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The Video-Streaming Wars in 2019: Can Disney Catch Netflix?

After Bob Iger, chief executive officer of The Walt Disney Company (hereafter 'Disney'), one of the world's leading entertainment companies, thrilled investors with details about Disney's upcoming foray into video streaming during its annual Investor Day on April 11, 2019, he saw his firm's stock price soar to an all-time high of over $130 per share. Meanwhile Netflix, the dominant incumbent in the video-streaming-subscription space, led by chief executive officer Reed Hastings, ended the next day with its share price down nearly 5% (see **Exhibit 1** for key financial information for the two companies).[1]

Disney's move was only the latest in a series of actions taken by new and established entertainment companies in a fight for dominance in video streaming. Netflix had established an early foothold in that market after entering in early 2007. En route to amassing 140 million subscribers worldwide by early 2019 and spending $10 billion on content annually, it had evolved from a company that relied on content licensing deals to one that also had significant success with its own original programming and that had signed some of the television's world most high-profile creators to long-term deals.[2]

Now, Disney was joining the fray with its signature service, after first collaborating with other broadcasters in establishing Hulu, later buying up a majority stake in that service, and launching sports-content subscription service ESPN+ in 2018. Disney planned to launch its subscription service, Disney+, in November 2019 at price of $6.99 per month—just a little over half of Netflix's standard $13-a-month plan—and was planning to spend $1 billion on original programming for the service in its first year alone. Disney executives projected Disney+ to reach 60 to 90 million subscribers by 2024 and reach its break-even point in that same year. "Disney is approaching streaming offerings with guns blazing, looking to take share and quickly ramp up subscriber growth," said one director at a credit-rating firm, pointing out that "Disney+ will be loaded on day one with attractive [intellectual property] and franchises."[3]

The battle for what many industry observers regarded as the future of the television business was truly on. Had Iger and his team of executives found the right formula to unseat Netflix as the leader in video streaming? Was there room for both players in the marketplace? Or would Hastings and his team at Netflix need to respond in some way to the looming threat posed by Disney?

Professor Anita Elberse and Class of 2019 MBA graduate Monica Cody prepared this case. Research Associate Melissa Rodman provided research assistance. The case was developed from published sources. Funding for the development of this case was provided by Harvard Business School, and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Netflix

Netflix's Early Days

Founded in August 1997 by Reed Hastings and Marc Randolph, Netflix started as a distributor of DVDs by mail.[4] Initially, Netflix perhaps most stood out from traditional movie-rental companies like Blockbuster for not imposing due dates by which consumers needed to return the DVDs and for not charging late fees. While the company first charged customers a few dollars per DVD borrowed, it later switched to a monthly subscription fee that came with unlimited rentals.

Hastings had a vision for an online streaming service from the very beginning. Ted Sarandos, who became Netflix's chief content officer in 2000, recalled, "Back then, [Hastings] said that postage rates were going to keep going up and the internet was going to get twice as fast at half the price every eighteen months. At some point those lines would cross, and it would become more cost-efficient to stream a movie rather than to mail a video. And that's when we get in."[5]

In fact, Hastings brought that idea to Blockbuster, offering to build a streaming service under the brand name of the video rental giant (Blockbuster.com) and sell a 49% stake in Netflix for $50 million. At the time, Blockbuster had 7,700 stores, millions of customers, and a gross profit of $3 billion, while Netflix's proposed technology was still a couple of years away from being market ready, had 300,000 subscribers, and was losing money (see **Exhibit 2a** for trends in Netflix subscribers and **Exhibit 2b** for revenues). Blockbuster declined the offer. (It would file for bankruptcy in 2010).[6]

Continuing without a partner, Netflix filed for its IPO in 2002 (see **Exhibit 2c** for trends in its stock price). Around the time the company delivered its one billionth DVD in early 2007, Netflix launched its streaming service. While it had 70,000 DVD titles in its catalog, its streaming offering started with around 1,000 movies and television shows.[7] The assortment it could offer was severely limited by the long-term rights agreements that the studios that produced the content had negotiated with the television networks that aired it—in some cases, broadcast and cable networks had tied up rights for as long as nine years after a piece of content made its debut.

Pursuing Content Licensing Deals with Film and Television Companies

To expand Netflix's catalog, its executives soon turned to negotiating licensing deals with film and television companies. As its first major deal, Netflix in 2008 signed a $30-million-a-year contract with premium cable network Starz for 2,500 movies and television shows as well as first-run rights to films from Disney and Sony Pictures.[8] Under the deal, Netflix could offer the content on its online service as soon as Starz did on television. Although Sarandos protested at the time that the deal was "about three times [his] budget," Netflix was only just beginning its spending spree (see **Exhibit 3** for early content deals).[9]

The 'big four' major broadcast networks, ABC, NBC, FOX, and CBS, and their production studios all began licensing content to Netflix. CBS sold rights to older content that was no longer airing on CBS network.[10] NBC offered Netflix 200 movies and older seasons of its television shows.[11] Fox also licensed past seasons of current shows airing on FOX network. ABC allowed Netflix to offer past seasons of its television shows, along with episodes from current seasons, sometimes as soon as two weeks after their original broadcast date.[12] Netflix cut big checks for hit shows on cable networks, too: it paid an estimated $1 million per episode for 91 episodes of AMC's *Mad Men*, and purchased three previous and three upcoming seasons of *Breaking Bad*.[13] To get fresher film content for the library, Netflix also made deals with Epix, Lionsgate, MGM, Paramount, and Relativity Media, among other firms. By 2010, Netflix had secured streaming rights to films that collectively brought in nearly half of the domestic box office for that year.[14]

