



Leichtman Research Group Research Notes

1Q 2016 *Actionable Research on the Broadband, Media & Entertainment Industries*

Broadband Continues to Grow

With 2015 year-end results reported by major providers, it is easy to see where the broadband

Internet and pay-TV industries currently stand, and the progress that has been made over time. We continue to see two industries at different life cycle stages.

Table 1 displays the cumulative total number of subscribers for the top pay-TV providers and for the top broadband providers at the end of the past

nine quarters. The table shows that **the top pay-TV providers lost about a half million subscribers over the past two years, while the top broadband providers added more than six million subscribers over the past two years.**

These tracking figures may appear somewhat different from those in other recent reports and surveys. The figures above include DISH's Internet-delivered Sling TV (that debuted in 2015) into the counts for the major pay-TV providers. Some recent reports exclude Sling from the top providers. Doing so, however, provides an inaccurate reflection of the market – equivalent to excluding satellite TV providers following their launch in 1994, or Telcos in 2006. Sling (and, currently to a far lesser degree, Sony's PlayStation Vue) represents a new fourth type of delivery of pay-TV service. Nevertheless, the bottom line for the pay-TV industry in the US is that

In this issue:

Broadband Continues to Grow

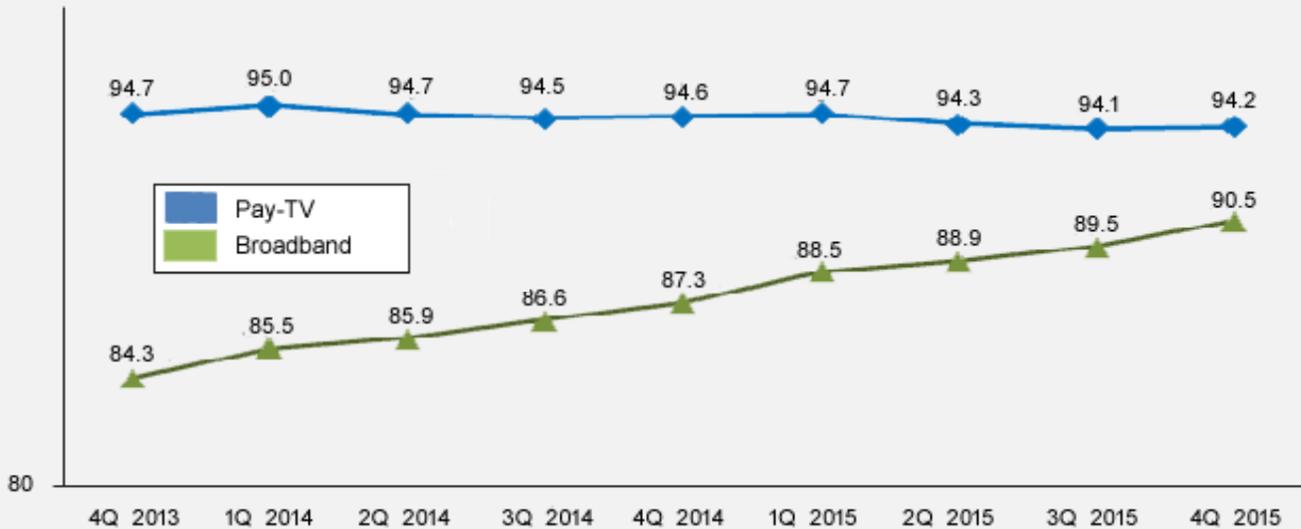
Major Pay-TV Providers Lost About 380,000 Subscribers in 2015

3.1 Million Added Broadband From Top Providers in 2015

81% of US Households Have a DVR, Netflix, or use VOD

Industry by the Numbers

Table 1: Total Pay-TV and Broadband Subscribers for the Top Providers* (Subscribers in millions at the end of each quarter)



* The top providers tracked on a pro forma basis account for about 95% of pay-TV subscribers, and about 94% of broadband subscribers in the US

the market is saturated and in a slow decline.

Broadband Internet is at a different point in the consumer adoption curve. Despite the findings of a recent well-publicized and frequently cited survey proclaiming a decline in broadband penetration in the US, **the tracking data provide incontrovertible evidence that broadband subscriptions in the US have continued to grow.** In fact, the top broadband providers in the US added more subscribers in 2015 than in any year since 2010.

