best customers with the best payment records in the industry as well as efficiencies that we can see in how we run the business.

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Yes. And on to that, as we said, a big part of this is also the service revenue growth leadership that we anticipate, that we expect to actually increase in 2024 on a growth basis relative to '23. And then there's -- it's across the business. I mean we've made tremendous investments as we are expanding the network, as we are expanding distribution. We're reaping some of that.

But make no mistake, this is a very scrappy team that's looking at not only just currently where can you continue to drive efficiencies, but how do you take advantage of network modernization, of technology modernization, of all the buzzwords that you hear these days around AI and other things, but how do you do it in an un-carrier fashion with the customer at the center of it while driving efficiencies out of the business. So we see a lot of room to run here over a multiyear arc on this front.

Operator

The next question is from Bryan Kraft with Deutsche Bank.

Bryan D. Kraft - Deutsche Bank AG, Research Division - Director & Lead Research Analyst

I had 2, if I could. First, can you talk a little bit about your expectations for upgrade rates as they relate to this year's free cash flow guidance? Do you think these low upgrade rates we're seeing across the industry are going to begin to tick up anytime soon? And are you doing anything proactively in retention that might drive it up?

And then separately, Mike, you mentioned that you're in testing with SpaceX on their device -- direct-to-device solution. When you do get to the commercial deployment of the service, just curious as to what your expectations are for the products capabilities for customers, how it fits into the product set. And also, if you have any sense for how much of your base this feature or this capability is actually important to.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Terrific. Great. Well, let's start with upgrade rates. We don't see big catalysts for change here. Around the edges, there may be some, and we can talk about those. For example, we have a brand-new rate plan called Go5G Next, which offers upgrade benefits, could change it on the margin and other things.

But generally speaking, people are keeping their phones longer. And they're doing that because the phones are very expensive, and they're very capable. For our customers, 75% of them have 5G phones that are able to take advantage of the vast majority of our advanced network capabilities that we already have implemented. And so those kinds of things are a great position to be in, and I don't think there's a big catalyst for change in 2024.

As it relates to SpaceX, yes, we're really excited about it. And way back when we announced it, we talked about the capabilities, starting with text messaging, peer-to-peer text messaging, the ability to reach people if you can see the sky. We expect it to cover the Continental U.S. big parts of Alaska, big parts of the world's oceans and be able to allow you to stay in connection with your loved ones.

That will progress into picture messaging and eventually talk and other capabilities. And the beta we expect, if things go well, we should have these capabilities in customer hands this year. As it relates to who it appeals to, look, anybody that finds themselves on occasion in one of the 500,000 square miles in this country not covered by any of the networks. And that's most of us.

And so there's something about the peace of mind of knowing that if you can see the sky, generally speaking, you're connected. And that's our dream.

That's the aspiration that we set out when we announced this partnership, and it's great to have the first satellites in the sky.

Operator

The next question is from Kannan Venkateshwar with Barclays.

Kannan Venkateshwar - Barclays Bank PLC, Research Division - Director & Senior Research Analyst

Two, if I could. First is on fixed wireless. Earlier in the year, I guess, in '23, I think we all thought that the second derivative might slow down a little bit, and in terms of growth rates, it might be closer to 500,000. But when we look at the second half of the year, it feels like there is still some second derivative growth left.

And so it would be great to understand if this is demand driven, or to some extent, as you open up spectrum and as your distribution channels become more efficient, this is more supply driven. So it would be good to understand the mix of what's driving that growth.

And then secondly, on the ACP side, sorry, one more housekeeping question. I mean as you explained, I mean, it's not a big impact, and it's mostly on the wholesale side, but the general article today mentioned some of the wholesale providers and their exposures, which seemed pretty big, and I think some of them use your network.

This is a high-margin revenue stream. So is there any way for us to understand if there is any time line around when we might see this? As you mentioned, it's not material, so maybe it doesn't matter in the full year scheme of things, but I don't know if it changes the cadence of EBITDA in any way.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Okay. Great. We don't know whether it will be material, but we do know that, and are reasonably confident, that it's fully embedded within all of the outcomes that we provided in our guidance range to you. But let's start with fixed wireless and go to Mike. And then Mike, if you want to transition to what we're seeing with ACP, and Peter will probably pile on.

