Leichtman Research Group, Inc.

Research Notes

3Q 2009 *Actionable Research on the Broadband, Media & Entertainment Industries*

Not Dead Yet

In January 2006, I moderated an industry panel where one of the panelists stated that "the days of linear TV are dead." While such a statement was certainly provocative, an obituary for linear TV was extremely premature at that time. Even today, going on four years later, traditional TV remains much like the plague victim in the movie *Monty Python and the Holy Grail* saying "I'm not dead yet."

Certainly TV has been forever altered by technological innovations along with related changes in consumer behavior, yet the pace and dimensions of change may not always match the hyperbole. In order to best navigate the future course of TV, it is best to start with a clear picture of where we stand today.

A recent LRG survey of 1,300 households nationwide found that:

- 36% of U.S. households now have a DVR (over four times the penetration of just four years ago)
- Over 20% of households watched an on-Demand (VOD) TV program or movie from a cable or Telco TV provider in the past month (about double the rate of four years ago)

While time shifting of TV has grown in recent years, LRG estimates that **well over 90% of all TV viewing in the US today remains "traditional" live-linear TV.**

In addition, despite the opportunity to view video on non-TV based platforms (like online or on mobile devices), research continues to show that **98-99% of all video today is still viewed on the TV set.**

The greatest impact on today's TV landscape was not the more widespread adoption of broadband that began about five years ago, nor was it the introduction of TiVo and other digital video recorders that began about ten years ago. Rather it was the introduction of direct broadcast satellite (DBS) TV services that began 15 years ago.

DBS, with its increased channel capacity, ultimately pressured cable operators to upgrade their systems in order to provide a parity offering. Competition between cable and DBS resulted in a dramatic increase in the number of TV channels available to US households in the past decade. According to Nielsen Media Research, the number of channels available in the

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average US TV household in 2008 was 130.1 – up from 61.4 channels in 2000. **This proliferation of channels led to the development that most impacts TV today – audience fragmentation.** It wasn't long ago that programs commanding audiences the size of recent Emmy winners like "30 Rock" and "Mad Men" would have been cancelled quickly.

> *"We have a tendency to forget that this is an evolutionary process," said Bruce Leichtman, president and principle analyst at Leichtman Research Group.*
>
> *"If we go back to 2004, the number of people using on demand on a monthly basis was only 6.5 million; but by 2008, we were talking about 23 million using it monthly. That is tremendous growth."*
>
> - **Multichannel News**
>   *July 17, 2009*

Traditional TV definitely looks different than it did a decade ago, and how it will likely look in the future. Audience fragmentation, time-shifting, and video on alternative devices all remain factors in the evolution, not demise, of TV viewing.

DVRs Now in Over One-Third of U.S. Households

New consumer research from Leichtman Research Group, Inc. (LRG) finds that 36% of TV households in the United States have at least one Digital Video Recorder (DVR) – an increase from just 8% four years ago.

In addition, 63% of all digital cable subscribers have ever used Video on-Demand (VOD), with 88% of this group having watched an on-Demand program or movie in the past month. Overall, about twice as many cable subscribers have used VOD as four years ago.

Other related findings include:

- 65% of DVR owners, and 54% of digital cable VOD users, agree (8-10 on a 10 point scale) that they usually watch recorded DVR or on-Demand programs when there is nothing on regularly scheduled TV that they want to watch
- In households that have both a DVR and are VOD users, 57% start by watching live TV – in households that just have a DVR, 68% start with live TV
- 44% of DVR owners record five or fewer programs per week
- 85% would recommend their DVR service to a friend (8-10), and 77% highly rate their DVR (8-10)
- 68% of VOD users who also have a DVR agree (8-10) that their TV service is better because they have both services

These findings are based on a telephone survey of 1,300 households from throughout the United States and are part of a new LRG study, *On-Demand TV 2009: A Nationwide Study on VOD and DVRs*. This is LRG's eighth annual study on this topic.

Driven by cable, DBS, and Telco video providers pushing DVRs into the home as part of a combined HD/DVR set-top box, LRG estimates that DVRs will be in about 71 million households at the end of 2013 – double the number of households with DVRs at the end of 2008. LRG forecasts that DVR and VOD's share of total TV viewing time in the US will increase from about 8% today to 18% at the end of 2013.

Did you know?

In the first half of 2009, major providers added 1.29 million net new multi-channel video subs – compared to 970,000 in the first half of 2008, and 1.15 million in the first half of 2007.

Under 650,000 Add Broadband in the Second Quarter of 2009

Leichtman Research Group, Inc. found that the nineteen largest cable and telephone providers in the US – representing about 93% of the market – acquired 634,000 net additional high-speed Internet subscribers in the second quarter of 2009. Net broadband additions in the quarter were the fewest of any quarter in the eight years LRG has been tracking the industry.

