



## Expansion Teams Count Too

In October 2017, the Vegas Golden Knights will take to the ice to play their first season in the National Hockey League. While the team will be an expansion franchise, their games will (of course) count in the standings. A Golden Knights win will result in a loss for the established team that they beat.

Just as sports leagues have expansion teams, so too does the pay-TV industry. Since 2015, the pay-TV industry has seen the introduction of five Internet-delivered live streaming services. While none of these services publicly report subscriber totals, an educated estimate indicates that the top three services, Sling TV, DIRECTV NOW, and PlayStation Vue, had over 2 million

subscribers combined at the end of the first quarter of 2017. (YouTube TV and Hulu with Live TV, also debuted in 2017.) **Yet, often when pay-TV's quarterly results are reported, these "expansion teams" are nowhere to be found.**

While these live streaming services may be using a different form of delivery than established cable, satellite, or telco services, they still offer a package of TV channels for a monthly fee just like other pay-TV services, and compete in the same category. These new services

tend to come with fewer channels, but at lower price points, primarily addressing a millennial-targeted, cost-sensitive niche of the market.

It may be difficult to ascertain the exact number of internet-delivered subscribers, but it is myopic to treat this new segment as separate from the pay-TV market. The growth of these new services is interrelated with the results of more established services. **Leaving these new entrants out may help to expand a narrative of an industry in dramatic decline, but doing so provides an incomplete and distorted picture of the current pay-TV landscape.**

Each new form of delivery contributes to change in the pay-TV market. Prior to these new Internet-delivered options, over the past 25 years the market has evolved via the introduction of satellite-delivered services, and later competitive options from telco providers.

- DIRECTV launched direct broadcast satellite (DBS) service in mid-1994, and was soon joined by DISH and PrimeStar (owned by a consortium of cable providers). Two years after the introduction of DBS, there were about 2.6 million DBS subscribers,



### Did You Know ...

Over the past year, top Internet-delivered pay-TV services added over 1,000,000 subscribers.

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and about 10 million subscribers in five years.

- Verizon introduced FiOS video service in 4Q 2005, AT&T followed with U-verse in mid-2006, and Qwest also offered Choice TV. Two years after the introduction of FiOS, there were about 1.2 million telco subscribers, and about 6.5 million subscribers in five years.

**Today, three of the top five pay-TV providers in the US are *not* cable TV companies.**

The #1 pay-TV provider (AT&T/DIRECTV), and the #4 provider (DISH Network) **both have Internet-delivered services that act as flanker brands, designed to address a different market segment, and to be used as part of larger corporate strategies.**

These companies are both managing their businesses to include their multiple brands, and are becoming more disciplined in acquiring DBS subscribers with a higher lifetime value.

DISH Network addressed this strategy in their 1Q 2017 10-Q filing. *“As the pay-TV industry is mature, our strategy has included an increased emphasis on acquiring and retaining higher quality subscribers, even if it means that we will acquire and retain fewer overall subscribers.”*

An impetus for this strategy is the subscriber acquisition cost (SAC) of getting a DBS customer. When last separately reported in 1Q 2015, the SAC for a DISH DBS subscriber was \$854 (it was \$950 for a DIRECTV sub in 2Q 2015). In 1Q 2017, with close to one-third of DISH Network’s gross additions being of their lower SAC Sling TV service, the combined SAC had decreased to \$590. About 10% of DISH Network’s subscribers now get Sling TV,

up from about 5% a year ago, and 1% two years ago.

AT&T has three different pay-TV brands – DIRECTV DBS service, U-verse, and DIRECTV NOW. In tactically managing these three different pay-TV platforms, AT&T lost about 1.2 million U-verse customers over the past year, which were offset by the addition of 900,000 DIRECTV DBS customers and about 350,000 DIRECTV NOW subscribers. AT&T is also clearly attempting to use DIRECTV NOW, and even DIRECTV, to add value to their core wireless offering.

**For AT&T/DIRECTV and DISH Network, the “traditional” pay-TV business, and the new (expansion) pay-TV business are connected –** losses on the traditional side are to some degree traded-off with growing the expansion side (at a lower cost of acquisition, but also with lower monthly revenue). This does not even include the three other new Internet-delivered pay-TV services that are also principally targeting a market segment that includes consumers who may be less attracted to traditional pay-TV services, and who may not be as attractive to traditional providers.

A story line that only looks at traditional providers does not accurately reflect the pay-TV industry today. **Just as satellite services were added to the pay-TV totals in the 1990’s, and Telco services in the late 2000’s, it’s now time to welcome the Internet-delivered services as another group of expansion teams to the competition.**

On the sports front, the Vegas Golden Knights will hope to emulate the quick success of the Philadelphia Flyers, who won a championship in their seventh season in the NHL. Or if they truly hit the jackpot, the Arizona Diamondbacks

who won their first (and only) championship in their fourth season in Major League Baseball.

