

SMB & National Enterprise Market Trends Report

U.S. Telecom Market Sizing and Revenues Share – YE 2017

MAY 2018

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About the Research

Principal Analyst, Matt Davis is the founder of Independence Research and the author of this report. Matt has 20 years of experience analyzing broadband deployment strategy and service provider competition.

Overview

This Quarterly Report provides market sizing and share for the overall U.S. Telecom market, with a drill-down into SMB Voice, Data, Television and Mobile service revenues. The analysis also provides SWOT analysis of the top competitors in the market. Key initiatives and quantitative trends are examined.



Key Trend Highlight: Cable market share expansion beyond SMB and into the mid-market or “National Enterprise” segment is increasing – however Telcos are reacting with M&A to bolster their collective competitive response

Findings Up Front

- The SMB Telecom Market generated over \$50 Billion in revenues in 2017 when combining wireline and mobile services
- The split between mobile and wireline SMB Revenues was essentially a tie with both segments generating approximately \$26 Billion in revenues – each representing approximately 25% of their category revenues
- Wireline business segment revenues are fairly balanced with Global Enterprise, National Enterprise, Wholesale and SMB all in the \$20-\$25 Billion range – Mobile business revenues are more heavily weighted to larger enterprise
- CenturyLink and Windstream have successfully leveraged M&A to generate robust national revenue streams outside their traditional LEC areas
- Relative to their size, Cox and Altice have penetrated their cable footprints at a significantly higher rate than larger peers

Key Trends

- **Fiber upgrades** – both in the mass market access space and to MTUs are increasing
- **SD-WAN** – big impact on distributed enterprise strategy when expanding beyond traditional serving areas
- **Customer experience** – automating and improving mass market interaction on the rise

Market Sizing Methodology

Overview

- ❑ This market sizing analysis was built by extracting and summing up all relative telecom revenue gathered from quarterly and annual reporting by the largest telecom and cable companies in the U.S. which together comprise over 90% of revenue for most categories in the study.
- ❑ Of the twelve major companies, only Cox Communications was 100% estimated based on previous publicly available company statements and Independence Research (IR) estimates.
- ❑ Despite having actual reported data as the bedrock of the analysis, a significant amount of estimates were required to assign revenue to unreported categories – particularly in mobile and satellite.
- ❑ Estimates are made to round out the overall industry size adding Tier 2 & 3 ILECs, MSOs, Mobile Carrier, CLEC and specialty telecom provider revenues to the larger providers
- ❑ In general, as a group, cable companies report more similarly than telcos, which individually have reporting categories that fit best with their particular business strategies

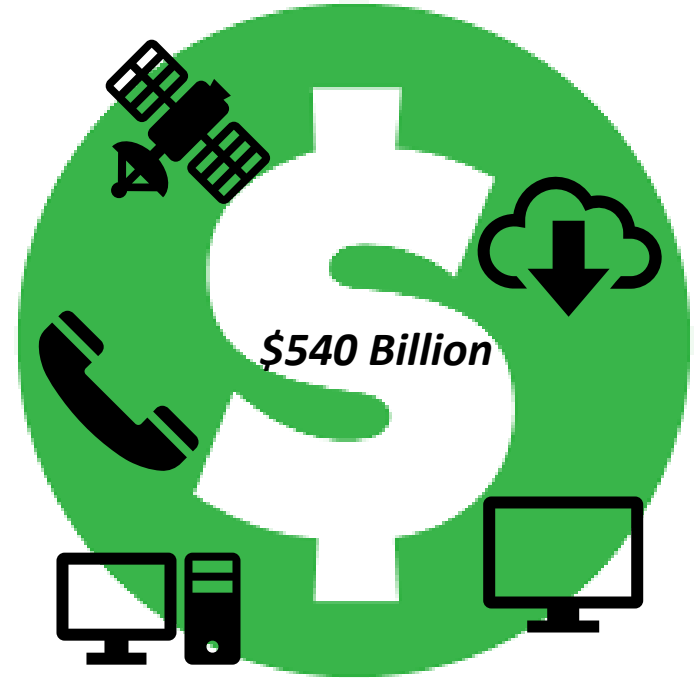
This market sizing model follows the cable definitions of SMB and enterprise.

