



Sharing the Streaming Road

About nine years ago, Netflix reportedly identified a model wherein the streaming service could ultimately grow to two to three times larger than HBO's traditional domestic service, which would equate to 60-90 million subscribers in the U.S. At the end of 1Q 2019 Netflix stated having 60.2 million paying streaming subscribers in the U.S., more than double the number of subscribers from six years earlier, and hitting the outer

ring of their lofty target for the first time ever. Yet, the road to the bullseye of 90 million subscribers will likely have more obstacles than just the upcoming increase in streaming competitors.

After surpassing 60 million domestic paying subscribers, Netflix followed with its first ever quarterly net streaming subscriber loss. The modest net loss was

largely related to the recent rate increase. As of the end of 2Q 2019, Netflix had 60.1 million paying streaming subscribers in the U.S., and an additional 1.6 million free trial subscribers. Dividing these 61.7 million subscribers by the 122.5 million occupied housing units, as reported by the U.S. Census Bureau at the end of 2Q 2019, **reveals that 50% of U.S. households subscribe to Netflix.**

However, in recent LRG surveys (consistent with other sources), over 60% of adults say that they have Netflix in their household. The difference between

the actual penetration of Netflix and that found in LRG's studies is not due to survey design or methodology errors. Rather, it is the difference between "have" and "subscribe." This discrepancy is a result of the sharing of Netflix subscriptions, which is common among all streaming services.

LRG's recent study, *Emerging Video Services 2019*, found **that 27% of adults that have Netflix agree that "my Netflix subscription is shared with others outside my household."** This compares to 27% in 2017, and 15% in 2014. This study also found that 19% shared their Hulu subscription, and 10% shared Amazon Prime. Password sharing extends beyond SVOD to other streaming services as well. An LRG study from earlier this year found that 31% with direct-to-consumer (DTC) premium services, like HBO NOW, share the services with others outside the household.

Among those admitting that their streaming services are shared with others, about half are paying for the services, and about half are on the receiving side. **The latter group is essentially getting a free trial in perpetuity.**

Sharing of services may be somewhat against the rules, but it is generally easy for consumers to do, and it is tacitly accepted by providers because it helps provide retention "glue" to the paying subscriptions, and potentially generates future subscribers.

Netflix's Terms of Use 4.2 states that: *"The Netflix service and any content viewed through our service are for your personal and non-commercial use only and may not be shared with individuals*

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beyond your household.” (It seems that many “households” have correspondingly expanded to include old roommates, distant relatives, hairstylists, and others.)

Addressing this issue three years ago in Netflix’s 3Q 2016 Earnings Call, CEO Reed Hastings said, *“(There are) no plans on making any changes... Password sharing is something you have to learn to live with because there’s so much legitimate password sharing, like you sharing with your spouse, with your kids... We’re doing fine as is.”*

Password sharing is not a new issue for the industry, and Netflix is not the only company that has learned to live with it. Speaking at a conference in January 2014, then HBO CEO Richard Plepler explained why sharing was condoned: *“To us, it’s in many ways a terrific marketing vehicle for the next generation of viewers... It presents the brand to more and more people, and gives them an opportunity hopefully to become addicted to it. What we’re in the business of doing is building addicts, building video addicts. The way we do that is by exposing our product, and our shows, and our brand, to more and more people.”*

While the use of the term “addict” may not be the one chosen today, it does demonstrate why password sharing is typically accepted. Yet, what may have occurred over the past five years is that some **consumers have not just gotten hooked on the various streaming services, they are hooked on getting the services for free.**

The *Emerging Video Services 2019* study found that password sharers tend to be more frequent users of the streaming services, and they are generally more satisfied with the services. Unsurprisingly, they are also more likely

to be younger adults, as seen in these findings:

- 42% of ages 18-34 agree that their Netflix subscription is shared with others – compared to 19% of ages 35+
- 28% of ages 18-34 agree that their Hulu subscription is shared with others – compared to 11% of ages 35+
- 17% of ages 18-34 agree that their Amazon Prime subscription is shared with others – compared to 6% of ages 35+

With the aid of shared accounts, a whopping 81% of ages 18-34 have Netflix, and 88% get any of the top three SVOD services. The downside of the high penetration of Netflix among younger adults is that incremental growth within this key age group is limited. A road to growth is essentially clogged by those that have the service, but are not paying to subscribe.

The year ahead will bring new big-name streaming services into the market, including Apple TV+, Disney+, HBO Max, and Peacock (from NBCU). These will all be competing with existing services for consumers’ time and money. The term “streaming wars” is becoming in vogue to describe the changes in the market, along with speculation and analysis on how many total services consumers will subscribe to, and how much consumers will be willing to spend on services.