Note that if expansion teams like the Diamondbacks were ignored in baseball, five World Series champions from 1992-2003 would be missing.



#### Did You Know ...

In 1Q 2017, Netflix had domestic streaming revenue of \$1.47 billion – compared to \$11.2 billion in video revenue for the top five publicly reporting cable TV companies.

## Major Pay-TV Providers Lost About 410,000 Subscribers in 1Q 2017

**L**eichtman Research Group, Inc. found that the largest pay-TV providers in the US – representing about 95% of the market – lost about 410,000 net video subscribers in 1Q 2017, compared to a gain of about 10,000 subscribers in 1Q 2016.

The top pay-TV providers account for 93.3 million subscribers – with the top six cable companies having over 48.6 million video subscribers, satellite TV services about 33.2 million subscribers, the top telephone companies 9.8 million subscribers, and the top Internet-delivered pay-TV services having about 1.7 million subscribers.

Key findings for the quarter include:

- The top six cable companies lost about 115,000 video subscribers in 1Q 2017 – compared to a gain of

about 50,000 subscribers in 1Q 2016

- Satellite TV services lost about 320,000 subscribers in 1Q 2017 – compared to a gain of about 175,000 subscribers in 1Q 2016
  - DIRECTV had no net adds in 1Q 2017 – compared to a gain of 328,000 in 1Q 2016
- The top telephone providers lost about 325,000 video subscribers in 1Q 2017 – compared to a loss of 350,000 subscribers in 1Q 2016
- Internet-delivered services (Sling TV and DIRECTV NOW) added about 350,000 subscribers in 1Q 2017 – compared to about 130,000 net adds in 1Q 2016
  - Traditional pay-TV services (not including Internet-delivered services) lost about 760,000 subscribers in 1Q 2017 – compared to a loss of about 120,000 in 1Q 2016

The pay-TV market lost about 410,000 subscribers in the first quarter of 2017. This marked the first time that the industry has ever had net subscriber losses in the first quarter of a year. The decline in subscribers should not be interpreted as solely driven by a sudden increase in consumers disconnecting services. The net losses are also a function of a decrease in new connects, partially due to some providers less aggressively pursuing lower value customers than in the past.



#### Did You Know ...

The mean number of TV sets in pay-TV households is 2.8 – compared to 2.0 for non-subscribers

## About 960,000 Added Broadband in 1Q 2017

**L**eichtman Research Group, Inc. found that the fourteen largest cable and telephone providers in the US – representing about 95% of the market – acquired about 960,000 net additional high-speed Internet subscribers in 1Q 2017.

These top broadband providers now account for 93.9 million subscribers – with top cable companies having 59.4 million broadband subscribers, and top telephone companies having 34.5 million subscribers.

Findings for the quarter include:

- Overall, broadband additions in 1Q 2017 were 85% of those in 1Q 2016
- The top cable companies added about 1,000,000 subscribers in 1Q 2017 – 90% of the net additions for the top cable companies in 1Q 2016
- The top telephone companies lost about 45,000 subscribers in 1Q 2017 – compared to a gain of about 10,000 broadband subscribers in 1Q 2016
  - Telco providers have had net broadband losses in seven of the past eight quarters
- Over the past year, there were about 2,530,000 net broadband adds – compared to about 3,035,000 over the prior year

With the addition of nearly one million subscribers in the quarter, the top cable and Telco broadband providers in the US cumulatively now account for over 93.9 million subscribers in the US. In the first quarter of 2017, the number of broadband subscribers surpassed the number of pay-TV subscribers in the US.



### Did You Know ...

15% of adults plan to purchase a new TV in the next year.

## 69% of U.S. TV Households Have a Connected TV

**L**eichtman Research Group, Inc. found that 69% of US TV households have at least one television set connected to the Internet via a smart TV set, a stand-alone device (like Roku, Chromecast, Amazon Fire TV stick or set-top box, or Apple TV), a video game system, and/or a Blu-ray player – up from 50% in 2014, and 24% in 2010.

Overall, there are more connected TV devices in US households than there are pay-TV set-top boxes. Among those with any connected TV devices, 76% have more than one device, with a mean of 3.5 per connected TV household. Across all households (including those that do not have any of these), the mean number of connected TV devices per household is 2.4, while the mean number of pay-TV set-top boxes per household is 1.7.

