

Research Notes

4Q 2011

Actionable Research on the Broadband, Media & Entertainment Industries

The Phenomenon That Still Isn't

How many subscribers did the multi-channel video industry lose over the past year? The answer may be surprising to many.

The top fourteen multi-channel video providers in the U.S. (representing about 94% of the industry) did not cumulatively lose **any** subscribers over the past year. Despite record losses in 2Q 2011, **in the first three quarters of 2011, the top video providers added about 150,000 subscribers, and over the past year the industry added nearly one-quarter of a million subscribers.**

Did you know?
DirecTV's gross adds in 3Q 2011 were the most in the past ten years

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While this degree of growth is no cause for celebration, neither is it evidence of the dire predictions of video cord-cutting. Predictions that have been prevalent for the past few years, and have recently intensified. Several reports foretold the imminent rise of cord-cutting, and corresponding demise

for multi-channel video providers. A few examples include:

- “1 in 8 Consumers Will Ax Their Coax This Year” (April, 2010)
- “Third of Young Netflix Users Cut Cable” (September, 2010)
- “Are One in Four of You Really Going to Cut Cable and Switch to Web Video?” (January, 2011)
- “2011 Prediction: This Will Be the Year of Cord Cutting”

These certainly make for provocative headlines, but none have proven to be true, **and 2011 will not be remembered as the year of cord-cutting.**

However, growth in the multi-channel video industry is waning. While the multi-channel video

industry gained about 240,000 subscribers over the past year, this compares to a gain of about 780,000 over the prior year.

- Cable providers lost about 1.77 million subscribers over the past year – similar to 1.76 million over the prior year

But cable industry losses, however, continue to be more than offset by share-shifting to Telco and DBS providers.

- Telcos added 1.53 million video subscribers over the past year – compared to 1.61 million over the prior year
- DBS providers added about 480,000 subscribers over the past year – compared to about 930,000 over the prior year

The overriding factors affecting the multi-channel video industry remain a relatively saturated market, combined with the continued lack of housing growth nationwide. Nearly 90% of households get some form of multi-channel video service and, in the absence of new houses, there is limited ability to “grow the pie.”

The economy is certainly causing many households to examine their media, entertainment and communications spending, but for the vast majority, this does not include a binary (go/no go) decision on subscribing to a multi-channel video service. Spending on multi-channel video is generally part of a larger bundle – with over two-thirds of households getting two or more services from a single provider. Many are looking at how to optimize their bundled spending, rather than just their spending on video services.

Cord-cutting is still having a minimal impact on the industry. **The definition of cord-cutting has seemingly morphed over the past few years.** Originally it meant those who disconnected from a multi-channel service to watch video via the Internet. More recently, however, it expanded to include those who left the multi-channel video category to watch over-the-air broadcast TV. Before “over the top”

Some observers argue that the current dangers are also being overstated and that the traditional pay-TV model won't be changing anytime soon.

“There are alternatives,” acknowledged Bruce Leichtman, a cable industry analyst. “But the average home is still watching five and a half hours of TV a day.”

- **Crain's New York Business**
September 11, 2011

video ever existed there was generally 1%-2% of all households going in and out of the category each year. Over the past year, LRG studies have found about 0.2%-0.3% of all households cutting the cord, using the original definition.

With each new year comes a new opportunity for provocative headlines. One recent headline read, “*Time to Say Goodbye to the Cable Guy: Why You'll Buy TV on the Web in 2012.*” Check back in a year to see how far we've actually come.

Did you know?

HD owners have a mean of 3.1 TV sets – compared to a mean of 2.5 TV sets in non-HDTV households

HDTV Sets Now in Over Two-Thirds of U.S. Households

New consumer research from Leichtman Research Group, Inc. (LRG) found that 69% of households in the United States have at least one high definition television (HDTV) set – up from 17% in 2006. Over the past five years, 52% of US households adopted HDTV.

“People wanted 2011 to be the year of the cordcutter, and that just isn’t happening,” Bruce Leichtman, president and principal analyst at the Leichtman Research Group, said.

- **Multichannel News**
January 2, 2012

In addition, 48% of HDTV households have more than one HDTV. Overall, about one-third of all US households now have multiple HDTV sets – up from about one-sixth of all households two years ago, and 4% five years ago. Yet, about 45% of TV sets in HD households, and close to 60% of all TV sets in the US, are not HDTVs.

These findings are based on a survey of 1,302 households throughout the United States, and are part of a new LRG study, *HDTV and 3D TV 2011*. This is LRG’s ninth annual study related to HDTV.

