



## DISRUPTIVE TECHNOLOGIES BRIEFING

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### Streaming Spending Spree

Spending on content has gone nuts. Don't get us wrong—we love this Golden Age of TV. Home entertainment doesn't get much better than binge-watching “The Marvelous Mrs. Maisel” or “Narcos.” But you have to wonder how long the top players can continue to fund this amazingly expensive race for content supremacy. Let's take a look at the streaming wars:

(1) *Netflix* spent \$12 billion on content last year, and analysts expect that number to grow to \$15 billion this year. To help pay for this spending, the company recently raised its most popular subscription price in the US to \$12.99 a month from \$10.99. Netflix has a major lead in the streaming wars with 139 million subscribers, after adding 1.5 million subscribers in the US and 7.3 million internationally in Q4, according to a 1/17 [article](#) in *Variety*.

(2) *Amazon's* Q4 earnings conference call didn't reveal what it spent on programming last year or what it plans to spend this year—just that the amount will increase given continued strong adoption and usage. Amazon views Prime as an offering that builds connectivity with members and improves renewal rates.

Amazon said in April that there were more than 100 million Prime members globally, a 1/31 *Variety* [article](#) reported. “Amazon claimed that during the holiday quarter, ‘tens of millions of customers’ worldwide started free trials or began paid memberships of its Prime program and that it added a record number of Prime members in 2018.”

(3) *Disney* is the latest media giant to jump into streaming wars. CEO Robert Iger sees the streaming business as a way to leverage the people and capabilities of the company's existing entertainment businesses. Disney plans three distinct services: ESPN+, Disney+, and Hulu, in which it owns a 30% stake.

ESPN+ rolled out in April for \$4.99 a month. The 2 million subscribers (as of Q4's end) enjoy mostly niche sports unavailable on ESPN (e.g., UFC Fight Nights, tennis, and college sports). Disney plans to launch Disney+ with content from Marvel, Star Wars, and Pixar. National Geographic content will be added after closing the 21st Century Fox deal later this year.

Assuming that acquisition is approved, it will double Disney's stake in Hulu to 60%. Most of 21<sup>st</sup> Century Fox's FX network content (less kid-oriented than Disney's) would appear on Hulu. Hulu added 8 million subscribers last year, ending the year at 25 million. Its variety of subscription plans start at \$5.99 per month.

Disney is all in, with plans to pull its content from Netflix and forego licensing income. Doing so will hurt Disney's operating income by about \$150 million this fiscal year. Its expenses will also increase; Disney's new direct-to-consumer division reported a quarterly loss of \$136 million in fiscal Q1.

(4) *An ever-growing list.* Consumers arguably have tons of choice already, and the dizzying array of viewing options will only compound as the number of streamers continues to proliferate. CBS's All Access and Showtime OTT are already available and expected to have 8 million subscribers this year.

WarnerMedia (TimeWarner before the AT&T acquisition) plans a streaming service in Q4 that carries movies and TV shows from its Warner Bros studio, Turner, and HBO. WarnerMedia owns "Batman," the Harry Potter movies, "Friends," and "The Big Bang Theory." It recently made a deal to ensure that "Friends," which is available on Netflix, will be able to move to WarnerMedia's service when it launches.

Comcast's *NBCUniversal* also plans to launch an ad-supported streaming service in 2020 that will be free for Comcast pay-TV subscribers and available for a monthly fee to others, noted a 1/15 [WSJ article](#).

(5) *Communication Services.* All of the above companies reside in the new S&P 500 Communication Services sector with the exception of Amazon, a member of the S&P 500 Consumer Discretionary sector's Internet & Direct Marketing Retail industry.

Since the market bottomed on December 24, the S&P 500 Communication Services sector has outperformed the S&P 500. Here's the performance derby since the market's recent low through Tuesday's close: Industrials (21.8%), Energy (20.7), Consumer Discretionary (18.8), Tech (18.6), Communication Services (18.5), Financials (16.9), S&P 500 (16.4), Real Estate (15.6), Materials (13.8), Health Care (11.9), Consumer Staples (9.8), and Utilities (6.1) ([Fig. 1](#)).

The Communication Services sector is expected to grow revenue 9.7% this year, a modest slowdown from last year's 11.6% growth. The deceleration in earnings growth is sharper, to 4.9% this year from 22.3% in 2018. At a recent 16.6, the sector's forward P/E is toward the upper end of the range in which it usually trades.

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