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RESEARCH
HenryFund.Org

Video Streaming Services

February 12, 2025

Communication Services Sector

Industry Rating **Market Weight**

Investment Thesis

In 2024, the Video Streaming Services industry saw growth from adding bundled services, creating original content, licensing popular programs, and acquiring the rights to live sporting events. As companies raised prices to cover these investments, cheaper ad-based subscriptions have become popular amongst consumers. The shift to ad-based subscriptions will relieve the pressure consumers face with the increasing costs associated with keeping multiple subscriptions. The industry continues to face challenges from the decline of traditional linear television and unprofitable smaller streaming services. With these headwinds hindering the overall growth, we recommend a **Market Weight** rating for the Video Streaming Services industry.

Drivers of Thesis

- Companies focusing on the balance of original content, licensed content, and live sporting events can reduce their subscriber churn rate.
- Ad-supported subscriptions are projected to grow at a CAGR of 141% through 2028[16], allowing streaming services to reach more consumers at an affordable monthly rate while capitalizing revenue from advertising.
- The implementation of AI can enhance the consumer's experience by tailoring their suggestions which will result in increased engagement and watch time.
- Worldwide, over-the-top video users are expected to grow to 4.92 billion by 2029, compared to the 2024 figure of 3.92 billion, which shows room for exponential subscriber growth[14].

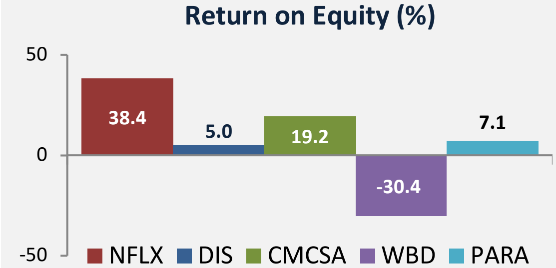
Risks to Thesis

- A continuation in the popularity of illegal streaming sites like StreamEast jeopardizes the revenue and subscriber growth that live sporting events bring, decreasing the value of the investment.
- Inflation caused by a trade war and tariffs will lead to consumers spending more conservatively which will result in them limiting their number of streaming subscriptions.
- Content expenses increase as more streaming services race to acquire the rights to live sports, licensed content, and produce original content.

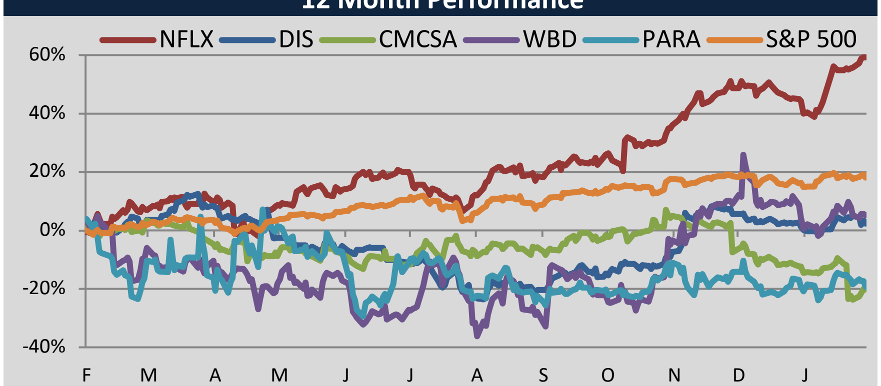
Industry Statistics (FactSet)

Market Cap	(In $ Billions)
Apple	$3,462.0
Amazon	$2,474.4
Google	$2,324.6
Netflix	$444.7
Walt Disney Company	$203.3
Comcast	$132.1
Warner Bros. Discovery	$26.0
Paramount	$7.7
P/E Ratio (LTM)	
Apple	36.1
Amazon	41.5
Google	23.0
Netflix	51.1
Walt Disney Company	36.0
Comcast	8.3
Warner Bros. Discovery	-
Paramount	-
EV/EBITDA	
Apple	24.9
Amazon	19.9
Google	17.6
Netflix	17.4
Walt Disney Company	14.0
Comcast	5.9
Warner Bros. Discovery	9.1
Paramount	10.2

Return on Equity (%)



12 Month Performance

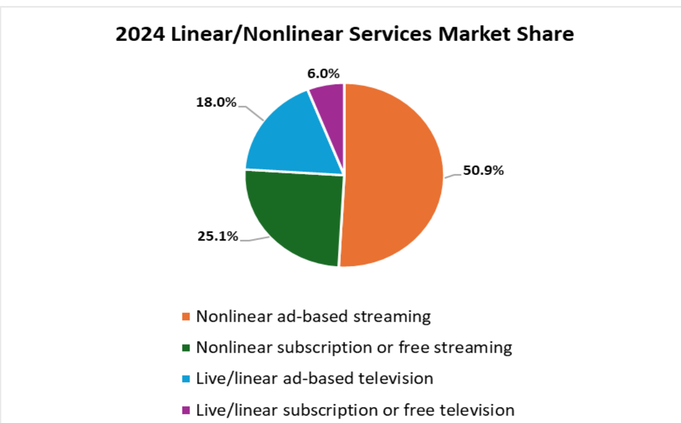


Industry Description

The Video Streaming Services industry is part of the Communication Services Sector. This industry is comprised of companies that provide digital entertainment to consumers for a subscription or advertising space. This industry was traditionally limited to scheduled programming but has been rapidly evolving since the late 2000s. The demand has shifted to on-demand services focused on accessibility and personal content selection.

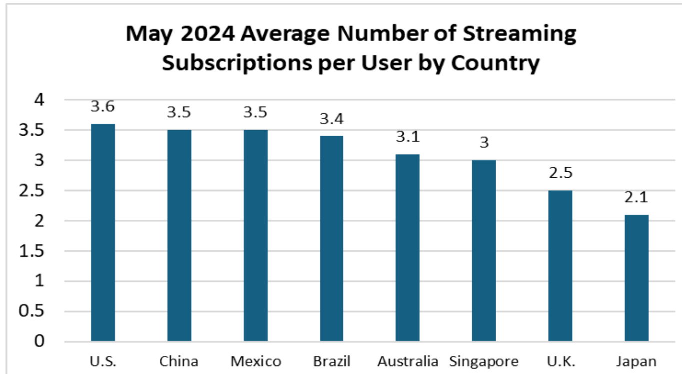
INDUSTRY OVERVIEW

The Video Streaming Services industry experienced a 10% increase in total streaming minutes in 2024, amounting to 12 trillion minutes streamed[11]. While the overall industry has grown, consumers continued to affirm their preference for subscription video-on-demand (SVOD) providers like Netflix, Disney+, Amazon Prime, and more. Netflix is still at the top of streaming with 302 million total subscribers, adding just under 19 million subscribers in Q4 of 2024 alone[10]. As subscription video-on-demand services have become more popular, traditional linear television services continued a steady decline. This form of streaming is primarily surviving from an older demographic of consumers who favor traditional television based on their familiarity with the product. Companies like Comcast, Warner Bros. Discovery, and Paramount rely on their linear television services to provide funds for content production and acquisition. The industry will continue to see consumers substituting linear television services with nonlinear streaming services as it progresses.



