



Leichtman Research Group Research Notes

2Q 2016 Actionable Research on the Broadband, Media & Entertainment Industries

Back to the Future?

Something happened in the pay-TV industry in recent quarters that had not been seen in nearly a decade. The

top cable TV providers had net video subscriber additions in two consecutive quarters (4Q 2015 and 1Q 2016) for the first time in nine years (since 4Q 2006 and 1Q 2007). In addition, the three largest cable TV providers (Comcast, Time Warner Cable, and Charter) each reported net video gains over the past year – a feat that had not been seen in

years. However, despite the relative success of the top cable providers, these gains did not necessarily extend to the entire pay-TV industry. *How could this happen?*

The term “cable” is still frequently used synonymously with the overall multichannel video programming distribution (MVPD) or pay-TV industry. In reality, however, cable companies now account for only a little more than half of all pay-TV subscribers in the US.

Cable essentially was the pay-TV industry up until the early 1990’s (with the exceptions of large C-Band satellite dishes, and SMATV services in apartment buildings). But, since the introduction of Direct Broadcast Satellite

(DBS) service in 1994, and then video services from telephone companies AT&T and Verizon beginning in 2006, cable’s share of the market has waned.

A look back through the FCC’s *Annual Video Competition Reports* demonstrates cable’s declining market share of pay-TV industry subscribers over the past twenty years.

Year	Cable’s pay-TV market share
1996	89%
2001	78%
2006	68%
2011	59%
2014*	53%

* From the most recent FCC Annual Report – released in May 2016

LRG’s tracking of the industry also finds that while the total number of pay-TV subscribers for the top providers in the US peaked in 1Q 2012 (and has since declined by under a million subscribers on a pro forma basis), **video subscribers for the top cable providers peaked in 4Q 2001, and have since declined by about 12 million. Over the same period, the top cable providers added about 48.5 million broadband Internet subscribers. Today, cable providers have a higher market share and more subscribers for broadband Internet than for pay-TV.**

While the top cable providers cumulatively lost over a million video subscribers annually from 2009-2014 (including over 1.5 million each year from 2010-2013), cable’s video losses have recently subsided.

In this issue:

Back to the Future?

65% of U.S. Households Have a Connected TV

Major Pay-TV Providers Added About 10,000 Subscribers in 1Q 2016

Nearly 1.1 Million Added Broadband in 1Q 2016

Industry by the Numbers

Table 1 shows the net adds for cable and other pay-TV providers by category over the past two years:

