Leichtman Research Group, Inc.

Research Notes

1Q 2012 *Actionable Research on the Broadband, Media & Entertainment Industries*

Smart TV Sets – Today's Shimmer?

In 1976, a *Saturday Night Live* parody advertisement pitched New Shimmer, a product that was both a floor wax and a desert topping ("for the greatest shine you ever tasted"). More recently, TV manufacturers have created a (not so farfetched) new line of TV sets that can also connect to the Internet. While, on the surface, this combination makes sense, it is still struggling to finds its footing.

In this issue:

A recent LRG nationwide survey found that 31% of adults are interested in the ability to watch video from the Internet on their TV. This signifies a healthy enough level of interest to help sell Internet connectivity as a feature within TV sets. Television manufacturers are now frequently emphasizing this feature in the marketing and advertising of their new HDTV sets, examples include:

- *Connect to the Internet and stream movies, listen to music and access a wide variety of other content on your HDTV*
- *Bring the best of the internet directly to your TV without a computer*
- *Built-in Wi-Fi connects you with apps, like Facebook and Twitter and movies on demand from Netflix to CinemaNow. With all these and more, (this) is an ideal choice to complement your digital lifestyle.*

An increasing percentage of households are able to access the Internet on their TV set. As detailed later in these Research Notes, 38% of all households now have at least one TV set that is connected to the Internet – up from 24% just two years ago. **However, the growth in connected TV households is generally not being driven by the feature in the TV sets themselves.**

Did you know?

The mean number of TV sets per household is 3.0 – with a mean of 1.3 HDTVs across all households

The benefits of Internet connected TV sets described above are the same ones that come with most new video game systems, and Blu-ray players, and these products are more commonly being used as the conduits for the Internet connectivity than the TV set itself. **The**

LRG Leichtman Research Group

majority of those who have a TV set that can connect to the Internet do not even have the feature working. LRG's survey found that:

- 70% all adults have at least one HDTV in their household
- 39% with an HDTV set say that they have a set than can connect directly to the Internet
- 40% of those who can connect, have set up the connection to the Internet on the TV

In total, 11% of households have a TV set itself directly connected to the Internet, and just 4% of all households are connected solely via an Internet-enabled TV set. These are figures that are similar to a year ago.

> Gaming systems rule when it comes to connecting television sets to the Internet, while the Apple (AAPL) iPad is being used for more video watching, says the Leichtman Research Group.
>
> The market research firm says 28% of all U.S. households have a video game system connected to the Internet, up from 23% last year,
>
> - **Investor's Business Daily**
> *April 9, 2012*

Looking forward, consumer demand for these types of TV sets is expanding, but remains modest. The survey found that, in the next six months, 6% of all adults plan to purchase a TV set that can connect directly to the Internet.

Television sets with Internet-connectivity are certainly not today's Shimmer, but in this case, there is competition with other products that provide similar benefits. Consumers are choosing if, and how, they get Internet-connectivity on each TV set and, for now, video game consoles are winning.

38% of U.S. Households Now Have a TV Connected to the Internet

New consumer research from Leichtman Research Group, Inc. (LRG) finds that 38% of all households have at least one television set connected to the Internet via a video game system, a Blu-ray player, an Apple TV or Roku set-top box, and/or the TV set itself – up from 30% last year, and 24% two years ago. Video game systems are the key connected devices, as 28% of all households have a video game system connected to the Internet. Just 4% of all households are connected solely via an Internet-enabled TV set, and Apple TV or Roku set-tops are the only connected devices in 1% of all households.

Overall, 13% of all adults watch video from the Internet via a connected device at least weekly, compared to 10% last year, and 5% two years ago. Use of connected devices remains skewed towards Netflix subscribers, with 35% of Netflix subscribers watching video from the Internet via a connected device weekly, compared to 5% weekly use among all non-Netflix subscribers.

These findings are based on a survey of 1,251 households nationwide and are part of a new LRG study, ***Emerging Video Services VI***.