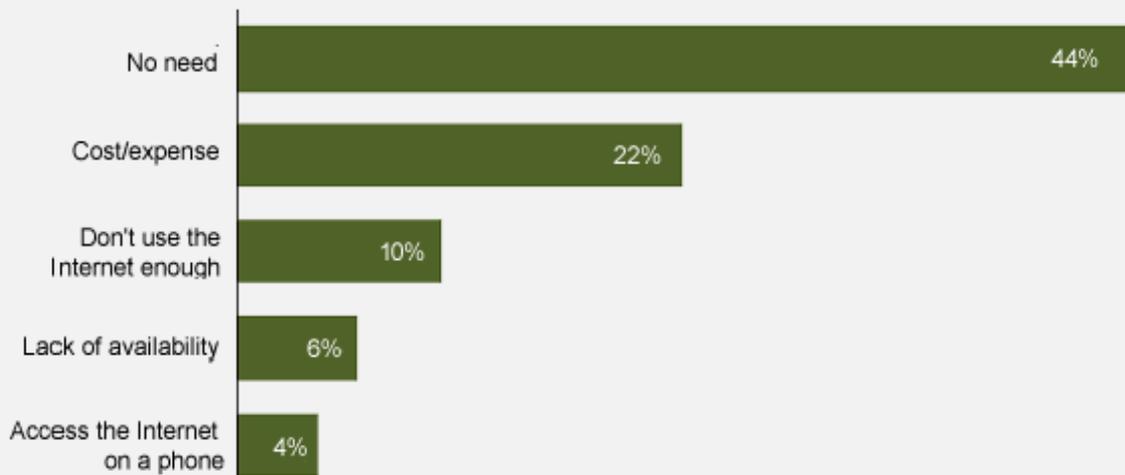
With the broadband subscriber base increasing, a challenge going forward is how it will continue to grow. Bringing broadband to later-adopters (more commonly lower income, and/or older individuals) and underserved populations is extremely important for providers and policy-makers alike. **However, it is inaccurate and overly simplistic to conclude that the price of broadband service represents the major hurdle to adoption. The roots of the “digital divide” go well beyond cost.**

In a recent LRG study, those who do not currently get an Internet service at home, and do not plan to subscribe to a service in the next six months were asked, “*what is your most important reason for not currently subscribing to an Internet service at home?*” Table 2 shows that **44% answered that they have no need for the service, while 22% cite expense as a reason, and 10% say that they don’t use the Internet enough.** This order of responses has been consistent for the past several years in LRG studies.

It is important to note that this question was asked allowing for open-ended responses. Surveys that provide only closed-ended options (especially those not including “no need” as one of the listed choices) lead to the incorrect conclusion that cost is the driving force. This is a classic example of the importance of survey design; and how the questions are asked can significantly impact the responses and results.

Cost is certainly an issue in the future adoption of Internet service, but the benefits of an online subscription have

Table 2: Top Reasons for not Subscribing to an Internet Service at Home*



* Asked of those who do not currently get an Internet service at home and do not plan to subscribe in the next six months

traditionally started with computer ownership and literacy.

Internet penetration has historically correlated with household income, and this remains true today. A similar relationship exists between household income and computers in the home. Lower income households are, and have historically been, less likely to have computers at home. As table 3 demonstrates:

- 94% of households with annual incomes >\$50,000 get an Internet service at home – compared to 71% with annual incomes <\$50,000
- 97% of households with annual incomes >\$50,000 have a computer or iPad/tablet – compared to 83% of households with annual incomes <\$50,000

Similar disparities in online and computer adoption also exist by age:

