

Netflix Q4 2024

More subs, more price rises

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Very strong subscription additions in all regions (+16% YoY, to 302 million) drove Netflix's quarterly revenue over \$10 billion for the first time (+16% YoY). The advertising push appears to be continuing to dampen ARPU growth, ushering in more price rises

Q4 will be the last quarter where Netflix reports subscriber numbers—notwithstanding the celebration of "milestones" which may be a couple of years away given that the worldwide total has only just crossed 300 million, with an addition of a record 18.9 million. Now the narrative emphasis moves to revenue, profit (net income was \$8.7 billion in 2024) and engagement, which Netflix reveals through very rough averages per user¹ and total engagement per programme title aggregated every six months (numbers that do not include co-viewing).²

No subscriber data of course means no reporting of ARPU, which is Netflix's one global metric which has been generally stagnant: at the conclusion of 2024 this had only risen 1% YoY (3% on an F/X neutral basis), which was the same as in 2023, following a 2% decline in 2022. Some of this will be as a result of the growth of very cheap mobile-only subscriptions in places such as India, but as we noted in [Netflix Q3 2024: Strong trajectory but advertising drags ARPU \[2024-113\]](#) the growth of the streamer's advertising-supported tier has appeared to neutralise ARPU gains brought about by price rises across other tiers.

Understanding the progression of this dynamic will now become more difficult to judge, and without the introduction of new metrics likewise the success of Netflix's advertising business.³ The company announced further price rises—in Portugal, Argentina, Canada, and the USA, where the ad-supported tier will increase a dollar to \$7.99 per month. While the price of the Premium tier will go up \$2 to \$24.99 per month. This will increase revenue but counter to traditional behavioural trends we have outlined previously, the growing disparity between the cheapest and most-expensive tiers can only accelerate the redistribution of some current users to the lowest tier, where they are not as well-monetised. This will therefore be ARPU-dilutive (the company expects "modest" ARPU growth in 2025) but we explain later in this report why this will still be seen as a positive for Netflix.

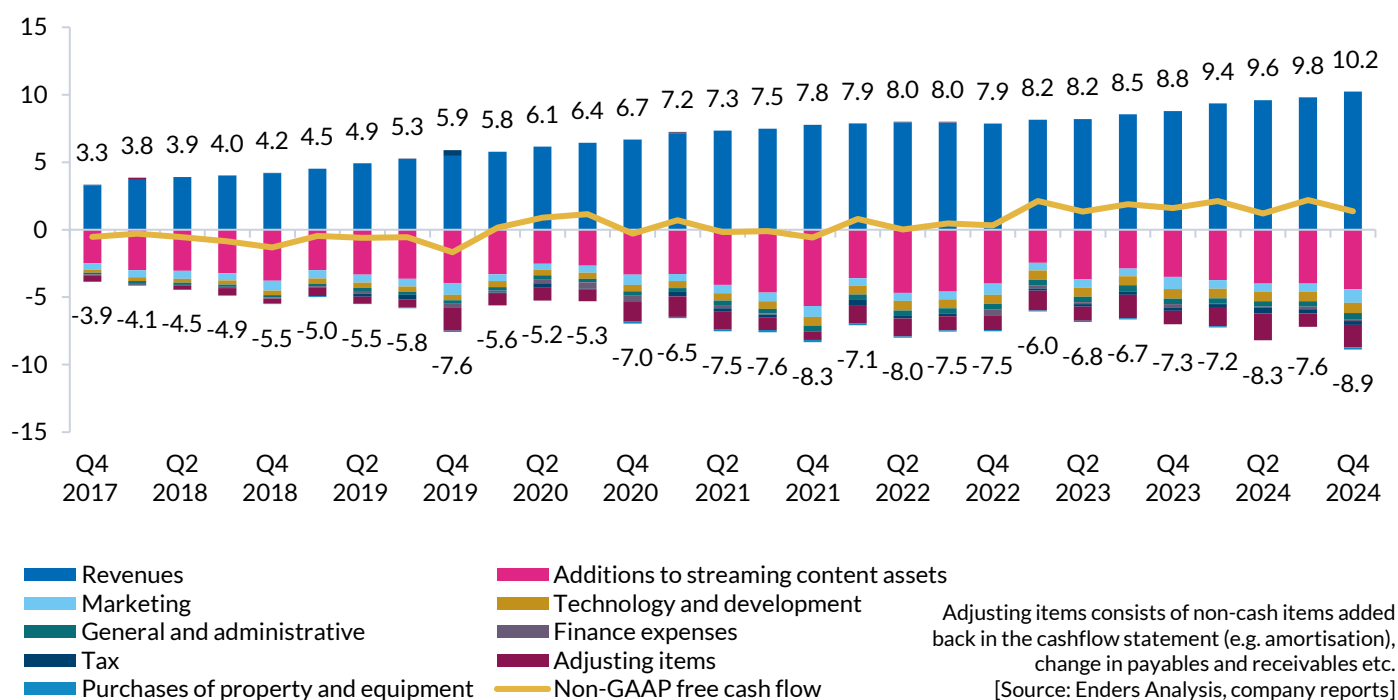
A word on content investment. Management noted that the horrific LA fires will not add any meaningful delay to Netflix productions and therefore there will be no impact upon 2025's cash spend on content, unlike COVID or the strikes which created considerable lumpiness in the content pipeline. Netflix spent \$17.0 billion in cash on programming in 2024. That is a 16% increase versus 2019, which lags revenue growth considerably—over the same period, total revenues have risen 93%. The forecast for 2025 continues this trend: guidance for content spend is \$18 billion (+6%) while revenues are expected to increase by 12-14%. Management stated that they believe they are a long way from the point where, inflation excluded, Netflix does not have to increase content spend. This may well be the case on a global level but in mature markets output volumes of original content are relatively stable, with breadth in genres allowing a portfolio approach to content investment across different price points—in newer production markets almost all original content is more expensive scripted programming.