Michael J. Katz - T-Mobile US, Inc. - President of Marketing, Strategy & Products

Yes. I think on the fixed wireless side, like I mentioned earlier, we've seen steady demand for this product since it's launched. And a lot of the things that you mentioned are absolutely true. Like our execution has gotten better. We have built more stores. So like we've got distribution closer to customers in areas like rural areas. There's more awareness of the product, both generally in the overall market but also within our base.

All of those things certainly have been factors. I think the other big thing that's been a factor is churn. Because remember that the net additions are the difference between gross adds and the number of customers that churn, and we've seen a steady improvement with churn with HSI year-over-year really across every single 10-year cohort.

We knew that churn would come down as our base aged and got into later cohorts, which we see the later cohorts of customers in this churn at a rate that's pretty comparable with cable. We knew that churn would come down as our base aged.

But what's really exciting is as the product has improved itself and as the experience has improved, and frankly, as our execution has improved, even the early 10-year cohort churn has started to reduce, and we've seen that consistently throughout the year.

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Yes. And I would just add on to that. To your point, remember, we're well on our way to our 7 million to 8 million target and hence, some of the moves we made to really optimize value creation. And so I'd probably expect, on a quarterly basis, nets might be in the 400,000 range, which is really what you need to get to that ambition while creating more value, given some of the promotional pricing that we've now pared back.

On ACP, I think the important element is we'll see where it goes. But our anticipation with everything that Mike highlighted around the category itself is the outcomes, inclusive of should ACP not continue on, is embedded in the core EBITDA guidance range that we provided as well as in our expectation that service revenue growth will be larger in full year '24 than 2023. So that's all embedded in the guidance that we provided.

Operator

The next question is from Rick Prentiss with Raymond James & Associates.

Richard Hamilton Prentiss - Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst

I want to follow on the same lines a little bit. Can you help us understand, obviously, TracFone's coming off, maybe some DISH coming off on the wholesale side as well. How much magnitude should we be expecting wholesale might drop this year knowing that you have some ranges out there?

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Yes. We haven't specifically guided to that. And remember, we have a little bit of visibility given some of the MPGs, which do trail off with respect to DISH. But I'd expect a continued year-over-year sequential decline, but not a specific guide on wholesale.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

And that's obviously factored into the guidance that we've provided.

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Absolutely. Absolutely.

Richard Hamilton Prentiss - Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst

Right. And then any update on Mint? I think we're going on, what, 10, 11 months. What is their position on ACP?

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Yes. So Mint, we anticipate Mint to close in Q1, and that is included in the guide itself. And of course, that will result, once it does close, in a little bit of service revenue and cost geography changes with minimal net impact to core EBITDA as we talked about earlier. But all of that, including ACP contemplation, is considered in the guide that we gave. But it wouldn't be appropriate for me to speak specifically about Mint as we haven't closed yet.

Richard Hamilton Prentiss - Raymond James & Associates, Inc., Research Division - Head of Telecommunication Services Equity Research & Research Analyst

And last one for me is, you talked a lot about your net adds doing strong service revenue, adjusted EBITDA, particularly versus the peer group. Will we ever hear you guys talk about EPS? Because clearly the peer group talks EPS as well. I know the footnotes say there are some things that make it tough, but will there be some day where you think about talking to us about an EPS guide?

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Yes. I think that day will come. Obviously, we're still in this period in 2023, we had significant merger-related costs. We're going to have a little bit of merger-related costs in 2024, probably \$150 million in Q1 and \$50 million in Q2. But you are going to see us have more and more focus on EPS.

And obviously, there was a couple, as I mentioned, a couple of catalysts, including the 48.8 million shares for Q4, but you'll see us more and more focused on EPS. Look, the margin expansion is going to flow into the bottom line, and you'll see us there. We're not quite there yet. Little bit more work to do with the merger-related costs and other things, but it's definitely something we keep an eye on, and it's important.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

And the shareholder return program that we have underway really helps with it overall. Despite this dilution event that we saw, the overall trend is antidilution as we retire shares through the program. So it's a good trend to be on.

Jud Henry - T-Mobile US, Inc. - SVP of IR

All right. We've got a lot of activity on social. Janice, do you want to tell us what we're seeing?

Janice V. Kapner - T-Mobile US, Inc. - Executive VP and Chief Communications & Corporate Responsibility Officer

Yes. I think there's one. We're seeing this theme in a few places, so we'll take this question. So first of all, congratulations on a great year, but could you provide more color on your enterprise business, especially beyond connectivity and revenue and traction? And I know we haven't really covered that yet.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Callie?

