



Expansion Teams Adding to the Count

The National Hockey League’s 2017-2018 regular season recently concluded, and the winner of the Pacific Division was the Vegas Golden Knights. Those that don’t follow the NHL (or LRG Research Notes) may not be familiar with the Golden Knights, because they did not exist before this season. Yet, the Golden Knights are the most successful first-year expansion team in the history of U.S. major league sports, including the NHL, NBA, NFL, and MLB.

not publicly report results. With the debut of Hulu with Live TV, and YouTube TV in 2017, it is possible that the segment grew by close to a million more subscribers over the past year.

 **Did You Know ...**

At the end of 2017, Sling TV accounted for 17% of DISH Network’s video subscribers, and DIRECTV NOW accounted for 5% of AT&T’s video subscribers

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Industry by the Numbers

Just over three years ago, the pay-TV industry also expanded with a new segment of Internet-delivered live streaming services. These “expansion teams” also had a successful year.

These Research Notes highlight the success of the Internet-delivered pay-TV segment from both a consumer perspective (via a new LRG study), and from provider results.

It is important to reiterate that **these Internet-delivered services are typically part of larger corporate video strategies for most of the players in the category, rather than existing solely for service-line profitability.**

While AT&T and DISH Network now both report subscriber totals for their Internet-delivered services, they do not separate out financial information for these flanker brands. The annual results for AT&T and DISH, however, help to illustrate the relative impact of these streaming services on the pay-TV subscriber totals for these companies.

As detailed later in these Notes, the two publicly reporting Internet-delivered pay-TV services (Sling TV and DIRECTV NOW) combined to add about 1.6 million net subscribers in 2017, bringing the total for these two services to 3.367 million at the start of 2018. Note that this does not include the totals from the other services in the segment that do

- In 2017, AT&T lost 290,000 net pay-TV subscribers across its three brands. This includes a loss of about 625,000 for AT&T U-verse, and a loss of about 555,000 DIRECTV satellite TV subscribers – while DIRECTV NOW added about 890,000 subscribers

- In 2017, DISH Network lost about 285,000 net pay-TV subscribers across its two brands. This includes a loss of about 995,000 DISH TV satellite subscribers – while Sling TV added about 710,000 subscribers

Without the Internet-delivered services as part of their arsenals, AT&T and DISH would have certainly managed their video businesses differently, and likely would not have had nearly as many net losses in their core satellite TV services. The Internet-delivered services allow these companies to target more price-sensitive customers with services that bear much lower acquisition costs than those needed to get a satellite TV customer.

The net declines in the satellite TV businesses appear to be more a product of a (partially) strategic slowdown in acquisition rather than of consumers increasingly “cutting the cord” to their satellite TV services. For example, while DISH’s reported churn rate for satellite TV in 2017 was nearly identical to 2015 (1.78% per month in 2017 vs. 1.75% in 2015), gross adds for the DISH TV satellite service declined from 2.247 million in 2015 to 1.477 million in 2017.

The more cost-conscious nature of consumers that get streaming Pay-TV services, or are interested in getting one, is evident in LRG’s new study, *Internet-Delivered Pay-TV Services*. **Among those that currently have an Internet-delivered pay-TV service, 52% rate the cost of the service as the first or second most important reason for getting a service**, and 60% of those interested in getting a service cite cost as one of the top two reasons for potentially getting one.

With cost-savings a key driver of the adoption of these services, there is also

considerable evidence of consumers trying out the new offerings, and “service surfing” among the various options. Along with the low barrier to entry for someone to get a service comes a low barrier to exit. The challenge of retaining subscribers (churn management) will become increasingly important for the individual services as the category continues to expand.

Today, the live streaming TV segment counts millions of subscribers and it is rapidly growing. Internet-delivered pay-TV services are now firmly part of the pay-TV industry – competing with, and complementing, traditional offerings. This new “expansion” segment of the pay-TV industry has done very well over the past year, and is sure to have success going forward, but it is not without challenges. The same is true for the Golden Knights as they enter the NHL playoffs.



Did You Know ...

The Vegas Golden Knights won 62% of their games this season. The previous best winning percentage for a first-year expansion team in U.S. major league sports was 49% by the 1993-1994 Florida Panthers

12% of Ages 18-34 get an Internet-Delivered Pay-TV Service

Leichtman Research Group, Inc. found that 18-34 year-olds account for 53% of adults in the U.S. that have a live streaming Internet-delivered pay-TV service (like Sling TV, DIRECTV NOW,

PlayStation Vue, Hulu with Live TV, or YouTube TV). Overall, 11% of adults ages 18-44 currently have an Internet-delivered pay-TV service – compared to 3% of ages 45 and above.