¹ "Approximately two hours per paid membership per day".

² The first of these Engagement Reports was released in December 2023, covering H1 2023. They have progressively been released with less lag, with the company stating that its next Q2 results will include the report for H1, with the H2 report released with the Q4 results.

³ Netflix states that in Q4 55% of new signups in advertising territories chose the ad-supported tier, which is an acceleration on previous quarters: it was 50% in Q3, and 40% in Q1, and Q4 2023. Roughly we think that the ad-supported tier now holds about 20% of subscribers in markets where it is available, which amounts to at least 40 million subscriptions.

Figure 1: Netflix income, expenditure and free cash flow (\$bn)



Netflix now has a defined advertising audience that does not watch commercial television—however, for this incremental audience to materially grow, longer-term users must be manoeuvred from the ad-free tiers

In [Netflix Q3 2024: Strong trajectory but advertising drags ARPU \[2024-113\]](#) we noted that the current usage of the streamer's advertising-supported tier was somewhat contrary to the expectation that those on Netflix's cheapest tier would either be there because they have less to spend or don't want to spend heavily because they don't use the service that much. Opposing this, we outlined data which showed that:

- Individuals on the advertising tier appear to watch more than those on non-advertising tiers⁴
- Netflix's ad viewers are not materially more downmarket than non-ad subscribers⁵
- Both types of subscriber are of a similar age and breakdown by sex

These are all positive trends for Netflix to showcase to advertisers. But as we have noted before, while the scale of the advertising audience that Netflix can provide is important, most value will be found in the incrementality of audience that the service can offer on top of the wide-reaching commercial broadcasters. It is clear that Netflix houses a sizeable cohort of viewers that do not regularly watch commercial television, but it is also clear that the vast majority of these will be long-time Netflix subscribers and will therefore be on advertising-free plans.

This will have been one of the reasons to close the Basic, ad-free tier in mid-2024 and manoeuvre users down to the cheaper but advertising-supported product,⁶ both increasing the scale of the advertising audience—according to our estimates by over 100%—but also populating the tier with long-standing subscribers who are no longer habitual viewers