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As time went on, licensing became more expensive. NBC renewed a $25-million-dollar deal struck in 2010 for a reported $300 million in 2011.[15] "The kind of money that online video providers are paying for content is significantly greater than it was eighteen months ago," said NBC's chief executive officer Steve Burke at the time. "Content is more valuable, and the outlook, particularly for broadcast television, is much rosier than it was eighteen months ago."[16] Time Warner chief executive officer Jeff Bewkes seemed to agree, remarking, "[Services] like Netflix are welcome additions to the infrastructure. They can monetize value for companies like Warner that maybe there wasn't—in terms of efficiency for older product—as available before."[17] When a journalist asked if Netflix was a threat, Bewkes responded, "It's a little bit like, is the Albanian army going to take over the world?" adding, "I don't think so."[18] (Hastings reportedly considered Bewkes' comment "a badge of honor," adding, "For the next year, I wore Albanian army dog tags around my neck. It was my rosary beads of motivation."[19])

Not every executive was keen to renew. "Starz made a terrible deal with Netflix. You could argue that Netflix built its business on the back of Starz programming for pennies," Starz chief executive officer Chris Albrecht said when he ended his company's licensing agreement after three years. "I think it's really short-sighted for all these folks to be selling their shows to Netflix," he later clarified, adding: "If they didn't, what would be on Netflix? A lot of old movies, some Disney movies in a couple of years and a few shows that they make… [But] it's hard [for content owners] to turn down the drug, the immediate high of the money that [Netflix is] paying."[20]

Moving into Original Programming

Netflix next started pursuing its own original content alongside licensing deals (see **Exhibit 4**). In February 2013, it released its first original series, *House of Cards*, a show about the dark and cunning politician Francis Underwood and his relentless pursuit of power. The production company behind the show, Media Rights Capital (MRC), had pitched the series to each of the major premium cable networks in the U.S. and approached Netflix only for a possible second window, but to their surprise, Netflix executives replied with an offer for exclusive, instant streaming rights that was reportedly worth $100 million for two seasons of thirteen episodes each.[21] The show impressed critics and went on to secure nine primetime Emmy (the television industry's most prestigious award) nominations in its first season, and a victory in the Best Actress category (for Robin Wright). Netflix would air six seasons.

Netflix's next big bet was a show set in a female prison, *Orange is the New Black*, produced with Lionsgate and released in July 2013. "I took it to HBO and Showtime and Netflix," said creator Jenji Kohan. "And the greatest thing about going to Netflix was that I pitched it in the room, and they ordered thirteen episodes without a pilot. That's miraculous. That is every showrunner's dream, to just 'go to series' and have that faith put in your work. They paid full freight. They were new, they were streamlined, they were lovely, they were enthusiastic about it. And I love being on the new frontier."[22] *Orange is the New Black* became one of Netflix's most watched original series, and by 2019 had been renewed for a seventh season.

Netflix's first moves into original programming were structured as 'deficit-financing' deals in which Netflix paid a share (usually two thirds) of a show's production costs and the production company retained ownership (so it could make up the 'deficit' by negotiating deals for subsequent windows and international markets). Later, Netflix switched to a 'cost-plus' model that required the company to pay more money upfront but also enabled it to secure ownership rights, thereby putting itself in a position to exploit subsequent revenue windows.

By 2018, Netflix had an $8-billion-a-year content budget, and it directed 85% of its new content spending towards original productions. Sarandos disclosed that Netflix planned to produce 1,000 original shows and debut close to 500 of those in the next year. Netflix rarely released viewership data, but he indicated that over 90% of Netflix's customers regularly watched original programming.[23]

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Signing Talent Deals

Not content to just buy shows, Netflix soon started signing up the creators behind those shows as well (see **Exhibit 5**). In the first of these megadeals, Shonda Rhimes, known for hits such as *Grey's Anatomy*, *Scandal*, and *How to Get Away with Murder* that made up much of ABC's Thursday nights, left ABC's production studio for a multi-year deal, rumored to be worth well over $100 million, to produce eight new series exclusively for Netflix.[24] As part of the deal, Netflix committed a significant amount of overhead to Rhimes' company ShondaLand. Netflix was also thought to pay a higher up-front amount to Rhimes herself, compared with her agreement at ABC. To accommodate for the lack of syndication opportunities for programs produced for Netflix, the deal also included what were described as "innovative backend profit terms" for Rhimes.[25] Rhimes, who secured an early release from ABC, agreed to continue to oversee her current shows at ABC. Commenting on the publicity the move generated, she tweeted, "Why do reporters always say writers were 'lured'? Like we're children following a trail of candy. I created a $2B+ revenue stream for a major [corporation] with my imagination. I do not follow trails of candy. I am the candy."[26]

