# Media in search of its Jerry Maguire moment … 'Show me the money!'

Fixed Income | October 2024

**Nathaniel Liddle**
Senior Analyst,
Fixed Income Research

- **Streaming services are still adding subscribers, albeit at a slowing rate, but now the focus is turning towards their ability to stem earnings losses**
- **Management teams seem to be behaving rationally and there is upside in terms of average revenue per unit and advertising in the US, while international markets remain a subscriber growth opportunity**
- **Our analysis of the sector means we believe management teams will use improving streaming profitability to stabilise credit metrics**

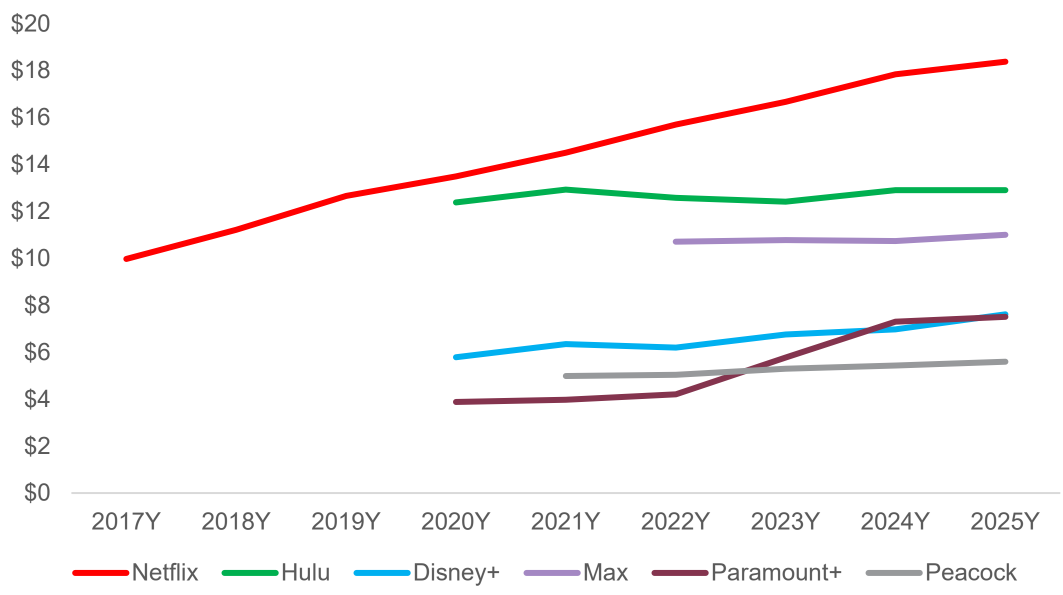
Many investors are familiar with the famous Tom Cruise/Cuba Gooding Jr moment from Jerry Maguire. For those who are not, a struggling sports agent loudly professes he will "show me the money" to keep his only client. 2024 is a major Jerry Maguire moment for the streaming Media companies as they heavily focus on reaching breakeven and driving further profitability.

From 2020-22, the six domestic streaming services – Disney+, Hulu, Netflix, Max (Warner Bros. Discovery), Paramount+ and Peacock (NBCUniversal) – added 6.8 million subscriptions a year. That number fell to 2.3 million additions in 2023. While growing subs is, and will continue to be, a key growth factor, more important in the short term is the ability to stem earnings losses. This is the first step to more broadly proving the business model is a viable alternative to linear media. For investors, but particularly bondholders, EBITDA breakeven is the next meaningful milestone.

### Pricing power

Key to broader profitability is competitive behaviour that allows price to grow rationally and simultaneously across peers. On this journey, management teams have almost universally accepted that this must occur – from Warner Bros.[1] and Disney+[2] to Paramount+[3] and Netflix. Absent a material loss of subscribers, price increases will directly translate to improved streaming economics (Figure 1).