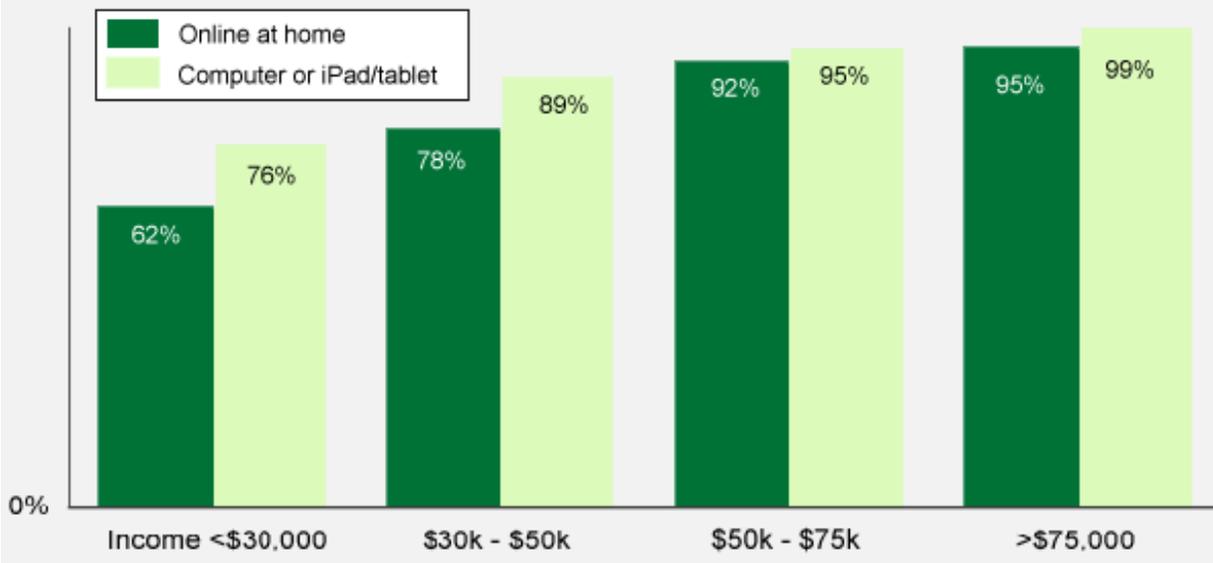
- 33% of ages 65+ are not online at home, and 25% of ages 65+ do not have a computer or iPad/tablet

Overall, 58% of those who do not currently get an Internet service at home, and do not plan to subscribe to a service in the next six months do not have a computer or iPad/tablet.

Among those without a computer or iPad/tablet, 55% cite no need as their reason for not being online at home, while 19% cite cost. This compares to 27% citing no need, and 27% citing cost among those with a computer.

Reports that broadband in the US is in decline, or has already leveled off, are clearly inaccurate. As with any service at that stage, a challenge is how to bring in the next wave of adopters. The cost of broadband can certainly be a barrier to entry for many lower income households and/or older individuals who do not have broadband at home. Yet, primarily focusing on the cost of Internet service may be obscuring deeper-rooted (and somewhat more complicated) issues of computer literacy that are critical to the longer-term expansion of broadband in America.

Table 3: Online and Computers in the Home by Annual Household Income



Major Pay-TV Providers Lost About 380,000 Subscribers in 2015

Leichtman Research Group, Inc. found that the thirteen largest pay-TV providers in the US – representing about 95% of the market – lost about 380,000 net video subscribers in 2015, compared to a loss of about 150,000 subscribers in 2014, and a loss of about 100,000 subscribers in 2013.

The top pay-TV providers account for 94.2 million subscribers – with the top nine cable companies having over 49.0 million video subscribers, satellite TV companies about 33.7 million subscribers, and the top telephone companies nearly 11.5 million subscribers.

Other key findings include:

- The top nine cable companies lost about 340,000 video subscribers in 2015 – compared to a loss of about 1,215,000 subscribers in 2014
 - Top cable MSO losses were the fewest in any year since 2006
- Satellite TV providers added 86,000 subscribers in 2015 (including gains from DISH's Internet-delivered Sling TV) – compared to a gain of 20,000 in 2014
 - Not including gains from Sling TV, DBS providers lost about 450,000 subscribers in 2015
- The top telephone providers lost 130,000 video subscribers in 2015 – compared to a gain of about 1,050,000 net additions in 2014