Independence IQ: U.S. Cable & Telecom Market Sizing

The U.S. telecom and cable market includes total revenues from all of the major telecom, mobile, cable and satellite providers. Revenues have grown to over \$540 Billion dollars USD annually....

Please note: Revenues generated by subsidiaries or operational units of telecom and cable service providers that are not core telecom services (e.g. NBC Universal, Yahoo etc..) are not included in this report's market sizing

U.S. Telecom and Cable Revenues YE 2017

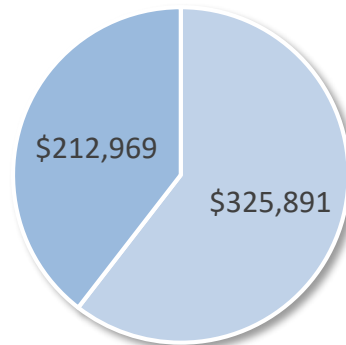


Independence IQ: Overall Telecom Revenue Splits

U.S. Revenues for Cable and Telecom Market

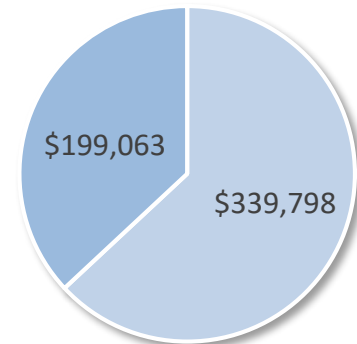
- Wireline telecom generated \$325 Billion while a combined consumer and business mobile accounted for \$212 Billion
- The consumer segment (which includes Internet, mobility, TV and voice) is a robust \$340 billion business

YE 2017 Wireline/Mobile Telecom Split



■ Fixed ■ Mobile

YE 2017 Consumer/Business Telecom Split



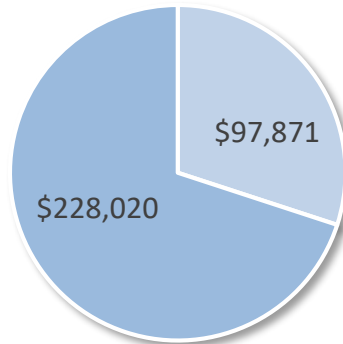
■ Consumer ■ Business

Independence IQ: Business & Consumer Breakdown

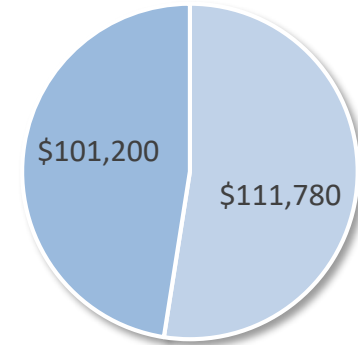
U.S. Wireline Cable & Telecom generated \$325 Billion in Revenues

Combined U.S. Mobile business and consumer accounted for \$213 Billion

YE 2017 Wireline Telecom Business and Consumer



YE 2017 Mobile Telecom Business & Consumer



■ Wireline Business ■ Wireline Consumer ■ Mobile Consumer ■ Mobile Business

Independence IQ: Wireline Business Breakdown

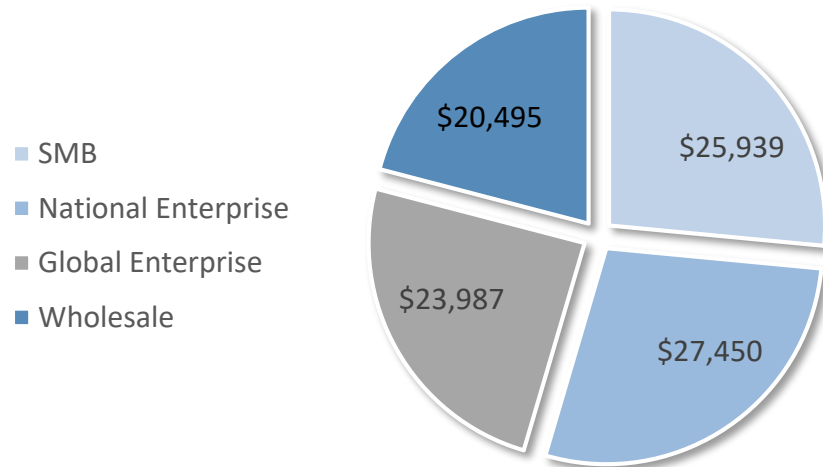
National Enterprise roughly corresponds to “Mid-Market,” “Medium Business,” or “Commercial Segment”