A short while later, Netflix signed Ryan Murphy, creator of *Glee* and *Nip/Tuck*, from 21st Century Fox in a five-year deal reportedly worth $300 million.[27] It also convinced Kenya Barris, creator of *Black-ish*, to agree to a three-year deal thought to be worth close to $100 million. Barris reportedly negotiated an early release from ABC partly due to "creative differences" after the network refused to air a controversial episode of his show.[28] "If I was going to step out, I wanted to do something where I could take off all the straps and really hang out of the plane," he said. "I want to be Netflix with attitude — loud, bold and unapologetic."[29]

Netflix in 2019

By early 2019, Netflix had amassed close to 140 million subscribers, nearly 60% of whom came from international markets.[30] The streaming service, which was available in 190 countries, consumed 15% of total downstream volume of internet traffic globally and close to 20% in the U.S.[31] Netflix's production and programming expenses, once a mere fraction of the industry total, now outpaced those of the traditional broadcasters and had grown to $10 billion (see **Exhibit 6**). Including content produced for certain regions across the world, its original programming catalog counted over 15,400 titles.[32] Netflix's annual revenues rose to nearly $16 billion, a 35% increase from the previous year, and its market capitalization reached $155 billion.[33]

Disney

Disney was one of the world's leading entertainment conglomerates in 2019. Under the leadership of Iger, the company's market capitalization value increased from $46 billion when he became chief executive officer in 2005 to more than $230 billion in 2019.[34] Throughout that period, the company had made several significant acquisitions, of computer-animation studio Pixar in 2006 for $7.4 billion, Marvel Entertainment, which had its roots in comic books in 2009 for $4 billion, filmmaker George Lucas' Lucasfilm in 2012 for $4.05 billion and, most recently, 21st Century Fox in March 2019 for $71.3 billion.[35]

In 2019, Disney operated four business units[36]:

- **Studio Entertainment**: Generating roughly $10 billion in 2018, this unit produced films through Disney Studios, Pixar, Marvel, Lucasfilm, and, since the merger, also Twentieth Century Fox, Fox Searchlight Pictures, Twentieth Century Fox Animation, and Fox Family. It also produced live stage plays through Disney Theatrical Group and produced and acquired musical recordings through the Disney Music Group.

- **Media Networks**: Generating $24.5 billion in revenues in 2018, this business unit contained Disney's television networks (including ABC), cable channels (including ESPN), radio

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networks, associated production and distribution companies, and owned-and-operated television stations.

- **Parks, Experiences and Products**: Accounting for $24.9 billion in revenues in 2018, this segment encompassed Disney's theme parks and resorts, cruise and vacation experiences, and consumer products such as toys, apparel, books, and video games that were sold in Disney stores and elsewhere.

- **Direct-to-Consumer and International**: Formed in March 2018, this newest segment comprised Disney's international business in global content and advertising sales, its streaming-technology subsidiary BAMTech and its streaming services Hulu, ESPN+, and now Disney+.

Pursuing – and then Pulling Back – on Content Licensing Deals

Disney had licensed its content to technology companies ever since those firms first developed online video offerings. For instance, it contributed episodes of several of its hit shows when Apple released its video iPod in 2005, allowing users to buy individual episodes from the Apple iTunes Store for a couple of dollars.[37] And when Apple announced its online movie service the following year, its lineup included over 75 of Disney's movies.[38] Deals with Amazon (and its Prime Video streaming service), FandangoNow, Google Play, Microsoft Movies and TV, and Vudu, followed. In 2014, Disney launched Disney Movies Anywhere, a service that allowed users who purchased any of the 450 titles Disney made available on each of those platforms to transfer those titles to a digital 'locker' where they could stream or download their Disney content in one central location.[39]

Over the years, Disney had entered into several agreements with Netflix. By the time Netflix's deal with Starz (which had included rights to some Disney films, also see **Exhibit 3**) expired in 2012, Disney had granted Netflix access to television episodes from its ABC and Disney Channel networks, and licensed classic film titles such as *Alice in Wonderland*, *Dumbo*, and *Pocahontas*. In 2013, Disney signed over the exclusive U.S. rights to its direct-to-video films.[40] Three years later, it licensed new theatrical releases to Netflix during the pay-television window.[41] As a result, Netflix was able to offer some of the film industry's biggest hits in the 2016-2018 period shortly after those appeared in theaters, including *Black Panther*, *Captain America: Civil War*, *Finding Dory*, *Pirates of the Caribbean: Dead Men Tell No Tales*, and *Thor: Ragnarok*.[42]

In 2018, Iger announced that Disney would end its agreement with Netflix and build its own streaming service. Starting with *Captain Marvel*, new films released in 2019 and beyond would appear exclusively on Disney's own subscription service.

Increasing its Stake in Hulu

Hulu was a U.S-based streaming service that offered a wide assortment of television and film content. Originally established as a joint venture between media giants NBCUniversal and News Corp. in 2007 to which Disney signed on as a third equity partner, by 2019 Disney had become a majority owner after its acquisition of 21st Century Fox (with a 60% stake), while Comcast via NBCUniversal (with a 30% stake) and AT&T via WarnerMedia (with a 10% stake) continued hold an interest as well.[43] Compared with Amazon Prime Video and Netflix, Hulu stood out for offering users early access to popular broadcast television series, sometimes offering those as soon as 24 hours after they first aired on television. Hulu had also invested in original content, scoring a hit with its dystopian drama series *The Handmaid's Tale*.