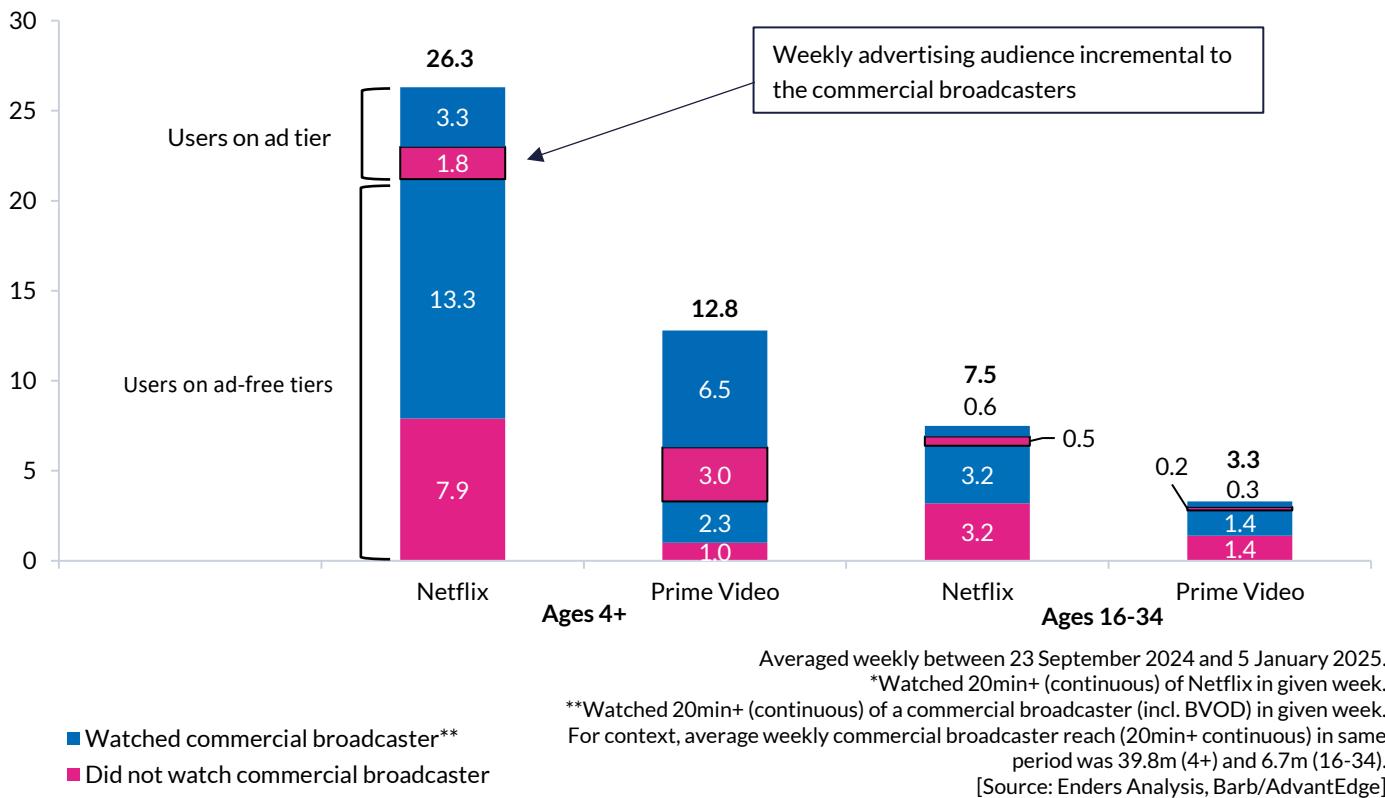
⁴ We note that Netflix states that "the engagement on our ads plan with view hours per membership is similar to engagement on our standard plan in our 12 ads countries".

⁵ We note that the proportion of non-advertising subscribers that were AB households was slightly higher than for the advertising tier.

⁶ After the launch of the advertising-supported tier, in January 2023, the Basic (no ads) tier was hidden as an option but still technically available for new subscribers—it was made unavailable for new members by mid-year 2023. In mid-2024, the Basic (no ads) tier was closed and users were given the option of paying £3/month less for the advertising tier, or paying at least £3 more/month for an ad-free tier.

of commercial broadcasters. Given our observations of the general movement of subscribers across tiering—users tend to move up tiers or leave completely—without heavy-handed manipulation, scaling Netflix's advertising audience in mature markets was always going to be a slow burn, and one that has negated the positive effect of price rises of other tiers on ARPU. Similarly, users who are only now signing up for Netflix are more likely to be older and will continue to be reachable by advertisers on commercial television.

Figure 2: Netflix and Prime Video average weekly UK users* (millions)



As it stands in the UK, Netflix can currently offer advertisers around 1.8 million viewers each week who can't be readily reached via the commercial broadcasters (an extension of 4.5%, see Figure 2). This is fewer than Prime Video, which, given the stickiness of free shipping, was able to introduce advertising to all its subscribers who choose not to pay a premium—although we note that ad loads are currently very palatable. As expected, Netflix has an average of 7.9 million other users each week who do not watch commercial television, however these are housed on the streamer's ad-free tiers.