Other broadband findings for the quarter include:

- The top phone companies added about 385,000 subscribers, representing 61% of the net broadband additions for the quarter versus the top cable companies
- Overall, broadband additions in 2Q 2009 amounted to 71% of those in 2Q 2008 – with Telcos having 178% as many additions as a year ago, and cable 37% as many adds as a year ago
- The top broadband providers now account for 69.9 million subscribers – with cable companies having 38 million broadband subscribers, and telephone companies having about 31.9 million subscribers
- The top cable broadband providers have a 54% share of the overall market

The second quarter has proven to be traditionally weak for broadband growth but, with the market becoming more mature, broadband adds further waned in 2Q 2009. In a reverse of last year's second quarter, when cable operators got three-quarters of the net broadband adds, Telcos earned over 60% of the broadband net adds in 2Q 2009.

In related broadband research, LRG's analysis of the Federal Communications Commission's (FCC) July 2009 report *High Speed Services for Internet Access:*

More than two-thirds of U.S. households now subscribe to a broadband service, compared to just one-fifth five years ago, according to recent data from Leichtman Research Group.

- CNN Money
August 11, 2009

Status as of June 30, 2008 found that:

- The top five states in residential broadband penetration as of mid-2008 were New Jersey, Connecticut, Maryland, Hawaii, and California
- The bottom five states in residential broadband penetration were Mississippi, West Virginia, Alabama, New Mexico, and Montana
- 89% of cable broadband lines had speeds of over 2.5 mbps in the fastest direction – compared to 46% of Telco's combined DSL and fiber lines

Did you know?

Telcos (Verizon and AT&T) are the 8th and 10th largest video providers in the US – while cable companies (Comcast, Time Warner, Cox, Cablevision, and Charter) are now five of the top ten residential phone companies in the US.

Industry by the Numbers – (as of the end of 2Q 2009)

Top 10 Cable MSOs in the U.S.

	Passings	Subscribers	Availability	Penetration	Net Adds in 2Q 2009	Net Adds in 2Q 2008
Basic Cable	115,800,000	56,500,000		48.8%	(415,000)	(230,000)
Digital Cable*	115,600,000	38,350,000	99.8%	69.6%	440,000	800,000
Broadband Internet**	114,600,000	37,700,000	99%	32.9%	250,000	670,000
Telephone***	103,800,000	18,300,000	95%	17.6%	505,000	1,090,000

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 or Suddenlink*

DBS

	Subscribers	Net Adds in 2Q 2009	Gross Adds in 2Q 2009	Subscriber Acquisition Cost*	Average Revenue Per Sub/Month**
DIRECTV	18,305,000	224,000	1,048,000	$727	$83.16
DISH Network	13,610,000	26,000	731,000	$708	$70.73
Total DBS	**31,915,000**	**250,000**	**1,779,000**		

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*

Telco Video

	Subscribers	Net Adds in 2Q 2009	Net Adds in 2Q 2008
Verizon FiOS	2,517,000	300,000	176,000
AT&T U-verse	1,577,000	248,000	170,000
Total	**4,094,000**	**548,000**	**346,000**

Sources: The Companies and Leichtman Research Group, Inc.

U.S. Residential Telephone Lines – Gains and Losses

	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q2009
RBOC Net Adds*	(2,131,000)	(2,222,000)	(1,890,000)	(1,768,000)	(1,774,000)
Cable Net Adds	1,090,000	965,000	720,000	715,000	505,000

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

Top Broadband Internet Providers in the U.S.

Broadband Internet Provider	Subscribers at the end of 2Q 2009	Net Adds in 2Q 2009
Cable		
Comcast	15,322,000	64,000
Time Warner	9,046,000	94,000
Cox*	4,110,000	30,000
Charter	2,957,700	10,600
Cablevision	2,503,000	18,000
Mediacom	754,000	6,000
Insight	481,500	3,000
Cable One	386,472	371
RCN	307,000	1,000
Other Major Private Companies**	2,137,500	22,500
Total Top Cable	**38,005,172**	**249,471**
Telephone Companies		
AT&T	15,548,000	112,000
Verizon	9,111,000	186,000
Qwest	2,923,000	34,000
CenturyLink^	2,145,000	28,200
Windstream	1,024,600	14,900
Frontier	613,810	13,763
FairPoint	296,107	(4,775)
Cincinnati Bell	235,400	400
Total Top Phone	**31,897,117**	**384,488**
Total Broadband	**69,902,289**	**633,959**

Sources: The Companies and Leichtman Research Group, Inc.

** LRG estimate*
*** Includes LRG estimates for Bright House Networks and Suddenlink*
^ On July 1, 2009, CenturyTel and Embarq merged to form CenturyLink
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

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