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IB PERSPECTIVE

TMT

February 4, 2026

NETFLIX'S \$82.7 BILLION ACQUISITION OF WARNER BROS. DISCOVERY

Hollywood's most transformative deal in a generation

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Arjun Rabidas

TMT Desk

\$82.7bn	\$27.75	Pending	Q3 2026	\$5.8bn
DEAL VALUE	PRICE PER SHARE	REGULATORY STATUS	EXPECTED CLOSE	BREAKUP FEE

Deal Overview

Acquirer: Netflix, Inc. (NASDAQ: NFLX)

Target: Warner Bros. Discovery, Inc. (NASDAQ: WBD) – Studio and Streaming Assets Only

Transaction Value: \$82.7 billion (including debt assumption); \$72 billion equity value

Price Per Share: \$27.75

Announcement Date: December 2025

Deal Status: Pending regulatory approval

Expected Closing: Q3 2026 or later (contingent on WBD Networks spinoff and regulatory clearance)

Breakup Fees: Netflix and WBD pay \$5.8 billion and \$2.8 billion respectively if either walk away

Acquirer Advisors: Moellis & Company, Wells Fargo, BNP Paribas, HSBC (Financial); Skadden, Arps, Slate, Meagher & Flom LLP (Legal)

Target Advisors: JPMorgan Chase, Allen & Company, Evercore (Financial); Wachtell Lipton, Rosen & Katz, Debevoise & Plimpton LLP (Legal)

Competing Bid: Paramount Skydance (\$30/share, \$108.4 billion for entire company including networks)

Executive Summary

Netflix has agreed to acquire the studio and streaming assets of Warner Bros. Discovery for \$82.7 billion in what would become the largest entertainment industry acquisition in history. The deal represents a fundamental strategic reversal for Netflix – a company that once famously declared itself 'better builders than buyers', avoided theatrical releases, and resisted live sports is now purchasing one of Hollywood's most storied studios, complete with a century of film archives and HBO's prestigious content library.

The transaction addresses Netflix's critical weakness – content ownership. While Netflix pioneered streaming, it has spent the past decade licensing content at escalating prices or producing originals at astronomical cost without accumulating

enduring intellectual property. Warner Bros. Discovery provides the intellectual property (IP) factory Netflix never built – that of the DC Universe, Harry Potter, Game of Thrones, Friends, plus the Warner Bros. theatrical apparatus and HBO's reputation for quality. For a company that has never won a Best Picture Oscar under its own brand, acquiring Warner Bros. offers instant credibility and a proven awards infrastructure.

For Warner Bros. Discovery, the deal solves an existential debt crisis. Formed just three years ago through the merger of WarnerMedia and Discovery, the company has struggled under crushing debt levels while attempting to compete in streaming against far larger rivals. CEO David Zaslav is engineering a complex transaction, spinning off the company's legacy cable networks (CNN, TNT Sports, HGTV, Food Network) into a separate public entity called 'Discovery Global', then selling the valuable studio and streaming assets to Netflix at a significant premium to WBD's depressed stock price.

Company Profiles

Netflix (Acquirer)

Founded: 1997 (initially a DVD rental service). Co-CEOs: Ted Sarandos, Greg Peters. Subscribers: 325 million paid subscribers globally (Q4 2025). Market Share: 9% of U.S. TV viewership; ~7% of addressable global market (Netflix's calculation). Recent Revenue: ~\$48 billion annually; ~\$12 billion quarterly. Net Income: \$2.4 billion (most recent quarter). Recent Performance: 18% year-over-year revenue growth (Q4 2025). Stock Performance: Down 15% since deal announcement – a 52-week low. Business Model Evolution: DVD rental → streaming → original content → now pursuing studio ownership, theatrical distribution, live sports, advertising.

Netflix revolutionized entertainment consumption but now faces a maturation

challenge. After explosive subscriber growth during COVID-19, the company has plateaued in key markets. Its response has included a password-sharing crackdown, introduction of advertising tiers and pursuit of live sports and events which are all reversals of previous positions. The company spent years dismissing theatrical releases, with Co-CEO Ted Sarandos once saying, 'We're about giving people what they want, when they want it'. Now however, Sarandos tells The New York Times: 'I want to win the opening weekend. I want to win the box office'.

This philosophical shift reflects brutal economics. Netflix's content spending exceeds \$17 billion annually, yet it owns relatively little enduring IP compared to Disney, Universal, or Warner Bros. Acquisitions of rights to films like *The Irishman* and Netflix originals like *Don't Look Up* generate short-term subscriber interest but lack the franchise potential of Marvel, DC, or Harry Potter. Netflix has never won a Best Picture Oscar with the company's self-analysis suggesting this was partly due to Hollywood's resistance to a streaming-first model and limited theatrical releases.