The SMB category is more accurately *small* business with less than \$2000/month in monthly communication spending

Global Enterprise represents reported telecom revenues from Very large business revenues estimates and reported Global Enterprise revenues

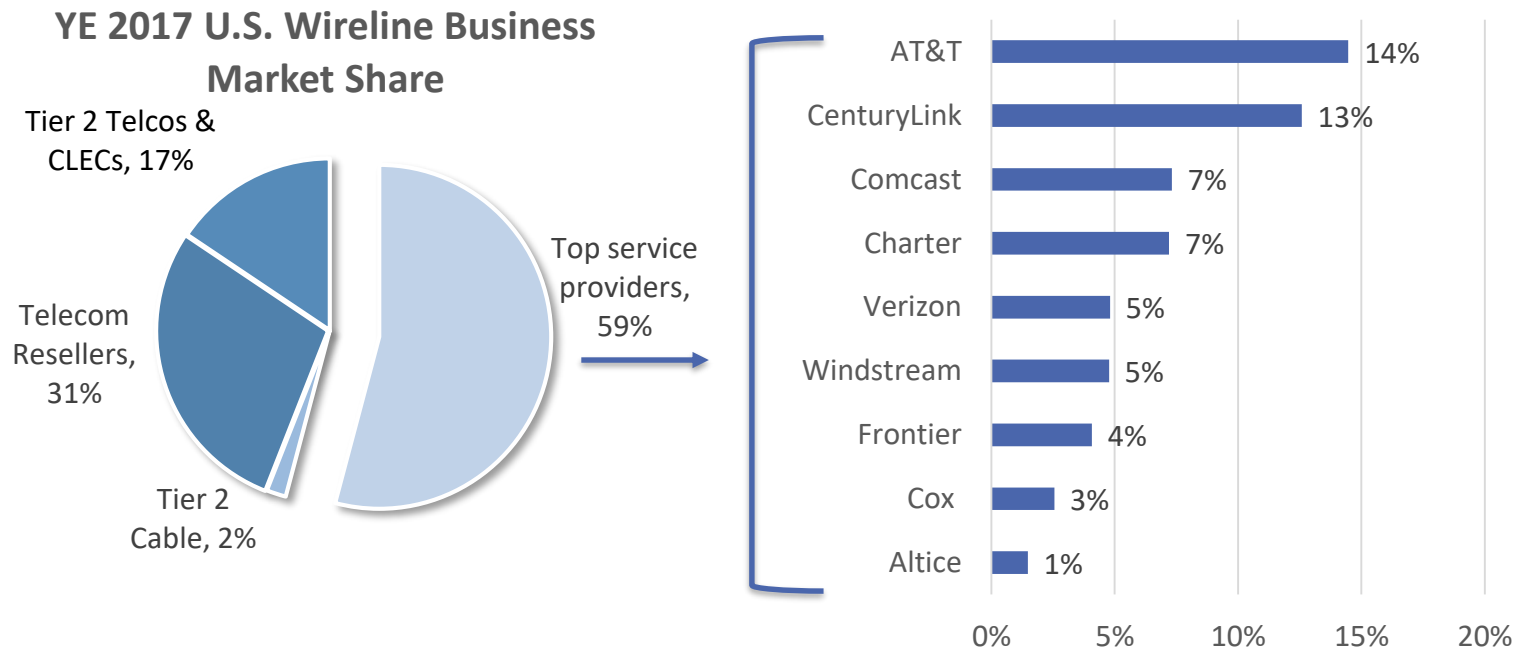
Wholesale includes “carrier’s carrier” transport, wholesale reseller & VAR revenues, cell backhaul and other SP to SP services

