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Warner Bros. Discovery restructures into two units

Article

The news: **Warner Bros. Discovery** announced it will split into two units—**Global Linear Networks** and **Streaming & Studios**—signaling a potential move toward asset spinoffs or strategic partnerships. Its shares surged 14% on the news.

- Despite its linear presence, **HBO** will join the Streaming & Studios division due to its Max platform integration.
- Questions remain about the placement of properties like **CNN**, which spans both traditional and digital platforms.
- The restructuring is expected to be completed by mid-2025, with leadership roles and operational focus still to be determined.

Why it matters: This overhaul comes at a critical time for the media industry.

- The separation will give the company greater strategic flexibility to undertake acquisitions, asset spinoffs, or partnerships.
- The move could help WBD reduce its debt load while capitalizing on stronger-performing assets.
- Wall Street has been pushing media companies to separate struggling linear networks from streaming operations. This restructuring positions WBD to better compete as viewing habits continue shifting toward streaming.

Zooming out: Legacy media firms are making major changes as they embrace streaming in a bigger way.

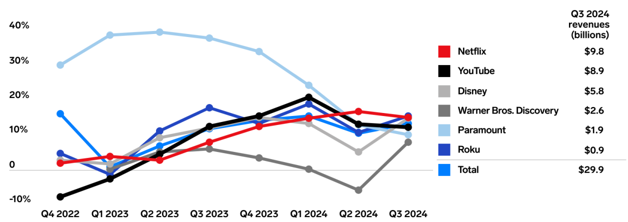
- **Comcast** is leading this industry shift, announcing plans to separate its cable networks into "SpinCo," a new public company that will house major networks like **USA Network, CNBC**, and **MSNBC**, while **NBCUniversal** retains the **Peacock** streamer.
- **Disney** is also restructuring, merging its TV studios, cutting 300 corporate jobs, and laying off 75 employees at **ABC News** and its local stations. At the same time, it's pushing to automate 75% of its ad business by 2027 through programmatic and self-service channels.
- The company took a $9.1 billion writedown on cable networks in August after losing critical **NBA** rights to **Amazon Prime Video**.

Our take: While CEO **David Zaslav** positions the revamp as a growth opportunity, with linear TV focusing on cash flow (it still generates 85% of the company's profits, after all) and streaming driving audience engagement, the reorganization likely sets the stage for more dramatic changes.

- The challenge lies in managing this transition when traditional TV still generates most of WBD's profit.
- Although previous streaming partnership discussions between WBD and NBCUniversal produced no agreements, that’s something we believe could very well materialize in 2025—and shake up the streaming world further.

A Combination of Subscription and Ad Revenues Are Buoying Streamers' Bottom Lines

% change YoY and billions in the streaming video revenues worldwide of select companies, Q4 2022-Q3 2024



Note: YouTube includes all YouTube ad revenues and excludes revenues from subscriptions (i.e., YouTube Premium and YouTube TV); Netflix includes membership fees and ad revenues; Disney includes all direct-to-consumer revenues, which include Disney+ and Hulu; Roku includes platform revenues only (i.e., from The Roku Channel) and excludes device revenues; Warner Bros. Discovery and Paramount include all direct-to-consumer revenues
Source: company earnings releases, Nov 2024

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