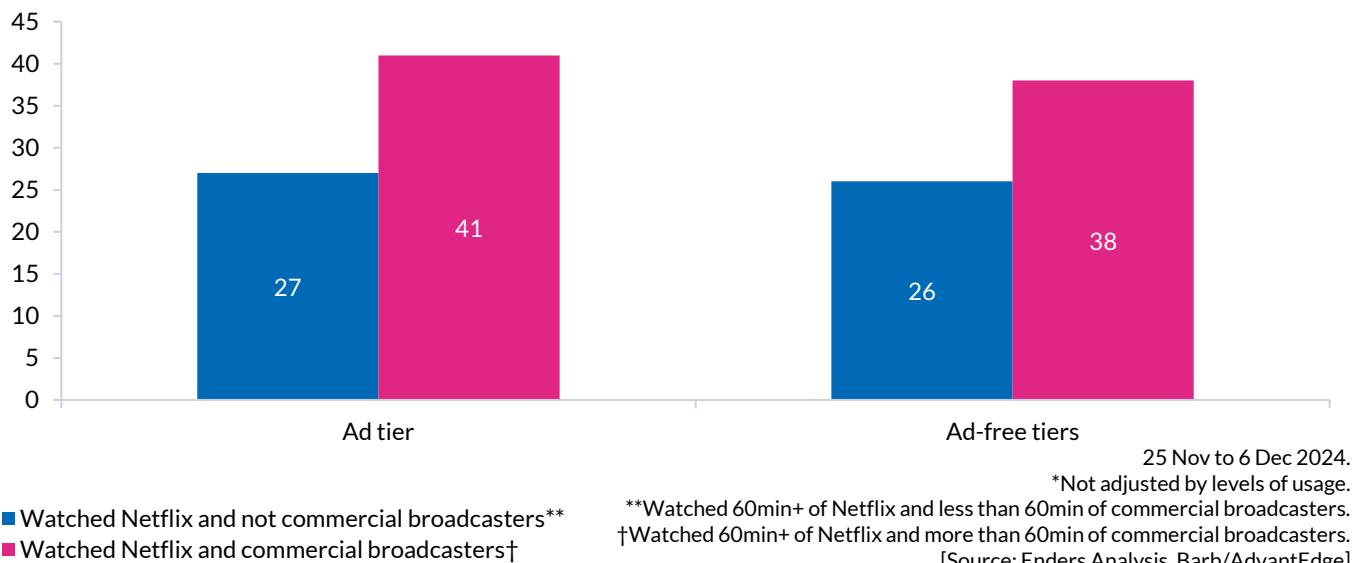
Exposing more of these users to advertising must be an imperative of Netflix: although we have previously outlined the ARPU dilutive effect of Netflix's advertising efforts to this point, if the streamer is to grow this part of the business into something material, growth in scale will mostly be achieved through new strategies around the tiering of current, higher-paying subscribers e.g. shutting the Standard tier. Growth of the ad-supported tier by way of new subs will only increase in difficulty with saturation ever closer, while bundling efforts⁷ with the likes of Sky will face the headwinds of the shrinking pay-TV footprint.

Pay-TV bundling also encounters the trend that most incoming pay-TV subs now appear to already have ad-free Netflix subscriptions, and will port those accounts across to Sky/Virgin instead of opting for the default ad-supported tier included in their chosen TV package. For example, we estimate that Sky Glass and Sky Stream, taken by almost all new Sky subs for the last two years, is currently bundled with about 420k Netflix ad-supported subscribers (which would equate to about 650k users) but with about 800k subscribers on ad-free tiers. An added complexity to this is that a pay-TV

⁷ For some time, almost all Sky TV packages have included Netflix with Ads. Subscribers can port their existing Netflix accounts and be billed by Sky.

subscriber is naturally likely to be a high consumer of commercial broadcast content, meaning a lower proportion of bundled Netflix users incremental to the commercial broadcasters.

Figure 3: Average age* of users on different Netflix UK tiers



Netflix's original content slate has plateaued in major countries. If budgets have to absorb the growth of live content, there will be ramifications on the output of other genres, along with levels of market demand and production costs

Grand aggregated global reach figures for Netflix's recent live events—Tyson v. Paul, two NFL games on Christmas Day and the commencement of its WWE deal in January—have to be contextualised with their UK performance, given that they were all predominantly US-targeted. Tyson v. Paul was a hopefully one-off cultural talking point that was a compelling enough spectacle to overcome its 4am start time to have now reached 2.7 million in the UK, equating to 1.9 million households.⁸ Netflix's Christmas Day NFL games had better start times (6pm and 9pm) but resonated a lot less with UK audiences with its reach not much more than a tenth of the fight. This, however, was a similar performance to Sky's coverage in 2023,⁹ although in 2024 the games could also be watched on NFL Game Pass via DAZN, which would have drawn off some of the more committed viewers of American football.