YE 2017 Wireline Business Breakdown

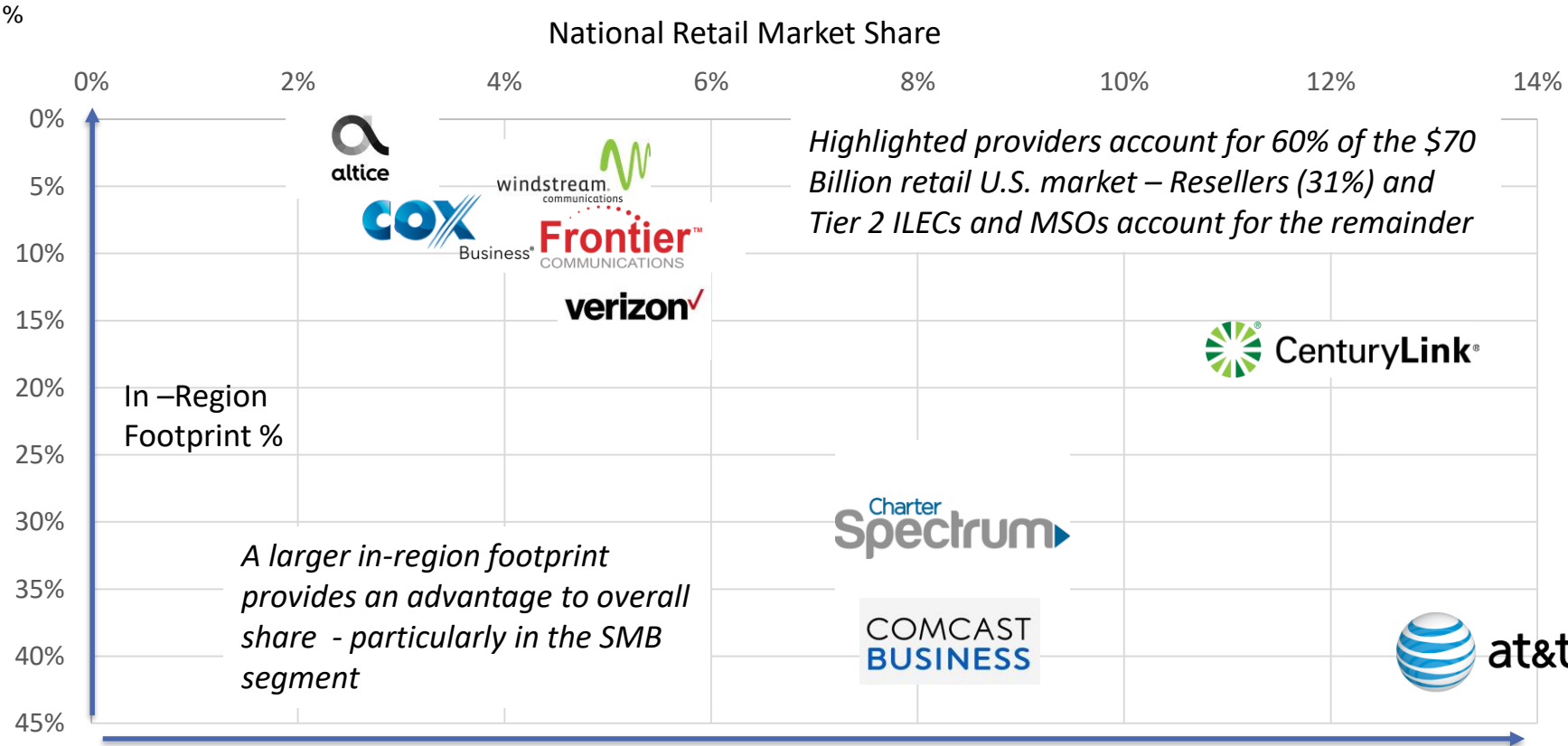


Competitive Positioning: Combined *National Business & SMB Wireline Market Share*

Excluding wholesale and global enterprise – this chart shows **the combination of SMB Business and National Enterprise** revenues share...



