

Research Notes

2Q 2012

Actionable Research on the Broadband, Media & Entertainment Industries

An Evolving Market

In order to better understand the state of the multi-channel video industry it is important to segment the results. For example, a nationwide Leichtman Research Group (LRG) study found a significant difference in the likelihood to

subscribe to a multi-channel video service by household income. The study found that 26% of those with annual household incomes under \$50,000 did not subscribe to a video service, while just 10% with incomes over \$50,000 were non-subscribers. *These results are from an LRG study conducted in 2005.*

The multi-channel video industry has grown and evolved over the past seven years, yet the income disparity among non-subscribers still exists. This year's version of that study found that 18% with incomes under \$50,000 are non-subscribers, compared to 8% with incomes over \$50,000.

In order to best understanding of the state of the industry it is essential to put the results into historical context. If one were to look at this year's data in

isolation, the hypothesis could be made that the cost of multi-channel video services is causing lower income households to leave the category. But, by comparing these results to prior years, you see that the income disparity is not a new trend, it is one that has defined the market for many years.

One key difference from seven years ago is that now **two-thirds of households say that they get more than one service (TV, Internet, or phone) from a provider, while in 2005 just one-third of households got a bundle of services.** These bundles are important for both providers and consumers, and have helped to blur the traditional definitions of cable and phone companies.

By tracking provider reported data, we are also able to see changes that have taken place over time. For example, at the end of 1Q 2005:

- About 3.5 million households got telephone service from a cable company – seven years later, at the end of 1Q 2012, that figure grew to over 23.3 million
- 21.4 million subscribed to broadband Internet service from a major cable company – compared to 45 million seven years later
- 14.4 million subscribed to broadband Internet service from

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a major phone company – compared to 34.6 million seven years later

- Landline video service from phone companies was virtually non-existent – Verizon FiOS and AT&T U-verse now, combined, have over 8.3 million subscribers
- Satellite TV providers had 25.7 million subscribers – compared to over 34 million today

From a consumer perspective, cost has traditionally been an important component of video service. When asked, “*What is the most important reason to subscribe to a company’s TV service?*” 63% rank the cost of the service first or second most important (a figure that has consistent for the past few years). Many also now cite things outside of TV itself as being important in the decision to get TV service:

- 18% rank bundled services first or second most important
- 17% rank the speed and reliability of the company’s Internet service as being first or second most important

While the cost of video service is key for many, despite mean monthly spending on multi-channel video service being

Did you know?

66% of households currently receive a bundle of services from one company – up from 33% in 2005

Bruce Leichtman, head of LRG, told IBD that "among non-subscribers, 41% cite cost as the main reason for not subscribing to a TV service."

He said that only "3% of non-subscribers said that they don't subscribe because they can watch all that they want on the Internet or in other ways."

Leichtman said 11% of respondents have been with their current TV provider for less than a year and most of them are spending less with the new provider than they did with their previous provider.

- **Investor’s Business Daily**
July 5, 2012

60% higher than it was seven years ago, a greater percentage of households at all income levels now subscribe to a multi-channel video service.

In recent years, speculation of cord-cutting of multi-channel video services has been widely discussed, yet the reality is that it has still not taken place to any considerable degree.

Tracking results of the top 13 multi-channel video providers in the US (representing about 95% of the market) finds that, over the past year, multi-channel video providers added 375,000 subscribers, similar to an addition of 460,000 over the prior year. While these minor gains are certainly nothing for the industry to celebrate, they aren’t a sign of a significant shift in consumers moving away from the “pay TV” (multi-channel video) model.

In LRG's consumer research we found that, among non-subscribers to a multi-channel video service, 3% said that they don't subscribe because they can watch all that they want on the Internet or in other ways, and 2% said that they do not subscribe because of Netflix, but just two of these respondents dropped a service in the past year. In total, this represents 0.2% of all households where cable TV is available having dropped a service for these reasons in the past year (a good measure of actual cord-cutters).

