Leichtman Research Group

Research Notes

3Q 2022 *Actionable Research on the Broadband, Media & Entertainment Industries*

The Fast Road to Maturity

A year ago, our spaniel, Mabel, was a 6-month-old puppy. She was full of of boundless energy, and seemed to get bigger every day. Today she is fully grown, and is (generally) calmer than in the past. While the common rule of thumb is that one human year equals seven dog years, the reality, according to the AKC, is that a two-year-old dog is better equated with a 24-year-old human.

This accelerated pace to maturity has also been seen in streaming video services. While streaming's growth was not at the frenzied early rate of a puppy, **fifteen years after the launch of major streaming services, these services are now in over four-fifths of U.S. households**. This is a level of adoption that took cable TV, and the addition of satellite TV, more than four decades to achieve. Of course, the growth of streaming versus pay-TV services is not an apples-to-apples comparison, but it is evidence of how quickly streaming video has integrated into household TV viewing.

In this issue:

Netflix—originally named Kibble, prior to the company's launch—started streaming in 2007. This was also the year that Hulu was launched, coming just months after the introduction of Amazon Unbox (the precursor to Prime Video) in late 2006.

The growth of these three top subscription video on-Demand (SVOD) services has been tracked in LRG's annual *Emerging Video Services* studies. (Additional highlights from this year's study are also addressed later in these Research Notes). The studies have found that:

- By 2015, 52% of U.S. households had at least one of these three SVOD services, and they are now in 83% of households

Increasingly, households have more than one of these SVOD services.

- In 2015, 20% of all households had more than one top SVOD service, climbing to 64% in this year's survey

More significant than just having more SVOD services in the home is the expanded use of SVOD, and the related importance of these services.

- In 2015, 18% of all adults streamed a top SVOD service daily – increasing to 33% in 2019, and 43% this year

When asked in the *Emerging Video Services 2022* survey what they typically choose to watch first in the evening, **51% of adults said that they choose streaming services first, while 42% said live TV first**, and the remainder choose DVR or on-Demand first.

The preference for streaming services is particularly pronounced among younger individuals, while older adults still tend to opt for live TV first.

- 74% of ages 18-34 said that they choose streaming services first, while 22% said live TV first
- 21% of ages 55+ said that they choose streaming services first, while 68% said live TV first

The growth and impact of SVOD and other streaming video services over the past fifteen years is evident. **Yet, the perception of streaming was often based on the assumption that subscriber growth would continue unfettered** for many years. The actual business model, including revenue and margin, was seemingly less important than on-going subscriber growth. But, like a dog chasing a squirrel, eventually the game had to change. That eventuality has happened much sooner than many had anticipated.

The growth path of the leading SVOD service, Netflix, helps to define the road that others may soon be following. After launching the streaming service in 2007, Netflix had 22.7 million paying streaming subscribers in the U.S. by mid-2012. This increased to 50.3 million subscribers by mid-2017, and about 66 million subscribers by mid-2022. However, **over the past two years, Netflix has had only about 300,000 net adds in the U.S., including about 1.6 million net losses in the first half of 2022.**

The fast road to maturity for Netflix domestically is evident in these subscriber numbers. Yet, in many ways, Netflix is now a victim of their prior success. Without significant on-going subscriber growth, the business is now different. Issues that were less relevant just three years ago are now key to the business going forward. These, potentially conflicting, challenges include: Controlling costs; customer acquisition; customer retention; dealing with sharing (that helped to grow the subscriber base, in part by lowering churn, but now contributes to blocking the ability to add subscribers); and increasing revenue per subscriber (via rate increases and the introduction of advertising).

Netflix and other streaming services have had an undeniable impact on the TV landscape over a relatively short period of time. Consumers have an increasing number of SVOD and DTC services to choose from, and many are using them more often every day. While consumers' use and spending on streaming will continue to evolve, the business side of the category has quickly entered a new stage. The issues and challenges for the companies involved are different from when they were mere pups begging for attention.

Did You Know ...