Competitive Positioning Chart – Wireline Business market share compared to % of U.S. Businesses in service providers local footprint



Competitive Positioning Analysis

Overall market penetration into SMB and National Enterprise is concentrated in the ILEC or MSO serving area – however wireline business revenue is generated outside these footprints – the % varies significantly across providers...



At 50% - Altice is the most highly penetrated MSO in-region – heavily saturated in SMB and benefitting from Optimum LightPath revenues



At 41%, AT&T has the largest national in-region footprint – they are 32% penetrated



With strong enterprise assets, and the TWC pedigree – Charter is poised to increase its 24% penetration score



Acquisitions and market focus have extended Clink well beyond its legacy Qwest and Centurytel LATA's – resulting in a score of 71%



Despite years of double digit revenues growth, Comcast's large footprint gives it a lot of run room from its 21% penetration score



Unlike Clink and Windstream – Frontier is more of a pure-play old school telco – its 40% penetration is primarily in-region



At 38% Cox is well penetrated across both the SMB and National Enterprise – demonstrates sound execution - and still room to grow



Verizon's 31% penetration will almost certainly increase now that the XO deal has settled in



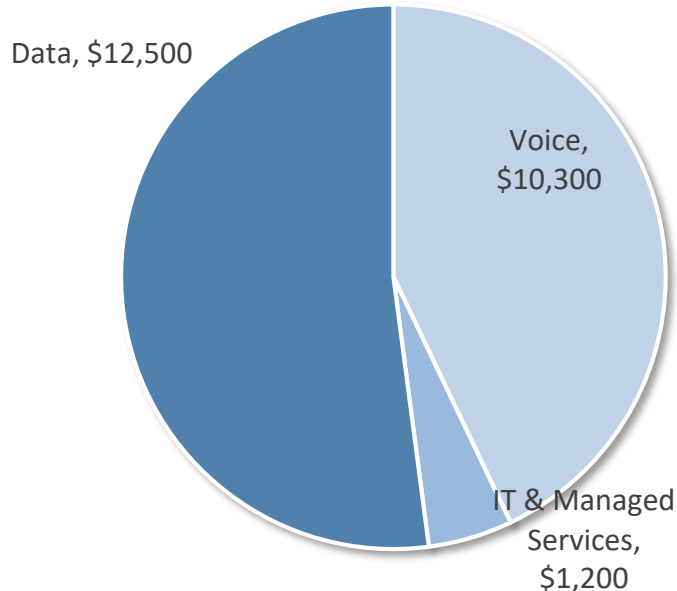
Windstream's laser-focus on the mid-market & acquisitions of Earthlink and Broadsoft make it much more National than local – resulting in a score of 80%

National Enterprise Definition & Product Revenues

At YE 2017, the U.S. Wireline Cable and Telecom industry generated \$24 Billion in National Enterprise revenues

“National Enterprise” includes businesses that spend over \$2000/month on telecom services but are not global enterprises

YE 2017 Wireline National Enterprise



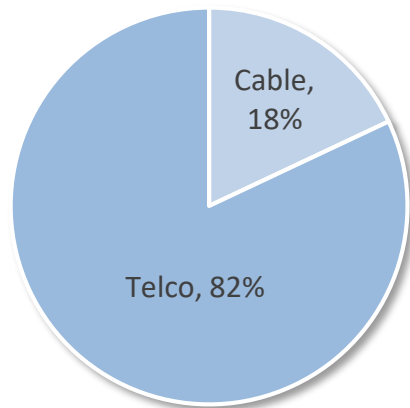
In this analysis, a National Enterprise customer is typically a mid-sized regional or national company with multiple locations in the U.S.

National Enterprise includes government, healthcare, education and other public-sector entities not included in the Small Business Administration’s Private Sector measurement

National Enterprise Market Share: *Telco V.s Cable*

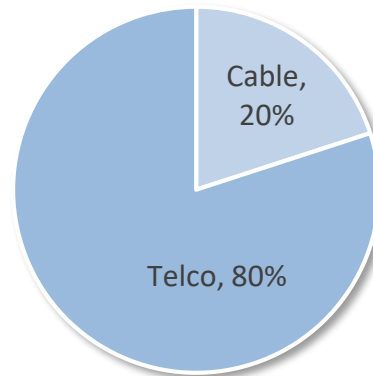
At YE 2017, the U.S. Wireline Cable and Telecom industry generated \$24 Billion in National Enterprise revenues – Cable MSOs account for \$4.7B and captured an increase of almost \$500 million year over year...