LRG's study also finds limited evidence of "cord-shaving" taking place over the past year. Among the 14% of multi-channel video subscribers who say they spend less on services, the most common way to save money is to switch providers, while others mention renegotiating with their current provider, or bundling services. In addition, **15% of all multi-channel video subscribers say that they added services to their subscription in the past year** – with premiums, HD, and DVRs being most commonly mentioned.

Consumers' options for video services have increased in recent years. By putting these options in appropriate perspectives, we are best able to see how the market has changed over time, and how it may continue to evolve.

Did you know?

Non-subscribers to a multi-channel video service have a mean annual household income 32% below average

Overall, 87% Still Subscribe to a Multi-Channel Video Service

New consumer research from Leichtman Research Group, Inc. (LRG) finds that 87% of households nationwide subscribe to some form of multi-channel video service. The percentage of households that subscribe to a multi-channel video service is similar to the past two years, and up from 80% in 2004.

The mean annual household income of multi-channel video subscribers is 53% higher than the household income of non-subscribers. Nationwide, 6% with annual household incomes over \$75,000 do not subscribe to a multi-channel video service – compared to 12% with incomes of \$30,000 - \$75,000, and 27% with incomes under \$30,000.

These findings are based on a telephone survey of 1,369 households from throughout the United States, and are part of a new LRG study, *Cable, DBS & Telcos: Competing for Customers 2012*. This is LRG's tenth annual study of this topic.

Other related findings include:

- Overall, 42% of individuals agree that changes in the economy have negatively impacted their household in the past year – down from 50% last year, 47% in 2010, and 44% in 2009.
- 39% of those negatively impacted by the economy (8-10)

agree that they reduced spending (8-10) on TV, Internet, and phone in the past year – compared to 18% of those less impacted (1-7) by the economy

- 32% of those negatively impacted by the economy agree that they will likely reduce spending in the next six months – compared to 12% of those less impacted by the economy
- 16% of those negatively impacted by the economy are likely to switch video providers in the next six months – compared to 8% of those less impacted by the economy
- Mean reported monthly spending on multi-channel video service is \$78.63 – an increase of 7% from last year
- Multi-channel video subscribers with annual household incomes over \$75,000 report spending 14% more per month than those with incomes under \$30,000 – when non-subscribers are included, mean spending per household of all with incomes >\$75,000 is 49% higher than those with incomes <\$30,000

The penetration of US households subscribing to a multi-channel video service has leveled off at about 87% nationwide over the past three years. The defining characteristic of those who do not subscribe to a multi-channel video service remains the level of household income. In addition, those facing economic challenges are most likely to switch provider, or reduce spending on services.

1.3 Million Add Broadband in the First Quarter of 2012

Leichtman Research Group, Inc. found that the seventeen largest multi-channel video providers in the US cable and telephone providers in the US – representing about 93% of the market – acquired 1.3 million net additional high-speed Internet subscribers in the first quarter of 2012. These top broadband providers now account for nearly 80 million subscribers – with top cable companies having over 45.3 million broadband subscribers, and top telephone companies having over 34.6 million subscribers.

Leichtman Research Group documents the growing gap between cable companies and telcos when it comes to broadband subscribers. During the first quarter of the year, cable companies added 980,000 subscribers, or 75 percent of new subscribers, compared to 320,000 new telco broadband subscribers.

- **Forbes**
June 3, 2012

Other broadband findings for the quarter include:

- Overall, broadband additions in 1Q 2012 amounted to 102% of

those in 1Q 2011 – with cable having 114% as many additions as a year ago, and Telcos 76% as many additions as a year ago

10.7 million more subscribers than the top telephone companies – compared to 8.9 million more a year ago

- The top cable companies added about 980,000 subscribers, representing 75% of the net broadband additions for the quarter versus the top telephone companies
- Comcast added 439,000 broadband subscribers in 1Q 2012 – the most in any quarter since 1Q 2008
- The top cable broadband providers have a 57% share of the overall market, with about

Net broadband additions in 1Q 2012 were about 520,000 more than in 4Q 2011, and the most since the first quarter of 2010. Yet, given the mature status of the broadband industry, and traditional seasonality, it is likely that net adds in 2Q 2012 will be less than half of what they were in 1Q 2012.