Figure 1: streamers' monthly average revenue per user (ARPU)




Source: Columbia Threadneedle Investments' estimates and analysis of reported financials through to Q3 2023. Disney split into Disney+ and Hulu

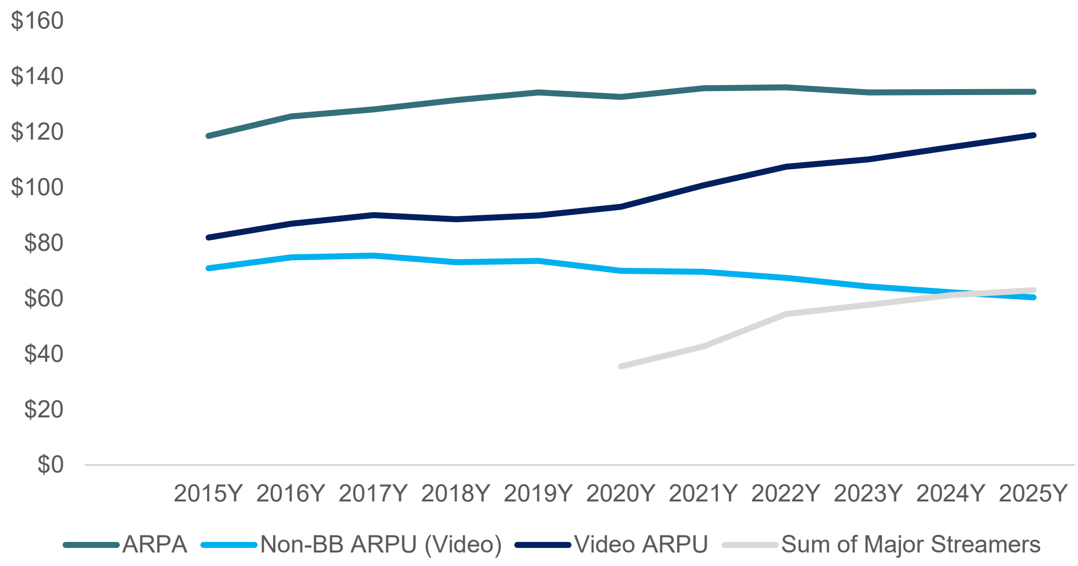
There is, of course, a limit to price increases, but it is not likely to be tested at this time. As of 2023, the sum of major streaming services remains well below Cable Video ARPU – around 48% below – and below the Non-Broadband component of Cable ARPA (average revenue per account) – around 10% below (Figure 2).

[1] Warner Bros. Discovery at the Moffett Nathanson conference, "Streaming has a monetization issue as ARPU is too low", 18 May 2023

[2] Disney+ earnings call-back, "Expect to see price increases … to leave a healthy gap between free and premium versions", 19 May 2023

[3] Paramount roadshow, "Focus remains on increasing streaming economics via ARPU expansion", 11 September 2023

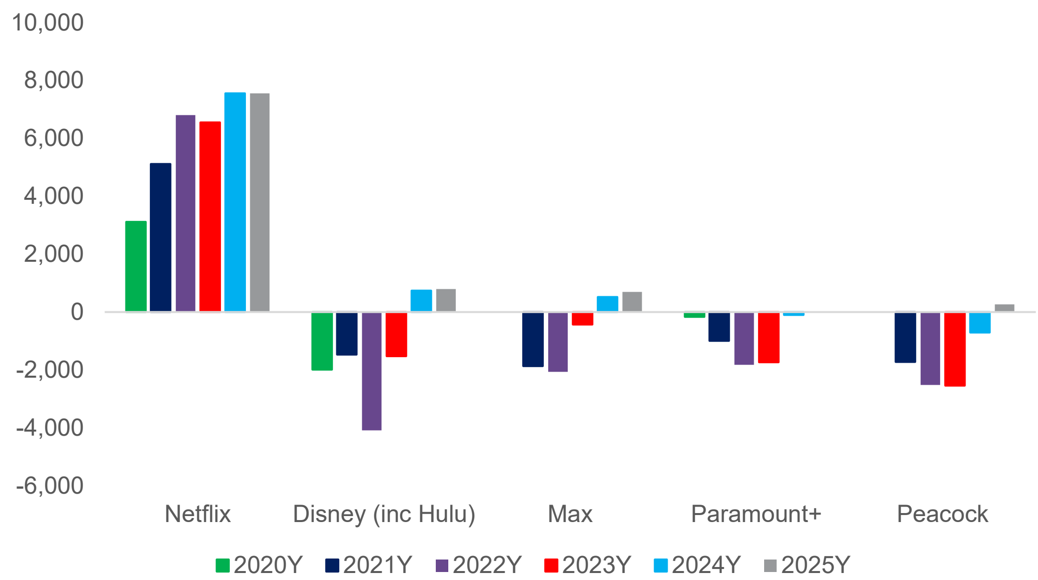
Figure 2: cable video and non-broadband price per sub versus sum of major streamers' price




Source: Columbia Threadneedle Investments' estimates and analysis of reported financials through to Q3 2023.
Streamers ARPU bundle includes Disney+, Hulu, Netflix, Max, Paramount+ and Peacock.
Video ARPU = video revenue/video subs (Comcast for reference).
Cable ARPA = average revenue per account (Comcast for reference).
Non-BB ARPU = ARPA - Broadband ARPU (Comcast for reference).

