

# Industry Outlook

Streaming

# The Industry Outlook Team

## Streaming



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## Summary

The streaming industry is composed of companies that provide services that facilitate the streaming of movies, series, music, live streams, and games. This is an industry that has gained an increasingly important role in people's day-to-day lives, especially in recent years with the boom of the digital area.

This industry has seen exponential growth in recent years and is currently valued at about \$419.03 billion. Having big main players in the space such as, Netflix, Youtuber, Hulu, and Twitch to name a few.

Even so, this industry faces some challenges and difficulties that will be touched on in the report.

Therefore, with this edition of the Industry Outlook, we aim to provide high-quality and accurate data for this industry, which has a high potential for expansion in the coming years and decades, especially with the increasing technological advancement constantly taking place which contributes to the further development of the space.

# Environmental Analysis

## Political Factors

	Political	
	Censorship	Sanctions
Duration of Impact	Long Term	Long Term
Type of change	Negative	Negative
The factor's rate	Increasing	Increasing
Importance	Crucial	Important

Regarding the political factors, the streaming industry currently faces two main factors which are censorship and sanctions. In order for companies within this industry to operate in foreign land, they must comply with the rules and regulations that are asked of the country in particular. For example, it is very common for companies like Netflix and Hulu to cut out certain parts of a movie, tv show, or even completely remove them in order to appease high authority figures of the country, that is why the media catalog of companies in the industry tend to vary country to country. An example of the censorship is seen in Saudi Arabia with Netflix. The government of that country had requested Netflix to take down an episode of a comedy show because it had criticized the Crown Prince and the country's involvement in the war in Yemen. With that in mind, this factor is an important one for many companies in the industry to be aware of in order to conduct business in foreign land where there are different cultures, values, religions, and etc.

The 2<sup>nd</sup> factor is sanctions, which is being seen now with Russia. Many companies are withdrawing their conduct of business from that country due to the actions of Putin. The prevalence of sanctions can increase as tensions rise globally. It is important for streaming companies to be up to date with the political stability of a country before entering, to avoid having to withdraw themselves which can be costly.

## Economic Factors

	Economic	
	Foreign Exchange Rate	Consumer Spending
Duration of Impact	Long Term	Long Term
Type of change	Neutral	Positive
The factor's rate	Increasing	Increasing
Importance	Important	Critical

Regarding the economic factors, foreign exchange rates and consumer spending are two important factors for companies within this industry. Firstly, many streaming companies provide their services globally, therefore they are affected by the exchange rate. With that, companies must be aware of the stability of a currency in a specific country before providing their services or else they may lose profits due to the fluctuations in foreign exchange rates. This factor is one to be aware of more and more due to the rise in globalization and international business.

Secondly, consumer spending in a country is a crucial indicator to look at which affects the industry. Many of the top streaming companies tend to have a monthly subscription payment model. In countries where consumer spending is low, these subscriptions may be seen as pricey to the common person and this is something that companies should take into account before providing a service to a certain country. Therefore, companies can use this as a positive opportunity to target consumer markets in countries such as USA, Japan, and Germany where a good portion of the population have disposable income for consumption and even target countries with rising consumer spending such as the Philippines, whose consumer market is expected to grow in the coming years.

## Social Factors

	Social	
	Adoption	E-Sports
Duration of Impact	Medium Term	Medium Term
Type of change	Positive	Positive
The factor's rate	Increasing	Increasing
Importance	Critical	Important

Regarding social factors, the demand for streaming services is increasing more and more each year. The demand for these services skyrocketed during the peak of the pandemic which served as an opportunity for the industry, as many lockdown restrictions had been imposed by countries worldwide causing cinemas, live sports events, and many other sources of entertainment to be closed whilst the public mainly stayed at home. Due to this, many turned to online streaming as a form to keep themselves entertained whilst being at home, which further increased the adoption of streaming.

In addition, during this period, e-sports started becoming more prevalent. With the rise of competitive gaming, came streaming from the gamers which were also seen as entertainment for many. Just the gaming and e-sports streaming industry alone could reach \$3.5 billion by 2025, this serves as an important rising opportunity for the industry. China as of now is one of the leaders in the e-sports sector which can be good market for streaming companies to target.

Furthermore, considering that the e-sports audience is growing and predominantly composed of males belonging to the younger generation, it is possible that the growing interest from this demographic in e-sports streaming could take away from other types of streaming such as the traditional movies and tv shows.