Warner Bros. Discovery (Target)

Formed: 2022 (merger of WarnerMedia and Discovery Inc.). CEO: David Zaslav. Assets Included in Deal: Warner Bros. Pictures, Warner Bros. Television Group, HBO, HBO Max streaming service, DC Studios, DC Entertainment. Assets Excluded from Deal: Global Linear Networks division (CNN, TNT Sports, HGTV, Food Network, etc.) being spun off as 'Discovery Global'. Current Subscribers: 128 million globally (HBO Max, Discovery+). Spinoff Timeline: 6-9 months (expected Q3 2026). Debt Burden: Substantial (deal structure includes significant debt assumption by Netflix). Key Intellectual Property: DC Universe, Harry Potter franchise, *Game of Thrones*, *Friends*, *The Sopranos*, *Succession*, *The Wire*, Looney Tunes, extensive Warner Bros. film library.

Warner Bros. Discovery represents one of the most troubled major media companies in America. The 2022 merger of WarnerMedia and Discovery Inc. was meant to create a streaming powerhouse to rival Netflix and Disney+. Instead, it created a debt-laden conglomerate struggling to compete against far larger, better-

capitalised rivals. AT&T's previous ownership had saddled the assets with debt, and the Discovery merger added complexity without solving fundamental problems.

The Netflix offer provides an elegant exit from an untenable position. By spinning off the declining linear networks (cable TV) and selling the valuable studio and streaming assets, Zaslav delivers a substantial premium to shareholders while preserving what's left of Discovery's core business. It's clear that Warner Bros. Discovery could not win the streaming wars independently, not against Disney's integrated model, Amazon's deep pockets, or Apple's balance sheet.

Strategic Rationale

Why Netflix Is Doing This Deal

This acquisition addresses four fundamental strategic imperatives for Netflix, each representing a critical gap in its business model that organic growth could not solve on an acceptable timeline.

Firstly, its content ownership versus licensing costs. Netflix built its streaming empire by licensing content from studios, then producing originals when licensing became prohibitively expensive. But original content production is brutally expensive; Netflix reportedly spent \$17+ billion on content in 2024 alone. Warner Bros. Discovery provides perpetual ownership of premium IP without annual content spend escalation. It has assets that generate value indefinitely through theatrical releases, streaming, merchandising, theme parks and licensing.

Secondly, its theatrical distribution and prestige. Netflix's streaming-first model has limited its ability to compete for top filmmaking talent and major awards. Directors like Steven Spielberg, Christopher Nolan, and Denis Villeneuve have avoided Netflix due to its limited theatrical commitments. Warner Bros. provides a legitimate

theatrical distribution apparatus with established relationships throughout Hollywood. Ted Sarandos has committed to maintaining Warner Bros.' 45-day theatrical window, though he has hinted at 'shortened release windows' over time. This allows Netflix to pursue both theatrical success and streaming exclusivity, potentially moving auteur films under the Warner Bros. label to finally win that elusive Best Picture Oscar.

Thirdly, its competitive positioning against Disney and Amazon. The streaming landscape has consolidated into a handful of vertically integrated giants. Disney owns Marvel, Lucasfilm, Pixar, and 20th Century Studios. Amazon acquired MGM. Netflix, despite pioneering streaming, owns comparatively little enduring IP. This acquisition puts Netflix on more equal footing, providing franchises, theatrical capabilities, and a prestige television brand (HBO) that commands premium pricing.

Finally, its global scale and efficiency. The streaming industry is entering a phase where scale determines survival. Content costs are rising, password-sharing crackdowns have limits and ad-supported tiers face fierce competition. Warner Bros. Discovery's international presence and established content pipelines provide immediate scale advantages. The combined entity would have over 450 million global subscribers and content that appeals across a wide range of demographics and geographies.

Why Warner Bros. Discovery Is Selling Now

The decision to sell represents a realistic assessment of Warner Bros. Discovery's competitive position and limited paths forward. Three factors drove this decision.

Firstly, its unsustainable debt burden and competitive disadvantage. The company's debt load made it impossible to invest in streaming at the scale required to compete with Netflix, Disney, Amazon, or Apple. While competitors spent billions expanding their content libraries and technological capabilities, Warner Bros. Discovery was forced into cost-cutting and content removals that damaged its brand. The debt also limited strategic flexibility – every decision was constrained by

balance sheet considerations.

Secondly, market realities and industry consolidation. Traditional media business models are in secular decline. Linear television viewership continues dropping, advertising dollars are shifting to digital platforms, and consumers expect streaming services to bundle multiple content types at competitive prices. Warner Bros. Discovery could not achieve the scale necessary to compete independently. Selling to Netflix, while painful for employees and Hollywood traditionalists, represents the best available outcome for shareholders facing an increasingly difficult industry landscape.

Thirdly, the timing and regulatory window. The transaction arrives during a perceived shift in regulatory climate following from the arrival of the Trump administration. Furthermore, David Zaslav and the WBD board have recognised this window might not remain open indefinitely with the regulatory approval of the deal, even under these more favourable conditions, being a notable risk given its scale and market concentration implications.

Valuation Analysis

At \$82.7 billion, this deal represents one of the largest entertainment acquisitions in history.

The \$27.75 per share offer represents a significant premium to the price WBD's stock was trading at prior to deal rumours, having been depressed by debt concerns and competitive pressures. More importantly, it's substantially above where the company would likely trade independently given industry headwinds. For WBD shareholders, this premium represents the best available exit.