By early 2019, Hulu's catalogue consisted of around 85,000 titles, and it had amassed 25 million users in the U.S., 92% of whom were paying subscribers (also see **Exhibit 7**).[44] Subscribers could choose between a $5.99-a-month offering with advertisements, a $11.99-a-month package without advertisements, and a $44.99-a-month service that included live television. The latter option allowed users to, in addition to streaming content, watch live and on-demand television programming from

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over 50 channels. Hulu generated $1.5 billion in advertising revenues annually, up 45% from the previous year.[45] However, the service was also expected to incur an operating loss of approximately $1.5 billion in 2019.[46]

Moving into Streaming in a Big Way with ESPN+ and Disney+

In 2016, Iger acquired a 75% stake in BAMTech, a technology platform developed by Major League Baseball's Advanced Media arm that powered many video streaming services, including those by HBO, CBS Sports, and the National Hockey League, for a total of $2.58 billion.[47] "In today's world, it's almost not enough to have all that [content] unless you have access to your consumer who—because of technology—is providing you with incredible data, [which in turn allows you] to provide the consumer with a more customized personalized experience and to basically monetize the whole thing better," he had earlier stated.[48]

Putting his new acquisition to immediate use, Iger enlisted the BAMTech team to help build and launch the subscription streaming service ESPN+ in April 2018. Offering users access to thousands of live sports events across MLB, NHL, MLS, tennis, cricket, boxing, college sports, and more, ESPN+ was available for $4.99 per month or $49.99 per year. The service was off to a flying start: ESPN+ hit one million subscribers five months after its launch, faster than any other streaming service.[49] By early 2019, it had two million paying subscribers and operating losses in the range of $650 million.[50]

Iger focused on launching a Disney-branded streaming service next. "I declared [direct-to-consumer] our number-one priority as a company," he said, adding: "That also led to some changes in our compensation approach. We're now at a point where the buy-in is complete, there is no resistance. There are no pockets of traditionalism here that are in any way getting in the way of what we need to do."[51] After declining to renew Disney's licensing deals with Netflix and making the deal to acquire additional intellectual property through the 21st Century Fox acquisition, he created the new 'Direct-To-Consumer and International' business unit.[52] Seeking to avoid what he described as "park[ing] the cost of innovation in a traditional business," Iger explained that, formally, the 'Studio Entertainment' unit would license content to the 'Direct-To-Consumer and International' business unit, making flows of money apparent for investors.[53]

Launching Disney+

During its Investor Day in April 2019, Iger and his team of senior executives disclosed important details about the Disney+ service. They shared that the plan was to launch the service in the U.S. on November 12, 2019, for $6.99 per month or $69.99 per year—substantially lower than Netflix's standard plan, which had recently increased in price from $10.99 to $12.99. On launch day, Disney planned to offer more than 25 new original episodic series and more than 10 new original films, documentaries, and specials, along with around 7,500 past television episodes and more than 500 films from the Disney library.[54]

"Disney+ marks a bold step forward in an exciting new era for our company—one in which consumers will have a direct connection to the incredible array of creative content that is The Walt Disney Company's hallmark," Iger pronounced. "We are confident that the combination of our unrivaled storytelling, beloved brands, iconic franchises, and cutting-edge technology will make Disney+ a standout in the marketplace and deliver significant value for consumers and shareholders alike."[55]

Iger and his team of senior executives revealed that they expected Disney+ to have anywhere between 60 million and 90 million subscribers by the fiscal year 2024, two thirds of whom would be based in markets outside the U.S. Committed to spending more than $1 billion on original content for the service in its first year of operation, they anticipated that number would increase to well over $2 billion annually by 2024. Original content amortization expenses were expected to be under $500 million in year one, and increase to $2 billion by 2024, while licensed content expenses were thought to

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increase from $1.5 billion to well over $2 billion in that same period. They expected to reach profitability in 2024.[56]

Meanwhile, Disney's goals also encompassed growing ESPN+'s subscriber base to anywhere between 8 million and 12 million subscribers by 2024 and reaching profitability by 2023, and growing Hulu's base to 40 million to 60 million paid subscribers by 2024 and reaching profitability either that year or the year before.[57]

Who Will Win?

Disney was not the only entertainment conglomerate venturing into the video-streaming space in a big way. NBCUniversal's Burke had announced that in 2020 his company would launch an advertising-supported streaming service that would be free to its pay-television subscribers and $12 per month for other users.[58] John Stankey, WarnerMedia's chief executive officer, oversaw an effort to launch a streaming service in late 2019 that would combine the company's CNN, DC Comics, HBO, Looney Tunes, The CW, and Turner brands.[59] It had hinted at pulling its evergreen hit show *Friends* from Netflix in favor of its own branded service.[60] And Warner Media's film and television studio Warner Bros. made several eye-popping talent deals itself, for instance bringing on board television producer Greg Berlanti (responsible for hit franchises such as *Dawson's Creek*, *Brothers & Sisters*, and *Everwood*) in a $300-million, six-year deal.[61]