## Technological Factors

	Technological		
	High-Quality Audio and Videos	High-Speed Internet	Augmented and Virtual Reality
Duration of Impact	Long Term	Long Term	Long Term
Type of change	Positive	Positive	Positive
The factor's rate	Increasing	Increasing	Increasing
Importance	Critical	Critical	Critical

With the rising demand for streaming services, technological advancements go hand in hand in order to meet customers' needs and enhance the streaming experience. With that, two technological factors that are crucial in this space are high-quality videos, audio, and high-speed internet which all go together. With the advancement in technology, we see each decade video graphics and resolution constantly improving. This advancement that takes place improves the quality of services in the industry. However, with high-quality streaming, good internet is required to fully enjoy the streaming experience, therefore advancements in tech such as 5G and being more accessible are also very beneficial for the industry.

In addition, these advancements tend to aim to provide users with a real as can be experience, from gaming, watching a movie and so on. This is becoming more and more possible with the use of augmented and virtual reality. These gadgets present a big opportunity for companies within the industry since it has the potential to revolutionize the services which are currently offered, especially with the rising concept of the Metaverse. Currently these gadgets are slowly being implemented, companies like NVIDIA have started providing "Streaming for Extended Reality" services. However, at the moment we are very early on and there is still much room for development.

## Legal Factors

	Legal	
	Copyright	Digital Piracy
Duration of Impact	Long Term	Long Term
Type of change	Positive	Positive
The factor's rate	Increasing	Increasing
Importance	Critical	Important

The main two legal factors for the industry are Copyright and pirating. Before entering a country, companies must be aware if or not there are copyright infringement protection systems put in place. Due to many developing countries lacking e-commerce laws, it is difficult for many companies in the industry that provide these kinds of services to enter those countries because of fears of being their intellectual properties being misused and digitally pirated which are threats to the industry.

## Environmental Factors

	Environmental
	Clean Energy
Duration of Impact	Long term
Type of change	Neutral
The factor's rate	Increasing
Importance	Important

Streaming requires a lot of energy, from countless servers, clouds, internet, and etc. which all require to be powered. Quite a few companies in the streaming industry such as Netflix have had backlash over the massive carbon footprint that they leave. Because of this, streaming companies must be aware of their carbon footprint and alternative ways to combat through the use of clean energy such as using more renewable energy.

# Industry Competitiveness

## Porter's 5 Forces

### **The Threat of New Entrants:**

- Strong competitive force.
- Barriers to entry are high for a new entrant that does not already produce their video content. Although, for the players that already are placed in the media and entertainment industry, the barriers are very low.
- The business model of streaming companies based on subscriptions is very simple to replicate and implement.
- There are so many companies in the media and entertainment industry with a fan base client that can easily be able to launch a streaming service with their new content and already have their loyal clients to use the service.

### **Bargaining Power of Suppliers:**

- Moderate competitive force.
- There are a few numbers of entities that produce media and entertainment content.
- Obtaining a contract or acquiring licenses to distribute content involves negotiation on pricing, where the suppliers have an edge.
- Most of the streaming companies produce their content, although they need to contract a producing team. Still, they can cut some costs on contracts or licenses with cinemas or other companies of the media industry.

### **Bargaining Power of Buyers:**

- Strong competitive force.
- The continuous growth of streaming services that have been launched.
- There are not contracts that can retain customers to one streaming service. Most of the subscriptions are monthly based, which allows the client to cancel the service at any time.

- Easiness in the way clients can subscribe or cancel the service with any of the streaming companies in the market.

**The Threat of Substitute products:**

- Moderate/Weak competitive force.
- The streaming industry faces competition from various entertainment products like tv shows, cinema, and other types of online platforms like YouTube, Instagram, and other social media networks.
- According to some studies, traditional broadcasting television is on the decline, especially among young adults that are switching broadcasting television for a subscription of streaming services.
- With the decline of all the most common entertainment industries, online streaming platforms are the future of the entertainment industry due to convenience and customer satisfaction.

**Competitive Rivalry within the Industry:**

- Strong competitive force.
- There are many competitors in this industry and with that, they fight for their customers by offering affordable prices.
- All competitors have a range of original as well as popular content to set them apart and need to constantly add new quality content to remain in the market.
- Many relatively new online streaming platforms are removing the most popular content from another rival to show on their platforms, increasing the competition in the industry.
- Some of these streaming companies, beyond offering the streaming service, complement subscription customers with some additional services.