Unlike the NFL, which has regular FTA coverage (*Monday Night Football* on Channel 5) and live broadcasts of the local series of games and the Super Bowl (ITV), professional wrestling has arguably been marginalised on UK television—between 2020 and 2024 WWE's *Raw* and *Smackdown* brands were shown live on TNT Sports,¹⁰ which is accessed by under 10% of UK households each month. Therefore, it is not surprising that viewing of the first two episode of *Raw* on Netflix has already well-exceeded previous levels. Average reach of *Raw* and *Smackdown* on TNT were about 200k individuals per episode (145k households) in 2024, while the first episode on Netflix will be over five times this.

Say what you like about how professional wrestling should be classified as programming but the attributes that it shares with sporting leagues—live coverage and consistent fixtures that span across the calendar—have been used to argue that Netflix will soon become a bigger player in the global sporting rights market. Although we think that this is inevitable at some point, we have never thought that the WWE investment is a strong indicator either way of this—rather, it is a general

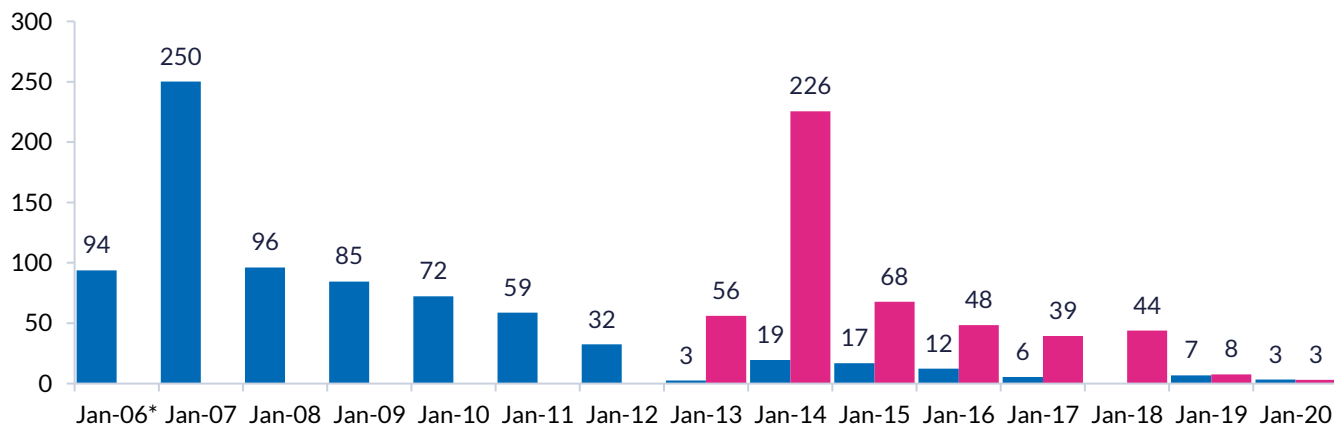
⁸ 3 minutes continuous, Barb. Given the length of most of these live events and Netflix's subscription model, we have used reach unless noted.

⁹ For example, per Barb, the 6pm Kansas City v. Pittsburgh game reached 370k (220k households) on Christmas Day, while the equivalent fixture the previous year reached 346k (236k households).

¹⁰ It was also available 30 days later on the WWE Network streaming service. With WWE library content now moving to Netflix this service has now closed.

pointer towards an increased desire to gain the urgency that live content can bring to a mainly on-demand platform. WWE has some of the attractive ephemerality of football or cricket but the investment is safeguarded by the attributes that wrestling *doesn't* share with sport: it has much stronger library and catchup value¹¹ and can even be convincingly presented as "live" in the usual timeslot while taped earlier that day (as is the case when *Raw* or *Smackdown* is hosted in Europe). Further, such is the drama between the featured characters, who are in many respects actors, that the ongoing narratives lead themselves to incorporation into other genres—Netflix would be remiss, for example, if it wasn't looking at opportunities to feature the roster across challenge, road or even scripted content.