Among all that have an Internet-delivered pay-TV service, 93% also have a subscription video on-Demand (SVOD) service from Netflix, Amazon Prime, and/or Hulu. Additionally, 49% of Internet-delivered pay-TV subscribers have a TV antenna for watching over-the-air broadcast TV, and 35% also have a pay-TV service from a traditional (cable, satellite, or Telco) provider.

These findings are based on an online survey of 6,947 households from throughout the United States and are part of a new LRG study, *Internet-Delivered Pay-TV Services*. This is LRG's inaugural study dedicated to this topic.

Other related findings from the study include:

- 12% of adults that moved in the past year have an Internet-delivered pay-TV service – compared to 6% of non-movers
- Internet-delivered pay-TV subscribers watch these services at home 78% of the time – compared to 80% at home viewing of HBO NOW, and 88% at home viewing of Netflix
- 69% of current Internet-delivered pay-TV subscribers are very satisfied with their service – yet, 27% are very likely to switch from an Internet-delivered pay-TV service in the next six months
- 24% of those that do not currently have an Internet-delivered pay-TV service are very interested in getting one

- 76% of all adults agree that there are specific networks or programming genres that are “must haves” for a TV service in their household – this includes 88% of those very interested in getting an Internet-delivered pay-TV service

There is clearly a growing niche market for lower-cost/lower-channel live streaming pay-TV services – particularly among younger, more mobile renters, and those living in households with more people. Currently, these Internet-delivered pay-TV services are augmenting other sources of video in the home, and consumers are experimenting with the various streaming pay-TV services to discover what combinations of video offerings work best for their household.

Major Pay-TV Providers Lost About 1,495,000 Subscribers in 2017

Leichtman Research Group, Inc. found that the largest pay-TV providers in the U.S. – representing about 95% of the market – lost about 1,495,000 net video subscribers in 2017, compared to a pro forma loss of about 760,000 subscribers in 2016.

The top pay-TV providers account for 92.2 million subscribers – with the top six cable companies having about 48.1 million video subscribers, satellite TV services 31.5 million subscribers, the top telephone companies 9.2 million subscribers, and the top Internet-delivered pay-TV services with nearly 3.4 million subscribers.

Key findings include:

- The top six cable companies lost about 660,000 video subscribers in 2017 – compared to a loss of about 275,000 subscribers in 2016
 - In 2017, the top cable providers cumulatively lost 1.4% of video subscribers – compared to a loss of 0.6% in 2016
- Satellite TV services lost about 1,550,000 subscribers in 2017 – compared to a loss of about 40,000 subscribers in 2016
 - DIRECTV lost 554,000 subscribers in 2017 – compared to a gain of 1,228,000 subscribers in 2016
 - In 2017, DBS services cumulatively lost 4.7% of video subscribers – compared to a loss 0.1% in 2016
- The top telephone companies lost about 885,000 video subscribers in 2017 – compared to a loss of about 1,590,000 in 2016
 - AT&T U-verse lost 624,000 subscribers in 2017 – compared to a loss of 1,359,000 subscribers in 2016
 - In 2017, the top Telcos cumulatively lost 8.7% of video subscribers – compared to a loss of 13.6% in 2016
- The top (publicly reporting) Internet-delivered services added about 1,600,000 subscribers in 2017 – compared to 1,145,000 net adds in 2016
 - Subscribers to the top Internet-delivered services increased by 90% in 2017
- Traditional pay-TV services (not including Internet-delivered) lost about 3,095,000 subscribers in 2017 – compared to a loss of about 1,905,000 in 2016

The pay-TV market saw net losses increase in 2017, and the continuation of a share shift from traditional services to newer Internet-delivered services. Satellite TV services, DIRECTV and DISH TV, had more combined net losses in 2017 than in any previous year, yet these losses were offset by gains from their Internet-delivered flanker brands, DIRECTV NOW and Sling TV. Overall, the top pay-TV services lost 1.6% of subscribers in 2017 compared to a loss of 0.8% in 2016.



Did You Know ...

46% with an Internet-delivered pay-TV service report spending no time watching the service outside of the home, and 4% spend no time watching the service in the home

2.1 Million Added Broadband from Top Providers in 2017

Leichtman Research Group, Inc. found that the fourteen largest cable and telephone providers in the U.S. – representing about 95% of the market – acquired about 2.1 million net additional high-speed Internet subscribers in 2017. Annual net broadband additions in 2017 were 78% of the 2.7 million net adds in 2016.

