

# Disney+ Streaming Service Integration

Jaida

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# Importance of Disney+

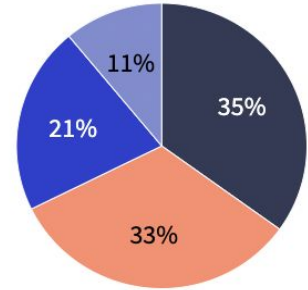
- Disney+ makes up the majority of Walt Disney's direct to consumer operations
- Disney's direct-to-consumer revenue rose to nearly \$20 billion in 2022 and the direct-to-consumer segment makes up 21% of Disney's revenue

## Walt Disney Segmentation

Based on Q1 of 2022

- DMED: Linear Networks
- Disney Parks, Experiences and Products (DPEP)
- DMED: Direct-to-Consumer
- DMED: Content Sales/Licensing and Other

Investopedia- Disney Segment Breakdown



Revenue

### Direct-to-Consumer

Operating results for Direct-to-Consumer are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Revenues			
Subscription fees	\$ 15,291	\$ 12,020	27 %
Advertising	3,733	3,366	11 %
TV/SVOD distribution and other	534	933	(43) %
<b>Total revenues</b>	<b>19,558</b>	<b>16,319</b>	<b>20 %</b>
Operating expenses	(17,440)	(13,234)	(32) %
Selling, general, administrative and other	(5,760)	(4,435)	(30) %
Depreciation and amortization	(373)	(329)	(13) %
<b>Operating Loss</b>	<b>\$ (4,015)</b>	<b>\$ (1,679)</b>	<b>&gt;(100) %</b>

# The Disney+ Decline

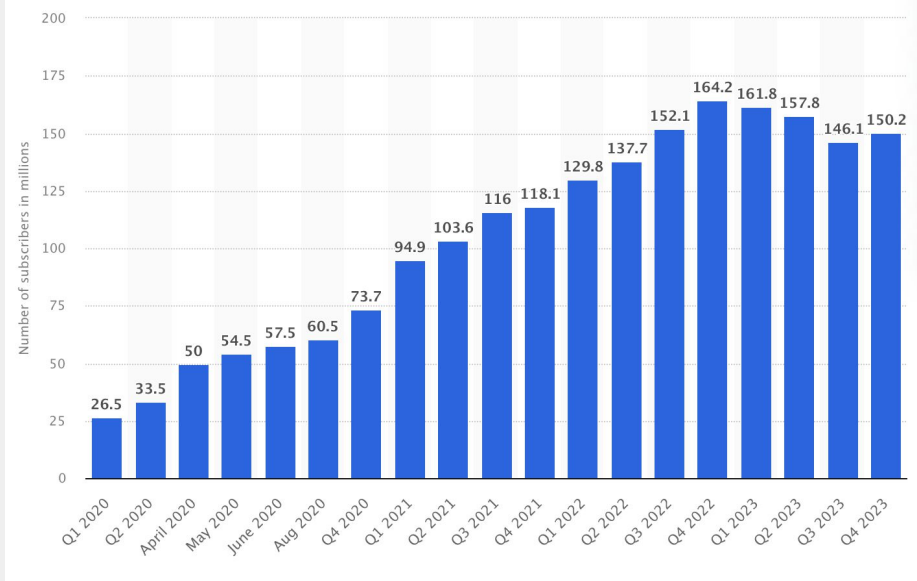
- Disney+ subscriptions **fell from 157.8 million worldwide to 146.1 million** in the last quarter this year, a loss of 11.7 million — more than doubling last quarter's record decline.
- This included a decrease of 300,000 in the U.S. and Canada where subscribers fell to 46 million.
- It's the second time Disney+ has taken a hit in North America; last quarter was the first.

Paid subscribers<sup>(2)</sup> as of:

(in millions)	October 1, 2022	October 2, 2021	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	46.4	38.8	20 %
International (excluding Disney+ Hotstar) <sup>(3)</sup>	56.5	36.0	57 %
Disney+ Core <sup>(4)</sup>	102.9	74.8	38 %
Disney+ Hotstar	61.3	43.3	42 %
Total Disney+ <sup>(4)</sup>	164.2	118.1	39 %

# Subscribers Decline Problem

Number of Disney+ Subscribers Worldwide



Statista

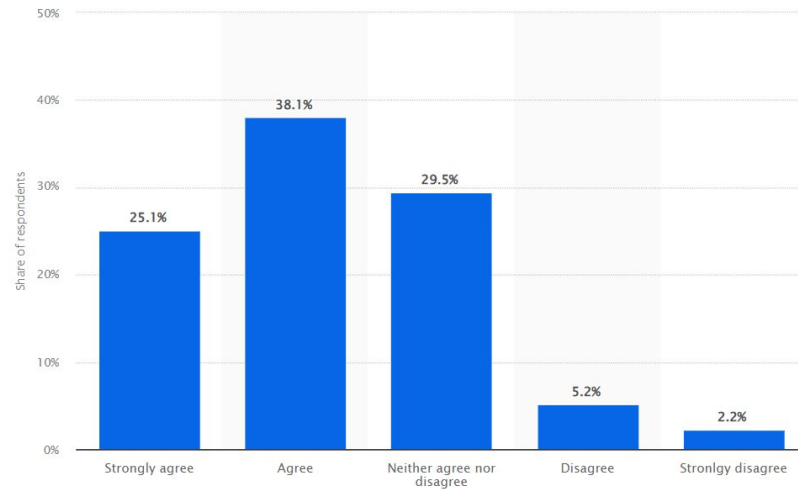
	Q2 of 2023	Q3 of 2023	% change
Subscribers	157.8	146.1	7.4% decrease