90% with annual household incomes >$75,000 have an SVOD service – compared to 76% with household incomes <$30,000

59% of Adults Watch Video on Non-TV Devices Daily

New consumer research from Leichtman Research Group finds that 59% of adults in the U.S. watch video on non-TV devices (including mobile phones, home computers, tablets, and eReaders) daily – compared to 55% in 2020, 43% in 2017, and 18% in 2012.

Younger individuals are most likely to watch video on non-TV devices. Among all ages 18-34, 83% watch video on a non-TV device daily – compared to 64% of ages 35-54, and 35% of ages 55 and above.

These findings are based on a survey of 1,900 households nationwide, and are part of a new LRG study, *Emerging Video Services 2022.* This is LRG's sixteenth annual study on this topic.

Other related findings include:

- 51% of adults watch YouTube on a non-TV device daily – followed by news clips at 35%
- 50% of adults watch video on a mobile phone daily – up from 44% in 2020, and 33% in 2017
- 83% of households have a subscription video on-Demand (SVOD) service from Netflix, Amazon Prime, and/or Hulu – compared to 78% in 2020, and 64% in 2017
- Including eleven additional streaming video services, the mean number of SVOD/DTC services among all households is 3.6 – compared to 2.9 in 2020

Nearly 60% of adults now watch video on a non-TV device daily. This includes half of all adults watching video on a mobile phone every day, up from one-third of adults five years ago.

While non-TV devices provide the ability to watch video anywhere, the most common location for watching video on non-TV devices continues to be in the home. Eighty-two percent of those who watch video on a mobile phone, and 85% of those who watch video on a tablet or eReader, do so at home.

Did You Know ...

71% of adults ages 18-44 watch video on a mobile phone daily – compared to 34% of ages 45+

Major Pay-TV Providers Lost About 1,925,000 Subscribers in 2Q 2022

Leichtman Research Group found that the largest pay-TV providers in the U.S. – representing about 92% of the market – lost about 1,925,000 net video subscribers in 2Q 2022, compared to a pro forma net loss of 1,235,000 in 2Q 2021.

The top pay-TV providers now account for about 72.2 million subscribers – with the top seven cable companies having about 39.5 million video subscribers, other traditional pay-TV services having about 25.5 million subscribers, and the top publicly reporting Internet-delivered (vMVPD) pay-TV services having about 7.2 million subscribers.

Key findings for the quarter include:

- Top cable providers had a net loss of about 950,000 video subscribers in 2Q 2022 – compared to a loss of about 590,000 subscribers in 2Q 2021
- Other traditional pay-TV services had a net loss of about 710,000 subscribers in 2Q 2022 – compared to a loss of about 700,000 subscribers in 2Q 2021
- Top publicly reporting vMVPDs had a net loss of about 265,000 subscribers in 2Q 2022 – compared to a gain of about 55,000 subscribers in 2Q 2021

The second quarter of 2022 marked the second consecutive quarter with over 1.9 million net pay-TV losses.

Over the past year, top pay-TV providers had a net loss of about 5,425,000 subscribers, compared to a net loss of about 4,550,000 over the prior year.

About 670,000 Added Broadband in 2Q 2022

Leichtman Research Group found that the largest cable and wireline phone providers and fixed wireless services in the U.S. – representing about 96% of the market – acquired about 670,000 net additional broadband Internet subscribers in 2Q 2022, compared to a pro forma gain of about 1,000,000 subscribers in 2Q 2021.

These top broadband providers account for about 110 million subscribers, with top cable companies having about 75.6 million broadband subscribers, top wireline phone companies having about 32.2 million subscribers, and top fixed wireless services having about 2.2 million subscribers.

