

Direct Broadcast Satellite Subscribers and Strategies

The latest subscriber totals and plans from DirecTV, EchoStar and GlobeCast, as of 3Q 2005

Jimmy Schaeffler ■ *The Carmel Group*

The traditional cable industry and its wired brethren have long appreciated revenues from the 50 million to 60 million U.S. MDU inhabitants – about a fifth of the nation's population and a fourth of its households. Today, almost 30 percent of new dwelling units are MDUs.

Nevertheless those residing in apartments, condominiums, hotels and dormitories remain an elusive target for the two key U.S. Direct Broadcast Satellite (DBS) providers, EchoStar and DirecTV, as well as the relative newcomer, GlobeCast.

The Key Challenges

One of the key reasons DBS operators have had difficulty delivering their services to America's MDUs is because DBS profit margins tend to be rather slim. Typically in the MDU world, there are more players looking for a part of the pie than there are in the single-family unit (SFU) side of the DBS business.

Thus, it becomes harder for DBS providers to make the profits necessary for investments in MDU subscribers. By comparison, when DirecTV or EchoStar spend \$600+ to acquire a subscriber in a single-family unit, most of the typical average revenue per unit (ARPU) of \$60+/month goes to either EchoStar or DirecTV, and to content providers. In the MDU world, DirecTV and EchoStar must traditionally share ARPU with the building owner or the building manager (or both), so it can take twice as long to recoup their Subscriber Acquisition Cost (SAC) investment. Clearly, SFU business models can't be applied to MDU scenarios.

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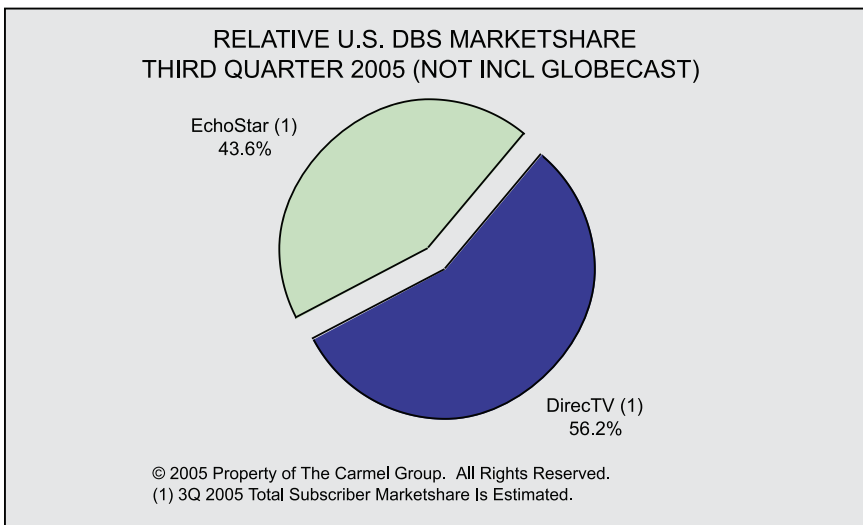
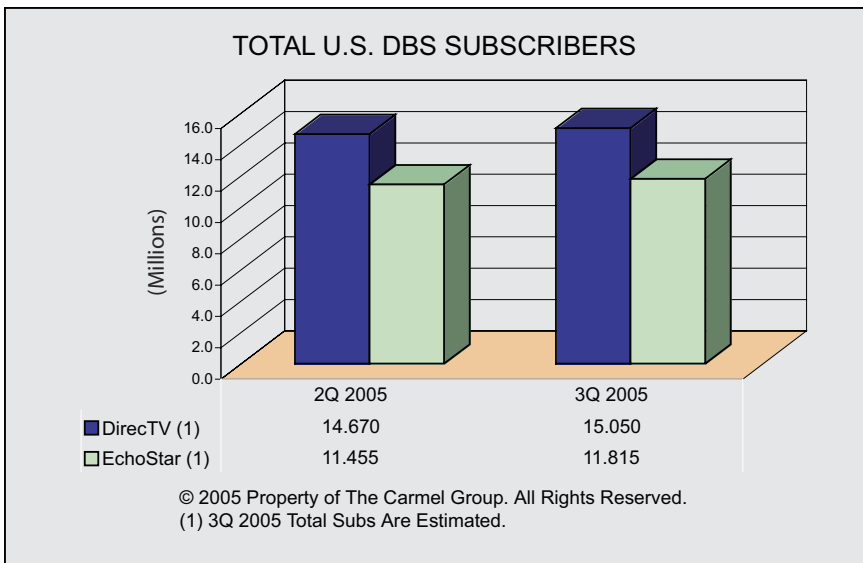
Furthermore, churn, or subscriber turn-off, is typically higher in MDUs, because MDU households tend to be, on average, more transient and have lower incomes relative to those SFU households. If churn is high, then the DirecTVs and EchoStars of the world tend to be much more reticent when considering the up-front SAC required to obtain any new subscriber. Why would a DBS operator spend \$600 or more to obtain a new subscriber, and then have to wait three or four years before breaking even, only to have the subscriber churn out after two and a half years? That's about half the normal subscriber lifetime for EchoStar and DirecTV subscribers.

