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Netflix Acquires Another $2 Billion in Debt

By John Runkel, J.D. Candidate 2020 | October 25, 2018

Streaming giant Netflix announced on Monday October 22nd that it is planning to take on an additional $2 billion in debt. Netflix plans to use the money for "general corporate purchases," for the development of original programming, and for the acquisition of more licensed titles in order to fill out its library and keep competitors at bay. This latest offering is in line with Netflix's overall business strategy, which has caused the company to rapidly spend exorbitant sums of money.

Netflix's offering of unsecured bank bonds is only the latest instance in which the company has taken on enormous amounts of debt. In October 2017, Netflix issued $1.6 billion in notes. In addition, in April 2018, there was a subsequent offering for $1.9 billion. In all, this latest offering will put the company over $10 billion in long term debt.

Netflix's actions has some analysts concerned as taking on more debt will increase the negative cash flow, which already totals around $3 billion. This prompted Moody's to classify Netflix's recent notes as "junk bonds." That said, Moody's expects Netflix to be able to eventually pay off the notes as they enter new markets and finish developing original content. Thus, Netflix is transitioning away from its previous model of licensed content. Many analysts feel that Netflix's new strategy is best for the company and its investors.

However, the more skeptical analysts do not think that Netflix's borrowing will continue indefinitely. Further, these analysts think that borrowing will lead to long-term success. These concerns are not without merit as they are grounded in Netflix's overwhelming degree of debt and strategy to continue borrowing. This could lead to creditors becoming unwilling to participate in raising further capital if the cycle of burning through money and then borrowing does not end.

In the alternative, if Netflix wishes to remain the market leader in streaming, it may need to continue acquiring licensed titles as well as developing original content. Netflix must already contend with a considerable number of competitors in the streaming market. Further, this market is only becoming more crowded. Both Disney and AT&T have already unveiled their plans to create streaming services. These heavyweights may force Netflix to spend more as titles owned by both companies are potentially pulled from Netflix's library, a move which Disney has already undertaken in preparation for its new service.

Netflix's stock, which experienced a bump of 8% after the release of the company's earnings report last week, has since retreated to its original value.