Findings for the quarter include:

- Overall, broadband additions in 2Q 2022 were 67% of those in 2Q 2021
- The top cable companies lost about 60,000 subscribers in 2Q 2022 – compared to about 840,000 net adds in 2Q 2021
- The top wireline phone companies lost about 85,000 total broadband subscribers in 2Q 2022 – compared to about 50,000 net adds in 2Q 2021
    - Wireline Telcos had about 490,000 net adds via fiber in 2Q 2022, and about 575,000 non-fiber net losses
- Fixed wireless/5G home Internet services from T-Mobile and Verizon added about 815,000 subscribers in 2Q 2022 – compared to about 120,000 net adds in 2Q 2021

Top broadband providers added about 670,000 subscribers in 2Q 2022, reflecting over 800,000 net adds for fixed wireless services, along with modest net losses for cable and wireline phone providers.

Industry by the Numbers

Top Pay-TV Providers in the U.S.

Cable Companies	Subscribers at end of 2Q 2022	Net Adds in 2Q 2022
Comcast	17,144,000	(520,000)
Charter	15,495,000	(226,000)
Cox*	3,230,000	(80,000)
Altice	2,574,200	(84,500)
Mediacom*	540,000	(15,000)
Breezeline**	332,312	(6,709)
Cable One**	221,000	(17,000)
Total Top Cable	**39,536,512**	**(949,209)**
Other Traditional Services		
DIRECTV^	13,900,000	(400,000)
DISH TV (DBS)	7,791,000	(202,000)
Verizon Fios (Telco)	3,479,000	(87,000)
Frontier (Telco)*	343,000	(20,000)
Total Top Other Traditional	**25,513,000**	**(709,000)**
Internet-Delivered (vMVPD)		
Hulu + Live TV	4,000,000	(100,000)
Sling TV	2,197,000	(55,000)
fuboTV	946,735	(109,510)
Total Top vMVPD^^	**7,143,735**	**(264,510)**
Total Top Pay-TV	**72,193,247**	**(1,922,719)**

Sources: The Companies and Leichtman Research Group, Inc.
*   *LRG estimate*
**   *Includes LRG estimate of pro forma net adds*
^   *LRG estimate, includes DIRECTV, U-verse, and DIRECTV Stream*
^^   *vMVPD list does not include YouTube TV or Philo, as neither regularly report result. YouTube noted in a blog post that the TV service had “5 million subscribers and trialers” at the end of June 2022.*
Company subscriber counts may not solely represent residential households
Top pay-TV providers represent approximately 92% 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 findings

Top Broadband Internet Providers in the U.S.

Cable Companies	Subscribers at end of 2Q 2022	Net Adds in 2Q 2022
Comcast	32,163,000	0
Charter	30,253,000	(21,000)
Cox*	5,560,000	0
Altice**	4,333,600	(39,600)
Mediacom*	1,468,000	0
Cable One**	1,059,000	2,000
Breezeline**	717,919	(1,689)
Total Top Cable	**75,554,519**	**(60,289)**
Wireline Phone Companies		
AT&T	15,509,000	(24,000)
Verizon	7,412,000	12,000
Lumen	4,377,000	(90,000)
Frontier	2,827,000	8,000
Windstream	1,178,500	2,500
TDS^	500,800	5,600
Consolidated	381,213	1,063
Total Top Wireline Phone	**32,185,513**	**(84,837)**
Fixed Wireless Services		
T-Mobile	1,544,000	560,000
Verizon	700,000	256,000
Total Top Fixed Wireless	**2,244,000**	**816,000**
Total Top Broadband	**109,984,032**	**670,874**

Sources: The Companies and Leichtman Research Group, Inc.
** LRG estimate*
*** Includes LRG estimate of pro forma net adds*
^ TDS now only reports residential subscribers, includes 296,800 wireline subscribers and 204,000 cable subscribers
Company subscriber counts may not solely represent residential households – about 6% of the total are non-residential
Top broadband providers represent approximately 96% of all subscribers

Net additions reflect pro forma results from system sales and acquisitions, and reporting adjustments, and changes to the list of top providers – therefore, comparing totals in this quarter's Notes to prior Notes may not produce accurate finding

Leichtman Research Group, Inc.
www.LeichtmanResearch.com
(603) 397-5400