- Telco net adds in 2015 were the fewest in any year since the services started in 2006
- In 4Q 2015, the top pay-TV providers added about 110,000 subscribers – compared to about 90,000 in 4Q 2014
 - Top cable MSOs added about 125,000 subscribers in 4Q 2015 – their first quarter for net video additions since 1Q 2008
 - DirecTV net adds of 214,000 subscribers in 4Q 2015 were higher than in any quarter since 4Q 2010
 - AT&T U-verse lost 240,000 subscribers in 4Q 2015 – compared to a gain of 73,000 subscribers in 4Q 2014

2015 marked the third consecutive year for pay-TV industry net losses, yet the total number of subscribers for major pay-TV providers (including DISH's Sling TV) has declined by less than one million since the industry peaked in 1Q 2012. 2015 also saw significant shifts for cable and Telco providers. The top cable providers cumulatively had their best year since 2006, and had about 875,000 fewer losses than in 2014. Telcos had about 1,170,000 fewer net additions than in 2014, and had their worst year since they began providing video services in 2006.



Did You Know ...

13% of households get broadband at home but do not subscribe to a pay-TV service – while 13% get a pay-TV service but do not get broadband

3.1 Million Added Broadband From Top Providers in 2015

Leichtman Research Group, Inc. found that the seventeen largest cable and telephone providers in the US – representing about 94% of the market – acquired more than 3.1 million net additional high-speed Internet subscribers in 2015. Annual net broadband additions in 2015 were 104% of the total in 2014, and the most net adds in any year since 2010.

Other broadband findings include:

- The top cable companies netted 106% of the broadband additions in 2015 – compared to 89% in 2014, and 82% in 2013
 - The top cable companies added 3.3 million broadband subscribers in 2015 – 124% of the total net additions for the top cable companies in 2014, and the most net adds for cable in any year since 2008
- The top telephone companies lost about 185,000 subscribers in 2015 – the first year ever for net Telco broadband subscriber losses
 - AT&T and Verizon added 1,481,000 subscribers via U-verse and FiOS in 2015, while having a net loss of 1,708,000 DSL subscribers
- In 4Q 2015, the top broadband providers added about 950,000 subscribers – compared to about 765,000 in 4Q 2014
 - The top cable companies added about 1,000,000 subscribers in 4Q 2015,

The top cable and Telco broadband providers cumulatively now account for nearly 90.5 million subscribers in the US.

while Telcos lost about 50,000 subscribers

- Cable broadband adds in 4Q 2015 were similar to 1Q 2015, with the previous high being in 1Q 2008. While major providers now account for nearly 90 million broadband subscribers in the US, top cable providers added subscribers at a faster pace over the past year than they did over the prior year. Over the past year, cable companies accounted for 103% of the 2.93 million net broadband additions.

The top cable and Telco broadband providers in the US cumulatively now account for nearly 90.5 million subscribers in the US, yet the industry added more broadband subscribers in 2015 than in any year since 2010. The number of broadband subscribers in the US continues to increase, with the top broadband providers adding more than 6.1 million net broadband subscribers over the past two years, and cable companies accounting for 97% of these net adds.

81% of US Households Have a DVR, Netflix or Use VOD

Leichtman Research Group, Inc. found that 81% of US households have a DVR, get Netflix, or use on-Demand (VOD) from a cable or Telco provider – with 30% of households using two of the services, and 13% using all three.

The survey also found that 57% of households get a subscription video on-Demand (SVOD) service from Netflix, Amazon Prime, and/or Hulu. Overall, 48% of adults stream any of these services on a monthly basis.

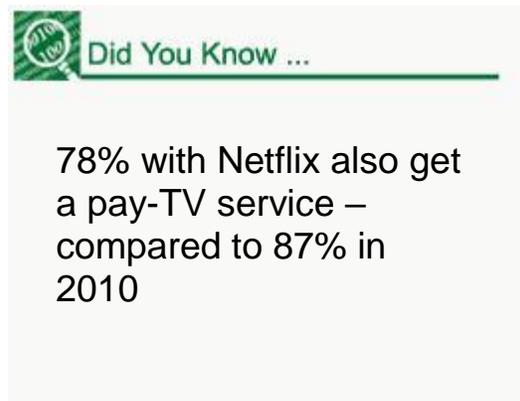
These findings are based on a survey of 1,214 households throughout the United States, and are part of LRG's study, *On-Demand TV XIV*. This is LRG's fourteenth annual study on this topic.