Yet, it is important to keep in mind that like many existing streaming services, **these new services are often part of larger corporate strategies** that continue to attempt to leverage brands, products, and shows in multiple ways. Some streaming services are, and will be, given away as added value when you pay an annual fee for expedited shipping, or purchase an iPhone, or subscribe to Comcast’s cable TV service. Some services will be

bundled with other content for the same company, and some services will be shared by consumers without paying for them.

A willingness to share streaming services has already been established, particularly among younger individuals. It is likely that the new services too will be tested and shared, and this in turn could lead to sharing of existing services. There may not be a ceiling on the number of streaming services that consumers will get, but there may be a limit to how much consumers are willing to pay, especially when no-cost options are easy to access. Overall, **more streaming options will likely result in more sharing.**

While Netflix recently hit 60 million subscribers in the U.S., the total number households that have Netflix is likely closer 75 million. A few years from now, Netflix may actually achieve their original high-end target of 90 million. Yet, due to sharing, there will be 90 million that “have” the service long before 90 million paying subscribers is ever possible.

74% of U.S. Households Have an SVOD Service

New consumer research from Leichtman Research Group, Inc. finds that 74% of all U.S. households have a subscription video on-Demand (SVOD) service from Netflix, Amazon Prime, and/or Hulu – up from 64% in 2017, and 52% in 2015.

Among those that have an SVOD service, 69% have more than one of these services – up from 51% in 2017, and 38% in 2015. Overall, 51% of U.S. households now have more than one SVOD service, an increase from 33% in 2017, and 20% in 2015.

These findings are based on a survey of 1,116 households nationwide and are part of a new LRG study, *Emerging Video Services 2019*. This is LRG’s thirteenth annual study on this topic.

Other findings include:

- 64% of all adults stream an SVOD service at least monthly, and 41% stream more than one SVOD service at least monthly
- 33% of adults stream an SVOD service daily – compared to 29% in 2017, and 16% in 2015
- 51% of ages 18-34 stream an SVOD service daily – compared to 34% of ages 35-54, and 15% of ages 55+
- 51% of adults watch video on non-TV devices (including mobile phones, home computers, tablets, and eReaders) daily – up from 43% in 2017, and 31% in 2014

Nearly three-quarters of all U.S. households have at least one SVOD service, and one-third of all adults stream an SVOD service daily, including half of all ages 18-34.

With over half of all households now getting multiple SVOD services, and new streaming services on the way, it is inevitable that the number of households having and using multiple services will continue to grow. However, with expanded options, consumers will increasingly decide which streaming services they pay for directly, and which they share with others.

Major Pay-TV Providers Lost About 1,530,000 Subscribers in 2Q 2019

Leichtman Research Group, Inc. found that the largest pay-TV providers in the U.S. – representing about 93% of the market – lost about 1,530,000 net video subscribers in 2Q 2019, compared to a pro forma net loss of about 420,000 subscribers in 2Q 2018.

The top pay-TV providers now account for about 86.6 million subscribers – with the top seven cable companies having 46.5 million video subscribers, satellite TV services 27.5 million subscribers, the top telephone companies 8.8 million subscribers, and the top publicly reporting Internet-delivered (vMVPD) pay-TV services 3.8 million subscribers.

Key findings for the quarter include:

- Satellite TV services lost about 855,000 subscribers in 2Q 2019 – compared to a net loss of about 480,000 subscribers in 2Q 2018
 - DIRECTV had record net losses for the fifth consecutive quarter, while DISH TV had fewer net losses than in any quarter since 4Q 2014
- The top seven cable companies lost about 455,000 video subscribers in 2Q 2019 – compared to a loss of about 275,000 subscribers in 2Q 2018
 - Cable net losses were more than in any quarter since 2Q 2014
- The top telephone providers lost about 100,000 video subscribers in 2Q 2019 – compared to a loss of about 45,000 subscribers in 2Q 2018
- Internet-delivered (vMVPD) services, Sling TV and AT&T NOW, lost 120,000 subscribers in 2Q 2019 –

compared to about 385,000 net adds in 2Q 2018

- Over the past year, top pay-TV providers had a net loss of about 5,015,000 subscribers – compared to a loss of about 1,060,000 subscribers over the prior year
 - Over the past year, DBS services lost about 3,175,000 subscribers – compared to a loss of about 1,590,000 subscribers over the prior year
 - Over the past year, publicly reporting vMVPDs lost about 340,000 subscribers – compared to a gain of 1,845,000 subscribers over the prior year

The top pay-TV providers had a net loss of about 1,530,000 subscribers in 2Q 2019. This marked the fourth consecutive quarter of record pay-TV industry net losses.

With an increased focus on acquiring and retaining profitable subscribers, DBS services accounted for more than half of the net pay-TV losses in 2Q 2019, and 63% of the losses over the past year.



Did You Know ...