## SWOT Analysis

Strengths	Weaknesses
<p><b>S1:</b> Increasing Demand, during pandemic (+75%) and on future (CAGR = 12.1%, 2022 to 2028)</p>	<p><b>W1:</b> Maximum shares on mature markets (North America and Europe)</p>
<p><b>S2:</b> Diversified and Original content (TV shows, movies, video games, live news, video communication, etc.)</p>	<p><b>W2:</b> Internet dependency</p>
<p><b>S3:</b> Considered a medium influence media</p>	<p><b>W3:</b> Lack of community support</p>
<p><b>S4:</b> Organisation Partnership (Eg. National Football League)</p>	<p><b>W4:</b> Weak monetization (Eg. Gaming)</p>
<p><b>S5:</b> Services adapted to consumer needs (Eg. Pay as you watch services &amp; Live and on-demand Content)</p>	<p><b>W5:</b> Different local content availability</p>
<p><b>S6:</b> Growing OTT platforms</p>	
<p><b>S7:</b> Commodity and quality features development (Eg. Cloud, rather than on-premises)</p>	
Opportunities	Threats
<p><b>O1:</b> Internet connection and speed improvements (Eg. 5G)</p>	<p><b>T1:</b> Cyber Risk</p>
<p><b>O2:</b> AI improvements (Eg. Distributing data)</p>	<p><b>T2:</b> Privacy protection</p>
<p><b>O3:</b> Regulation to protect content creators</p>	<p><b>T3:</b> Controversial content</p>
<p><b>O4:</b> Smart devices growth (Eg. smart TV)</p>	<p><b>T4:</b> Unstable and poor internet connection</p>
<p><b>O5:</b> Growing interest in in-home entertainment</p>	<p><b>T5:</b> End of Work from home</p>
<p><b>O6:</b> New market growth (Eg. Africa and Latin America)</p>	

**O2&W5:** *Common Content Available for All Users*

By doing this, the users won't need to change their VPN to get access to other countries content (e.g. Currently, the player Netflix has different content in different countries. With this feature, the user will not need to change his VPN to see that kind of content)

**O6&W2&T4:** *Associate Internet connection with subscription (like traditional services)*

Cyber security incidents in the telecoms sectors are increasing, ranging from attacks on individual users to financial institutions and the core infrastructures of telecom companies. Consequently, all flowing client data can and has been intercepted or exposed by hackers, which makes a serious dent in client's confidence. The entire sector must commit to better protect itself from these attacks as maintaining clients' trust will be crucial in a data sensitive world.

**S7&W3&O1:** *Direct Support*

With internet speed development, the players can improve their client support to an "on time" assistance.

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## The Big Players

### Netflix

**Description**

Netflix, Inc. is a provider of subscription streaming entertainment services. It was founded in 1997, at first as a DVD rental service, by Marc Randolph and Reed Hastings. Only in 2007 did the company launch its streaming media service, with no more than 1000 films.

Netflix now operates in over 190 countries, supplying a variety of TV series, movies, and documentaries, across many different genres and languages to its customers. Netflix's customers can watch its content through several Internet-connected devices, including televisions, mobile devices, or computers, and have different streaming membership plans, ranging from \$2 to \$24 per month. At the end of 2021, the company had 222 million subscribers. Netflix, Inc. (NFLX) is also a publicly-traded stock, listed on the Nasdaq and ranked 115th on the Fortune 500.

### **Strategy**

Netflix's strategy is based on several pillars. To begin with, the company distinguishes itself with exclusive and unique content, produced and distributed by Netflix itself. Shows like House of Cards, The Crown, or many others are a competitive advantage for other streaming companies, as people can't receive those contents elsewhere.

The subscription-based company is also a global enterprise, constantly expanding the list of countries with its services available. It produces content in a wide spectrum of languages and countries, increasing its global reach.

Netflix is a company very focused on innovation, always adapting its services to the new technology and market trends – it started by being a DVD rental service and adapted its business model to become the biggest streaming company in the world.

### **Financials**

Netflix Inc. (NFLX) is traded at around \$350 at the moment and has \$443.46 million shares outstanding, with a market capitalization of \$155.2 billion.