YE 2016 National Enterprise Revenues Split



■ Cable ■ Telco

YE 2017 National Enterprise Revenues Split



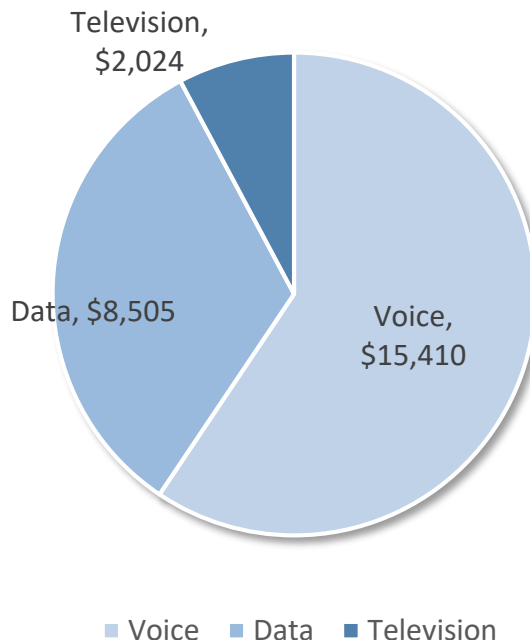
■ Cable ■ Telco

SMB Definition & Product Revenues Breakdown

At YE 2017, the U.S. Wireline Cable and Telecom industry generated \$26 Billion in revenues

The SMB category is really just *small* business with less than \$2000/month in monthly communication spending – the vast majority being less than \$300/month

YE 2017 Wireline SMB

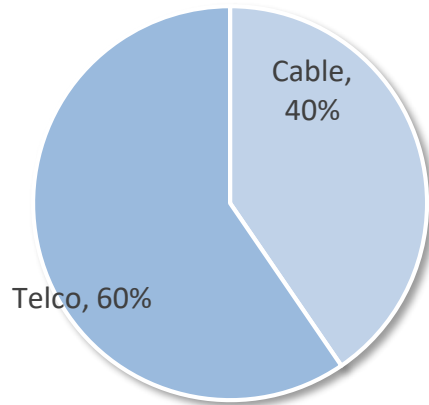


Depending on the definition of “SMB” being used – this category could be as high as \$35 Billion - however, this analysis lines up with the definition used by the Tier 1 Cable providers – the other portion of the “Medium” in SMB is captured in the National Enterprise segment

Independence IQ: SMB Wireline Market Share: *Telco V.s Cable*

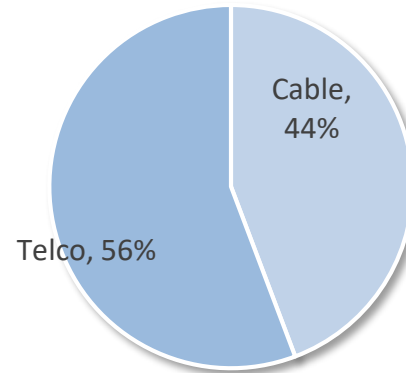
At YE 2017, the U.S. Cable and Telecom industry generated \$26 Billion in SMB Wireline revenues – Cable MSOs account for \$11.4B and continue to increase market share...

YE 2016 Wireline SMB Revenues Split



■ Cable ■ Telco ■

YE 2017 Wireline SMB Revenues Split



■ Cable ■ Telco ■



SMB is a complicated market - the lower end usually takes a backseat to the more lucrative mid-market (national enterprise) but there are clear signs that fiber access investments are driving new attention and opportunities when competing on speed – cable has enjoyed a decade of dominance, but facing fiber rather than DSL will demand greater creativity



The numbers don't lie – Cable has invested heavily in business and it has opened up the mid-market to them – Telcos have to decide how much business they want to funnel through the channel – it's an enticing strategy, but there is a question if handing over customer ownership for the benefits of better margins and wholesale share is the best long-term strategy

Thank You.

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