In addition, new DBS providers must cope with entrenched cable and Private Cable Operators (PCOs), many of which have exclusive, perpetual contracts in place. Additionally, MDU owners usually are not receptive to tenants placing satellite dishes on balconies or other spots outside their units, which means owners tell tenants they cannot mount dishes and tenants often believe them.

As most people in the industry know, federal law generally preempts and prohibits restrictions on the installation of dishes in the 36% or smaller range on MDUs by tenants, unless certain ascetic or health or safety concerns arise and can be substantiated. This means that federal law preempts (or supersedes) all state, local and building owner regulations that are opposed to the federal law and, in most instances, MDU tenants are permitted to install and operate their own satellite receivers from companies like DirecTV, EchoStar and GlobeCast.

Other challenges involve technical considerations tied to on-premises wiring, set-top boxes, and the distribution of signals into MDU environments. In most higher-end MDU properties, at least, expect the telephone providers, both large and small, to begin targeting MDU subscribers for newly developed bundles of

- Audio-video.
- Telephony.
- Two-way Internet broadband.
- Wireless services.



Electric utilities are also eyeing the telecom space to see if they can deliver signals and increase their profit margins. If done properly, these new bundles from the likes of cable and telephony wired operators will make continued movement toward MDUs particularly challenging for DirecTV, EchoStar, GlobeCast, and other DBS vendors.

The Current State of U.S. DBS

DirecTV today says its subscription base rests at 14.7 million as of the close of second quarter 2005. As noted on the accompanying charts, The Carmel Group estimates DirecTV added another 380,000 net new subscribers during 3d Q 2005, meaning the system

today claims slightly over 15 million total subscribers, about 56 percent of all U.S. DBS households.

EchoStar's market share today is estimated at nearly 44 percent, with about 11.8 million subscribers as of the end of 3Q '05. At the close of 2d Q 2005, EchoStar's firm base stood at 11.5 million total subscribers, having added an estimated 225,000 net news subs during April, May and June of this year.

GlobeCast would have been added to the accompanying charts, but the French-owned, New York City-based DBS provider does not make public its subscriber data.

The chart titled "3-Year Quarterly Net New DBS Sub Growth" takes the

reader back to late 2002, when DirecTV and EchoStar together added almost 700,000 net new subscribers to close the holiday season. By the end of last year, this 4Q total had risen another 200,000 subscribers, which equaled a total gain of almost 30 percent in 24 months.

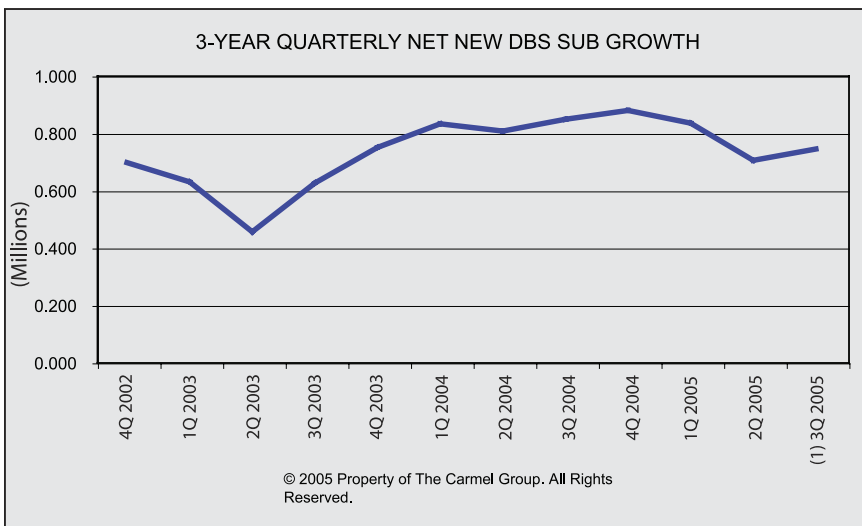
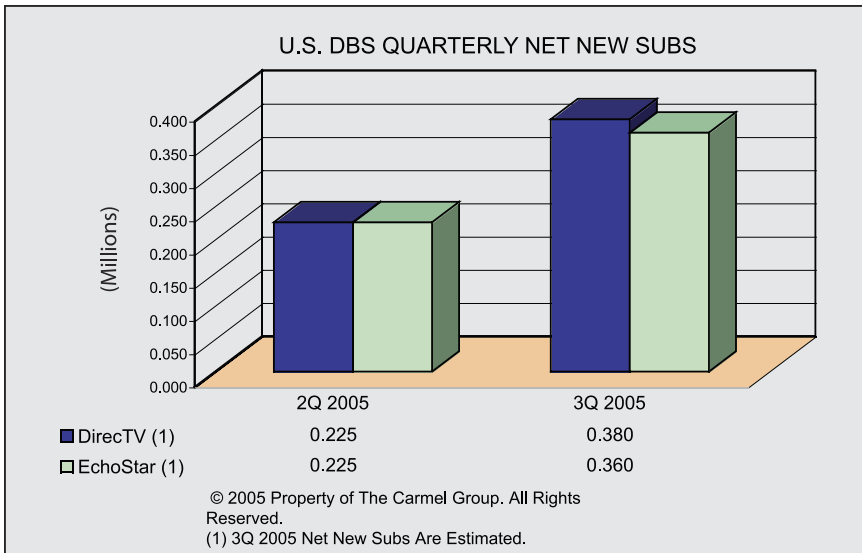
This highlights the fact that the influence of Rupert Murdoch has been particularly impressive. Since taking over DirecTV in early 2004, the News Corp head has infused hundreds of thousands of additional subscribers into the U.S. DBS industry. What is particularly interesting is to see Murdoch grow the business at a time when most pundits in the U.S. telecom business were saying the subscriber base for companies had actually cooled. And what then becomes particularly provocative is this question: Can Murdoch – or Charlie Ergen at EchoStar or David Sprechman at GlobeCast – do the same for DBS growth into U.S. MDUs?