Source: IBISWorld

The "streaming wars" were underway in 2024, and competition is expected to be fierce in 2025 as streaming companies pursue new content to attract and retain customers. Companies are facing increased content costs as they are looking to produce their original content and purchase the rights to stream fan-favorite movies/shows and live sports. To expand their content libraries, costs have been passed down to the consumer creating the hurdle of subscription fatigue. The challenge that cable television once faced has now found its way into nonlinear streaming. Consumers are overwhelmed by the increasing costs of multiple monthly subscriptions, leading to potential subscription cancellations. Globally, the average number of streaming subscriptions ranges between 2 and 3.6 subscriptions per user[14]. When streaming platforms increase their prices, users experience a large increase in total monthly expenses related to streaming subscriptions. This has led to the growth of ad-based subscription plans where consumers can obtain a lower monthly rate by enduring advertisements while streaming their content. Nonlinear streaming services were the pivot in streaming that led to the decline of linear television but are now turning into a hybrid version with the addition of advertisements and live streaming sports.



Source: Statista

Overall, this industry is poised to continue growing as companies continue to innovate ways for the consumer to experience content and keep price-sensitive plans through advertising revenue. The leading platforms in this industry will push expansion as they develop a more sustainable business model. They still face the fundamental obstacles of increasing content costs, customer churn rate, and smaller streaming services struggling to make a profit.

REVENUE SEGMENTS

Subscriptions

The revenue from streaming services is built on the foundation of subscriptions as this is their primary function as a business. Companies entice consumers to subscribe to their platforms by offering pieces of content that they desire to watch. In exchange for the ability to view the content, streaming companies receive a monthly rate that gives users access to their full content library. In 2024, Netflix leads the industry in total subscribers by a large margin with approximately 302 million subscribers. Their ability to attract viewers with their large library of licensed and produced content has put them at the top of the totem pole. In an industry where the total number of subscribers is your main determinant of success, Netflix is the best positioned by far. Other players in the industry seek to catch up to Netflix by licensing and producing content for themselves.

Provider	Subscribers (in millions)
Netflix	302
Prime Video (Amazon)	200
Disney+	125
Max (Warner Bros. Discovery)	100
Paramount+	72
Hulu (Walt Disney Company)	54
Peacock (Comcast)	36
Apple TV+	30
YouTube TV (Google)	8

Source: FlixPatrol

There has been an emphasis in the industry on the timing of content releases and additions to create customer loyalty and offset churn rates. Churn rates refer to customers who temporarily sign up for streaming subscriptions to view a specific piece of content and then cancel their subscriptions. This has been an issue for viewers who want to see original content that is exclusive to certain streaming platforms but has become a problem for live sporting events. Streaming platforms like Peacock, which is owned by Comcast, and Paramount+ have seen drastic increases in signups for exclusive sporting events. When the sporting events are finished, they follow with a large number of cancelations. While this may not be an issue for more established companies like Netflix, it is a detriment to Peacock (Comcast) and Paramount+ who are struggling to become profitable. It lowers their return on the money invested in the rights to stream the events.

Sign-Ups Prior to Special Streaming Events

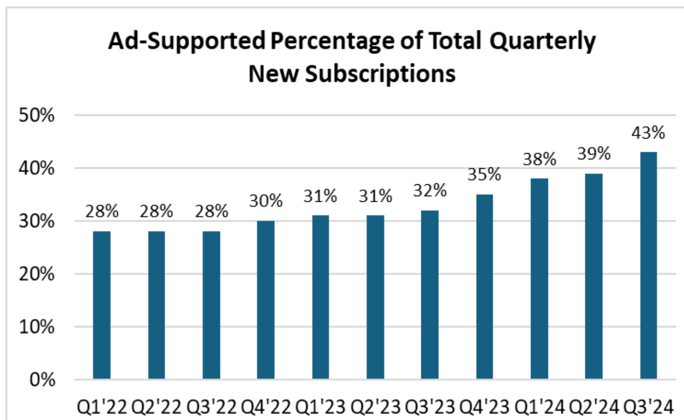
Event	Sign-ups	Service
Super Bowl LVIII	3.20M	Paramount+
Exclusive NFL AFC Wild Card Game	2.85M	Peacock (Comcast)
Paris 2024 Summer Olympics	1.79M	Peacock (Comcast)
Jake Paul vs. Mike Tyson	1.43M	Netflix
Exclusive NFL Brazil Game	1.36M	Peacock (Comcast)

Source: Antenna

Another way to offset the churn rate with consumers has been the implementation of ad-based subscriptions. Consumers are offered a cost-effective subscription plan that interrupts their streaming with advertisements. This has lessened the impact of premium streaming services increasing prices. With companies focusing on the overall customer experience and over-the-top video revenue anticipated to grow to $215 billion by 2029[14], we expect the total subscriber count to grow in this industry.

Advertising

Nonlinear streaming platforms have learned from the revenue model of linear television platforms in adding advertising as another revenue source. With lower-cost subscription plans, streaming services supplement the difference in monthly subscriptions by getting paid by companies who want to advertise on their platforms. The addition of advertisements has the potential to play a major role in the Video Streaming Services industry. By taking money from advertisements, streaming services can make their platforms more accessible by bringing the cost down to access their content. As time has passed, data has shown that ad-supported subscriptions are increasing as a percentage of total subscription additions. We believe that companies will continue to raise prices as they increase their content libraries which will result in more ad-supported subscriptions as time goes on. This will lead to streaming platforms relying more on advertising revenue in the future.



Source: Antenna

Certain streaming platforms already rely on advertising as a main source of revenue. For example, YouTube, owned by Google, generated $36.1 billion in ad revenue in 2024 which is up from $31.3 billion in 2023[1]. This is roughly 10% of Google's total revenue. YouTube (Google) is offered as a free app with a multitude of videos from original content creators. The free use of the app increases engagement substantially which makes the ad space so valuable since there is a large outreach. As advertising revenue grows in this industry, the lower costs that are associated with ad-supported subscriptions can increase the outreach to consumers. For example, due to ad spots being rumored to cost around $8 million in the 2025 Super Bowl, Fox Corporation was able to stream the game for free on Tubi. Spending on advertisements is projected to have a 7.5% CAGR and reach $1.4 trillion in 2029[14]. Streaming platforms are positioned to capitalize on this in the future as we believe their ad space is more valuable than traditional linear television. Due to the nature of streaming being on-demand, we believe advertisers will associate higher engagement with streaming platforms. Advertisers will see a higher chance that their ads are being viewed when issued through streaming platforms as opposed to linear television. Streaming platforms already report a dollar amount from advertising per ad-supported subscription, but we believe these figures will grow much larger in the coming years.

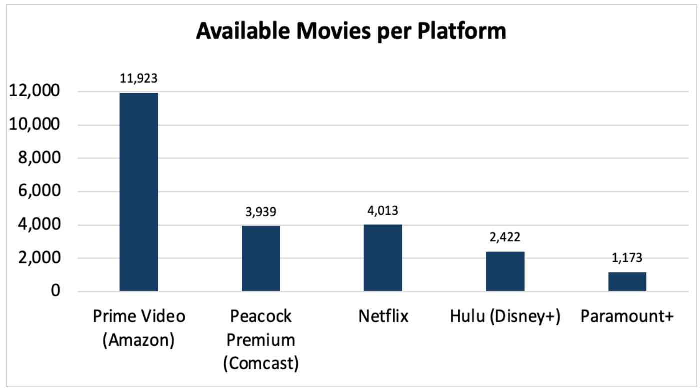
2024 Ad Revenue per Ad-Supported Subscription

Provider	Ad Revenue per User
Netflix	$70.44
Hulu (Walt Disney Company)	$45.87
Disney+	$37.87
Max (Warner Bros. Discovery)	$26.49
Peacock (Comcast)	$21.93
Paramount+	$8.40

Source: eMarketer

Licensing

The licensing of content is an essential piece to the entire video streaming services industry. Early nonlinear platforms like Netflix were reliant on the ability to stream others content to gain subscribers. Since then, Netflix still purchases the rights to stream attractive titles to lure in consumers, but they now produce their content as well. While most streaming platforms guard the content they own to keep a competitive advantage, platforms like Comcast and Warner Bros. Discovery rely on licensing their content for a source of revenue. These companies can expect to see growth in licensing revenue as streaming platforms understand the larger their library of content is, the more desirable they can be over other platforms. With Warner Bros. Discovery and Paramount struggling with profit, it might be more sustainable for them to license their content as opposed to the streaming space. Prime Video, owned by Amazon, leads the group in this methodology as their movie content far exceeds other streaming services. This is an indication of the importance that licensing will continue to play going forward for both movies and television shows.



