

Research Notes

2Q 2014

Actionable Research on the Broadband, Media & Entertainment Industries

Life Cycle Differences

As the data in these Research Notes demonstrate, the markets for pay-TV, broadband Internet, and over-the-top (OTT) video in the US, are at different stages in their respective product life cycles.

We are seeing a pay-TV market that is saturated, and slightly declining; a broadband market that is mature, but has some modest expansion left in it; and an OTT market that is still in the growth stage.

Over the past year in the US:

- The top pay-TV providers cumulatively lost about 40,000 subscribers – similar to the losses over the prior year
- The top broadband providers cumulatively added about 2.7 million subscribers – similar to their gain of about 2.6 million over the prior year
- Netflix added about 6.5 million paying streaming subscribers – compared to a gain of about 5.9 million over the prior year

- The percent of all adults watching video on non-TV devices daily increased from 27% to 31%

There is a tendency to look at the OTT and broadband gains coming at the direct expense of the pay-TV industry, **yet the differences often have to do as much with their comparative positions in the product life cycles as with market convergence.**

While the top broadband providers added about 900,000 more subscribers in 1Q 2014 than the number of additional pay-TV subscribers, it is misplaced to think that the broadband growth is due to a shift away from pay-TV. Pay-TV penetration is currently in the mid-80% range of all households in the US, while broadband penetration is in the mid-high 70% range. Broadband's growth is now largely among laggards, or new household formations. These are

Leichtman revealed that although the cable TV industry continues to face video subscriber loss, the rate of customer churn was actually the least in the reported quarter since the beginning of 2009.

- NASDAQ
May 20, 2014

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generally not innovators or early adopters who are now choosing broadband in lieu of a pay-TV service.

As the percentage of households with broadband has gradually been catching up to the percentage of households with a pay-TV service, it is inevitable that the overall percentage of those who get broadband and not a pay-TV service has increased. LRG surveys have shown an increase of about 5% of all households getting broadband and no pay-TV service over the past five years. Yet, **it is inaccurate to describe this group (or all with broadband and no pay-TV) as “cord-cutters.”** Some did not have a pay-TV service in the first place, and the decision to get broadband is not necessarily as a replacement for a pay-TV service among these later adopters.

Did you know?

72% with household incomes >\$75,000 have an iPad/tablet – compared to 21% <\$30,000

There is also an inclination to look at the pay-TV and OTT categories in a binary, either/or, fashion. The reality is, however, consumers do not necessarily treat these as mutually exclusive. As an example, while nearly half of all non-pay TV subscribers now get Netflix, 80% of Netflix subscribers still get a pay-TV service.

Much attention is (deservedly) paid to the segment of the market who do not

Overall, nearly a quarter of U.S. adults watch videos on an Internet-connected device at least weekly, up from 5% four years ago and 13% two years ago. The data were reported last week by Leichtman Research Group.

- Market Watch
June 14, 2014

subscribe to a pay-TV service, but it would be a very challenging business model for an OTT service to be solely focused on non-subscribers at the expense of the larger, more affluent, pay-TV subscriber base.

As we look at the relative gains (and losses) for OTT, broadband, and pay-TV in the US, we should remember the lesson from Stats 101 that “correlation does not imply causation.” While we may be seeing correlation between these groups, we are also seeing categories at different stages in their life cycles. The future successes of these categories do not exclusively come at the expense of one another, and in many ways they are interrelated.

49% of U.S. Households Have a TV Connected to the Internet

Leichtman Research Group, Inc. found that 49% of all US households have at least one television connected to the Internet via a video game system, Blu-ray player, smart TV set, and/or stand-alone device (like

Roku, Apple TV, or Google Chromecast) – up from 38% in 2012, and 24% in 2010. Overall, 24% of adults watch video from the Internet via a connected TV at least weekly, compared to 13% two years ago, and 5% four years ago.