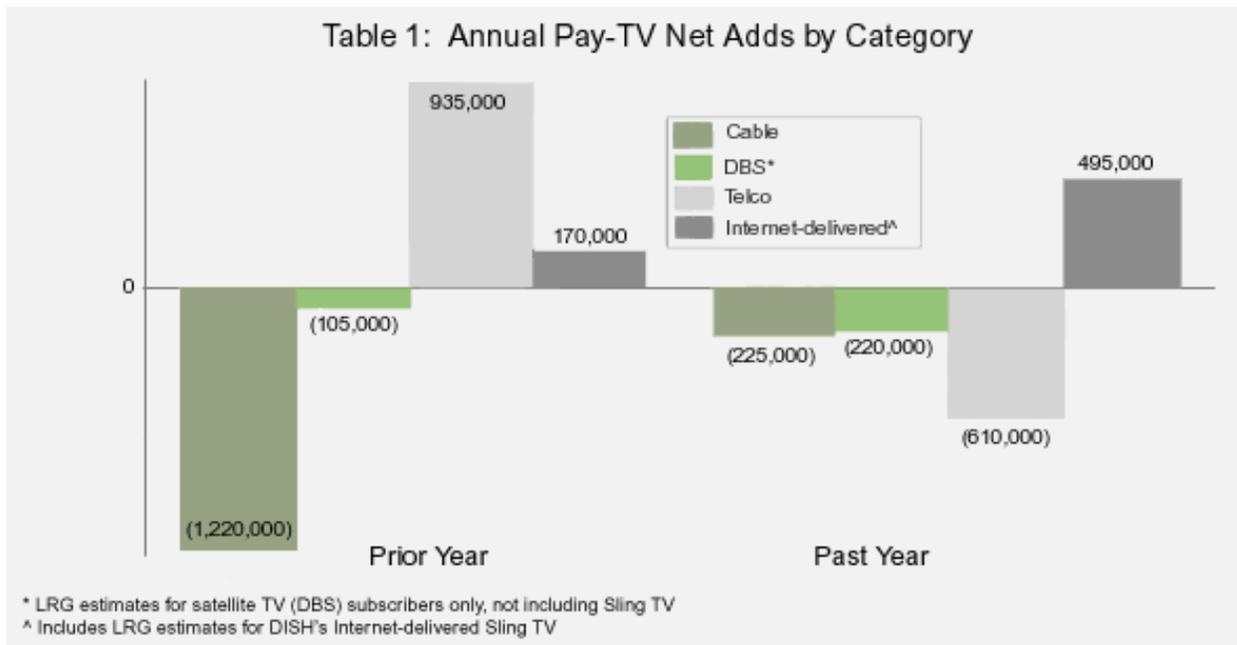
- Over the past year, the top cable providers lost about 225,000 subscribers – about a million fewer losses than over the prior year
- Over the past year, the top Telcos *lost* about 610,000 subscribers – compared to a *gain* of 935,000 over the prior year
- Over the past year, DBS lost about 200,000 subs – compared to a loss of 105,000 over the prior year
- Over the past year, Internet-delivered Sling TV added nearly 500,000 subscribers

From these data it is readily apparent that cable’s comparative improvement is coming at the expense of Telco’s losses. Telco declines were exclusively from AT&T U-verse which lost about 730,000 subscribers over the past year, compared to a gain of about 515,000 over the prior year. **In total, U-verse lost 12.2% of its video subscribers**

over the past year, compared to a gain of 2.2% for Verizon FiOS.

These data also reveal that **the dynamics of change in the pay-TV industry are not solely a function of consumer behavior, but also are determined by the decisions that are made by providers.** Consumers didn’t suddenly decide that they no longer wanted to get U-verse. Rather, AT&T made a decision to emphasize sales of its newly acquired DirecTV DBS service (at the expense of U-verse) because of its lower programming costs for the company. Given the overall state of the pay-TV market, companies throughout the industry are becoming more disciplined in the type of customers that they are willing to spend money to acquire.

It is not a coincidence that cable’s recent quarters of net subscriber gains came for the first time since the Telcos entered the video market in 2006. With a major change in focus from AT&T, as well as other providers, the opportunity for cable has changed. While the cable industry certainly will never be as



dominant as it once was in the pay-TV industry, the combined bundle with broadband service is helping to provide a bit of a share-shift “back to the future” for cable TV.

65% of U.S. Households Have a Connected TV

Leichtman Research Group, Inc. finds that 65% of US TV households have at least one television set connected to the Internet via a video game system, a smart TV set, a Blu-ray player, and/or a stand-alone device (like Roku, Apple TV, Chromecast, or Amazon Fire TV) – up from 44% in 2013, and 24% in 2010.

Among those with any connected TV devices, 74% have more than one device, with a mean of 3.3 per connected TV household. Those with a connected TV generally find them to be easy to use:

- 70% of all with a connected TV agree (8-10 on a 1-10 scale) that streaming services like Netflix are easy to access via connected TV devices, while 12% disagree (1-3)

The study also found that 77% of TV sets in pay-TV households have a pay-TV provider's set-top box, with a mean of 2.2 boxes per pay-TV household. Pay-TV subscribers tend to express little enmity toward set-top boxes:

- 20% with a pay-TV HD set-top box agree (8-10) that set-top boxes from TV companies are a waste of money, while 44% disagree (1-3)
- 42% with a pay-TV HD set-top box agree (8-10) that set-top boxes from TV companies provide features that add value to the TV service, while 16% disagree (1-3)

- 68% with 3 or more set-top boxes are very satisfied (8-10) with their pay-TV provider – compared to 54% with 1-2 set-top boxes



Did You Know ...

