



## global investor by Jean Pierre Verster fm

# The end of the war?

A decade ago, Netflix fired the first salvo in the streaming war when all episodes of the new series *House of Cards* were released simultaneously. Up until then, Netflix did not have any original content, and depended on the licensing of older content from the major Hollywood studios.

The move sparked an arms race between the major studios, which all launched multiple streaming services offering a deluge of original content directly to consumers. Budgets for productions ballooned and the number of series exploded. Hollywood was filled with glee.

At the same time, deep-pocketed tech giants wanting to strengthen the network effect of their core businesses also entered the fray, with Amazon launching Prime Video (acquiring MGM Studios along the way) and Apple launching Apple TV+.

They all wanted to attract as many eyeballs as possible, with growth superseding profitability.

The targets were the cable companies – regional monopolies controlling the distribution of entertainment content to households (bundled with broadband and telephone access). The idea was to cut out the cable companies and ultimately capture more margin, after having reached scale.

More recently, the rival studios have effectively called a truce. Flagging stock prices have forced studio executives to stem the bleeding from undisciplined production spending, as well as to hike subscription prices, seek out advertising revenues, and implement cost-saving initiatives (including layoffs). Hollywood is up in arms. As the dust settles, let's see which of the survivors of the streaming war could be a good investment:

### Disney

There has been unhappiness in the magic kingdom of late, with Disney's share price down 42% over the past year, shrinking the company's market cap to \$163bn. Previous CEO Bob Iger recently came out of retirement to steady the ship after missteps by his successor, Bob Chapek.

While the parks, experiences & products division is recovering nicely after

Covid, all eyes are on the media & entertainment distribution division. It has been haemorrhaging cash, due mostly to overspending at streaming service Disney+ and linear television network ABC being hit by lower advertising income.

Disney also owns stakes in two other streaming services: 100% of ESPN+ and two-thirds of Hulu, which will be combined into a single streaming app before the end of the year. If Iger can deliver on his commitment to make Disney+ profitable from 2024 onwards, while propping up ABC's advertising revenue, Disney shares represent decent value at the current \$90 a share.

### Comcast

Comcast is a telecommunications and media behemoth with a market cap of \$173bn. Its two main operating divisions are connectivity & platforms (Xfinity, which offers fixed and wireless broadband access); and content & experiences (Sky and NBC-Universal, which owns the Peacock streaming service).

It has come through the streaming war relatively unscathed, with broadband profitability holding up and Peacock being the most downloaded streaming app of 2022 in the US, now with more than 22-million paid subscribers. Of all the publicly listed cable providers and studios, Comcast is the only company whose shares are up over the past year (by 4%).

With a combination of leading content and vast experience in delivering broadband services to consumers, Comcast is well placed to continue its march towards being one of the final remaining global streaming players. And at a p/e of only 12, the shares are a solid bet.

### Warner Bros Discovery (WBD)

The latest major consolidation step in the streaming industry was when AT&T merged its entertainment division (WarnerMedia) with Discovery and un-

bundled the combined group last April. WBD is led by respected media executive David Zaslav, one of the first media CEOs to break ranks and prioritise streaming profitability above growth.

The group's Max streaming service (which combines HBO and Discovery content) has the third-highest number of paying subscribers in the US (55-million), after Netflix and Disney+. At a market cap of \$30bn, WBD has valiantly fought for its place as one of the last streaming services standing, but hard work remains to integrate the merged entity and compete effectively against larger competitors.

### Paramount Global

At a market cap of only \$10bn, Paramount Global, with its Paramount+ offering, is the minnow among the large studios with streaming operations. It has a dual shareholding structure, which allows for the Redstone family to control 80% of the voting rights with less than 10% of the economic interest. This complicates the necessary industry consolidation that it would probably be part of, as does its ownership of the CBS television network (US regulations do not allow for a single party to control more than one television network). Berkshire Hathaway bought nearly 15% of Paramount just over a year ago. Since then, the shares are down almost 40%, so Warren Buffett has also been a casualty of the streaming war.

Shareholders in streaming companies are now looking forward to the prosperity of peacetime. **x**

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