Connected television use is heavily skewed towards Netflix subscribers, with 49% of Netflix subscribers watching video from the Internet via a connected device weekly, compared to 8% weekly use among all non-Netflix subscribers. Among Netflix streaming video users, 78% say that they watch Netflix on a TV set – a similar level to the previous three years.

These findings are based on a survey of 1,211 households nationwide, and are part of a new LRG study, Emerging Video Services VIII. This is LRG's eighth annual study on this topic.

Other related findings include:

- 80% of all Netflix subscribers also subscribe to a pay-TV service – compared to 85% in 2012, and 88% in 2010
- 48% of all non-subscribers to a pay-TV service get Netflix – compared to 29% in 2012, and 16% in 2010
- 15% of Netflix subscribers agree that their Netflix subscription is shared with others outside their household
- 47% of households get Netflix, Amazon Prime, and/or Hulu Plus
- On a daily basis, 31% of adults watch video on non-TV devices (including home computers,

mobile phones, iPads, tablets, and eReaders), and 58% weekly – up from 18% daily, and 46% weekly two years ago

- Including connected TV sets, 34% watch any over-the-top video daily, and 61% weekly

While this study is LRG's eighth annual report on this topic, emerging video services have truly emerged over the past two to three years. This recent growth was spurred by Netflix's decision in the third quarter of 2011 to focus on streaming video, coupled with the proliferation of connected TV devices, smartphones, iPads, and tablets.

Did you know?

31% of all adults stream Netflix weekly – compared to 4% in 2010

Nearly 1.2 Million Add Broadband in the First Quarter of 2014

Leichtman Research Group, Inc. found that the seventeen largest cable and telephone providers in the US – representing about 93% of the market – acquired nearly 1.2 million net additional high-speed Internet subscribers in the first quarter of 2014. These top broadband providers now account for over 85.5 million subscribers – with top cable companies having 50.3 million broadband subscribers, and top

telephone companies having over 35.2 million subscribers.

Other broadband findings for the quarter include:

- Overall, broadband additions in 1Q 2014 amounted to 105% of those in 1Q 2013
- The top cable companies accounted for 83% of the net broadband additions for the quarter versus the top telephone companies
- The top cable companies added about 970,000 subscribers, representing 121% of the net additions for the top cable companies in 1Q 2013
- The top telephone companies added about 200,000 subscribers, 64% of the total net additions for the top telephone companies in 1Q 2013
- AT&T and Verizon added 732,000 subscribers via U-verse and FiOS in 1Q 2014, while having a net loss of 638,000 DSL subscribers. U-verse and FiOS broadband subscribers now account for 49% of Telco broadband subscribers – compared to 40% a year ago
- The top cable broadband providers have a 59% share of the market versus Telcos, with about 15.1 million more subscribers than the top telephone companies – compared to 13.1 million more a year ago

With nearly 1.2 million net additions in the first quarter of 2014, broadband providers had their best quarter in two years. If recent history is an indicator,

however, gains will be slower over the next couple of quarters. In each of the past four years, net adds in the first quarter were greater than in the second and third quarters combined.

Nearly 60 percent of households buy broadband from their local cable companies, according to the Leichtman Research Group.

- **New York Times**
April 22, 2014

Major Multi-Channel Video Providers Added About 260,000 Subscribers in 1Q 2014

Leichtman Research Group, Inc. found that the thirteen largest multi-channel video providers in the US – representing about 94% of the market – added about 260,000 net video subscribers in 1Q 2014, compared to a gain of about 230,000 video subscribers in 1Q 2013.

The top multi-channel video providers account for nearly 95.8 million subscribers – with the top nine cable companies having 50.4 million video subscribers, satellite TV companies having 34.4 million subscribers, and top telephone companies having about 11 million subscribers.

The Leichtman Research Group, which compiles quarterly data from the 13 biggest TV providers in the country, found that **the industry added about 260,000 TV subscribers in the first quarter of the year.** Bruce Leichtman, the firm's president, called this the industry's best quarter in two years.