These top broadband providers now account for nearly 95.1 million subscribers – with top cable companies having about 61.2 million broadband subscribers, and top telephone companies having 33.9 million subscribers.

Other broadband findings include:

- The top cable companies added 2.7 million broadband subscribers in 2017 – 83% of the net additions for the top cable companies in 2016
 - Comcast has added over a million broadband subscribers each year from 2010-2017
 - Charter has added over a million broadband subscribers each year from 2014-2017
- The top telephone companies lost about 625,000 subscribers in 2016 – similar to a loss of about 600,000 subscribers in 2016

The top broadband providers in the U.S. added nearly 4.8 million net broadband subscribers over the past two years. The top cable companies accounted for 130% of the net broadband additions in 2017, following 122% of the net adds in 2016.



Did You Know ...

The top broadband providers in the U.S. added nearly 16.9 million net broadband subscribers over the past five years

Industry by the Numbers

Top Pay-TV Providers in the U.S.

Cable Companies	Subscribers at end of 4Q 2017	Net Adds in 2017
Comcast	22,357,000	(151,000)
Charter	16,997,000	(239,000)
Altice	3,405,500	(129,000)
Mediacom	821,000	(14,000)
Cable ONE*	283,001	(37,245)
Other major private company**	4,200,000	(90,000)
Total Top Cable	48,063,501	(660,245)
Satellite Services (DBS)		
DIRECTV	20,458,000	(554,000)
DISH-DBS^	11,030,000	(995,000)
Total DBS	31,488,000	(1,549,000)
Phone Companies		
Verizon FiOS	4,619,000	(75,000)
AT&T U-verse	3,657,000	(624,000)
Frontier	961,000	(184,000)
Total Top Phone	9,237,000	(883,000)
Internet-Delivered		
Sling TV^^	2,212,000	711,000
DIRECTV NOW	1,155,000	888,000
Total Internet-Delivered	3,367,000	1,599,000
Total Top Pay-TV	92,155,501	(1,493,245)

Sources: The Companies and Leichtman Research Group, Inc.

* Cable ONE does not include the NewWave acquisition in 2Q 2017

** Includes LRG estimate for Cox

^ DISH began reporting DISH TV subscriber totals separately from Sling TV subscribers in 4Q 2017

DISH removed 145,000 subs representing all subs in PR and USVI due to Hurricane Maria. DISH's Pay-TV subs in 4Q 2017 include 75,000 reactivations in PR and USVI

^^ Includes subscribers to Sling International and Sling Latino

Company subscriber counts may not solely represent residential households

Top pay-TV providers represent approximately 95% of all subscribers

Top cable does not include overbuilder WOW with 432,600 subscribers

Internet-delivered does not include PlayStation Vue, Hulu with Live TV, or YouTube TV which have not publicly reported sub totals

Net additions reflect pro forma results from system sales and acquisitions, and reporting adjustments -- therefore, comparing totals in this quarter's Notes to prior Notes may not produce accurate findings

Top Broadband Internet Providers in the U.S.

Cable Companies	Subscribers at end of 4Q 2017	Net Adds in 2017
Comcast	25,869,000	1,168,000
Charter	23,903,000	1,310,000
Altice	4,046,200	83,700
Mediacom	1,209,000	47,000
WOW (WideOpenWest)	732,700	13,800
Cable ONE*	524,935	11,027
Other Major Private Company**	4,880,000	90,000
Total Top Cable	61,164,835	2,723,527
Telephone Companies		
AT&T	15,719,000	114,000
Verizon	6,959,000	(79,000)
CenturyLink	5,662,000	(283,000)
Frontier	3,938,000	(333,000)
Windstream	1,006,600	(44,500)
Cincinnati Bell	308,700	5,500
FairPoint^	301,000	(5,624)
Total Top Phone	33,894,300	(625,624)
Total Top Broadband	95,059,135	2,097,903

Sources: The Companies and Leichtman Research Group, Inc.

* Cable ONE does not include the NewWave acquisition in May 2017

** Includes LRG estimate for Cox

^^ FairPoint was acquired by Consolidated Communications in 3Q 2017, total is reported connects acquired at that time

Totals reflect pro forma results from system sales and acquisitions

Company subscriber counts may not solely represent residential households

Top cable and telephone companies represent approximately 95% of all subscribers

Net additions reflect pro forma results from system sales and acquisitions, and reporting adjustments – therefore, comparing totals in this quarter's Notes to prior Notes may not produce accurate findings



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