

WGA CONTRACT 2023

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INVESTOR ALERT: U.S. MEDIA & ENTERTAINMENT

Labor Dispute Could Disrupt Television and Film Operations

The Writers Guild of America (WGA), which represents over 11,500 writers of film, television, and streaming media, is in active negotiations with the Alliance of Motion Picture and Television Producers (AMPTP), the organization representing the entertainment industry's biggest employers. The current contract governing all WGA-covered work expires on May 1, 2023; to date, a new agreement has not been reached. With a historic level of participation, 97.85% of the WGA membership has voted to authorize a strike if the AMPTP does not offer an acceptable deal by May 1.

TELEVISION PRODUCTION AT RISK

WGA members are the driving force behind film and television; they are responsible for creating, writing, and producing more than 4,000 episodes of scripted programming each year. They create the original scripted programming that anchors network television, basic cable, and premium TV networks, as well as streaming services, including Netflix, Amazon, and Hulu. Production of this content has filled soundstages in recent years: 2022 saw major soundstage expansions as demand overwhelmed Los Angeles' current capacity.¹ In the event the WGA and AMPTP are unable to agree on a new contract by May 1, a work stoppage will begin the next day and writing for television, feature films, and streaming series will cease.

Immediately, new episodes of late-night shows including *Jimmy Kimmel Live!*, *The Tonight Show Starring Jimmy Fallon*, *Real Time with Bill Maher*, *Late Night with Seth Meyers*, *Saturday Night Live*, *Last Week Tonight with John Oliver*, and others would cease. Many of these shows' newest episodes are also available on streaming services the day after airing; Hulu, Peacock, and HBO Max would also lose access to this source of new programming.

Critically, a work stoppage in May could delay the network television season, which continues to account for one third of all episodes produced, including 45% of the episodes produced by legacy media companies Disney, Paramount Global, and Comcast NBCUniversal. Writers on fall network series typically begin work in May and June in preparation for series premieres in September and October. Writing for numerous streaming series is also ongoing or is anticipated to begin in the coming months. Any delay in the start of work has the potential to postpone fall season premieres and could ultimately reduce the amount of new programming produced for the 2023-2024 network season. This will have a knock-on effect for the streaming services of

¹ Roger Vincent, "Expansion Set for Old Hollywood Studio Amid Surging Demand for L.A. Soundstages," Los Angeles Times, Sept. 29, 2022, <https://www.latimes.com/california/story/2022-09-29/expansion-set-for-old-hollywood-studio-to-meet-demand-for-soundstages>.

the legacy media companies, which rely on new broadcast episodes to populate their services. The table below provides a summary of episodic television and streaming production by the largest producers.

WGA-Covered Drama and Comedy Episodes, 2021-22	
Producer	Episodes
Disney	890
Paramount	860
Warner	630
NBCU	530
Netflix	330
Lions Gate	160
Sony	140
Amazon	120
AMC	70
Fox	60
All Other Producers	660
TOTAL	4,450

STRIKE IMPACT: LOST SUBSCRIBERS, REVENUE, AND PROFIT

The last WGA strike began in November 2007 and lasted for 100 days. The work stoppage resulted in the loss of almost 25% of primetime scripted programming for the 2007-2008 network season. During the strike, broadcast networks quickly ran out of new episodes to air and were forced to air reruns and increased amounts of reality programming, which has significantly less downstream value than scripted series. The loss of original programming had a significant impact on ratings; the major broadcast networks' ratings declined, on average, by double digits compared to the same period in the previous year.² These strike-impacted ratings forced NBC, for instance, to return money to advertisers.³

Should a strike occur in 2023, delay or loss of original primetime programming could similarly affect ratings. Streaming services owned by the legacy media companies, including Hulu, Peacock, and Paramount+, would also lose this programming as their content lineups prominently feature in-season network television content like *Abbott Elementary*, *Chicago Med*, and *NCIS* that is made available the day after network airing. Hulu, for instance, gets twice as many new episodes from ABC and Fox in-season broadcast content as it does from its entire lineup of scripted originals. With the networks' and streamers' advertising Upfronts scheduled for May, a work stoppage could delay sales or place pressure on advertising rates and price increases. A decrease in the number of episodes produced would also jeopardize expected revenues from licensing linear programming to international networks and third-party streaming services, which can amount to millions of dollars per episode.

² Benjamin Swinburne et al., "*Entertainment; Quick Comment: Writer's Strike Continues to Benefit Cable in March Ratings*," Morgan Stanley Research, Apr. 1, 2008.

³ Stephanie Kang & Rebecca Dana, "*NBC Gives Money Back to Advertisers*," The Wall Street Journal, Dec. 12, 2007, <https://www.wsj.com/articles/SB119742320500222409>.

Moreover, a work stoppage would introduce significant uncertainty and disruption for streaming services generally as legacy media companies compete with Netflix, Amazon, and Apple in the streaming video market. Linear television revenues have matured, with streaming now the primary source of revenue growth for the media industry. Disney and Warner Bros. Discovery have told investors that they anticipate their streaming services will reach profitability by 2024⁴ and 2025⁵ respectively, driven by increasing engagement, growing subscriber revenue, and holding down churn. All of these factors are dependent on content WGA writers create, and could be jeopardized by a work stoppage.