Disney, however, was making what looked to be the most aggressive moves to challenge Netflix's market leadership in video streaming. Kids content, or more generally, family-friendly programming was shaping up to be one especially competitive arena. Long Disney's sweet spot, this genre also was popular on Netflix. An estimated 60% of Netflix users watched kids and family content.[62] Since hiring Melissa Cobb, known for being the producer of the animated movie *Kung Fu Panda*, as head of its kids and family content in September 2010, Netflix had entered into content deals with DreamWorks (to produce six animated originals) and the Roald Dahl Story Company (known for children's movie hits such as *Matilda* and *The BFG*), and had made a push to hire animators.[63]

Meanwhile, other technology giants were also ramping up investments. Amazon, which served 40 million subscribers with its Prime Video service in the U.S. alone (also see **Exhibit 7**), continued to invest heavily in original and other content. Apple was ramping up for the launch of its subscription video service, AppleTV+. Scheduled to debut in the fall of 2019, AppleTV+ was expected to feature a significant amount of original content—commissioned for an estimated $1 billion—that included new shows from top directors and actors such as J.J. Abrams, Jennifer Aniston, Octavia Spencer, Steven Spielberg, and Oprah Winfrey. Apple planned to offer AppleTV+ alongside content from partners such as Amazon Prime, HBO, Hulu, and Showtime via the Apple TV app.[64]

Did Netflix have the right approach to avert Disney's threat? Should Hastings be worried about losing his market dominance in video streaming in the first place? Did Iger have a compelling formula for success, or should he be worried about taking Disney into the wrong direction after having made so many right decisions during his tenure as chief executive officer? And was this a market in which multiple subscription services could co-exist and be profitable—or would there ultimately be only one winner?

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Exhibit 1a Disney: Key Financials 2016-2018 (in $ millions)

	2016	2017	2018
Revenues			
Studio Entertainment	9,441	8,379	9,987
Theatrical distribution	--	*2,903*	*4,303*
Home entertainment	--	*1,798*	*1,750*
TV/SVOD distribution and other	--	*3,678*	*3,934*
Media Networks	23,689	23,510	24,500
Affiliate fees	--	*12,659*	*13,279*
Advertising	--	*8,129*	*7,763*
TV/SVOD distribution and other	--	*2,722*	*3,458*
Parks and Resorts	16,974	18,415	20,296
Consumer Products & Interactive Media	5,528	4,833	4,651
Total Revenues	**55,632**	**55,137**	**59,434**
Operating Income			
Media Networks	7,755	6,902	6,625
Parks and Resorts	3,298	3,774	4,469
Studio Entertainment	2,703	2,355	2,980
Consumer Products & Interactive Media	1,965	1,744	1,632
Total Operating Income	**15,721**	**14,775**	**15,706**
Costs and Expenses			
Costs of services	24,653	25,320	27,528
Costs of products	5,340	4,986	5,198
Selling, general, administrative, and other	8,754	8,176	8,860
Depreciation and amortization	2,527	2,782	3,011
Total Costs and Expenses	**41,274**	**41,264**	**44,597**
Net Income	**9,790**	**9,366**	**13,066**
Net Income attributable to Disney	**9,391**	**8,980**	**12,598**

Source: Disney Annual Report (2018), Form 10-K.

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Exhibit 1b Netflix: Key Financials 2016-2018 (in $ millions)

	2016	2017	2018
Revenues	**8,831**	**11,693**	**15,794**
Operating Income	**380**	**839**	**1,605**
Net Income	**187**	**559**	**1,211**
Domestic Streaming			
Revenues	5,077	6,153	7,647
Cost of revenues	2,952	3,471	4,038
Marketing	413	604	1,025
Contribution profit	1,712	2,078	2,583
International Streaming			
Revenues	3,211	5,089	7,782
Cost of revenues	3,043	4,360	5,776
Marketing	685	833	1,344
Contribution profit	-516	-103	662

Source: Netflix Annual Report (2018), Form 10-K.

Exhibit 1c Netflix: Key Results of Operations 2016-2018

	2016	2017	2018
Global streaming paid members at end of period	**89.1 million**	**110.6 million**	**139.3 million**
Domestic	47.9 million	52.8 million	58.5 million
International	41.2 million	57.8 million	80.8 million
Global streaming paid net membership additions	**18.3 million**	**21.6 million**	**28.6 million**
Domestic	4,5 million	4,9 million	5,7 million
International	13.7 million	16.6 million	22.9 million
Average monthly revenues per paying membership	**$8.61**	**$9.43**	**$10.31**
Domestic	$9.21	$10.18	$11.40
International	$7.81	$8.66	$9.43
Global streaming free trials at end of period	**4.7 million**	**6.9 million**	**9.2 million**
Domestic	1.5 million	1.9 million	2.1 million
International	3.2 million	5.0 million	7.1 million

Source: Netflix Annual Report (2018), Form 10-K.