Source: Statista

Content Experiences

As the attachment and virality of hit pieces of original content become more important, companies are finding ways to continue the interaction with content outside of just streaming. Traditional examples of this have been set by the Walt Disney Company with their theme parks, resorts, and merchandise. Travelers are attracted by the festivities that take the theme of the Walt Disney Company's original content and content they have purchased throughout the years. Despite the setbacks from COVID-19 a few years ago, this segment still makes up $34.1 billion of their total revenue. Streaming services are now finding new ways to drive interaction virtually with their content. Netflix's hit show, *Squid Game*, ended 2024 strong and continued that strength at the start of 2025. It became the most-watched show in January of 2025.

January 2025 Most Watched Shows by Minutes

Program Name	Minutes (Millions)	Provider
Squid Game	2,365	Netflix
Landman	1,378	Paramount+
American Primeval	1,254	Netflix
Bluey	1,107	Disney+
Bob's Burgers	936	Hulu (Disney)

Source: Nielsen

Building off the excitement for the show, Netflix released their first free mobile apps, *Squid Game: Unleashed*, which became the top free game in 2024[9]. Netflix plans to continue with video games for popular content and experimenting the virtual reality. Although it is not a big part of the streaming industry right now, we foresee this becoming an additional stream of revenue for companies in the future and increasing program interactions.

INDUSTRY TRENDS

Subscription Fatigue

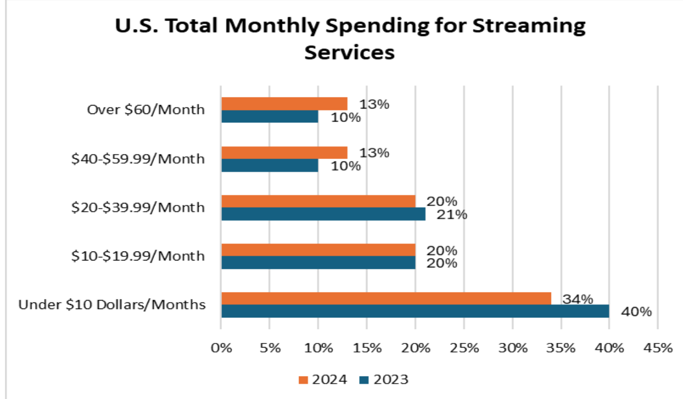
The cost of content creation and expansion is becoming increasingly more expensive for streaming service companies. To attract and retain subscribers, companies are continually having to pay to produce original content, license content from others, and purchase the rights to stream sporting events. To afford the expansion of their content libraries to make their platform more appealing to consumers, streaming services have been raising prices on their subscriptions. Consumers are facing subscription fatigue due to the overwhelming monthly costs of having multiple subscriptions. The cheaper alternative ad-supported subscriptions are offsetting this cost, but multiple subscriptions still add up. Consumers are questioning whether keeping additional subscriptions for a few programs is worth it. Additionally, increasing prices incentivize consumers to cancel their subscriptions once they have seen what they signed up for. This poses a risk of creating a high churn rate for streaming platforms.

2025 Monthly Prices for Streaming Services

Provider	Premium	With Ads
Netflix	$24.99	$7.99
Max (Warner Bros. Discovery)	$20.99	$9.99
Hulu (Disney+)	$18.99	$9.99
Disney+	$15.99	$9.99
Peacock (Comcast)	$13.99	$7.99
Paramount+	$12.99	$7.99

Source: Statista

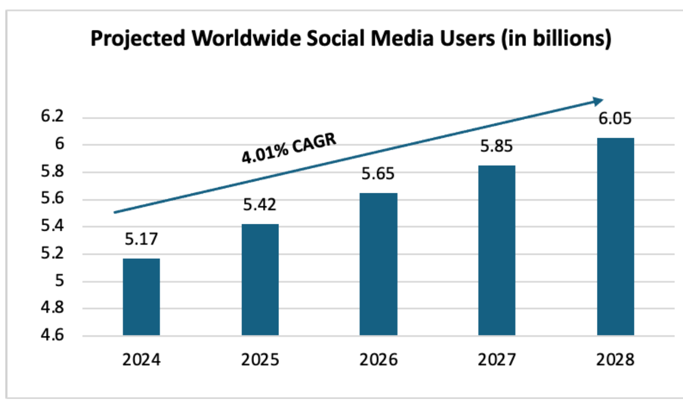
In the U.S., subscribers have been seeing their total monthly expenses increase due to increased monthly prices from streaming platforms. In 2024, there was a 6.0% decrease in subscribers who pay less than $10 per month for streaming services compared to 2023[14]. Additionally, there was a 6.0% increase in 2024 in subscribers who pay anything above $40 for streaming services compared to 2023[14]. This increase in monthly expenses will force subscribers to select their core preference of streaming services, increasing cancellations for platforms with less appealing content. We believe this will continue to be an issue for this industry in years to come as platforms increase prices to meet content costs.



Source: Statista

Short-Form Streaming

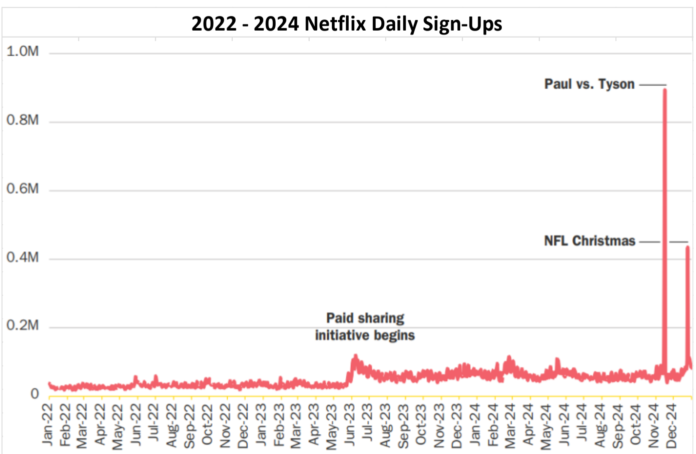
Younger generations have led the way in creating popularity for video streaming in the form of short videos. Platforms like TikTok, Instagram, Facebook, and YouTube are the preferred choice for entertainment when it comes to younger audiences. The fast-paced form of content rewards them with a release of dopamine and keeps them engaged for longer. Additionally, young viewers gravitate to the real-world personable aspect of the content. The trend of short-form streaming has pros and cons when it comes to the industry of video streaming services. The obvious con is that short-form streaming is pulling potential viewers away from streaming platforms like Netflix, Disney+, Prime Video, and others. While this is a real issue, short-form videos can be used to promote or enhance interest in shows from these platforms. Particular memes, clips, and edits that go viral potentially increase the popularity of certain shows. The virality of these videos gives consumers the urge to revisit the shows and drive a deeper connection with them. Ultimately, as social media users continue to grow, it will likely pull away from other streaming services.