- This decrease is significant coming after a subscriber count hitting an all-time high in Q4 of 2022
- This made a 7.4% decrease from Q2 of 2023 to Q3

# The “One App Experience”

- Integrate Hulu with Disney+ to provide a wider content for wider audiences
- Negotiations with Comcast for a larger share; no partnerships, just full ownership
- Bring back more subscribers for the general content
- Plan to offset loss in streaming revenue with price increase in subscriptions

Share of viewers that would watch more Disney Plus if it offered more adult content in the United States as of November 2021



**Details:** United States; Whip Media; November 19 to 20, 2021; 696 respondents; 13 years and older; respondents were TV time app users who said they have used Disney+ before; Online survey

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Statista

# Impact on the Customer

## Subscription video-on-demand (SVOD) subscribers who also subscribe to other services

Characteristic	also subscribe to Netflix	also subscribe to Peacock Premium	also subscribe to HBO Max	also subscribe to Amazon Prime Video	also subscribe to Disney+	also subscribe to Hulu
Netflix	0%	6%	20%	63%	50%	50%
Peacock Premium	90%	0%	80%	94%	86%	88%
HBO Max	90%	22%	0%	89%	79%	83%
Amazon Prime Video	84%	8%	27%	0%	61%	62%
Disney+	87%	10%	31%	82.48%	0%	70%
Hulu	85%	10%	32%	79%	68%	0%
Apple TV+	92%	17%	46%	91%	81%	79%

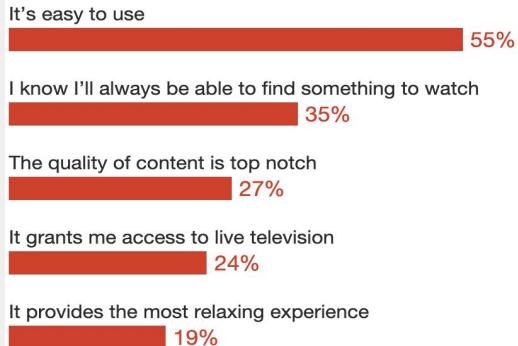
Statista

- 68%–70% dual subscription
- Navigation of content libraries and app features easily
- Paying a single price to keep one app instead of bundles
- Retention of existing subscribers and clearer expectations to Disney
  - Keeping Disney “family-friendly” image while adapting to other audiences

# Technology and Resource Requirements

- Developers are required to merge the two platforms
  - Already have the technology and capability of creating streaming service application
- Integrate customer preferences into new platform
  - User friendly, content suggestions, ad-free options
- Need external and internal marketing efforts

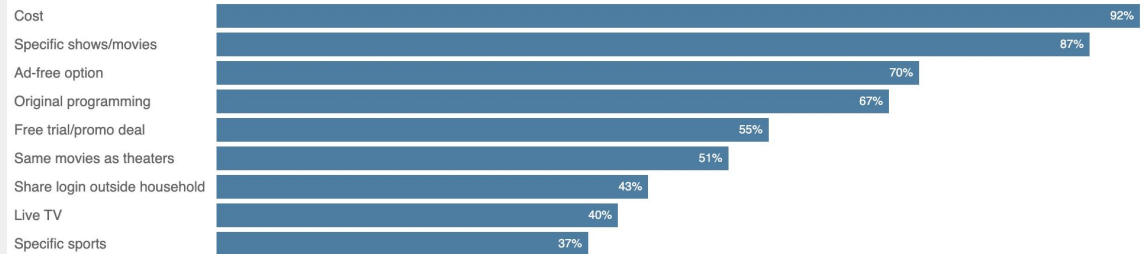
## What factors attract consumers to streaming services?