Regarding strategic value versus financial return, the appropriate question is not

whether \$82.7 billion generates a traditional financial return, but whether Netflix can afford not to do the deal. At ~9% of U.S. TV viewership and facing integrated competitors with superior IP portfolios, Netflix's strong competitive positioning has been eroding. The alternative of building comparable IP and theatrical capabilities would take decades and end up costing a similar amount to the price Warner Bros. Discovery is being offered with no guarantee of success.

Netflix is approaching this acquisition from a position of financial strength. Although the all-cash structure represents a significant commitment, the company generates substantial free cash flow and has relatively modest debt burden compared to its peers. The shift in the composition of Netflix's offering from the original cash-plus-stock to an all-cash structure (announced January 20, 2026) signals confidence in the deal's strategic value and willingness to use balance sheet capacity. Netflix paused share buybacks to accumulate cash which is a clear indication management views this as a crucial opportunity worth significant capital deployment.

Recent media M&A also provides some useful context. Disney acquired 21st Century Fox's assets for \$71.3 billion in 2019. Amazon paid \$8.5 billion for MGM in 2022. Both deals were criticised as expensive but have proven strategically valuable. Warner Bros. Discovery's assets arguably represent more strategic value to Netflix than Fox provided to Disney or MGM to Amazon.

Risks and Considerations

The transaction still faces substantial execution, regulatory, and strategic risks that could undermine its value creation potential.

Regulatory approval represents the most immediate risk. The combined entity would control approximately 33% of U.S. streaming activity, pushing well above the 30% market share threshold that DOJ and FTC guidelines consider 'presumptively

illegal'. The critical question is how regulators define the relevant market. If they adopt a broad definition including Amazon Prime Video, Disney+, YouTube, TikTok, Instagram, and other video platforms (Netflix's preferred framing), the combined market share drops substantially and approval becomes more likely. However, if they use a narrow definition focused solely on subscription streaming services, the deal faces serious jeopardy.

Political opposition has emerged from both parties. Senators Elizabeth Warren, Bernie Sanders, and Richard Blumenthal wrote to the DOJ warning of 'serious consequences' from the merger. Representative Darrell Issa cautioned that consolidation would 'diminish incentives to produce new content'. President Trump stated the deal 'could be a problem' and must 'go through a process'. This bipartisan scepticism has placed immense political pressure on regulators to scrutinise this deal incredibly carefully.

Furthermore, the competing Paramount Skydance bid has created added complexity. Paramount's \$30 per share offer (\$108.4 billion total) has been rejected twice by WBD's board as 'inadequate' and 'inferior,' but Paramount has launched a proxy fight and sued them for information. Paramount argues its offer is superior because it the entirety of Warner Bros. Discovery, hence providing greater total value to WBD shareholders. This competing narrative gives regulators additional ammunition if they seek to block the Netflix deal because it reinforces the argument that WBD has a viable alternative transaction that preserves competition and maximises shareholder value without further consolidating market power in streaming. Regulators can point to Paramount's bid to argue that approval of a Netflix acquisition is not necessary to prevent harm to WBD or its shareholders, weakening any "failing firm" or efficiency-based defence and making it easier to justify intervention on antitrust grounds.

Our View

This acquisition represents a strategic inflection point for both Netflix and

the broader entertainment industry. The deal is fundamentally sound in its logic – Netflix needs to enhance its stock of intellectual property and improve its credibility as a provider of quality media, while Warner Bros. Discovery needs a path out of an unsustainable competitive position. But the execution risks are substantial, and the regulatory pathway uncertain.

If approved and successfully integrated, this acquisition would create a stranglehold on media markets worldwide. A combined Netflix-Warner Bros. entity would control over 450 million global subscribers, the world's largest streaming content library, premium theatrical distribution capabilities, the DC Universe, Harry Potter, HBO originals, and a century of Warner Bros. films. This consolidation of power raises legitimate concerns about market concentration, content diversity and consumer choice. While Netflix and Ted Sarandos frame the deal as 'pro-consumer' and 'pro-innovation', the competitive dynamics suggest otherwise. Fewer independent players typically mean higher prices, less content diversity, and reduced creative risk-taking.

The deal's success ultimately depends on execution. Netflix must preserve Warner Bros.' creative culture while extracting integration synergies. It must maintain theatrical relationships while expanding streaming distribution. It must justify the \$82.7 billion price tag through subscriber growth, pricing power, and content efficiency gains. This is an extraordinarily difficult balancing act that will test both Netflix's integration capabilities and its commitment to the Hollywood system it once sought to disrupt.

For the broader industry, this transaction will likely trigger further consolidation. If Netflix-Warner Bros. is approved, Disney may pursue Sony Pictures or Paramount remnants; Amazon could seek additional assets. Moreover, independent studios will face even greater pressure to sell or consolidate. The 'peak TV' era is ending. What emerges will be dominated by a handful of vertically integrated giants controlling production, distribution, and increasingly, the entire value chain from content creation to consumer delivery.

Netflix's acquisition of Warner Bros. Discovery may well be remembered as the deal that redefined entertainment for the 21st century, for better or for worse.

Editor: Jonathan Smith

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