ClearBridge Investments

Crowded Streaming Market Highlights Value of Content

November 11, 2019

Key Takeaways

- While uncertainty about the changing distribution landscape for video content is compressing multiples, that has not changed the value of original content produced by standalone programmers and diversified media.
- Much of this value is being realized through consolidation and expansion of content distribution through streaming.
- We believe attractively priced companies with a track record of successful content development are best positioned to thrive as streaming becomes ubiquitous.

Content Should Command a Premium as Distribution Evolves

The already crowded video streaming market is about to get jam packed with highly anticipated over the top offerings from Disney and Apple launching this month. The new entrants will give U.S. consumers more than ten streaming options while a new on-demand service from Comcast's NBC Universal is just around the corner.

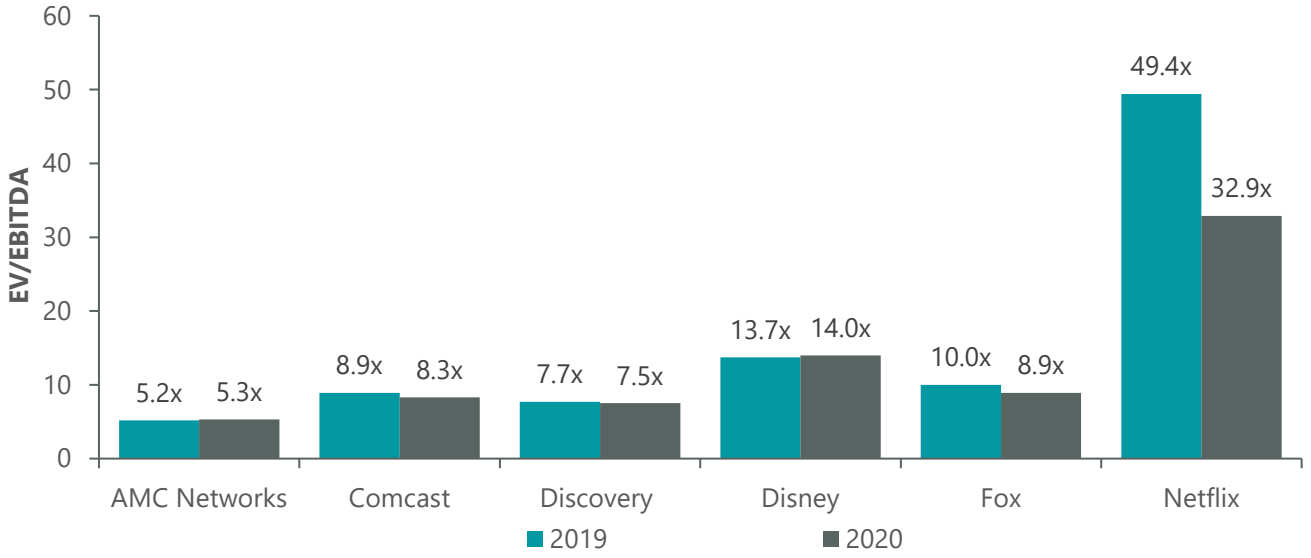
We believe increased competition in an environment that's changing so rapidly will cause certain companies to lose out. In a matter of years, we have gone from a "bundled" media market to a world that is unbundling with viewership fracturing across platforms. Budgets for original content have grown very large, primarily driven by technology players, causing the volume of new series to scale dramatically. Consumers are also changing their viewing patterns, watching more content delayed or on mobile devices.

For us, the value proposition today is investing in companies with exclusive content — intellectual property (IP) if you will — from standalone programmers like Discovery and AMC Networks and the larger, more diversified players like Disney and Comcast. Right now, the programmers are being hurt by the fear of cord cutting where investors wonder how cable content will find its way to viewers. AMC — home of "The Walking Dead" franchise — for example, has nearly doubled its earnings per share since 2015, yet the stock is down.

Uncertainty about the changing distribution landscape is compressing multiples. What hasn't changed is the value represented by good content. Cable and media investor John Malone has spoken about consolidating the programmers, rolling up multiple properties and ultimately selling some of them to either the distributors or technology companies like Apple and Netflix, who are looking for content and spending billions to develop or acquire it.

We have always tried to own IP at reasonable valuations that ultimately can get monetized. The need for more content to support the explosion of direct to consumer offerings has already fueled consolidation in the sector. This includes Disney's acquisition of Fox, Comcast's acquisition of Sky and the planned merger of Viacom and CBS. We expect to see more media deals in the future. Some companies may also go private because free cash flow yields are so significant right now. By purchasing media stocks at cheap multiples that are steady generators of free cash flow, we believe we have sufficient cushion to weather disruption and that shareholders will ultimately be rewarded for the durability of these businesses.

Exhibit 1: Media Multiples Look Attractive



As of November 6, 2019. Source: ClearBridge Investments.

The larger media players aren't as reliant on streaming as pure play companies like Netflix. However, we believe Disney+ could be the catalyst that enables Disney to remain a leader in the marketplace amidst changing media consumption patterns for years to come. The stock continues to trade at an attractive multiple and — assuming reasonable success from the company's over the top efforts — has a consistent track record of generating content very profitably.

For Comcast, broadband is driving growth as video, music streaming and gaming among other applications drive demand for fast connection speeds. The media conglomerate also benefits from a diversified base of distribution and content assets. The launch of Comcast's advertising — supported Peacock streaming service in the first half of 2020 will allow it to enter the streaming market in a disciplined fashion.

In summary, while consumers are embracing new ways to view content, appreciation for and engagement with successful shows and movies remains healthy. Newer industry entrants whose business models are predicated on licensing and repurposing existing content could face challenges from not having enough bingeworthy new shows. However, companies that create portfolios of popular content, have the scale to fund premium offerings and pivot to offer that content in the way consumers want to view it, have a better chance of thriving over the next several years.

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