These findings are based on a survey of 1,204 TV households throughout the United States, and are part of a new LRG study, *Connected and HD TVs XIV*. This is LRG's fourteenth annual study on TVs in the US.

Other findings include:

- Overall, 25% of adults in US TV households watch video via a connected TV device daily – compared to 11% in 2014, and 1% in 2010.
- 43% of all ages 18-34 watch video via a connected TV device daily – compared to 26% of ages 35-54 and 10% of ages 55+
- 22% of adults with a pay-TV service watch video via a connected TV device daily – compared to 38% of pay-TV non-subscribers
- 79% of all TV sets in US households are HDTVs – an increase from 59% in 2014, and 11% in 2007

- 38% of non-4K Ultra HDTV owners have seen one in use – up from 10% in 2014
- 31% of those who have seen a 4K HDTV in use are interested in getting one – compared to 7% of those who have not seen a 4K HDTV

Connected TV devices continue to expand both in terms of the percentage of US households that have connected TV devices and the frequency that people are using them. Yet, with 81% of connected TV households also getting a pay-TV service, choices provided by connected TVs are generally being integrated with traditional viewing options.

## Industry by the Numbers

### Top Pay-TV Providers in the U.S.

<i>Cable Companies</i>	Subscribers at End of 1Q 2017	Net Adds in 1Q 2017
Comcast	22,549,000	41,000
Charter	17,147,000	(89,000)
Altice*	3,500,000	(35,000)
Mediacom**	832,000	(3,000)
CableOne	307,187	(13,059)
Other major private company***	4,275,000	(15,000)
<b>Total Top Cable</b>	<b>48,610,187</b>	<b>(114,059)</b>
<i>Satellite Services</i>		
DIRECTV	21,012,000	0
DISH-DBS^	12,173,000	(318,000)
<b>Total DBS</b>	<b>33,185,000</b>	<b>(318,000)</b>
<i>Phone Companies</i>		
Verizon FiOS	4,681,000	(13,000)
AT&T U-verse	4,048,000	(233,000)
Frontier^^	1,065,000	(80,000)
<b>Total Top Phone</b>	<b>9,794,000</b>	<b>(326,000)</b>
<i>Internet-Delivered</i>		
Sling TV^	1,355,000	175,000
DIRECTV NOW^^^	375,000	175,000
<b>Total Internet-Delivered</b>	<b>1,730,000</b>	<b>350,000</b>
<b>Total Top Pay-TV</b>	<b>93,319,187</b>	<b>(408,059)</b>

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

\* Altice adjusted Suddenlink totals from prior reported amounts to align with Optimum metrics

\*\* Mediacom includes pro forma results from a small system acquisition in January 2017

\*\*\* Includes LRG estimate for Cox

^ DISH reports combined DBS and Sling TV subscribers, the individual counts for DISH and Sling TV are LRG estimates

^^ Frontier is revised from prior reporting (does not including DBS subscribers)

^^^ LRG estimate for DIRECTV NOW in 1Q 2017

Company subscriber counts may not solely represent residential households

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

Top cable companies do not include overbuilder WOW with 474,000 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.

<i>Cable Companies</i>	Subscribers at End of 1Q 2017	Net Adds in 1Q 2017
Comcast	25,131,000	430,000
Charter	23,051,000	458,000
Altice*	4,002,000	39,000
Mediacom**	1,179,000	17,000
WOW (WideOpenWest)	729,000	10,100
Cable ONE	523,327	9,419
Other Major Private Companies^	4,830,000	40,000
<b>Total Top Cable</b>	<b>59,445,327</b>	<b>1,003,519</b>
<i>Telephone Companies</i>		
AT&T	15,695,000	90,000
Verizon	7,011,000	(27,000)
CenturyLink	5,945,000	0
Frontier	4,164,000	(107,000)
Windstream	1,047,600	(3,500)
Cincinnati Bell	307,400	4,200
FairPoint	305,353	(1,271)
<b>Total Top Phone</b>	<b>34,475,353</b>	<b>(44,571)</b>
<b>Total Top Broadband</b>	<b>93,920,680</b>	<b>958,948</b>

Sources: The Companies and Leichtman Research Group, Inc.

\* Altice adjusted Suddenlink totals from prior reported amounts to align with Optimum metrics

\*\* Mediacom includes pro forma results from a small system acquisition in January 2017

^ Includes LRG estimate for Cox

Totals reflect pro forma results from system sales and acquisitions

Company subscriber counts may not solely represent residential households

Top cable and telephone companies represent approximately 95% 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



# LRG

Leichtman Research Group

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Leichtman Research Group, Inc.

[www.LeichtmanResearch.com](http://www.LeichtmanResearch.com)

(603) 397-5400