Other related findings include:

- 77% of ages 18-24 stream an SVOD service monthly – compared to 63% of ages 25-44, 50% of ages 45-54, and 23% of ages 55+
- 37% of all adults stream Netflix weekly – compared to 8% in 2010
- 83% of Netflix streaming users watch Netflix on a TV set
- 64% of pay-TV subscribers have a DVR – compared to 45% in 2010
- 65% of households with annual

incomes >\$75,000 have a DVR – compared to 35% with household incomes <\$30,000

- 74% of all Telco video subscribers and 61% of all cable subscribers have ever used VOD from their current provider
- 51% of all cable subscribers used VOD in the past month – compared to 34% in 2010
- Last year, 76% of households had a DVR, or Netflix, or used VOD – compared to 70% two years ago



Did You Know ...

78% with Netflix also get a pay-TV service – compared to 87% in 2010

In 2005, 25% of cable subscribers had ever used VOD, 8% of all households had a DVR, and about 4% of households subscribed to Netflix's DVD-by-mail movie delivery service. These services have significantly evolved over the past decade. Today, over 80% of households get at least one of these services, and in recent years Netflix and other streaming SVOD offerings have expanded the use and popularity of on-Demand TV.

Industry by the Numbers

Top Pay-TV Providers in the U.S.

<i>Cable Companies</i>	Subscribers at End of 2015	Net Adds in 2015
Comcast	22,347,000	(36,000)
Time Warner Cable	11,035,000	43,000
Charter*	4,430,000	11,000
Cablevision	2,594,000	(87,000)
Suddenlink	1,093,000	(45,400)
Mediacom	855,000	(35,000)
Cable ONE	364,150	(87,067)
Other major private companies*	6,345,000	(105,000)
TOTAL TOP CABLE	49,063,150	(341,467)
<i>Satellite TV Companies (DBS)</i>		
DirecTV	19,784,000	167,000
DISH^	13,897,000	(81,000)
TOTAL TOP DBS	33,681,000	86,000
<i>Telephone Companies</i>		
AT&T U-verse	5,640,000	(303,000)
Verizon FiOS	5,827,000	178,000
TOTAL TOP PHONE	11,467,000	(125,000)
TOTAL TOP PAY-TV PROVIDERS	94,211,150	(380,467)

Sources: *The Companies and Leichtman Research Group, Inc.*

* Includes LRG estimates for Cox and Bright House Networks

^ DISH totals and net adds for 2015 include Sling TV

Net additions reflect pro forma results from sales and acquisitions, and reporting adjustments

Top pay-TV providers represent approximately 95% of all subscribers

Top cable providers do not include overbuilder WOW with 547,500 subscribers

Company subscriber counts may not solely represent residential households

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 2015	Net Adds in 2015
Comcast	23,329,000	1,367,000
Time Warner Cable	13,313,000	1,060,000
Charter	5,572,000	497,000
Cablevision	2,809,000	49,000
Suddenlink	1,223,000	73,900
Mediacom	1,085,000	72,000
WOW (WideOpenWest)	712,500	(15,300)
Cable ONE	501,241	12,787
Other Major Private Companies*	6,725,000	190,000
Total Top Cable	55,269,741	3,306,387
<i>Telephone Companies</i>		
AT&T	15,778,000	(250,000)
Verizon	9,228,000	23,000
CenturyLink	6,048,000	(34,000)
Frontier [^]	2,444,000	101,500
Windstream	1,095,100	(36,500)
FairPoint	311,130	(8,785)
Cincinnati Bell	287,400	17,500
Total Top Phone	35,191,630	(187,285)
Total Top Broadband Providers	90,461,371	3,119,102

Sources: *The Companies* and *Leichtman Research Group, Inc.*

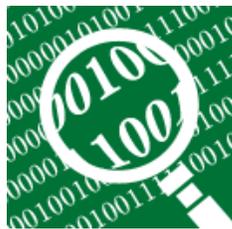
* Includes LRG estimates for Cox and Bright House Networks

[^] LRG estimates of pro forma results from system sale, does not include wireless subs

Totals reflect pro forma results from system sales and acquisitions

Company subscriber counts may not represent solely residential households

Top cable and telephone companies represent approximately 94% of all subscribers



LRG

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