Source: Statista

Live Events

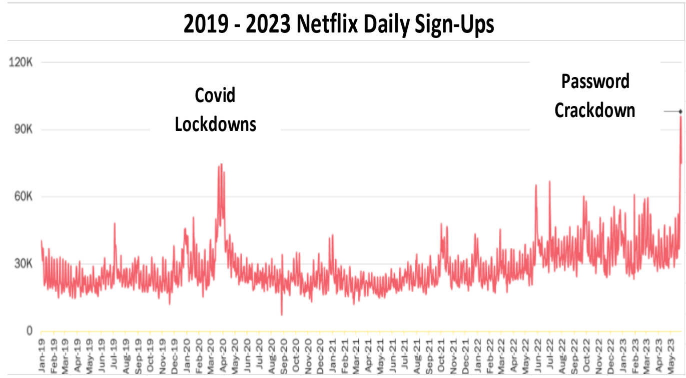
In 2024, video streaming services continued to purchase rights to stream live sporting events exclusively to their platform. These events have led to drastic increases in viewership depending on the significance of each event. Netflix demonstrated the power of live sporting events at the end of 2024 with record-setting numbers for all three of their streams. Netflix streamed two NFL games on Christmas day that brought in a combined 65 million live viewers[13]. Before that, Netflix presented the *Jake Paul vs. Mike Tyson* fight which reportedly reached over 60 million households[13]. Amongst other events, Netflix showed a large draw from streaming life sporting events. Companies are already securing rights to these events out into the future and this will be something that continues for a long time in the streaming industry.



Source: Antenna

Password Sharing Crackdown

In a common theme of the Video Streaming Services Industry, Netflix was the first to initiate something important that led to other companies within the industry following. In May of 2023, Netflix started notifying subscribers that their access to the platform was to only be shared amongst people living in the same household[4]. Prior to this, streaming platforms had been losing out on revenue due to one account being accessible to a multitude of users for the cost of one membership. Following the move to crack down on password sharing, Netflix's average daily sign-ups reached 73 thousand which represented a 102.0% increase from their 60-day average[3].



Source: Antenna

As a result of properly accounting for the total number of subscribers Netflix had, Netflix's total subscribers grew 12.8% in 2023, and revenue grew 6.9%. After the positive impact Netflix saw from cracking down on password sharing, Disney+ and Hulu did the same in March of 2024, and Max announced they would be doing the same at the end of 2024 and throughout 2025.

Being that subscribers are the core driver of revenue and business for streaming companies, accurately registering your number of subscribers is essential. Due to the success Netflix had, most streaming platforms do restrict password sharing. We believe any streaming platforms that do not currently do this will eventually begin this precaution as well.

RECENT DEVELOPMENTS

Netflix 2024 Earnings Report

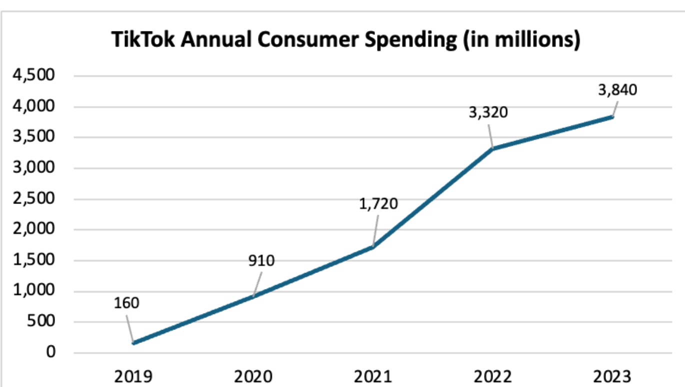
The "king of streaming" moved the bar even higher with their last earnings report. Netflix reported its 10-K annual report for 2024 on January 27, 2025. Paid memberships were estimated to be at 290.9 million and Netflix reported 301.6 million paid memberships or subscribers[4]. This represented a 15.9% increase in subscribers from 2023 to 2024, compared to a 12.8% growth rate from 2022 to 2023. The company posted a record of 19 million added subscribers during Q4 of 2024[4]. Additionally, Netflix also beat their Q4 revenue expectations of $10.1 billion and their earnings per share estimates of $4.20. Revenue grew approximately 16.0% year over year to $10.25 billion, and earnings per share grew 102.4% year over year to $4.27.

The tremendous performance for Netflix was fueled by their strong finish to the year with the *Tyson vs. Paul* fight, the movie *Carry-On,* and the streaming of two NFL games on Christmas day. Netflix seems to be figuring out a new way to retain its position at the top and it looks like it will remain the leader of streaming for the foreseeable future. Streaming companies will try to emulate their business model to achieve their success.

Netflix did announce that they would no longer be reporting subscriber growth in 2025 unless they hit certain milestones which no examples were given. This demonstrates Netflix's philosophy change to being a company that will improve margins and optimize performance rather than rely on sustained growth. This may cause investors to be concerned as this move implies that Netflix fears that it will either slow in subscriber growth or potentially lose subscribers. Although that is a possibility, we believe this reflects that Netflix is pivoting to focusing on financial performance.

Ban of TikTok

TikTok was initially banned on January 19, 2025, but it only lasted approximately 12 hours. This was in response to national security concerns regarding the China-based company, ByteDance, having access to American data. President Trump then signed an executive order that would delay the ban on TikTok until a deal could be worked out where a United States company would buy it. TikTok is an extremely popular and valuable app in the United States that has the potential to become even more valuable.



Source: Statista

TikTok has been increasing the revenue it generates by a substantial amount for the past five years. For a large tech company like Apple, Amazon, or Microsoft, the purchase of this app would be a nice addition to their streaming platforms.

On the other hand, there is room to grow in the streaming industry if TikTok cannot find a buyer in time. TikTok has a strong presence with younger viewers and the loss of that app would mean their streaming time has to be spent elsewhere. Ideally, previous TikTok users would migrate their way to Instagram and Facebook. The streaming industry could benefit if viewers transition to YouTube Shorts, a feature on the app YouTube which is owned by Google. YouTube Shorts provides the same short-form type of videos as TikTok but also allows viewers to switch to longer videos as well.

We find it unlikely that TikTok is permanently banned in the U.S., but it does represent a possible growth opportunity. We believe the outcome of the TikTok situation will result in a large U.S. company purchasing TikTok. This will most likely be a company like Apple, Amazon, or Microsoft. Currently, two Magnificent 7 companies, Google and Meta, dominate the social media space. Google owns YouTube and Meta owns Instagram, Facebook, Threads, WhatsApp, and Messenger. Other than these two companies, the only other real competitor in this area is X, which is owned by Elon Musk. We believe Apple, Amazon, or Microsoft will see TikTok as their opportunity to enter the social media and short-form video industry, resulting in competitive bids from each company. Additionally, TikTok would be solidified as a true competitor if it had the backing of one of these large companies.