Sector-wide ARPU increases should allow streaming services to reach a breakeven point, but as it stands Netflix is the zenith for streaming services – both in terms of subscribers and profitability (Figure 3).

Figure 3: profitability by streaming service

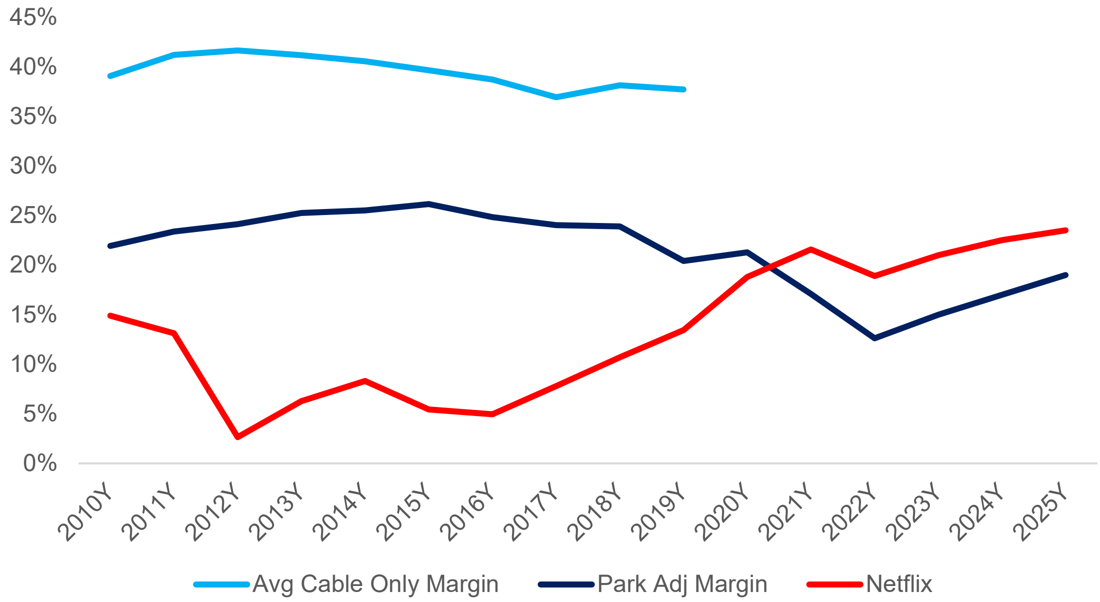



Source: Columbia Threadneedle Investments' estimates and analysis of reported financials through to Q3 2023

**Speed of growth and ceiling**

Looking ahead, and using Netflix as a proxy versus Cable TV distributors, there is additional room for upside (Figure 4).