Figure 4: Household reach of *WWE Raw* on Netflix, 2025 (000)**



*Given the UK viewing day starts (and ends) at 6am, all viewing attributed to this date occurred between the live premiere at 1am January 7 and 6am on same day (the live stream ended at 4am). It is the same scenario for Episode 2 on Jan 13.

**3-min continuous. TV-set only.

[Source: Enders Analysis, Barb/AdvantEdge]

A major move by Netflix into sport would require wholesale restructuring, not just of the subscription tiers—the current prices of all-inclusive packages could not support very expensive domestic leagues—but of the overall content mix, especially if total content budgets remain static (for example, the WWE investment came out of the existing budget, probably at the expense of other non-scripted content).

Content optimisation is an ongoing process for Netflix and one that has been made choppy over the past few years by the pipeline issues flowing from COVID and strikes. Indeed, unsurprisingly, total original output volume was down in 2024 for the second successive year, with the production lag caused by the strikes in late 2023 leading to a 13% drop in programming coming out of the US and Canada the following year (see Figure 6). But what was less predictable was that Netflix original content from outside UCAN also declined in 2024, with only the UK among the major production countries bucking this downward trend.¹²

One of the drivers of this is rising content costs and a flat total budget, but it is also a continuation of the trend of plateaued or slow volume growth of original content in mature markets. We have noted before that this has occurred in territories that have reached 45% household penetration—the US, for example reached this level as far back as 2019 and yearly volume has only exceeded that year's output twice since. The UK surpassed 45% in late 2021, with annual original output around 100 hours since.

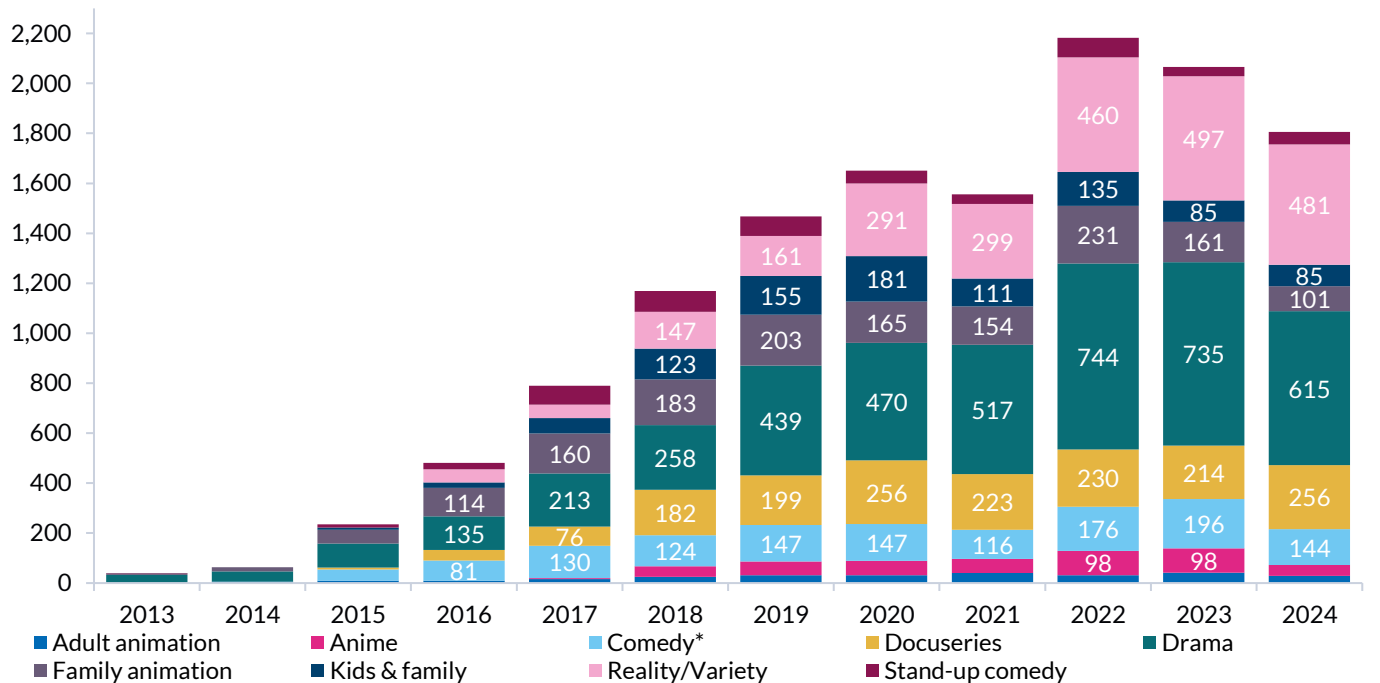
If Netflix's live content output were to grow materially in these markets, it would likely be at the expense of other genres, with the streamer by now cognisant of the total volume of new content that is required to ensure engagement levels that maintain its subscription base. The upshot of this is a decline in overall demand for the genre in the market, and in time, a downward pressure on some of the production costs—although Netflix is perennially blamed for driving up prices,