Industry by the Numbers – (as of the end of 1Q 2012)

Top 10 Cable MSOs in the U.S.

	Passings	Subscribers	Penetration	Net Adds in 1Q 2012	Net Adds 1Q in 2011
Basic Cable	120,200,000	52,600,000	43.8%	(120,000)	(185,000)
Digital Cable*		44,100,000	83.8%	335,000	485,000
Broadband Internet**	119,650,000	45,000,000	37.6%	980,000	855,000
Telephone***	113,900,000	23,300,000	20.5%	420,000	445,000

Sources: The Companies and Leichtman Research Group, Inc.

Totals include LRG estimates and pro forma results from system sales and acquisitions.

* Digital penetration of Basic subscribers

** Internet data does not include RCN

*** Telephone data does not include Bright House Networks

Telco Video

	Subscribers	Net Adds in 1Q 2012	Net Adds in 1Q 2011
Verizon FiOS	4,353,000	180,000	192,000
AT&T U-verse	3,991,000	200,000	218,000
Total	8,344,000	380,000	410,000

Sources: The Companies and Leichtman Research Group, Inc.
Data includes LRG estimates of pro forma results from system sales

Top Broadband Internet Providers in the U.S.

Broadband Internet Provider	Subscribers at the end of 1Q 2012	Net Adds in 1Q 2012
Cable		
Comcast	18,582,000	439,000
Time Warner [^]	11,136,000	227,000
Cox [*]	4,530,000	30,000
Charter	3,802,000	147,000
Cablevision	3,007,000	42,000
Suddenlink	982,600	31,200
Mediacom	887,000	36,000
Cable ONE	463,000	12,361
Other Major Private Companies ^{**}	1,941,000	16,000
Total Top Cable	45,331,043	980,561
Telephone Companies		
AT&T	16,530,000	103,000
Verizon	8,774,000	104,000
CenturyLink	5,643,000	89,000
Frontier ^{^^}	1,746,000	11,000
Windstream	1,363,800	8,500
FairPoint	318,510	4,375
Cincinnati Bell	257,200	(100)
Total Top Phone	34,632,510	319,775
Total Broadband	79,963,553	1,300,336

Sources: The Companies and Leichtman Research Group, Inc.

* LRG estimate

** Includes LRG estimates for Bright House Networks and RCN

[^] Includes Time Warner Cable's acquisition of Insight

^{^^} LRG estimate does not include wireless subscribers

Totals reflect pro forma results from system sales and acquisitions

Top cable and telephone companies represent approximately 93% of all subscribers

Company subscriber counts may not represent solely residential households

DBS

	Subscribers	Net Adds in 1Q 2012	Gross Adds in 1Q 2011	Subscriber Acquisition Cost*	Average Revenue Per Sub/Month**
DIRECTV	19,966,000	81,000	184,000	\$857	\$91.99
Dish Network	14,071,000	104,000	58,000	\$751	\$76.71
Total DBS	34,037,000	185,000	242,000		

Sources: The Companies and Leichtman Research Group, Inc.

* Includes leased equipment and unreturned box costs

** Includes revenue from commercial accounts and other non-consumer spending

Top Ten Residential Phone Companies

Company	Residential Phone Lines
1. AT&T	20,537,000
2. Verizon	12,421,000
3. Comcast	9,506,000
4. CenturyLink*	8,915,000
5. Time Warner**	4,945,000
6. Frontier	3,196,951
7. Cox*	3,185,000
8. Cablevision	2,399,000
9. Windstream	1,915,300
10. Charter	1,822,000

Sources: The Companies and Leichtman Research Group, Inc.

* LRG Estimate

** Total includes Time Warner Cable's acquisition of Insight

U.S. Residential Telephone Lines – Gains and Losses

	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012
Telco Net Adds*	(1,225,000)	(1,224,000)	(1,232,000)	(1,027,000)	(1,025,000)
Cable Net Adds	445,000	285,000	210,000	285,000	420,000

Sources: The Companies and Leichtman Research Group, Inc.

* Retail residential phone lines include both primary and additional lines, but do not include wholesale lines
Includes LRG estimates and some results adjusted from prior reports



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