Callie R. Field - T-Mobile US, Inc. - President of T-Mobile Business Group

Okay. Well, thanks, Janice. And let me just tell you we're in a different phase in our business. Last year, my leaders transformed the talent and activity of our sales team, and we've upgraded our product portfolio with solutions like T-SIMsecure and our connected workplace managed services with Cisco Meraki that we just announced yesterday.

We've moved from transacting with lower-level procurement employees to sitting at the table with CIOs as their trusted partners for connectivity solutions. And also, business customers, as we talked about before, they test our network before purchasing. And what they find is the most modern, the most distributed nationwide tri-band 5G stand-alone commercially available for slicing network, and they've determined its superiority.

And all of this translates right back into our core business. So we delivered on our highest quarter and year ever in business postpaid phone net additions and gross adds. And our results outperformed our benchmark competitor once again. In enterprise, we delivered our highest win share rate with postpaid phone net additions, and our results allowed us to bring on new customers like Salesforce and REI, and deepen our relationships with Delta, DoorDash, Meta, UPS, just to name a few.

And in the public sector, we drove double-digit growth in our new public safety accounts, especially with first responders who recognize that we at T-Mobile provide a more secure, prioritized connection over a faster and larger network. We continue to grow and compete successfully in small businesses, best quarter and year yet and saw positive porting trends versus both of our principal competitors in the third consecutive quarter in a row.

So we're bringing in, as Peter mentioned earlier, both highly profitable customers with attractive CLVs, and as it relates to revenue outside of phones, we also saw some key wins in our Advanced Network Solutions this past quarter with Formula 1 in Las Vegas, where we successfully demonstrated our commercial application of network slicing with 230 points of sale, that was incredible, Ulf, and also signed a deal with PGA of America, where we're the official 5G innovation partner, enhancing how players and fans both experience the game. So hopefully, that gives you a little bit of insight on what we're seeing.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

It's kind of neat to see that, if you just listen to that, that essentially our whole business effort has just kind of grown up. And we're now competing to solve really important organizational problems for enterprise and government with the corner office. And that's just a different place for us.

And it's been interesting to see. You've had to retool all the skills and the capabilities and the solutions, and now we have this business that is just breaking records. So there's a lot of room to run, because we're at the very beginning, I think, of CIOs and organizational leaders rethinking their connectivity in the era of AI.

And when they start to assess who's best positioned in this era to provide reliable, secure connectivity with dedicated spectrum, it's T-Mobile. And so it's just -- we're lucky to be in this moment at the very moment that everyone is rethinking everything in technology thanks to the advent of AI and related technologies. So it's a great place to be.

Operator

The next question is from Peter Supino with Wolfe Research.

Peter Lawler Supino - Wolfe Research, LLC - MD & Senior Analyst

Wondering -- two things, one about fixed wireless. You talked a bit about a slowing net add growth rate still obviously at a really attractive level with better price and value for you. I wondered, as you get closer to your target thinking out a couple of years, do you manage this business at a high rate of speed right up to the target and then slam on the brakes? Or is there some organizational benefit to a more gradual deceleration?

And then a second question related to postpaid phone ARPU. I know that you're not guiding to it, and just wondered if you could discuss the drivers in '24 and how they might differ from '23.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Sounds good. I'll take the first one and then maybe hand it to Peter. As we said in response to an earlier question, it's kind of too early to tell what's going to happen as we start to get towards that initial goal for our fixed wireless business of 7 million to 8 million subscribers, as Jon reminded us.

And right now, we want to make sure that we're serving mainstream customers with a fantastic product at a fair price, and we start to ease our way towards that moment. But we also don't know, as we said earlier, whether that's really the final destination or not, whether or not there may be other models that allow us to extend past that.

And so look, we'll learn more with each passing quarter. But I think the moves we've made that Mike outlined, I think, well, a few minutes ago, this is the right time for them to make sure that we're serving mainstream customers with our great product, we're meeting the demand appropriately and that we're correctly monetizing it so that we're able to continue serving customers in the best possible way.

So I'm really happy with where we are. The demand for this product based on the quality of the product has just been phenomenal. And I think a lot of it now is word of mouth, because that's what happens when you get 4.8 million customers using this product every day at very high, nearly the best in the industry, Net Promoter Scores.

Well, what they do, they tell other people that they've discovered something great. and that just feeds on itself. So that's a really good place to be. Secondly, unpacking ARPU, and is there anything different in the dynamics for '24 versus '23?