¹¹ For example, more than 99% of viewing of Premier League matches (highlights not included) is on the day of the game—although we note that variable catch-up access will affect this figure. In contrast, after 11 days of availability, only 41% of total viewing to the first episode of *Raw* on Netflix was in the first 24 hours. After the same period of time of availability for the Tyson v. Paul fight, ~91% of viewing was in the first 24 hours (Barb).

¹² This was driven by YoY growth in drama (from 28 to 33 hours), docuseries (from 36 to 40) and Kids and Family programming (from 4 to 12).

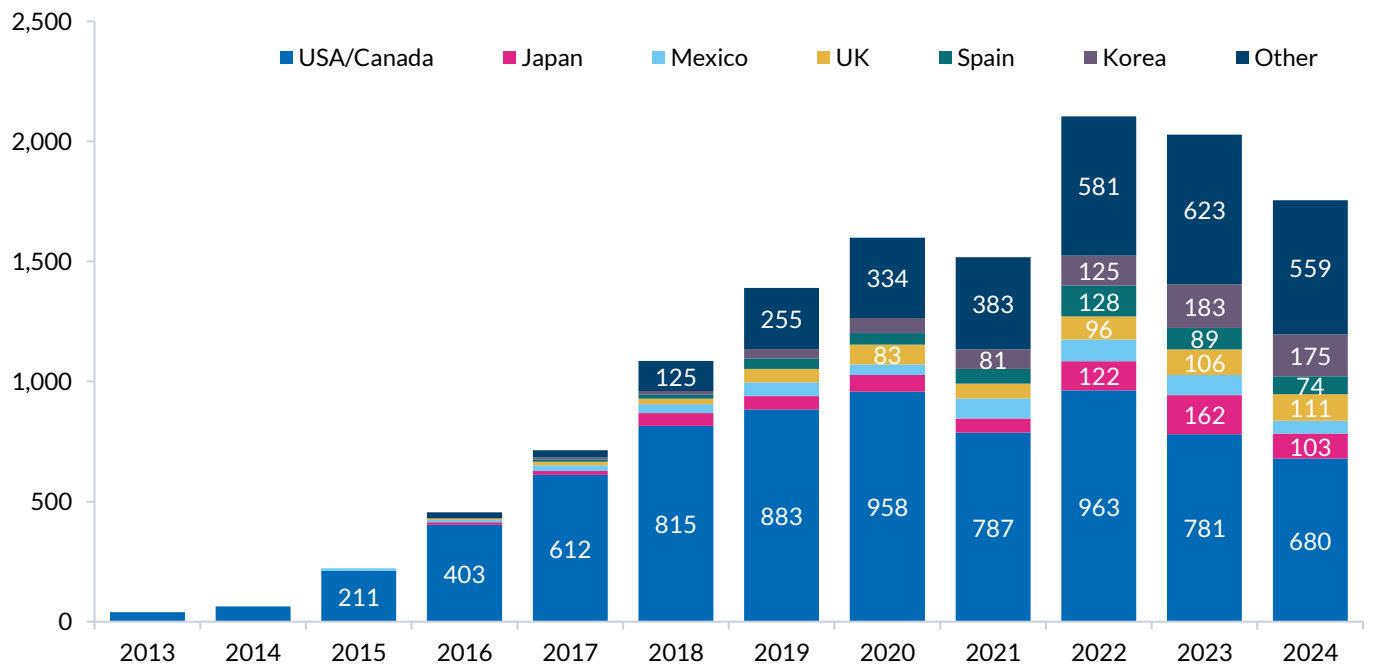
especially for drama, that does not make it immune to the same effects. This, of course, is of only temporary comfort for competitors, as even if some genres may be slightly cheaper to produce, a broader content slate—especially one that satiates more mood states, as live does—makes Netflix even more imposing.

