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SureWest Flexes IPTV Muscle

AUGUST 13, 2008 | Raymond McConville | **Comment (1)**

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In the United States, AT&T Inc. (NYSE: T) gets most of the IPTV attention, thanks to its market-leading 550,000 customers. But SureWest Communications (Nasdaq: SURW) has an older and more established IPTV subscriber base that in some ways has beaten out Ma Bell and Verizon Communications Inc. (NYSE: VZ).

Yes, SureWest had just 57,100 video subscribers as of June 30, as the company reported last week. (See SureWest Reports Q2.) But that's an average 25 percent penetration rate between its two markets -- Sacramento, Calif., and Kansas City, Mo. AT&T, by contrast, has gotten 10 times as many subscribers but operates in 53 markets.

"AT&T and Verizon dream of those kinds of penetration numbers," says Colin Dixon an analyst with The Diffusion Group (TDG). "I think it's a real success story. They're competing with the largest cable operator, in Comcast Corp. (Nasdaq: CMCSA, CMCSK), and have seen pretty good progress."

It's not just subscriber numbers. SureWest has HD content and HD DVR capabilities that are on par with other service providers and even has some features that the larger carriers are only experimenting with, such as home security. (See Verizon Previews FIOS Future.)

SureWest is enjoying the payoff from the decision a few years ago to make IPTV a centerpiece of its service offerings.

"It was clear to our team that network improvements were necessary to take full advantage of the demand for high quality IPTV and the rising demand for video access across the Internet," said SureWest CEO Steven Oldham on last week's earnings call with analysts.

SureWest got a cheap avenue into video back in 2002 when it acquired assets of WINFirst out of bankruptcy -- assets that included video headend facilities.

"It was traditional video at the time, but it gave us a kick start on the video side of things, and we re-encapsulated that video into IP form," SureWest CTO Bill DeMuth tells *Light Reading*.

From there, SureWest focused on building out its fiber-to-the-home (FTTH) network and has shed other businesses, such as the wireless service that it unloaded to Verizon Wireless early this year. (See VZ Buys SureWest Assets.)

It also got into the Kansas City market recently by acquiring Everest Broadband, which was offering triple play services over a hybrid fiber/coax (HFC) network, using an RF overlay model similar to Verizon's FIOS delivery. (See SureWest Scales Everest.)

That HFC network offers a higher than normal capacity. SureWest's node splits in the area average about 160 homes, while the average cable operator does about 500 homes per node. Still, DeMuth says the RF customers in Kansas City might get converted to IPTV eventually.

And in general, SureWest's future lies with fiber. DeMuth says a "significant portion" of its 3,000 copper-based IPTV customers are being moved to FTTH, and SureWest is expanding its Kansas City operation to pass 8,000 more homes with FTTH by the end of this year. In the latter case, SureWest plans to offer symmetrical 50 Mbit/s speeds. Verizon, by contrast, offers 50 Mbit/s downstream but only 20 Mbit/s upstream. (See Verizon Takes 50-Mbit/s FIOS to the Masses.)

No further buildouts are planned in 2009. "In the Sacramento market in particular, where we've done a lot of network expansions, our plan is to really increase the penetration on existing homes

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passed," DeMuth says.

DeMuth thinks SureWest can boost its penetration rate to the mid-thirties from today's 25 percent, which would mean a total of about 80,000 subscribers.

— Raymond McConville, Reporter, *Light Reading*

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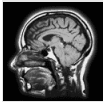


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