Merger of Paramount and Skydance

In June of 2024, Skydance Media offered Paramount $9.1 billion for the remaining 90.4% of the company[5]. Skydance Media is a producer of films, television shows, video games, and more. It is owned by David Ellison and the technology and entertainment company, Tencent, has a 5% holding in it. They have worked on many famous films such as Top Gun: Maverick, Mission Impossible, Star Trek, and Terminator[12]. There were poor discussions early, which is why the deal is not closed yet but it now looks as if it is in the works again. This potential deal is a representation of where the industry has been shifting and where it will continue to go. In a race to produce original content for subscriber growth, Paramount has struggled to earn a profit in this industry. Skydance has made it clear that it wants to acquire Paramount to help it compete in the streaming industry. There is no certainty that this deal will close but this is a good precursor of what will come for smaller unprofitable streaming services. In some cases, they will be allowed to merge, but they will most likely be bought out.

Ultimately, we do believe the merger between Paramount and Skydance will go through. It seems the deal has been stopped by a mix of things that fall under the label of politics. There have been rumors that Paramount did not evaluate higher bids for the company and currently, Donald Trump is suing 60 Minutes and CBS for allegedly altering an interview with Kamala Harris. Those two platforms are under the umbrella of Paramount. We believe the matters holding this deal back will eventually be settled when all parties are pleased, and the deal will go through.

MARKETS AND COMPETITION

Competing Companies

Provider	Subscribers (in millions)	Market Capitalization (in billions)
Netflix	302	$420
Prime Video (Amazon)	200	$1,831
Disney+	125	$152
Max (Warner Bros. Discovery, Inc.)	100	$20
Paramount+	72	$8
Hulu (Walt Disney Company)	54	$152
Peacock (Comcast)	36	$127
Apple TV+	30	$2,902
YouTube TV (Google)	8	$1,812

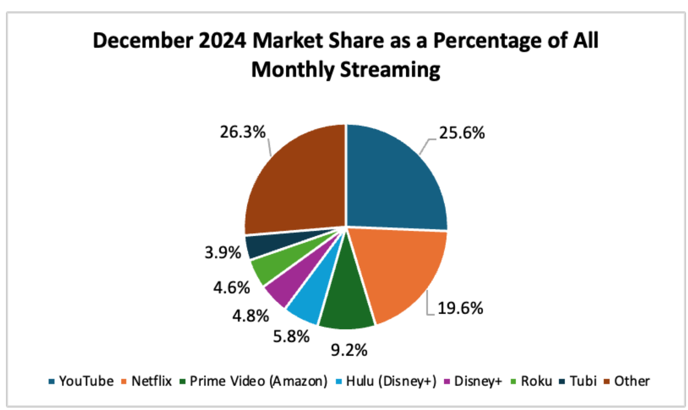
Source: FlixPatrol

Competing companies in the Video Streaming Services industry can be broken down into two categories. The first are companies with core operations that revolve around linear and nonlinear entertainment. These would be companies like Netflix, Walt Disney Company, Warner Bros. Discovery, Inc., Paramount Global, and Comcast. These companies are built upon the success of the content they provide and the eyes they can attract to their platforms. This feeds into other segments of their business such as mobile games and parks. The second category of companies would be companies that are in the Magnificent 7. These companies would be Apple, Amazon, and Google. This group represents companies that are significantly larger than the previous group mentioned but their core operations are not in the video streaming services industry. Google would be somewhat of an exception in this group as they generate a substantial amount of advertising revenue from YouTube, but it is still a smaller portion of their overall revenue.

Of all the companies in this industry, Netflix leads by a large margin in metrics like churn rate and total number of subscribers. We believe the rest of this industry will be fighting for the remains as Netflix dominates in 2025. Additionally, we believe non-profitable streaming platforms will slowly be phased out of the industry as a whole or be acquired by other entities.

Race for Content

The streaming industry is highly competitive at the moment as the top streaming platforms pursue the best content available. This content includes original content, licensed fan favorites, live sporting events, and more. In an era where streaming prices are increasing, companies are focused on expanding their available content to secure market share in the industry. The race for market share is primarily between Netflix, Prime Video, and Disney+. Other streaming companies lack the resources and/or brand recognition to keep with them. There are instances where smaller streaming companies catch a win like when Peacock streamed the 2024 Olympics. Ultimately, these streaming companies do not have the additional content to retain subscribers over larger platforms. The current name of the game is customer loyalty. This industry has not completed its transitional phase of switching from linear television to nonlinear streaming. Streaming companies are fighting to win over customers that are switching to increase subscribers. Now that ad-supported subscriptions have been introduced to appeal to cost-sensitive consumers, the market share of the industry can be split by the total time watched.



Source: Nielsen

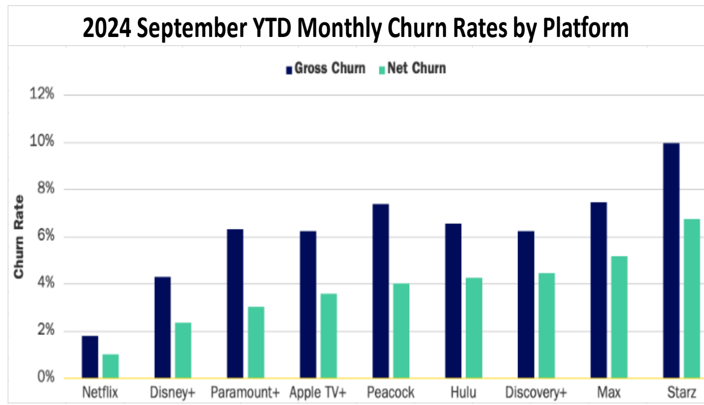
Eventually, companies will be competing for viewer time as well to capitalize off of advertising revenue. Overall, the industry is in a fast-paced race currently where it is hard to predict when the business model and market will stabilize. Shortly we expect that the top companies will fight for market share while smaller streaming companies lag.

Threat of Substitution

The threat of substitution is high in this industry as multiple streaming platforms make it easy for customers to pick and choose between services. As a result of this, consumers also have high bargaining power. This is part of the reason why companies are focused on increasing the value of their platforms through the addition of content assets. If a streaming platform can offer customers more content that they enjoy compared to another platform for a similar price range, then the customer will be loyal to that brand.

The risk of substitution is what is known as the churn rate. With streaming platforms providing different types of content, customers are torn between different content options that are exclusive to different streaming services. This leads the customers to a cycle of subscribing and canceling memberships. Once a customer has seen what they want, they can bounce to another streaming service to view something else they want. This has become increasingly popular as sports organizations are selling the rights for popular games to be streamed exclusively. Additionally, since there are no restrictions to how frequently someone can add or cancel a subscription, it makes it much easier for customers to bounce around different platforms. This factor enhances the threat of substitution in this industry. Due to the nature of human unpredictability, the threat of substitution and high customer bargaining power will always remain a possibility.

The threat of substitution is reported in terms of gross churn and net churn for the Video Streaming Services industry. The gross churn rate is calculated by taking each company's total cancellations in a month and dividing it by the total number of new subscriptions in the previous month[3]. The difference between gross churn and net churn is that net churn factors in customers that resubscribe. The net churn rate is calculated by taking the total number of cancellations in a month and subtracting resubscriptions for the same month. Then, this number is divided by the previous month's total subscribers[3]. Netflix dominates the industry with the lowest gross and net churn rate when compared to peers. This is due to the fact that their content library offers more appealing options which has led consumers to identify Netflix as their main streaming platform. Other platforms suffer from high churn rates because of a weaker content library and putting on one-time special streaming events like the Super Bowl. Customers do not deem these platforms worth keeping for the continued monthly price so they subscribe and unsubscribe as they desire.