Other related findings include:

- Overall, 16% of all adults use Netflix's Watch Instantly feature weekly – compared to 12% last year, and 4% two years ago
- 79% of Netflix Watch Instantly customers use it to watch movies and television shows on a TV set, and 59% of this group access Netflix via a video game system
- 50% of Netflix subscribers are satisfied with the service, and 11% are likely to stop subscribing to Netflix in the next six months
- 7% of Netflix subscribers are likely to switch from their multi-channel video provider in the next six months – compared to 12% of non-Netflix subscribers
- 13% of Netflix subscribers would consider reducing spending on their multi-channel video service because of Netflix – compared to 21% last year
- 16% of all adults watch full length TV shows online at least weekly – compared to 12% last year, and 10% three years ago
- Among all mobile phone owners, 19% watch video on their phones weekly – compared to 15% last year, and 6% three years ago
- 9% of all adults watch video on an iPad/tablet computer weekly – compared to 2% last year
- Overall, 1.6% of households in the sample paid to subscribe to a multi-channel video service in the past year and do not currently subscribe. Yet, just 0.1% of the sample dropped service in the past year, do not plan to subscribe again in the next six months, and say that they don't subscribe because of Netflix or because they can watch all that they want on the Internet or in other ways

Did you know?

In 2011, Apple sold 93.1 million iPhones and 40.5 million iPads, and 38.6 million iPods

Video is increasingly being watched on different platforms and in different places, yet these emerging video services still generally act as complements to traditional television viewing and services rather than as substitutes. Among all adults, reported time spent watching TV is similar to last year, and there remains little evidence of a significant trend in consumers "cutting the cord" to their multi-channel video services to watch video solely via these emerging services.

Major Multi-Channel Video Providers Added About 380,000 Subscribers in 2011

Leichtman Research Group, Inc. found that the fourteen largest multi-channel video providers in the US

– representing about 94% of the market – acquired over 380,000 net additional video subscribers in 2011. Annual net multi-channel video additions in 2011 were about 175,000 fewer than in 2010.

Combined, these top multi-channel video providers account for over 94.5 million subscribers – with the top ten cable companies having 52.7 million video subscribers, satellite TV companies having over 33.85 million subscribers, and top telephone companies having 7.96 million subscribers.

> Major multichannel video programming distributors added about 380,000 video customers in 2011, according to Leichtman Research Group.
>
> While the numbers are less than the 550,000 video customers MVPDs added in 2010, Leichtman noted that the decline was mainly due to fewer additions at subscriber stalwarts like DirecTV and Verizon Communications' FiOS TV service.
>
> - **Multichannel News**
>   *March 20, 2012*

Other key findings include:

- The top ten cable companies lost about 1,620,000 video subscribers in 2011 – compared to a loss of about 1,780,000 subscribers in 2010
- The top telephone providers added 1,505,000 video subscribers in 2011 – compared to 1,644,000 net additions in 2010
- Satellite TV providers added 496,000 video subscribers in 2011 – compared to 696,000 net additions in 2010
- In the fourth quarter of 2011, multi-channel video providers added about 230,000 subscribers – compared to a gain of about 90,000 in the fourth quarter of 2010

Despite a relatively saturated market, low housing growth, and an increase in "over-the-top" alternatives, the multi-channel video industry grew modestly in 2011. Overall, the top multi-channel video providers added about 380,000 subscribers in 2011, compared to a gain of about 555,000 in 2010.

3 Million Added Broadband from Top Cable and Telephone Companies in 2011

Leichtman Research Group, Inc. found that the eighteen largest cable and telephone providers in the US – representing about 93% of the market – acquired 3 million net additional high-speed Internet subscribers in 2011. Annual net broadband additions in 2011 were 88% of the total in 2010.

The top broadband providers now account for 78.6 million subscribers – with cable companies having over 44.3 million broadband subscribers, and telephone companies having over 34.3 million subscribers.

Other key findings include:

- The top cable companies netted 75% of the broadband additions in 2011
- The top cable companies added 2.3 million broadband subscribers in 2011 – 98% of the total net additions for the top cable companies in 2010
- The top telephone providers added 750,000 broadband subs in 2011 – 68% of the total net additions for the top telephone companies in 2010
- In the fourth quarter of 2011, cable and telephone providers added 765,000 broadband subscribers – with cable companies accounting for 82% of the broadband additions in the quarter

Despite a high level of broadband penetration in the US, the top broadband providers added 88% as many subscribers in 2011 as in 2010. At the end of 2011, the top broadband providers in the US cumulatively had over 78.6 million subscribers, an increase of nearly 25 million over the past five years.