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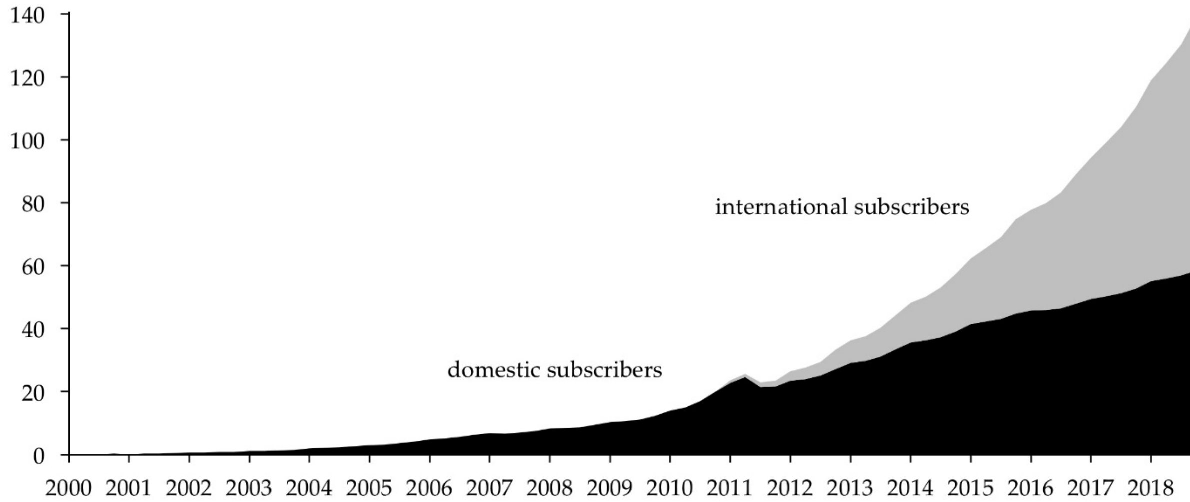
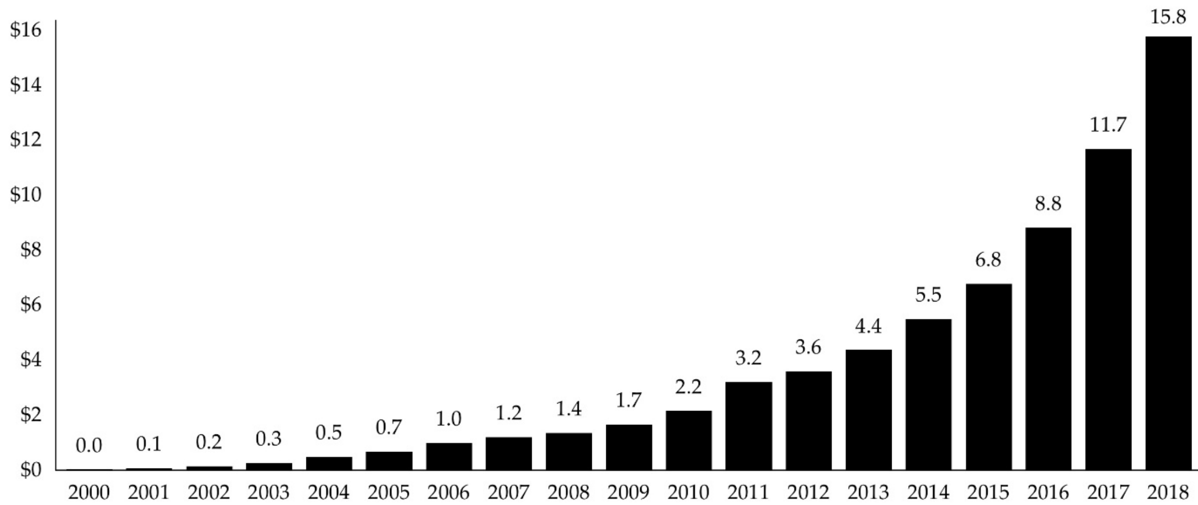
Exhibit 2a Netflix's Subscribers (in millions)



Source: Netflix Annual Reports from 2002 to 2018.

Exhibit 2b Netflix's Revenues (in billions)



Source: Netflix Annual Reports from 2002 to 2018.

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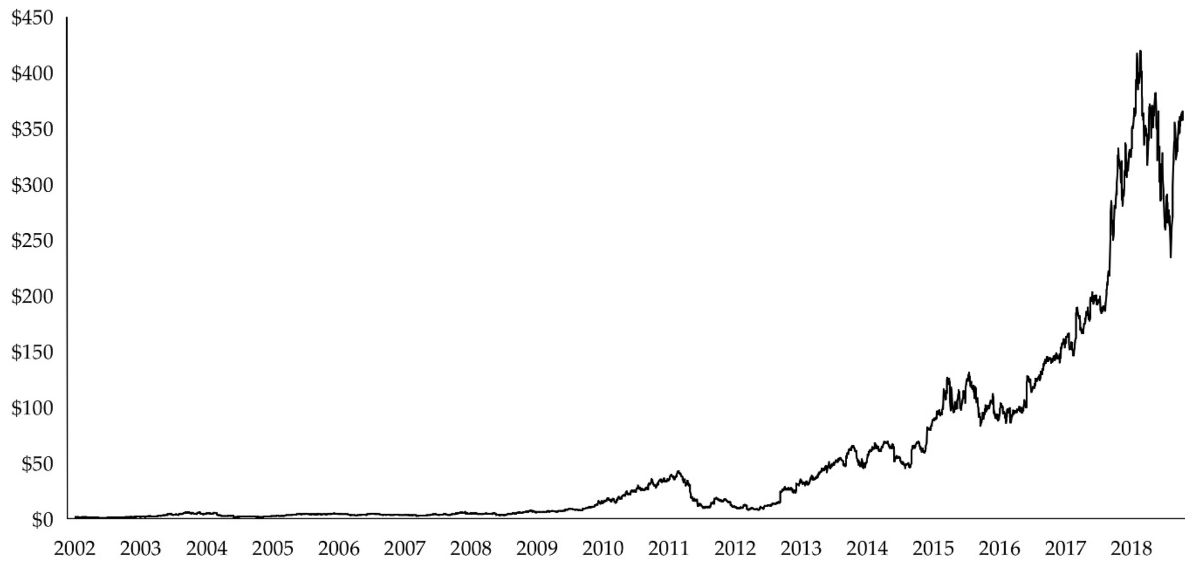
Exhibit 2c Netflix's Stock Price (May 23, 2002 – March 1, 2019, adjusted for stock splits)