- **CNN Money**
May 20, 2014

Other key findings include:

- The top nine cable companies lost about 50,000 video subscribers in 1Q 2014 – the fewest quarterly losses since 1Q 2009
- Satellite TV providers added 52,000 subscribers in 1Q 2014 – compared to a gain of 57,000 in 1Q 2013
- The top telephone providers added 258,000 video subscribers in 1Q 2014 – compared to 401,000 net additions in 1Q 2013
 - Verizon FiOS's net adds in 1Q 2014 were the fewest in any quarter since 2Q 2006

- Cumulative net additions for the top multi-channel video providers in 1Q 2014 were the most in any quarter since 1Q 2012
- Over the past year, multi-channel video providers lost about 37,000 subscribers, similar to a loss of about 43,000 over the prior year

In the first quarter of 2014, the multi-channel video industry had its best quarter in two years, and cable providers had the fewest video losses in any quarter in the past five years. Industry-wide net losses of about 40,000 subscribers over the past year were nearly identical to losses over the prior year.

Did you know?

49% of multi-channel video subscribers watch sports frequently – compared to 20% of non-subscribers

Industry by the Numbers

Top Pay-TV Providers in the U.S.

<i>Cable Companies</i>	Subscribers at End of 1Q 2014	Net Adds in 1Q 2014
Comcast [^]	21,601,000	24,000
Time Warner	11,359,000	(34,000)
Charter	4,355,000	13,000
Cablevision	2,799,000	(14,000)
Suddenlink	1,187,500	2,400
Mediacom	937,000	(8,000)
Cable ONE	542,563	(14,331)
Other major private companies*	6,655,000	(20,000)
TOTAL TOP CABLE	50,418,063	(50,931)
<i>Satellite TV Companies (DBS)</i>		
DirecTV	20,265,000	12,000
DISH	14,097,000	40,000
TOTAL TOP DBS	34,362,000	52,000
<i>Telephone Companies</i>		
AT&T U-verse	5,661,000	201,000
Verizon FiOS	5,319,000	57,000
TOTAL TOP PHONE	10,980,000	258,000
TOTAL TOP PAY-TV PROVIDERS	95,760,063	259,069

Sources: The Companies and Leichtman Research Group, Inc.

* Includes LRG estimates for Cox and Bright House Networks

[^] Comcast revised its methodology for counting subscribers to a Billable Customer method in 1Q 2014

Top cable companies do not include overbuilder WOW with 694,300 subscribers

Net additions reflect pro forma results from system sales and acquisitions

Top multi-channel video providers represent approximately 94% of all subscribers

Company subscriber counts may not solely represent residential households

Note that LRG consumer research finds that about 1% of households subscribe to both cable and DBS

Top Broadband Internet Providers in the U.S.

<i>Cable Companies</i>	Subscribers at End of 1Q 2014	Net Adds in 1Q 2014
Comcast*	21,068,000	383,000
Time Warner	11,889,000	283,000
Charter	4,788,000	148,000
Cablevision	2,788,000	8,000
Suddenlink*	1,103,100	35,100
Mediacom	984,000	19,000
WOW (WideOpenWest)*	756,700	16,700
Cable ONE	484,168	11,537
Other Major Private Companies**	6,450,000	65,000
Total Top Cable	50,310,968	969,337
<i>Telephone Companies</i>		
AT&T	16,503,000	78,000
Verizon	9,031,000	16,000
CenturyLink	6,057,000	66,000
Frontier^	1,873,000	37,000
Windstream	1,170,400	(500)
FairPoint	351,538	1,772
Cincinnati Bell	270,000	1,600
Total Top Phone	35,235,938	199,872
Total Top Broadband Providers	85,546,906	1,169,209

Sources: The Companies and Leichtman Research Group, Inc.

* Subscriber totals slightly adjusted from prior quarters

** Includes LRG estimates for Cox and Bright House Networks

^ 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

U.S Residential Telephone Lines – Gains and Losses

	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014
Telco net adds	(895,000)	(880,000)	(890,000)	(780,000)	(730,000)
Cable net adds	300,000	190,000	100,000	315,000	335,000

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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