Industry by the Numbers – (as of the end of 4Q 2011)

Top 10 Cable MSOs in the U.S.

	Passings	Subscribers	Penetration	Net Adds in 2011	Net Adds in 2010
Basic Cable	119,900,000	52,735,000	44.0%	(1,620,000)	(1,780,000)
Digital Cable*		43,775,000	83.0%	980,000	2,200,000
Broadband Internet**	119,400,000	44,015,000	36.9%	2,285,000	2,330,000
Telephone***	113,500,000	22,890,000	20.2%	1,225,000	1,865,000

Sources: The Companies and Leichtman Research Group, Inc.
Totals include LRG estimates and pro forma results from system sales and acquisitions.
** Digital penetration of Basic subscribers*
*** Internet data does not include RCN*
**** Telephone data does not include Bright House Networks*

U.S. Residential Telephone Lines – Gains and Losses

	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011
Telco Net Adds*	(1,290,000)	(1,225,000)	(1,224,000)	(1,232,000)	(1,027,000)
Cable Net Adds	435,000	455,000	285,000	210,000	285,000

Sources: The Companies and Leichtman Research Group, Inc.
** Retail residential phone lines include both primary and additional lines, but do not include wholesale lines*
Includes LRG estimates and some results adjusted from prior reports

Top Ten Residential Phone Companies

Company		Residential Phone Lines
1.	AT&T	21,232,000
2.	Verizon	12,626,000
3.	Comcast	9,342,000
4.	Century Link*	9,040,000
5.	Time Warner**	4,544,000
6.	Frontier	3,267,487
7.	Cox*	3,170,000
8.	Cablevision	2,357,000
9.	Windstream	1,931,700
10.	Charter	1,791,300

Sources: The Companies and Leichtman Research Group, Inc.

** LRG Estimate*

*** Total prior to Time Warner Cable's acquisition of Insight completed on 2/29/2012*

Telco Video

	Subscribers	Net Adds in 2011	Net Adds in 2010
Verizon FiOS	4,173,000	701,000	722,000
AT&T U-verse	3,791,000	804,000	922,000
Total	**7,964,000**	**1,505,000**	**1,644,000**

Sources: The Companies and Leichtman Research Group, Inc.

Data includes LRG estimates of pro forma results from system sales

DBS

	Subscribers	Net Adds in 2011	Gross Adds in 2011	Subscriber Acquisition Cost*	Average Revenue Per Sub/Month**
DIRECTV	19,885,000	662,000	4,316,000	$813	$93.27
Dish Network	13,967,000	(166,000)	2,576,000	$771	$76.93
Total DBS	**33,852,000**	**496,000**	**6,892,000**		

Sources: The Companies and Leichtman Research Group, Inc.
** Includes leased equipment and unreturned box costs*
*** Includes revenue from commercial accounts and other non-consumer spending*

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Top Broadband Internet Providers in the U.S.

Broadband Internet Provider	Subscribers at the end of 2011	Net Adds in 2011
Cable		
Comcast	18,147,000	1,159,000
Time Warner^	10,344,000	491,000
Cox*	4,500,000	130,000
Charter	3,654,600	252,900
Cablevision	2,965,000	73,000
Suddenlink	951,400	65,100
Mediacom	851,000	13,000
Insight^	550,000	25,500
Cable ONE	451,082	25,680
Other Major Private Companies**	1,925,000	55,000
Total Top Cable	**44,339,082**	**2,290,180**
Telephone Companies		
AT&T	16,427,000	117,000
Verizon	8,670,000	278,000
CenturyLink	5,554,000	238,000
Frontier^^	1,735,000	37,833
Windstream	1,355,300	53,600
FairPoint	314,135	24,390
Cincinnati Bell	257,300	1,200
Total Top Phone	**34,312,735**	**750,023**
Total Broadband	**78,651,817**	**3,040,203**

Sources: The Companies and Leichtman Research Group, Inc.

** LRG estimate*
*** Includes LRG estimates for Bright House Networks and RCN*
^ Totals prior to Time Warner Cable's acquisition of Insight completed on 2/29/2012
^^ LRG estimate does not include wireless subscribers
Totals reflect pro forma results from system sales and acquisitions
Top cable and telephone companies represent approximately 93% of all subscribers
Company subscriber counts may not represent solely residential households

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