Source: New York Stock Exchange.

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Exhibit 3 Netflix: Early Film and Television Rights Deals (as of March 2019)

Partner	Length	Description of Deal	Examples of Content
Starz	2008-2012	Rights to 2,500 movies 90 days after their debut on Starz; included content from Starz's original series, Disney, and Sony Pictures; reportedly cost $30 million per year.	*Pirates of the Caribbean: World's End, No Country for Old Men*, *Up, The Social Network, Spider Man 3, Alice in Wonderland*
NBCUniversal	2010-2014	Rights to 200 movies for 6-18 months until replaced by another title; reportedly started as a $25 million per year deal in 2010 and renewed for $300 million per year in 2011.	*30 Rock, The Office, Saturday Night Live, Battlestar Galactica, Monk, Friday Night Lights, Law & Order: SVU*
Epix	2010-2015	Rights to 1,000 new releases and library titles from Paramount, Lionsgate, and Metro-Goldwyn-Mayer 90 days after premiering on Epix; reportedly cost $200 million per year.	*Hunger Games, Transformers: Age of Extinction, World War Z, Rocky, Wolf of Wall Street, Precious, Iron Man, Indiana Jones*
Relativity Media	2010-2018	Rights to films during pay TV window, a few months after release on DVD; reportedly cost between $20 and $32 million per year.	*The Fighter, Skyline, Season of the Witch, Catfish*
CBS	2011-2013	Rights to older content no longer airing on CBS; initially a two-year deal reportedly worth $100 million per year.	*Star Trek, The Twilight Zone, Family Ties, Twin Peaks, Cheers, Frasier*
FOX	2011-2017	Rights to past seasons of current shows airing on FOX and programs no longer airing on FOX.	*Lie to Me, Bones, King of the Hill, That 70's Show, Prison Break, 24, Arrested Development*
WarnerMedia	2011-2019	Rights to older content from TNT, Cartoon Network, Warner Bros. Animation, and Adult Swim; Netflix reportedly paid $20 million per year for *Nip/Tuck* and up to $80-90 million per year for *Friends.*	*Dallas, Nip/Tuck, Risky Business, National Lampoon's Christmas Vacation, Veronica Mars, Pushing Daisies, Terminator: The Sarah Connor Chronicles, Friends*
AMC	2011-2019	Rights to content from AMC, IFC, Sundance Channel, and WE tv; select programming made available just before the following season premiered; each episode of *Mad Men* reportedly cost $1 million.	*Mad Men, Breaking Bad, The Walking Dead, Portlandia, The Increasingly Poor Decisions of Todd Margaret, Braxton Family Values, My Fair Wedding.*
Disney	2011-2019	Rights to television shows from Disney Channel and ABC and feature films from Walt Disney Animation Studios, Pixar Animation Studios, Marvel Studios, and Disneynature; television episodes from past seasons made available immediately, and current season episodes aired 30 days after original broadcast date; classic films made available immediately and feature films in 2016; reportedly cost $150-$300 million per year.	*Alice in Wonderland, Pocahontas, Hercules, Mulan, Dumbo, Star Wars* series, *The Avengers* series, *Guardians of the Galaxy, Black Panther, Lost, Scrubs, Hannah Montana, Desperate Housewives, Wizards of Waverly Place, High School Musical*
Weinstein Co.	2012-2018	Rights to select RADiUS-TWC films; in 2016 extended exclusive rights to every movie produced by TWC and Dimension.	*The Artist, The Bachelorette, Drive, Peaky Blinders, Butter, Only God Forgives, The Details*

Source: Compiled from various sources.[65]

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Exhibit 4 Netflix: Original Content (as of March 18, 2019)