Figure 5: Netflix original TV programming released by year (hours)



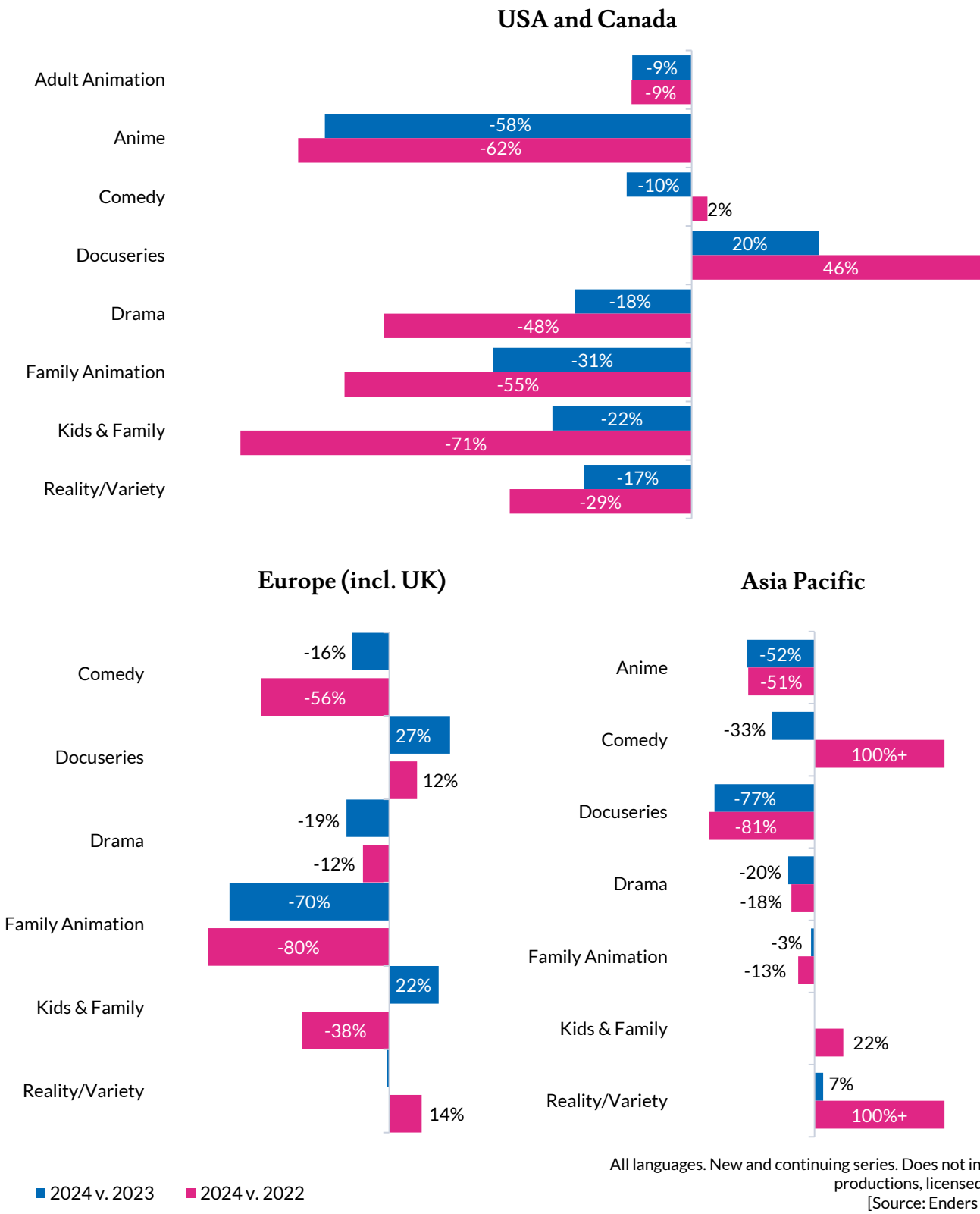
*Scripted, live action.
All languages. New and continuing series. Does not include co-productions, licensed content.
[Source: Enders Analysis]

Figure 6: Netflix original TV programming by country of origin (hours)



Includes new and returning series. By volume, not titles. All languages.
Does not include co-productions, licensed content or stand-up.
Country of origin determined by Enders based on location of production company etc.
[Source: Enders Analysis]

Figure 7: Year-on-year changes in Netflix original content release volume



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