The stock price recently collapsed, being sliced by half from its all-time highs in November 2021. NFLX dropped over 20% between November and January, as the Nasdaq slowly approached the bear market, and then, on January 20th-21st, collapsed again over 20% overnight as the company's results came public. The drop is justified by the company's

acknowledgment that the increasing competition would affect Netflix's marginal growth, as the increase in subscribers deaccelerated on a YoY basis.

However, Netflix has been showing a significant rise in sales over the last 5 years, growing from \$11.69 billion in 2017 to \$29.7 billion in 2021 – evaluating the company at a 5.3 P/S ratio. It has an operating margin of 20.9% and a profit margin of 17.2%, with a ROA and a ROE of 12.2% and 35.3%, respectively.

Netflix's net income has also been rising non-stop over the same 5-year period, growing from \$559 million in 2017 to \$5.12 billion in 2021. In 2021 alone, the company almost doubled its net income, which rose over 85% compared to 2020. The stock is now trading at a 32.8 P/E ratio, and a forward P/E of 24.4.

The American company presents a 0.97 Debt-to-Equity ratio. Its total assets grew over 134% over the past 5 years, alongside its liabilities, who rose around 86% over the same period. As liabilities' growth is inferior to assets', the company's equity has also been growing, multiplying itself by more than 4x since 2017. As of today, the company is trading at a 9.8 P/B ratio.

The analysts' average target price is \$510.19, a whopping 48% over the current stock price. However, with the Nasdaq entering the bear market recently, and the not-so-positive future growth forecast presented by the company, it must be traded carefully.

## Spotify

### Description

Spotify is a Swedish audio streaming and media service provider, founded by Daniel Ek and Martin Lorentzon on April 23rd, 2006.

Spotify leads the audio streaming market, with a current 31% market share, followed by Apple and Amazon Music which, together, have a 28% market share.

Spotify Technology S.A. is listed on the NYSE, with a current price as of 6th March 2022 of \$135.17 US, down almost 45% YTD. Since late December, Spotify has been through a rocky patch, as a public outrage affected Spotify's number of users due to political motivations regarding controversial podcaster Joe Rogan.

### **Strategy**

Spotify currently offers a free limited service, also known as freemium, where everything is available for free, but with limited features and ads, which can be upgraded through a monthly paid subscription. Artists are currently paid through Royalties - 70% of Spotify's revenues -, with each time the artist's music is streamed converting to a small amount of money to the rightsholders.

In the future, Spotify wants to introduce a new HiFi mode, with high-fidelity audio, for those searching for better audio quality when streaming through the app.

### **Financials**

As of 2022, Spotify should finally reach a steadily profitable status, with consensus pointing to an EPS of \$0.60 in Q3 2022, tripling the projected EPS of \$0.20 for Q1 of the same year.

With a 1.69 Beta (5Y Monthly) the company's stock is objectively volatile and risky, however, this could also mean that the reward could be greater than for equivalent stocks.

For the past 6 years, from Dec 2016 to Dec 2021, Spotify's revenue grew by more than threefold, from 3 billion dollars during 2016, to 11 billion dollars during 2021, with constant growth every year – not a single year since 2016 has shown a decrease in revenue.

In 2021, Spotify manage to fix its ROA, which was at an all-time low in 2020, at -10.2%, which positively increased to -0.5%.

Spotify's D/E ratio shows that the company is mainly driven by Equity, as it currently stands at 0.84. With a quick ratio of 1.36, there is another positive note on Spotify's Debt – The company can pay it anytime soon without any problems.

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## Conclusion

Internet access is increasingly accessible, either because of the decrease in its cost or because of the increase in the number of devices through which we have access. With that said, accessing streaming platforms is getting easier and faster, which stimulates the growth of this industry.

However, this industry faces several obstacles in the political field, with the increase in censorship made by governments or increased bureaucracy and taxation, and also in the field of cybersecurity with computer attacks, piracy, and copyright.

Despite this, this sector, particularly characterized by the existence of large companies that have a high market share, is expected to continue to grow, with a CARG of 12.1%, and with several opportunities that will appear in the coming years, with the development of AI and augmented reality.

In conclusion, despite all the challenges, this sector has enormous potential for growth with a good general upside.

*Tomás Castro, Editor-in-Chief*

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