Peter Osvaldik - T-Mobile US, Inc. - Executive VP & CFO

Yes. '24, we'd expect to be generally stable to 2023. And in terms of dynamics, it's going to be the same set of dynamics. You have growth in high-value creating enterprise and government customers. You have growth in tremendously great CLV segment customers like 55+ and military on the consumer side, which Jon has just seen tremendous success with.

You're going to see uptake of our highest tier, highest value rate plans continue at a great clip, and then it just becomes a mix-driven metric. And again, we tend to solve for ARPA and ARPA growth and overall service revenue growth as the focus point. So that's -- it's going to be more of the same with regards to ARPU.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Hopefully, you can tell we're trying to get to absolutely as many questions as we can this time, so let's keep moving.

Operator

And the next question comes from Timothy Horan with Oppenheimer.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

You had a goal a few years ago of a 15-fold increase in wireless capacity. Could you give us an update kind of where we are at this point in just what 5G is meant for maybe latency or anything else with the network? And I know you talked touched on network slicing. What was Formula 1 and PGA doing kind of before you kind of came along for wireless capacity? How much of improvement was this at this point?

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

Well, first, on overall capacity, it's a good opportunity to turn it to Ulf and maybe you can say what we're seeing now that we're substantially complete with the initial build.

Ulf Ewaldsson - T-Mobile US, Inc. - President of Technology

Yes. Thanks a lot, Mike, and thanks for the question. Well, overall, the network capacity of this fantastic network is outstanding and keeps increasing on 5G as we are pivoting over frequency from our LTE customers over to 5G.

And we keep doing that all the time. That's why we can stay ahead of the curve, both with our HSI customers being inside that mobile umbrella, but also making sure that we have enough capacity to grow for all the traffic growth on the network.

And as Mike alluded to earlier, we just see an increasing usage. People use more and more of the goodness that we provide. I'll also say that this is across our entire geography. We have to remember that our network is much, much larger in size in 5G than any of our competitor in this country. We have, on our 5G coverage, more than twice the area of our closest competitor on our Ultra Capacity, which is what provides all that capacity.

When it comes to the second question, which was around network slicing in Las Vegas, and as Callie alluded to, this was a true success story. We were the only operator in the world or in the country that could provide a true beta version because of our stand-alone core that we have in this network -- of network slicing. In other words, we can program our network to make sure that services work while all the other services and serving all the other customers on the network at the same time.

We were able to provide network slicing during the start of the race, which means that we could both make sure that all those points of sales had full service to everything they were doing at the same time as hundred thousand customers per day were using our network during that start of the race, watching their apps, doing all the activities that they will be doing.

This has almost never happened in Formula 1 history. It's normally very congested, very difficult to do anything when so many customers are accessing the network at the same time. And that's what network slicing was proving to do in Las Vegas, and it's just started. Early to come. We're going to roll these kind of things out to much more events in the future.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

As it relates to your specific question on the 15x, I actually don't have the answer at my fingertips, so I'm going to look into that. I can tell you that when we made that estimate, what we had in mind were the commercial results that we have delivered in spades, being able to see phone usage grow the way it has grown at T-Mobile. It's now more than triple what it was 5 years ago, 4x speed and then some, and being able to handle this massive home broadband business on top as well as all the growth that we see in enterprise.

So as we laid out this network way back in 2018 and planned it, we have met every single expectation that we laid out there, including some stringent commitments that we made to the FCC as part of the merger process, and just completed a massive nationwide drive in order to be able to make those goals. So I would be surprised if it's anything other than the 15x has been achieved, but I'll have to double check on that.

As it relates to the F1, it's fascinating, you hear Ulf talking about network slicing and what it's doing for people, and there have been lots of applications. We talk about F1 because it's very public and it's going to be a great case study for all of our executive briefing center visits, et cetera, but there have been lots of these now.

And look, your previous options were either string wires everywhere, which was not ideal, or rely on WiFi, where you have no control over the radio spectrum and it's a best efforts service with a shared spectrum. And so this is a breakthrough for organizations that they need mission-critical distributed connectivity. Network slicing on 5G is a breakthrough solution for that. We're going to see lots of applications like powering the commercial operations at F1, where it's the perfect solution.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

So Mike, do you think there's a way that the industry can grow ARPA faster? I mean, we've been kind of growing way, way below inflation for a long period of time, but we're seeing major improvements in the network. I mean is there any way to kind of get to inflation-type ARPA growth longer term?