As Wall Street analyst firm MoffettNathanson has written, “Streaming is a content-hungry business,”⁶ requiring a continuous influx of new original content to be successful. The major participants in streaming are projected to spend \$19 billion on original content for their services in 2023 in an effort to attract and retain subscribers.⁷ An interruption to the necessary flow of high-quality original scripted films and series would likely jeopardize critical subscriber growth and increase churn. According to recent data from analytics firm Kantar, specific content drove 33% of new U.S. sign ups to streaming services in the third quarter of 2022—up to a high of 46% at Paramount+.⁸ Moreover, a recent NPR/Ipsos poll of streaming subscribers in the U.S. found that 87% of surveyed users cited specific content as an important factor in their decision to subscribe to a service, and 83% cited a change in content offerings as an important factor in their decision to cancel one.⁹

An increase in cancellations—or decrease in subscriber growth—has the potential to significantly impact company stock prices, as Netflix experienced after reporting its first net subscriber loss in over a decade and slower-than-expected revenue growth in April 2022. Numerous Wall Street analysts quickly downgraded the company’s stock or reduced the target price, including Bank of America, Wells Fargo, JP Morgan, and MoffettNathanson. Netflix’s stock experienced an unprecedented drop, beginning with a 35% single-day drop that erased \$50 billion in market value; several shareholders filed a lawsuit against the company in the aftermath.¹⁰

COST OF SETTLEMENT IS REASONABLE

The entertainment segments of the industry’s major companies—Netflix, Paramount Global, Warner Bros. Discovery, Fox, Disney, and Comcast NBCUniversal—posted an average \$29

⁴ The Walt Disney Company, “Q1 FY23 Earnings Conference Call,” Feb. 8, 2023, <https://thewaltdisneycompany.com/app/uploads/2023/01/q1-fy23-earnings-transcript.pdf>.

⁵ Warner Bros. Discovery, “4th Quarter 2022 Earnings Presentation,” Feb. 23, 2023, https://s201.q4cdn.com/336605034/files/doc_financials/2022/q4/WBD-4Q22-Earnings-Presentation-Final-02.23.23.pdf.

⁶ MoffettNathanson, “U.S. Media: Content Spend Post-Streaming Wars,” Mar. 21, 2023.

⁷ S&P Global Market Intelligence.

⁸ Nicole Sangari, “Percentage of US Streaming Households Drops While Cable TV Declines Slow,” Kantar, Oct. 20, 2022, <https://www.kantar.com/north-america/inspiration/technology/percentage-of-us-streaming-households-drops-in-q3-while-cable-tv-declines-slowed>.

⁹ Eric Deggans, “What Do Users Want From Their TV Streaming? A New NPR/Ipsos Poll Has Some Answers,” NPR, Oct. 28, 2022, <https://www.npr.org/2022/10/28/1130669763/what-do-users-want-from-their-tv-streaming-a-new-npr-ipsos-poll-has-some-answers>.

¹⁰ Winston Cho, “Netflix Hit With Shareholder Lawsuit After Disclosing Subscriber Loss,” The Hollywood Reporter, May 4, 2022, <https://www.hollywoodreporter.com/business/business-news/netflix-hit-with-shareholder-lawsuit-after-disclosing-subscriber-loss-1235140743/>.

billion in annual operating income between 2017 and 2021. Legacy media companies' profits in 2022 were lower, but the companies expect improvement in the near term as they build towards increased profitability in streaming.

While both the historic and future growth of the industry rests on the value of content, the writers who create that content have been increasingly underpaid and undervalued. Writer pay is stagnant or down despite historic industry growth. Median weekly pay for television writer-producers is down 4% in the last decade and median screenwriter pay has been flat since 2018—or declines of 23% and 14% respectively, when accounting for inflation. Showrunners, the highest-level writers who oversee the day-to-day writing and production of series, have seen substantial declines in pay; 24% of showrunners are now paid the same union scale as new writer-producers. These conditions leave many working writers unable to make a living, leading to a crisis level of concern among WGA membership that the survival of writing as a profession is now at stake.

The WGA's contract demands seek to address these problems by negotiating protections that directly address the various ways companies have cut pay, pushed more work onto fewer writers, and demanded more work for free. The WGA's proposals include increases in compensation in film and television, requirements that TV series be adequately staffed by writers, and increases in residuals for streaming content. Currently, writing comprises an extremely small share of company spending on content; writing budgets are often less than 5% of series' budgets per episode and have stagnated as overall series budgets have increased. In negotiations thus far, however, the media companies have yet to adequately address writer concerns. As a result, the WGA membership is preparing to strike if a deal is not reached when the contract expires on May 1.

Potential losses from a strike far exceed the cost of settlement. While prepared to strike if necessary, the WGA is ready to reach a fair agreement with the AMPTP that avoids any disruption for media companies and their investors.

If you would like any further information, please contact the WGAW's Director of Research, Laura Blum-Smith at (323) 782-4688 or lblum-smith@wga.org.

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