Source: Antenna

Risk of New Entrants

The risk of new entrants is low for this industry as companies other than the top ones are struggling. Outside of Netflix, Prime Video, and Disney+, many other companies struggle to secure profit. Two possible types of new entrants have a chance of affecting the industry but are not likely. The first is regarding Apple. Apple has enough funds and influence and if they invested heavily in this industry, they could steal market share from competitors. Apple is already in this industry, but it is not their primary focus. The second potential "new" entrant would be a merger or acquisition. An example of this would be the pending Skydance's acquisition of Paramount. These are two complementary companies that could benefit each other in surviving the streaming industry. Again, this is unlikely to impact the market, so the risk of new entrants remains low.

Peer Comparisons

Apple:

Although Apple has released some popular pieces of original content that have built a customer base, it is relatively small. This is when compared to companies of the likes of Netflix and Prime Video. With Apple being the largest company in the world and being very cash-rich, it would be alarming to other streaming platforms if they decided to make a push for this industry. They have invested $20 billion in AppleTV+, but this segment of business does not seem to be their focus. If it were, their ability to bundle in free AppleTV+ for an extended period after certain purchases is a big positive in getting customers familiar with your product. Additionally, AppleTV+ is not something that is built into this industry. Netflix and Prime Video are registered apps on Roku and Samsung televisions in anticipation that consumers will use them. Apple is in this industry, but their focus on their core product mix and low market share do not position them well. This also eliminates any benefits of financial metrics comparisons other than discussing what Apple is capable of.

Amazon:

Prime Video is considered to be ranked second, right behind Netflix, and for good reason. Amazon does an excellent job of bundling its services to create enough value that customers do not want to get rid of it. Prime Video is a perk of subscribing to Amazon Prime. To get cheaper and faster shipping, they are gifted Prime Video. This is assumed to be a large reason for the amount of Prime Video subscribers they have. Being one of the largest companies in the world, Amazon has the infrastructure to back more content production and acquisition in this industry. To give some context, Amazon started 2024 with $73.9 billion in cash[2] and Netflix ended 2024 with $7.8 billion in cash[10]. Amazon's core services have put it in a very good position in this industry for increasing content assets. They will gain market share if they use their cash wisely as they did by getting the rights to *Thursday Night Football*.

Google:

Google is unique to the other competitors in this space as they have built an effective business model with YouTube. This is not their core operation, but the system works very well. YouTube draws viewers with personable real-world content creators. This is usually free content, and Google generates large amounts of revenue from the advertisements. Additionally, Google generates revenue from people who subscribe to YouTube Premium, YouTube TV, and NFL Sunday Ticket. Google faces less competition in this industry from the other competitors listed due to a different type of content.

Netflix:

Netflix is the leader of this industry with the most total subscribers out of all platforms. As a trailblazer in this industry, it seems people have grown accustomed to Netflix as the standard. Similar to how people are locked into having an Apple iPhone, people are expected to have a Netflix subscription. Netflix is in a position to keep its throne in this industry as it keeps producing highly sought-after original content, bringing in fan favorites, and exploring the options of live sports and video games. Netflix's strategy and brand recognition are the reasons they face the lowest churn rate[3].

Walt Disney Company:

Disney+ is not in the tier of Prime Video and Netflix, but it is one of the few others that are managing to survive in this industry. Disney+ continues to thrive off of its historical library of original content and newer additions to that like *Marvel*. Disney is in a position to grow in this market due to their streaming content connection with users outside the screen. Their business segment of theme parks and resorts enhances the popularity of the content they produce. This, accompanied by the addition of platforms like Hulu and ESPN will allow the Walt Disney Company to grow in this industry.

Comcast:

This is a company that is facing the challenges of a shifting industry and trying to adapt to survive. While their linear television segment is steadily declining, it still provides a steady cash flow. In turn, they are trying to grow their nonlinear streaming platform, Peacock. Peacock has seen success with certain live football events and the Olympics in 2024. At the same time, Peacock faces a high churn rate from these events. Due to the deterioration of their core business segment, it will be tough for them to grow in this industry as they will always be lagging. This lag is shown in the valuation as well with Comcast having a P/E ratio of 8.3, compared to the P/E ratios of 51.1 and 36.0 for Netflix and Disney, respectively.

Warner Bros. Discovery:

This company has faced difficulties with the changing industry. As its direct-to-consumer segment slowly ticks up, its linear segment offsets any gain. The company finally crossed over into a positive net income but a very small amount. Their results are not sustainable to continue moving forward in this industry and there are more negatives to come like their loss of rights to the NBA. Warner Bros. Discovery would be better suited by licensing the rights to their library of owned content.

Paramount:

This company has a similar story to Warner Bros. Discovery. As their direct-to-consumer segment increases, it is immediately offset by the linear television segment. What was once their core business is now losing money, and they are trying to invest money into Paramount+ at the same time. It seems this company is getting ready to be bought out by Skydance so that is where their future is most likely at. If the acquisition does not go through, the lack of profitability and overall struggle will eliminate them from the industry.

Margins

Company	2024 Operating Margin (%)	2024 Net Margin (%)
Apple	31.5%	24.0%
Amazon	10.9%	9.3%
Google	32.1%	28.6%
Netflix	26.5%	22.4%
Walt Disney Company	12.7%	5.5%
Comcast	18.8%	13.1%
Warner Bros. Discovery	0.7%	-28.8%
Paramount Global	5.5%	-21.1%

Source: FactSet

When comparing margins amongst companies participating in the Video Streaming Services industry, it is best to exclude Apple, Amazon, and Google as they have diverse operations that are not very reliant on streaming. Once again, Netflix leads the group with an operating margin of 26.5% and a net margin of 22.4%. Netflix's profitability is a testament to its dominance in the industry as it exceeds its peers by a large margin. Other companies within the industry struggle to be profitable and replicate the success that Netflix has had, especially when it comes to net margin. Only two of Netflix's peers have a positive net margin, with Walt Disney Company at 5.5% and Comcast at 13.1%. The remaining two companies posted a negative net margin for 2024, showing the severity of their struggles in this industry. For 2024, Warner Bros. Discovery had a net margin of -28.8% and Paramount had a net margin of -21.1%. These figures show the state of this industry and show just how much of a market-lead Netflix is. We believe Walt Disney Company and Comcast will post low net margins moving forward while Warner Bros. Discovery and Paramount will post negative margins. Additionally, we believe Warner Bros. Discovery and Paramount's poor performance will lead to them being acquired to maintain a presence in this industry.