G. Michael Sievert - *T-Mobile US, Inc. - President, CEO & Director*

I mean this industry gives remarkable value, and we've been talking about that a little bit during the call. As it relates to T-Mobile, we're always looking for ways that we can serve customers better and make sure that we build a profitable business around that. And we have to do that smartly so that we defend and extend our fame as the value provider because that's so important, and we have lower costs.

So that should be defensible over the long haul as evidenced by things like a lower debt structure and lower cost to service that debt than anybody else in the industry. So it's a defensible place, but we have to defend it by making smart decisions. And we have the best network, and that should allow us to find the right optimizations to be able to serve customers better.

We can't give you predictions over the long haul other than to say that in 2024, we see opportunities, and that's why we've got a confident guide in 2% year-over-year gain in ARPA. And over the long haul, we'll see what happens. But I will tell you that I'm pleased that customers are getting such incredible value from this category, and that certainly does open up opportunities for us to make sure, for T-Mobile, that if there are opportunities for us to monetize that in smart ways that it will be appreciated by customers, we'll find ways to do that.

Jud Henry - *T-Mobile US, Inc. - SVP of IR*

All right. I think we've got time for one final question. Operator?

Operator

That question comes from Greg Williams with TD Cowen.

Gregory Bradford Williams - *TD Cowen, Research Division - Director*

Great. First question is just on the industry as a whole. It's the third carrier to report this week and showing some strength here. In your postpaid add guidance, I'm just curious to what degree do you expect the industry to soften up in 2024? Is it sort of the same level of softening you saw in 2023?

Second question is just on capital allocation. Just curious how sacrosanct is your buyback if I think about, say, fiber M&A materializing and you thinking rates could potentially come down over time, would you consider cutting the buyback for M&A? Or again, is it sacrosanct, and you consider leveraging up and keeping the buyback? Just curious to hear your thoughts.

Peter Osvaldik - *T-Mobile US, Inc. - Executive VP & CFO*

In the context of the guide for the industry as a whole, we do expect some moderation year-over-year, probably a little bit more moderation in our expectation than what you saw in '22 to '23. Look, we look at it from a number of scenarios and kind of give a range. And our job is to within, whatever happens in there, to continue to be the share-taking leader. And when we see accretive opportunities to go above and beyond, much like we did in Q4 and all of 2023, we'll deliver on those.

So that's kind of what we look to and work within. In terms of capital, I mean, we talk about fiber and all of that. If you recall, what we said is we thought it was the right time and a prudent thing to do in the rate environment and what we saw to delever a little bit more rapidly to the 2.5 point by the end of 2024. We're there at the end of 2023, but there are some puts and takes in terms of timing of payments, for example, with respect to Columbia Capital, but it was the right thing to do there.

But even within that, which allowed that envelope that we've announced of share buybacks and dividends, there was some room for investment. And so we'll look within there. But the capital allocation methodology that we look at is the same it's always been and will continue to be. What are the highest value-creating opportunities that we can see as a management team, investing in the network, investing in growth of the core business, the adjacent businesses.

And then, of course, we'll look at all other things beyond that, whether that's in the fiber space, whether that's the U.S. cellularity. We'd look at that process and see are there value-creating opportunities. That would be the right thing to do and invest in. But we have a little bit of wiggle room in there in terms of an envelope for investment even within the guide that we gave you.

G. Michael Sievert - T-Mobile US, Inc. - President, CEO & Director

And if it's further comfort, I will tell you, obviously, we're going to be guided by what creates value, and there are no absolutes there. So -- but I will tell you, we're not pursuing -- to the premise of the example in your question, we're not pursuing a big like on-balance sheet transaction in this space. There's no big deal on the horizon that we see that would knock us off our pace. And I think that's important calculus. If something presented itself that made a lot of sense for shareholders, our job is to bring it to you. But right now, we don't see it.

Jud Henry - T-Mobile US, Inc. - SVP of IR

Thank you, Greg. That's all the time we have today. Really appreciate everybody joining us, and we look forward to speaking with you again soon. If you have any further questions, please don't hesitate to reach out to either the Investor Relations or Media Relations departments. With that, thank you very much.

Operator

Ladies and gentlemen, this concludes the T-Mobile Fourth Quarter Earnings Call. Thank you for your participation. You may now disconnect, and have a pleasant day.

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