Other related findings include:

- 85% with annual household incomes over \$75,000 have an

HDTV – compared to 67% with annual household incomes of \$30,000-\$75,000, and 48% with annual household incomes under \$30,000

- Mean reported spending on an HDTV set was about \$940 – 23% less than two years ago, and about half the reported spending five years ago
- Among those getting HD programming from a cable, satellite, or Telco TV provider, the perceived mean number of channels of HD programming is 75 – up from 53 two years ago, and 28 five years ago
- Less than 3% of all US households currently have an HDTV set that is 3D-capable – and 45% of this group do not watch any content in 3D
- Nearly 80% of adults in the US have heard of 3D TV – of those who have heard of 3D TV, 5% are very interested in getting a 3D TV
- 21% of all households purchased a new TV set in the past 12 months, and 19% of all households plan to purchase a new TV set in the next 12 months

In just the past five years, over half of all US households have adopted HDTV, bringing the total to nearly 70% of all households having at least one HDTV set. While lower prices have helped to expand the base of HD households, and those who have multiple HDTV sets, still close to 60% of all TV sets in US

households are not HDTVs – this provides ample opportunity for the sale of more HDTV sets going forward.

Over 635,000 Add Broadband in the Third Quarter of 2011

Leichtman Research Group, Inc. found that the eighteen largest cable and telephone providers in the US – representing about 93% of the market – acquired about 635,000 net additional high-speed Internet subscribers in the third quarter of 2011. These top broadband providers now account for over 77.8 million subscribers – with cable companies having 43.6 million broadband subscribers, and telephone companies having 34.2 million subscribers.

Other broadband findings for the quarter include:

- The top cable companies added over 525,000 subscribers, representing 83% of the net broadband additions for the quarter versus the top telephone companies
- Overall, broadband additions in 3Q 2011 amounted to 77% of those in 3Q 2010 – with cable having 98% as many additions as a year ago, and Telcos 38% as many additions as a year ago
- Comcast added 261,000 broadband subscribers in the quarter – 41% of the total for the top providers

- AT&T and Verizon added 642,000 fiber subscribers in the quarter (via U-verse and FiOS), while having a net loss of 619,000 DSL subscribers
- The top cable broadband providers have a 56% share of the overall market, with nearly a 9.5 million subscriber advantage over the top telephone companies – compared to 8.2 million a year ago

Following the traditionally weak second quarter, the broadband market rebounded with over 635,000 net additional broadband customers in 3Q 2011. Over the first three quarters of 2011, the top broadband providers added nearly 2.3 million subscribers, compared to 2.6 million subscribers added in the first three quarters of 2010.

Did you know?

Over the past year, cable companies had about 1.25 million more net broadband additions than phone companies

Industry by the Numbers – (as of the end of 3Q 2011)

Top 10 Cable MSOs in the U.S.

	Passings	Subscribers	Penetration	Net Adds in 3Q 2011	Net Adds in 3Q 2010
Basic Cable	119,400,000	52,975,000	44.4%	(510,000)	(620,000)
Digital Cable*		43,430,000	82.0%	90,000	340,000
Broadband Internet**	118,900,000	43,340,000	36.5%	525,000	535,000
Telephone***	113,000,000	23,240,000	20.6%	220,000	405,000

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; among the top MSOs, digital cable is now available to essentially 100% of basic subscribers

** Internet data does not include RCN

*** Telephone data does not include Bright House Networks

DBS

	Subscribers	Net Adds in 3Q 2011	Gross Adds in 3Q 2011	Subscriber Acquisition Cost*	Average Revenue Per Sub/Month**
DIRECTV	19,760,000	327,000	1,280,000	\$793	\$92.21
Dish Network	13,945,000	(111,000)	656,000	\$789	\$76.99
Total DBS	33,705,000	216,000	1,936,000		

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 3Q 2011	Net Adds in 3Q 2010
Verizon FiOS	3,979,000	131,000	204,000
AT&T U-verse	3,583,000	176,000	236,000
Total	7,562,000	307,000	440,000

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 3Q 2011	Net Adds in 3Q 2011
Cable		
Comcast	17,811,000	261,000
Time Warner	10,167,000	105,000
Cox*	4,465,000	40,000
Charter^	3,580,100	60,100
Cablevision	2,949,000	17,000
Suddenlink	937,200	23,000
Mediacom	850,000	(5,000)
Insight	543,800	6,300
Cable ONE	448,143	3,786
Other Major Private Companies**	1,914,000	16,000
Total Top Cable	43,665,243	527,186
Telephone Companies		
AT&T	16,476,000	3,000
Verizon	8,572,000	20,000
CenturyLink	5,484,000	57,000
Frontier^^	1,728,400	13,281
Windstream	1,345,800	9,300
FairPoint	312,475	7,320
Cincinnati Bell	258,700	800
Total Top Phone	34,177,375	110,701
Total Broadband	77,842,618	637,887

Sources: The Companies and Leichtman Research Group, Inc.

* LRG estimate

** Includes LRG estimates for Bright House Networks and RCN

^ Includes non-residential subscribers

^^ 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



LRG
Leichtman Research Group

Leichtman Research Group, Inc.

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