DirecTV's Direction

Despite facing almost all of the obstacles above, DirecTV is forging ahead in today's MDU space with ad lines such as these: "For Rent: Stunning 3BR 2Bath, w/Oak Parquet Floor, Walk-In Closets, Amazing Views of Up To 225 Channels of DirecTV Programming in Every Room."

This ad line accompanied DirecTV's August 2, 2005 announcement of a new alliance with New Jersey-based MDU Communications, to deliver DirecTV programming to a new, Lower Manhattan, New York City high-end apartment building featuring 274 units. DirecTV and its new partner tout 225 channels of programming that can be accessed by subscribers from "...each of DirecTV's [nine] satellites via a single wire to the MDU customer's home."

Says DirecTV VP Daren Benzi, "Our new one-wire technology uses the building's existing wiring, plus we can support older DirecTV receivers, and also install multiple receivers off of one dish. Ours is a plug and play unit set in one communications clos-



et, which then serves several scores of units in an MDU.”

Benzi suggests that one of the better long-term opportunities for DirecTV’s MDU division will be to deliver the DirecTV brand, on an exclusive basis, to newly constructed MDUs. Adds MDU Communications’ CEO, Sheldon Nelson, “We have three contracts available to building owners, based upon our investment in this new technology. One is tied to a bulk package, one to an exclusive agreement, and a third to a very competitive model.”

EchoStar’s Energy

EchoStar’s VP for Commercial Services, Brian Neylon, highlights his company’s MDU distribution method,

which is to deliver the product and service both directly (via contacts from MDU consumers), and indirectly (via relationships with middlemen retailers or Private Cable Operators).

This tracks the strategy EchoStar has instituted into the enterprise side of its business. Notes Neylon, “Historically, PCOs have had to invest in analog and other outdated technologies. Our system allows them to have an all-digital EchoStar platform. We’ve proven it’s stable and that we’re in it for the long run,” As the parent company, EchoStar, has done since its inception, EchoStar’s MDU division also maintains the mantra: “Traditional cable companies are our true competition.”

EchoStar vendor Televes, the

Spain-based supplier of digital headends for EchoStar’s MDU properties, believes in the potential for growth in the U.S. MDU market.

Notes Televes’ U.S. managing director, Victor Gestal, “MDU is a huge market. With 25 million U.S. MDU properties. We intend to be a big part of that.”

GlobeCast’s Goals

The latest newcomer to the MDU side of the DBS business in the U.S. is the foreign-content-centric company, GlobeCast. Because many of its ethnic and foreign-raised subscribers tend to reside in MDUs, GlobeCast finds the MDU audience to be a natural one in which to invest future resources.

Although much of GlobeCast’s growth to date has been via individual installs arranged by GlobeCast’s broadcaster companies, GlobeCast is today trying to grow its own installer system into one of a “national network of installers.”

GlobeCast’s MDU division recognizes two types of infrastructure, one based upon a pre-existing headend, the other based upon a rack of set-top boxes that receive signals from a GlobeCast roof-mounted antenna. The signals are then distributed by coaxial cable to individual units.

Adds Anna Porteus, GlobeCast’s director of marketing, business and communications, “GlobeCast also has a strong relationship with the hotel side of the MDU market, via a quality agreement with Lodgenet. That is another side of our future where we intend to make a strong business.” **BBP**

About the Author

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