54% of TV households get both a pay-TV service and an SVOD service, while 20% of TV households only get an SVOD service

About 370,000 Added Broadband in 2Q 2019

Leichtman Research Group, Inc. found that the largest cable and telephone providers in the U.S. – representing about 96% of the market – acquired about 370,000 net additional broadband Internet subscribers in 2Q 2019, compared to a pro forma gain of about 480,000 subscribers in 2Q 2018.

These top broadband providers now account for 99.9 million subscribers, with top cable companies having 66.2 million broadband subscribers, and top telephone companies having 33.7 million subscribers.

Key findings for the quarter include:

- Overall, broadband additions in 2Q 2019 were 77% of those in 2Q 2018
- The top cable companies added about 530,000 subscribers in 2Q 2019 – 90% of the net add for the top cable companies in 2Q 2018
- The top telephone companies had a net loss of about 160,000 subscribers in 2Q 2019 – compared to a net loss of about 110,000 subscribers in 2Q 2018
- Over the past year, there were about 2,520,000 net broadband additions – compared to about 2,275,000 net broadband adds over the prior year

With the addition of 370,000 subscribers in the quarter, top broadband providers in the U.S. cumulatively now account for nearly 100 million subscribers, including about 6% non-residential subscribers.

On a pro forma basis, these top sixteen broadband providers accounted for about 13.5 million broadband additions over the past five years, and 28.9 million net adds over the past ten years.



Did You Know ...

In TV households, 36% with a shared Netflix account do not subscribe to a pay-TV service – compared to 26% with Netflix service that is not shared with others outside their household

Industry by the Numbers

Top Pay-TV Providers in the U.S.

Cable Companies	Subscribers at end of 2Q 2019	Net Adds in 2Q 2019
Comcast	21,641,000	(224,000)
Charter	16,320,000	(141,000)
Cox*	3,940,000	(40,000)
Altice	3,276,500	(20,800)
Mediacom	747,000	(17,000)
Cable ONE	308,493	(12,118)
Atlantic Broadband**	307,261	(345)
Total Top Cable	46,540,254	(455,263)
Satellite Services (DBS)		
DIRECTV^	17,901,000	(778,000)
DISH TV	9,560,000	(79,000)
Total DBS	27,461,000	(857,000)
Phone Companies		
Verizon FIOS	4,346,000	(52,000)
AT&T U-verse^	3,704,000	0
Frontier	738,000	(46,000)
Total Top Phone	8,788,000	(98,000)
Internet-Delivered (vMVPD)		
Sling TV	2,472,000	48,000
AT&T NOW^^	1,340,000	(168,000)
Total Top vMVPD^^^	3,812,000	(120,000)
Total Top Pay-TV	86,601,254	(1,530,263)

Sources: The Companies and Leichtman Research Group, Inc.

* LRG estimate

** Added to top provider list in 2Q 2019, Atlantic Broadband's reporting cycle ends one month earlier than others

^ AT&T combines totals for DIRECTV and U-verse into "Premium TV" – separate results are LRG estimates

^^ The DIRECTV NOW brand name was changed to AT&T NOW in 3Q 2019

^^^ Internet-delivered (vMVPD) does not include Hulu with Live TV, YouTube TV, PlayStation Vue, or others

Company subscriber counts may not solely represent residential households

Top pay-TV providers represent approximately 93% of all subscribers

Top cable companies do not include overbuilder WOW with 388,100 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

Top Broadband Internet Providers in the U.S.

Cable Companies	Subscribers at end of 2Q 2019	Net Adds in 2Q 2019
Comcast	27,807,000	209,000
Charter	25,945,000	258,000
Cox*	5,120,000	20,000
Altice	4,168,100	13,100
Mediacom	1,303,000	15,000
WOW (WideOpenWest)	765,500	(400)
Cable ONE	681,762	3,377
Atlantic Broadband**	443,696	14,134
Total Top Cable	66,234,058	532,211
Telephone Companies		
AT&T	15,698,000	(39,000)
Verizon	6,968,000	(5,000)
CenturyLink	4,750,000	(56,000)
Frontier	3,626,000	(71,000)
Windstream	1,034,300	1,900
Consolidated	783,008	2,288
TDS^	433,400	5,800
Cincinnati Bell^^	425,500	(1,200)
Total Top Phone	33,718,208	(162,212)
Total Top Broadband	99,952,266	369,999

Sources: The Companies and Leichtman Research Group, Inc.

* LRG estimate

** Added to top provider list in 2Q 2019, Atlantic Broadband's reporting cycle ends one month earlier than others

^ Added to list in 2Q 2019, TDS includes 260,800 wireline broadband subscribers, and 172,600 cable broadband subscribers

^^ Includes the acquisition of Hawaiian Telecom

Company subscriber counts may not solely represent residential households

Top cable and telephone companies represent approximately 96% 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 finding



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