Show[a]	Premier Date	Genre	Seasons
Stranger Things	July 15, 2016	Science fiction horror	2 seasons, 17 episodes
House of Cards	February 1, 2013	Political drama	6 seasons, 73 episodes
Narcos	August 28, 2015	Crime drama	3 seasons, 30 episodes
Orange is the New Black	July 11, 2013	Dramatic comedy	6 seasons, 78 episodes
13 Reasons Why	March 31, 2017	Teen drama	2 seasons, 2 episodes
Sense8	June 5, 2015	Science fiction	2 seasons, 24 episodes
MindHunter	October 13, 2017	Crime drama	1 season, 10 episodes
The Haunting	October 12, 2018	Horror	1 season, 10 episodes
Ozark	July 21, 2017	Crime drama	1 season, 10 episodes
Altered Carbon	February 2, 2018	Science fiction	1 season, 10 episodes
Dark	December 1, 2017	Science fiction	1 season, 10 episodes
The Crown	November 2016	Historical drama	2 seasons, 20 episodes
Making a Murder	December 18, 2015	Crime docu-series	2 parts, 20 episodes
BoJack Horseman	August 22, 2014	Black comedy	5 seasons, 61 episodes
The OA	December 16, 2016	Mystery	1 part, 8 episodes
Master of None	November 6, 2015	Comedy	2 seasons, 20 episodes
Marco Polo	December 12, 2014	Historical drama	2 seasons, 20 episodes
Unbreakable Kimmy Schmidt	March 6, 2015	Comedy	4 seasons, 51 episodes
Sacred Games	July 6, 2018	Drama	1 season, 8 episodes
Lost in Space	April 13, 2018	Science fiction	1 season, 10 episodes

Source: Netflix Media Center and IMDB.com.

[a] Includes the top twenty Netflix shows as of March 18, 2019, according to their IMDB.com rating (which was based on the number of votes by registered users on IMDB.com).[66]

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Exhibit 5 Netflix: Talent Deals

Showrunner	Announced	Details[a]	Previous Work
Shonda Rhimes	Aug. 2017	Four-year exclusive deal for Rhimes, producing partner Betsy Beers, and Shondaland production company to create 8 shows; reportedly cost $150 million	(ABC) *Grey's Anatomy, Scandal, How to Get Away with Murder*
Jenji Kohan	Nov. 2017	Multi-year exclusive deal for creation of new series and projects	(Netflix) *Orange is the New Black, Glow*
Shawn Levy	Dec. 2017	Four-year exclusive deal for Levy and his production co., 21 Laps, to produce new series	(Netflix) *Stranger Things*
Ryan Murphy	July 2018	Five-year exclusive deal for creation of new shows and projects; reportedly cost $300 million	(21st Century Fox) *Nip/Tuck, Glee, American Horror Story*
Kenya Barris	Aug. 2018	Three-year exclusive deal for creation of original content, with an option to extend for two years; reportedly cost $100 million	(ABC) *Black-ish, America's Next Top Model*
Harlan Coben	Aug. 2018	Five-year exclusive deal to develop 14 existing titles and future projects, including his upcoming novel *Run Away*	(Netflix) *SAFE*

Source: Compiled from various sources.[67]

[a] Monetary values of the deals are industry analysts' estimates.

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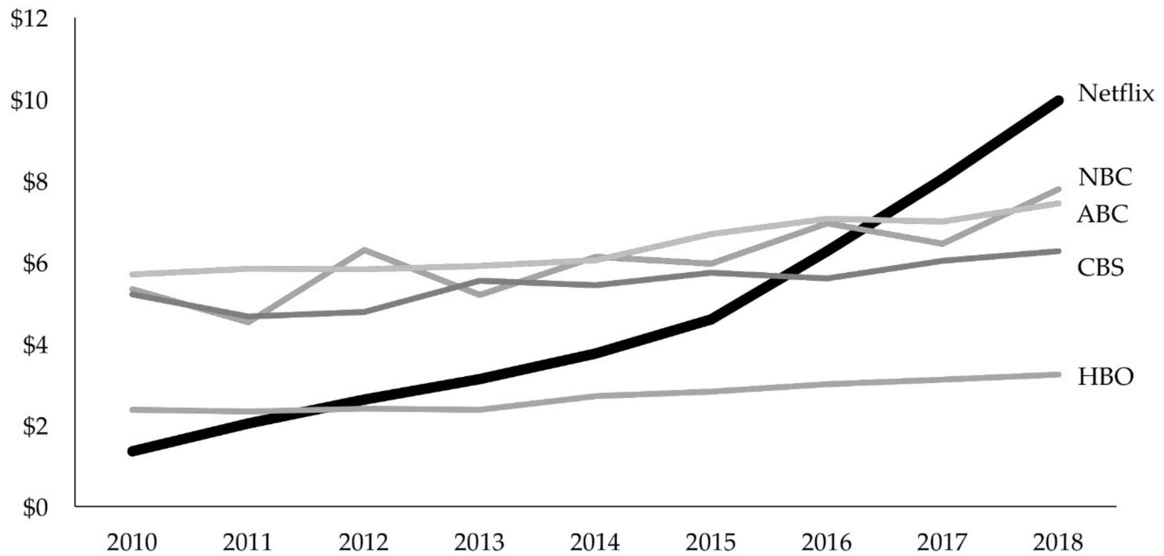
Exhibit 6 Netflix vs. Traditional Networks: Programming and Production Expenses (in billions)



Source: Compiled from companies' annual reports, and casewriters' estimates.

Exhibit 7 Online Video Services: U.S. Subscribers (as of December 2018)

Service	U.S. Subscribers	% Change Year-Over-Year
Netflix	58 million	18%
Amazon Prime Video	40 million	30%
YouTube Red	1.5 million	--
Hulu	25 million	47%
CBS and Showtime streaming service	8 million	60%
HBO Now	5 million+	--
MLB.TV	5 million+	--
Starz streaming service	3 million	50%
ESPN+	2 million	--
WWE	1.5 million	--

Source: Compiled from companies' annual reports and estimated from various additional sources.[68]

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