Financing Capabilities

Company	2024 FCF Margin (%)	Credit Rating
Apple	27.8%	AA+
Amazon	5.2%	AA
Google	20.8%	AA+
Netflix	17.8%	A
Walt Disney Company	9.4%	A
Comcast	12.4%	BBB+
Warner Bros. Discovery	11.3%	BBB-
Paramount Global	1.7%	BB+

Source: FactSet

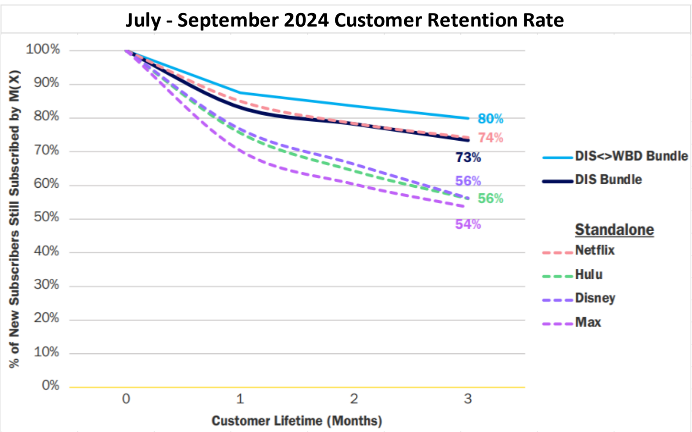
The most important aspect of the Video Streaming Services industry is the ability to constantly bring content to users, so they find their subscriptions to be valuable. For companies to expand their content library, they either need to generate sufficient cash flows or be able to raise debt. These funds are used to either produce and acquire pieces of content or rights to live events.

The best companies positioned from the perspective of free cash flow are Apple, Google, and Netflix. These companies ranked the highest amongst peers in the industry showing their capability to afford content expansion through cash flows. The worst-positioned company was Paramount by a large margin with a free cash flow margin of 1.7%. This means that 1.7% of their total sales are turned into free cash flow after all expenses. To gain ground against a company like Netflix, they have aggressively pursued new content, but they will not be able to do it through this avenue.

Another way to finance content expansion would be to raise debt. Apple, Amazon, and Google all have the highest credit ratings due to the profits they generate from their core businesses. Additionally, due to the size of those companies, credit rating agencies see much less risk when it comes to paying down debt. Of companies more reliant on the Video Streaming Services industry, Netflix and Walt Disney Company ranked the highest with A credit ratings. For these companies, they can raise debt at lower rates to pursue content acquisition and production. While

Comcast, Warner Bros. Discovery, and Paramount are all investment grade, their lower rankings indicate they have a higher risk when it comes to paying down debt. This means that if they pursue content expansion by raising debt, they will face higher rates. We believe continued struggles with profitability will drive these companies' credit ratings down in the future.

Subscriber Survival Rate

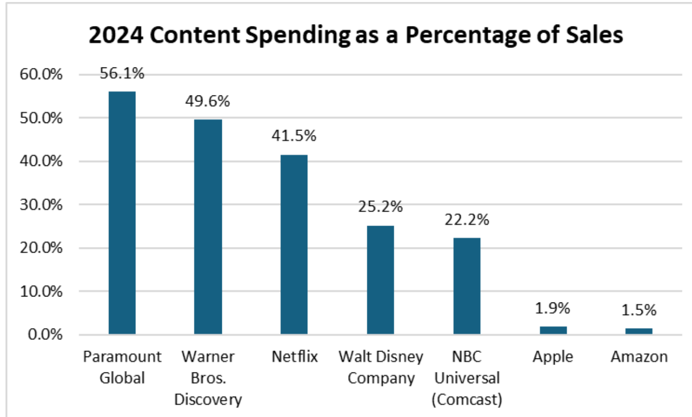


Source: Antenna

A subscriber survival rate, otherwise known as retention rate, is an important indicator of determining the value consumers associate with a streaming platform. This metric shows the percentage of subscribers that are still with a platform after three months. This is an area of the industry where Netflix has seen some competition. The process of bundling services has proven to be effective for companies that participate in it. Netflix has a customer retention rate of 74%[3] compared to the Walt Disney Company and Warner Bros. Discovery's bundle with a retention rate of 80%[3]. This means that after three months, more subscribers stayed subscribed to this bundle compared to Netflix.

Companies struggling to compete with Netflix are in a unique position to gain ground through partnerships and bundles. Walt Disney Company and Warner Bros. Discovery have already done this with their bundling of Disney+, Hulu, and Max. Additionally, Disney has bundled their services, offering Disney+, Hulu, and ESPN+ in one package. In a sense, this still shows how dominant Netflix is in that it retains a competitive retention rate when compared to companies partnering. When looking at other streaming platforms' stand-alone retention rates, they do not come close to Netflix. Since there are only so many ways streaming services can be bundled, Netflix is still in the strongest position to retain its subscribers and ultimately keep an industry-low churn rate.

Content Spending



Source: Statista

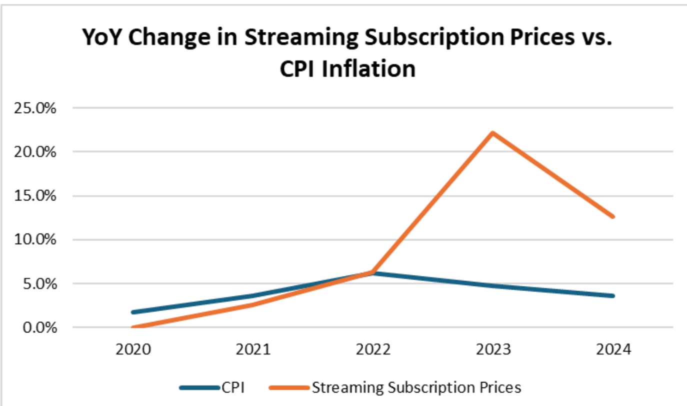
An important aspect to analyze for this industry is the total amount companies spend on content compared to their overall revenue. Spending on content consists of three buckets which are producing original content, licensing content, and acquiring the rights to stream live events. New content is essential to gaining and keeping subscribers in for streaming platforms. Money spent on content expansion does not guarantee that a platform will become more popular or profitable, which is why it is a key metric to watch.

Apple and Amazon spend the least on content relative to their sales, but this is not due to extremely high revenues from their streaming platforms. As stated before, these two companies' primary operations are not in this industry. Both companies' streaming platforms are a very small segment of their overall business. Amazon has the second most subscribers behind Netflix and spends the least on content relative to sales. We believe if Amazon made a larger capital commitment to content, it would pose a bigger threat. For reference, Amazon spent $9.3 billion on content in 2024 compared to the $16.2 billion Netflix spent in 2024[14]. Additionally, Amazon and Apple could afford to spend additional capital on content due to the size of their companies.

The two worst-positioned companies based on total content spending as a percentage of sales are Paramount and Warner Bros. Discovery. As a percentage of sales, Paramount spent 56.1% on content in 2024 and Warner Bros. Discovery spent 49.6%[14]. The main issue with these companies is that they are spending at higher levels than their peers, but they have yet to make a profit. These higher levels of investment in content are not profitable investments for these companies as they lag in this industry. We do not believe these companies have a chance to catch up with Netflix, so they are essentially digging themselves into a hole. This is another reason we believe they will Paramount and Warner Bros. Discovery will be acquired if they want to remain in this industry.

