Users Still Demand Licensed Content from OTT Platforms

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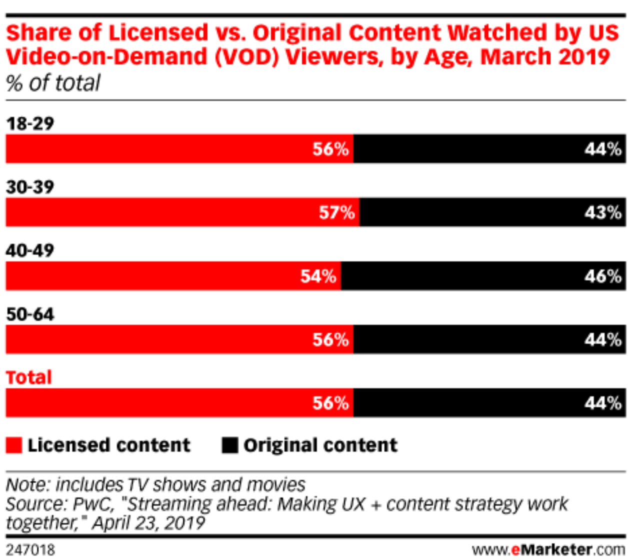
While digital video platforms like Netflix are investing heavily in producing their own original shows, many people prefer to watch licensed content when they stream video.

In March 2019, PwC surveyed 1,000 adults in the US who were video-on-demand (VOD) viewers. It found that over half of the content that respondents streamed was licensed, while 44% of it was original to the platform it's viewed on.

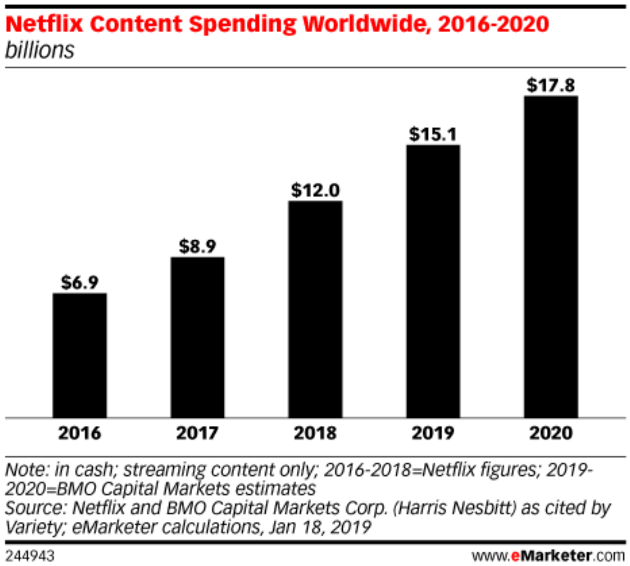


Much of the licensed content that viewers are used to finding on over-the-top (OTT) platforms like Netflix or Hulu is about to become exclusive to other companies. And that fragmentation will continue as Apple, Disney, Comcast's NBCU and AT&T's WarnerMedia launch their own streaming services.

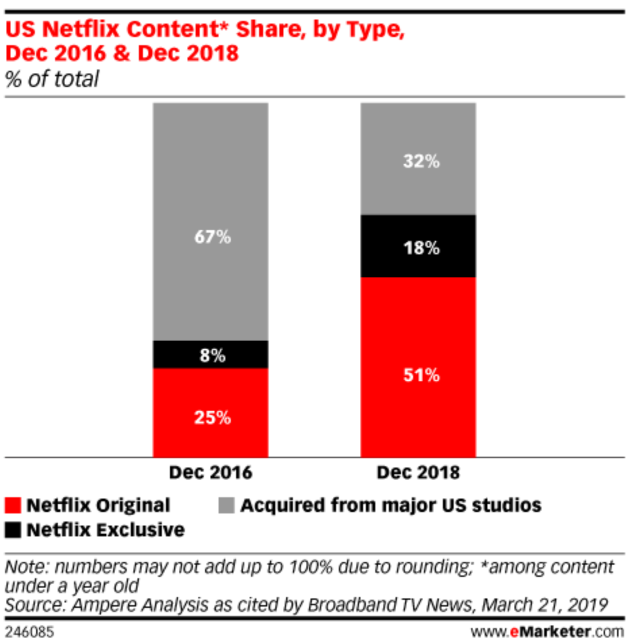
Disney announced that it will be pulling its content from Netflix, and analysts speculate that WarnerMedia will pull some of its popular titles like "Friends." In late April, The Wall Street Journal reported that NBCU is having internal discussions about removing "The Office" from Netflix so that it can feature the show exclusively on its own platform. Netflix responded with a tweet reminding people that it has rights to the show "until 2021—at least."

Meanwhile, Netflix continues to invest in producing original shows. In April, the company announced it was offering $2 billion in debt to fund content spending and other expenses. This was Netflix's second debt financing round in six months. In October 2018, it offered $2 billion in debt to fund content spending.

According to Netflix, it spent $12.04 billion on content in 2018. That figure will rise to around $15 billion this year and to more than $17 billion in 2020, per estimates from investment bank BMO Capital Markets. (These expenditures are calculated on a cash basis—before Netflix writes off the cost of original productions. The costs after the write-off are significantly lower. For example, in 2018, the post-write-off figure that Netflix reported was $8 billion.)



Original content investment from Netflix has spawned a glut of shows, including titles like "Glow" and "Russian Doll." The share of original content that Netflix added to its platform doubled between 2016 and 2018, per a report from TV analytics firm Ampere Analysis. Last year, originals accounted for about half of the content added to Netflix.



We forecast that 157.3 million US adults will use Netflix at least once per month in 2019, up 6.6% year over year.