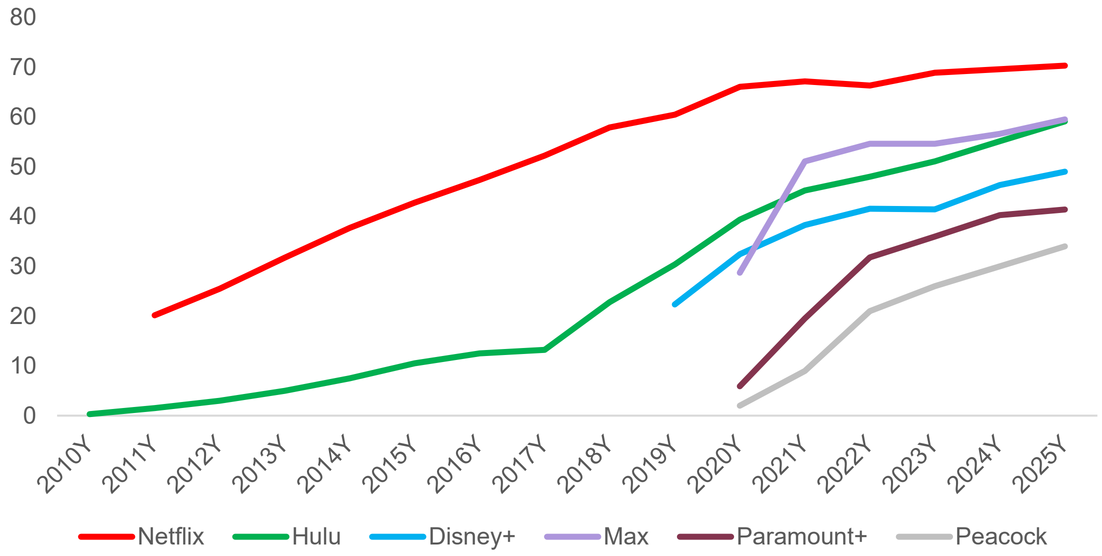
Figure 4: EBITDA margin comparison

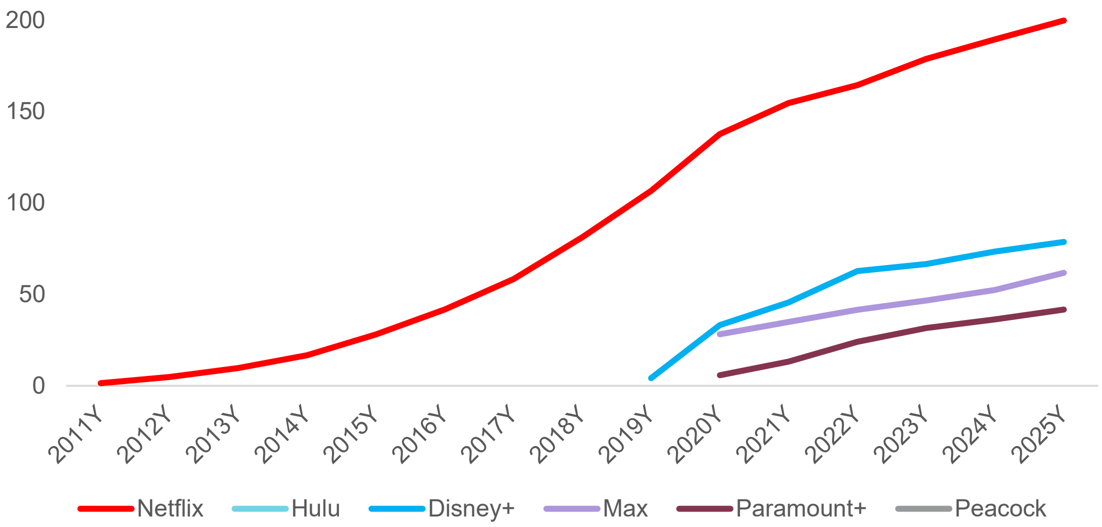



Source: Columbia Threadneedle Investments' estimates and analysis of reported financials through to Q3 2023. Park Adj Margin = media company EBITDA margin after excluding theme parks

Although subscriber growth has slowed, it remains to be seen if we are permanently in a slower subscriber growth environment. However, there is clearly upside for everyone not named Netflix. Additionally, while a more balanced price and subscriber model may emerge domestically, it is likely international subscriber growth will remain a focus (Figure 5a and b).

Figure 5a and b: domestic (top) and international (bottom) streaming subscribers




Source: Columbia Threadneedle Investments' estimates and analysis of reported financials through to Q3 2023. Hulu and Peacock are not international streamers

So, what does this all mean for bondholders? With positive EBITDA becoming the focus, this will aid credit metrics and offset declines at legacy/linear media companies. The headroom we can see for both ARPU and subscriber numbers suggests there is an opportunity for more revenue that would fall to earnings and cash flow. And lastly, advertising remains in its infancy for streaming services, which could also add incremental revenue and margin. So as credit investors we are positive about management teams harnessing growing streaming earnings to stabilize credit metrics.

## Conclusion

Media overall remains in a period of uncertainty and transition as it navigates changing viewership behaviour and shifting advertising patterns. Long term, there are reasons to be optimistic on streaming due to rational management behaviour leading to pricing increases, growing streaming subscriptions and a focus on balance sheets/profitability. In the short term, there is uncertainty about the rate of declining linear subscriptions and whether TV/streaming advertising can grow in-line with digital – or as a first step regain positive year-on-year growth in 2024. That said, in uncertain environments bonds can work so long as management teams focus on balance sheet strength and adopt a "show me the money" mantra.