ECONOMIC OUTLOOK

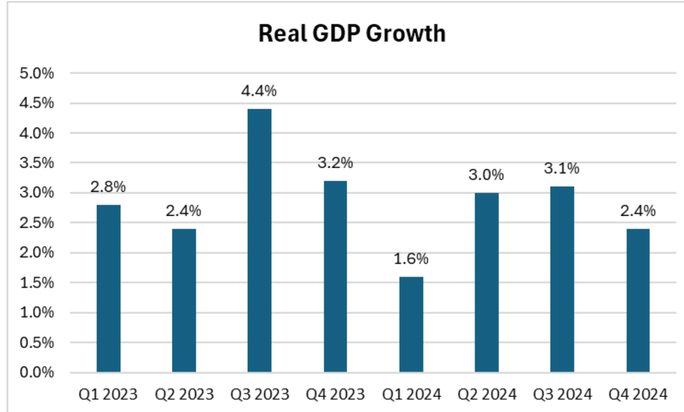
CPI Inflation



Source: eMarketer

With potential trade wars looming that were spurred on by the threat of Tariffs from President Trump, we anticipate inflation will increase to 3.3% in the next six months compared to the current rate of 2.9%. If prices do go up, the cost of original content creation will go up as well. Whether it is increased costs for equipment, materials, or energy, higher costs will start to restrict the amount of content that is produced. Additionally, the annual change in the price of streaming subscriptions has already outpaced CPI inflation. This is in correlation with increased content spending from streaming platforms to attract new subscribers and maintain their current ones. If the cost of content expansion increases more from inflation, these expenses will likely get passed to the consumer again. The costs of monthly subscriptions are at a level where consumers may deem them essential, but higher inflation could tighten up the number of subscriptions. Industry leaders like Netflix and Amazon Prime will likely remain essential to consumers, but the options after that could see higher cancellations. Higher inflation poses the biggest risk to companies that are not as competitive or not as profitable in this industry.

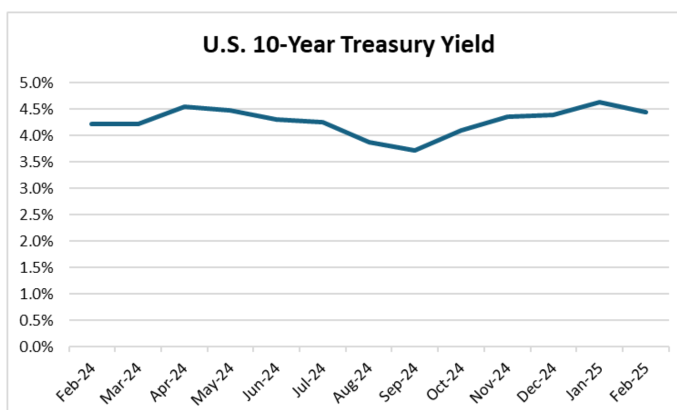
Real GDP



Source: Trading Economics

The real GDP growth has been varying around the 3.0% mark over the past two years. With the new administration emphasizing decreasing our trade deficit with other countries, we forecast that real GDP will increase to 3.4% in the next quarter compared to the previous quarter of 3.1%. When the real GDP sees growth, it usually gives consumers a positive outlook on the economy. If consumers feel better about the economy's future, then they tend to find relief and end up spending more or worrying less about spending. In correlation to this, advertising companies recognize that consumers will spend more when they are more optimistic about the economy. This presents an opportunity for businesses to increase their revenue from additional money allocated towards advertising. An increase in real GDP will provide streaming platforms with a higher average revenue per ad-supported subscriber and overall higher revenue.

U.S. 10-Year Treasury Yield



Federal Reserve Bank of St. Louis

The U.S. 10-year treasury yield has continued to increase despite the Fed cutting rates in 2024. Starting in 2025, economic uncertainty from the new administration and potential stagflation have led the 10-year yield to keep increasing. We forecast this trend to continue over the next six months with the 10-year yield reaching 4.8% from the current rate of 4.6%. A higher 10-year yield represents an increase in borrowing costs for corporations. Companies in the Video Streaming Services industry rely on borrowing debt to finance the expansion of their content libraries. This means that higher borrowing costs will increase the overall cost of content production and acquisition which will likely get passed on to the consumer. Higher content costs have the potential to slow content production and increase monthly subscription prices.

KEY ITEMS TO MONITOR

The Video Streaming Services industry has become extremely competitive in 2024, and this environment will continue in 2025. Lagging streaming services are at risk of being phased out as more successful platforms are increasing subscriber value to increase market share. The top names of Netflix, Prime Video, and Disney+ are continuing to invest heavily in acquiring and creating content to minimize their churn rates. Other companies like Comcast, Warner Bros. Discovery, and Paramount are playing catchup in the nonlinear streaming space as their linear television platforms continue to decline. The industry sees that linear television and nonlinear streaming are moving in opposite directions as it tries to find stability.

Catalysts for growth in this industry will be a continuation of consumers switching to nonlinear streaming and companies finding ways to enhance the user experience. Streaming currently accounts for 43.3% of all television viewing[11] which has grown over the past years. As the number keeps growing, it represents an opportunity for industry leaders like Netflix to capture new subscribers.

Enhancing the user experience includes the implementation of ad-supported plans and companies creating alternative ways to enjoy their content. Going forward, it is important to pay attention to the split between ad-supported plans and ad-free plans. 2024 saw ad-supported plans increasing their share of the total subscription. In Q3 of 2023, Netflix had 28% of total subscriptions that were ad-supported and that number increased to 44% in 2024. These ad-supported plans are allowing streaming services to bring lower costs to their customers while capitalizing on advertising revenue. Accompanying this with companies extending content in items like video games, virtual reality, and their parks, users are getting more value from their subscriptions.

While the industry looks set to keep growing, some risks have the potential to minimize overall growth. An important metric to watch is the churn rate of streaming platforms. As opposed to holding multiple subscriptions, customers will subscribe for a short time to see what they want and then cancel the subscription. This has been very problematic with the streaming of live sporting events as some customers have no interest in the other content the platform offers. Even worse than temporarily signing up and then canceling is the use of illegal streaming websites. Consumers are enticed to avoid paying by illegally watching sporting events for free. There are platforms to illegally stream movies and television shows as well.

Since entertainment is not considered to be a necessity, this industry is subject to the risk of consumer’s outlook on the economy. The new administration brought excitement to the business world before it came into office, but now, its policies are creating economic uncertainty. The weekly headlines of tariffs and trade wars send shocks to consumers and the stock market. With consumers uncertain, the consumer confidence report will be an important indicator to see the potential impact on this industry. If people lose confidence in the future, they will reevaluate their spending habits out of fear of what is to come. This poses the risk of subscription cancellation. This also leads to the possibility that streaming platforms cannot afford to invest in original content, licensed content, and sports streaming rights.

Conclusion:

The companies best positioned for success in 2025 are Netflix, Amazon, and Disney. These companies are at the top of the industry, and they have shown their ability to differentiate themselves to create growth. Netflix is the sole best company in this industry as it continues its ability to make popular pieces of original content and acquire popular live sporting events. Amazon would be the next best-positioned company for 2025 as they have a large subscriber base that flows through their Amazon Prime service, and they will continue to attract subscribers with content like *Thursday Night Football*. Disney would be the final well-positioned company with their effort to gain market share through their bundled services. Finally, all three of these companies stand to profit from advertising revenue due to their platform's popularity and the trend of ad-supported subscriptions.

The companies that are the worst positioned for 2025 are Comcast, Warner Bros. Discovery, and Paramount. Comcast will continue to see a decrease in its linear television segment while its streaming platform, Peacock, remains unprofitable. Warner Bros. Discovery and Paramount are poorly positioned for the same reasons. Both companies continue to invest in content but have not become profitable yet. Long term, we believe their existence in this industry will only remain if they are acquired by another company.

The Video Streaming Services industry scores a **Market Weight** rating for 2025. The leading streaming companies of Netflix, Prime Video, and Disney+ will continue to grow and establish dominance in 2025 through a developed business model. Smaller players will struggle to keep up or be shaken out of the industry through acquisition. Companies like Comcast, Warner Bros. Discovery, and Paramount will partially offset the growth of the leading streaming platforms.

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