Video represents about 55% of consumer revenue for the top cable providers, broadband 35%, and voice/phone 10%

Overall, there are more connected TV devices in US households than there are pay-TV set-top boxes. Across all households (including those that do not have any of these), the mean number of connected TV devices per household is 2.1, while the mean number of pay-TV set-top boxes per household is 1.8.

These findings are based on a survey of 1,206 TV households throughout the US, and are part of a new LRG study, *HD and Connected TVs XIII*. This is LRG's thirteenth annual study on TVs in the US.

Other findings include:

- 83% of households with any type of connected TV device get a pay-TV service – similar to 81% with no connected TV devices
- 38% of adults with a pay-TV service watch video via a connected TV device at least weekly – compared to 48% of pay-TV non-subscribers
- 79% of all TV sets in US households are HDTVs – an increase from 34% of all TV sets in 2010, and 3% in 2004

- 33% of non-4K Ultra HDTV owners have seen one in use – up from 10% in 2014
- 25% of those who have seen a 4K HDTV in use are interested in getting one – compared to 9% of those who have not seen a 4K HDTV

Connected TV devices are now in nearly two-thirds of all TV households in the US, and there are actually more connected TV devices in US households than there are pay-TV set-top boxes. New forms of competition from Internet-delivered video via connected TVs, along with technological innovations in the pay-TV industry, are allowing consumers to choose more options for accessing and watching TV than they have ever had before.



Did You Know ...

Over the past year, the top cable providers added about 3.37 million broadband subscribers, while cable video subscribers declined by about 225,000

Major Pay-TV Providers Added About 10,000 Subscribers in 1Q 2016

Leichtman Research Group, Inc. found that the thirteen largest pay-TV providers in the US – representing about 95% of the market – added about 10,000 net video subscribers in 1Q 2016, compared to a gain of about 170,000 subscribers in 1Q 2015.

The top pay-TV providers account for 94.2 million subscribers – with the top

nine cable companies having 49.1 million video subscribers, satellite TV companies having 34.0 million subscribers (including about 665,000 from DISH's Internet-delivered Sling TV), and the top telephone companies having 11.1 million subscribers.

Other key findings for the quarter include:

- The top nine cable companies added about 50,000 video subscribers in 1Q 2016 – compared to a loss of about 65,000 subscribers in 1Q 2015
 - Top cable MSOs had not reported net gains in a first quarter since 2008
- Satellite TV providers added 305,000 subscribers in 1Q 2016 (including gains from Sling TV) – compared to a gain of 95,000 in 1Q 2015
 - Not including gains from Sling TV, DBS providers added about 175,000 subscribers in 1Q 2016 – compared to a loss of 74,000 in 1Q 2015
 - DirecTV's net adds of 328,000 in 1Q 2016 were more than in any quarter since 1Q 2009
- The top phone providers lost 344,000 video subscribers in 1Q 2016 – compared to a gain of 140,000 subscribers in 1Q 2015
 - AT&T U-verse's 380,000 net losses in 1Q 2016 were the most losses ever in a quarter by any provider

While DirecTV and top cable providers had a comparatively strong quarter in 1Q 2016, their gains were largely offset by a historically weak quarter for AT&T U-verse. Overall, the traditionally strong

first quarter for the pay-TV industry was tepid this year. Despite slight gains in the quarter, net adds in 1Q 2016 were down by about 160,000 from a year ago.

Nearly 1.1 Million Added Broadband in 1Q 2016

Leichtman Research Group, Inc. found that the seventeen largest cable and telephone providers in the US – representing about 94% of the market – acquired nearly 1.1 million net additional high-speed Internet subscribers in 1Q 2016. These top broadband providers now account for over 91.5 million subscribers – with top cable companies having 56.3 million broadband subscribers, and top phone companies having 35.2 million subscribers.

Other broadband findings for the quarter include:

- Overall, broadband additions in 1Q 2016 were 92% of those in 1Q 2015
- The top cable companies accounted for 99% of the net broadband additions for the quarter versus the top phone companies
- The top cable companies added about 1,065,000 broadband subscribers in 1Q 2016 – 106% of the net additions for the top cable companies in 1Q 2015
- The top phone companies added

about 10,000 broadband subscribers in 1Q 2016 – compared to a gain of 160,000 in 1Q 2015

- AT&T and Verizon added 300,000 subscribers via U-verse and FiOS in 1Q 2016, while having a net loss of 324,000 DSL subscribers
- Over the past year, there were about 3,030,000 net broadband adds – similar to about 3,000,000 over the prior year.

Cable companies had another strong quarter for broadband in 1Q 2016, adding over one million subscribers in the quarter. This marks the third time in the past five quarters that cable companies have added over a million net broadband subscribers. Broadband in the US continues to grow, with cable providers accounting for 111% of the three million net broadband additions over the past year.



Did You Know ...

68% of broadband subscribers, and 59% of all households, get a bundle of services

Industry by the Numbers

Top Pay-TV Providers in the U.S.

<i>Cable Companies</i>	Subscribers at End of 1Q 2016	Net Adds in 1Q 2016
Comcast	22,400,000	53,000
Time Warner Cable	11,056,000	21,000
Charter	4,445,000	15,000
Cablevision	2,579,000	(15,000)
Suddenlink	1,085,000	(8,000)
Mediacom	853,000	(2,000)
Cable ONE	350,576	(13,574)
Other major private companies*	6,345,000	--
TOTAL TOP CABLE	49,113,576	50,426
<i>Satellite TV Companies (DBS)</i>		
DirecTV	20,112,000	328,000
DISH^	13,874,000	(23,000)
TOTAL TOP DBS	33,986,000	305,000
<i>Telephone Companies</i>		
Verizon FiOS	5,863,000	36,000
AT&T U-verse	5,260,000	(380,000)
TOTAL TOP PHONE	11,123,000	(344,000)
TOTAL TOP PAY-TV PROVIDERS	94,222,576	11,426

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

* Includes LRG estimates for Cox and Bright House Networks

^ DISH totals and net adds for 1Q 2016 include its Internet-delivered Sling TV service (which began in 1Q 2015)

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 537,200 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 1Q 2016	Net Adds in 1Q 2016
Comcast	23,767,000	438,000
Time Warner Cable	13,640,000	327,000
Charter	5,727,000	155,000
Cablevision	2,828,000	19,000
Suddenlink	1,253,000	30,000
Mediacom	1,114,000	29,000
WOW (WideOpenWest)	722,300	9,800
Cable ONE	508,424	7,183
Other Major Private Companies*	6,775,000	50,000
Total Top Cable	56,334,724	1,064,983
<i>Telephone Companies</i>		
AT&T	15,764,000	(14,000)
Verizon	9,218,000	(10,000)
CenturyLink	6,056,000	8,000
Frontier^	2,468,600	24,600
Windstream	1,092,000	(3,100)
FairPoint	311,323	193
Cincinnati Bell	292,400	5,000
Total Top Phone	35,202,323	10,693
Total Top Broadband Providers	91,537,047	1,075,676

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

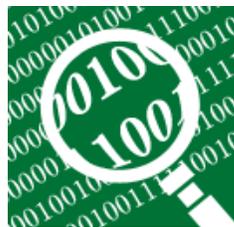
* Includes LRG estimates for Cox and Bright House Networks

^ LRG estimate, does not include wireless subs

Totals reflect pro forma results from system sales and acquisitions

Company subscriber counts may not represent solely residential households, and reporting adjustments

Top cable and telephone companies represent approximately 95% of all subscribers



LRG

Leichtman Research Group

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