PWC

## What do streaming users consider important and their platform

Share of streaming users who said each consideration was important:



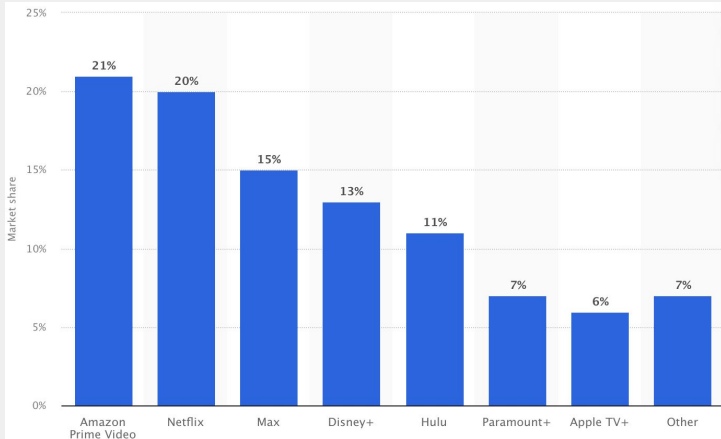
NPR



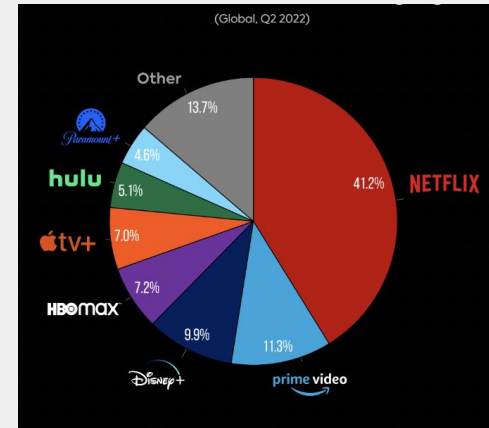
# Competitor's Reaction

- **Netflix** is our biggest competitor regarding streaming services due to their holding the largest market share of streaming services

**Market shares of selected subscription video-on-demand services in the U.S. in 2nd quarter 2023**




**Global Platform Demand Share for Streaming Originals**



# Competitor's Reaction

 and  paid subscribers as of:

(in millions)	October 1, 2022	October 2, 2021	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	46.4	38.8	20 %
International (excluding Disney+ Hotstar) <sup>(3)</sup>	56.5	36.0	57 %
Disney+ Core <sup>(4)</sup>	102.9	74.8	38 %
Disney+ Hotstar	61.3	43.3	42 %
Total Disney+ <sup>(4)</sup>	164.2	118.1	39 %
ESPN+	24.3	17.1	42 %
Hulu			
SVOD Only	42.8	39.7	8 %
Live TV + SVOD	4.4	4.0	10 %
Total Hulu <sup>(4)</sup>	47.2	43.8	8 %
<b>Total Disney+ and Hulu</b>	<b>211.4</b>	<b>161.9</b>	

 paid subscribers as of:

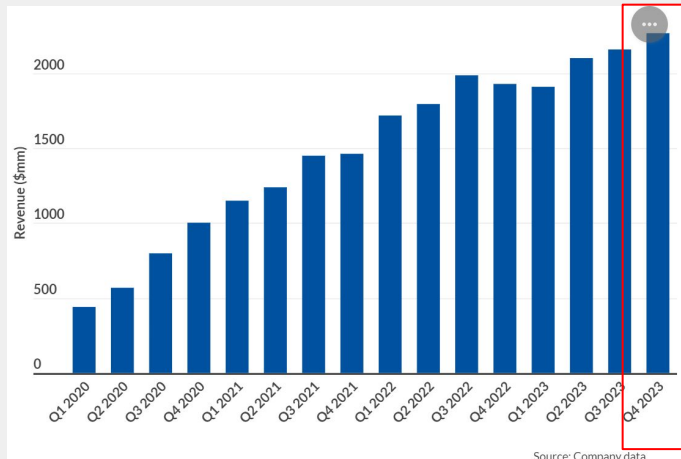
(in millions)	<u>As of / Year</u> <u>Ended</u> <u>December 31,</u> <u>2022</u>	<u>As of / Year</u> <u>Ended</u> <u>December 31,</u> <u>2021</u>
United States and Canada (UCAN)	73387	75215
Europe, Middle East and Africa (EMEA)	73534	74036
Latin America (LATAM)	39936	39961
Asia-Pacific (APAC)	36228	32632
<b>Total Netflix</b>	<b>230,747</b>	<b>221,844</b>

- Disney+ and Hulu's merging would create a better stance for competing with Netflix
- With the kid/family content and nostalgic content Disney+ brings along with the older content Hulu brings being in a single application, many of Netflix's subscribers would be interested in switching over

# Value Created from Integration Strategy

## Qualitative

- Action: Add mature content



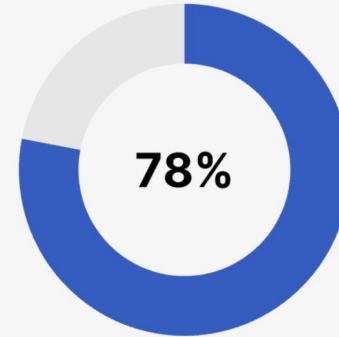
Hulu Partnership

Disney + Revenue 2020 – 2023 (Inception to present)

## Quantitative

- Action: Promote yearly subscriptions

**78% of Disney+ Bundle subscribers retain their subscriptions after 6 months**



Annual income	Share
Less than \$50,000	43%
\$50,000 – \$100,000	34%
More than \$100,000	23%

## Value Created from Integration Strategy Cont'd

### Quantitative

- Action: Integrate Hulu and Disney (Save in costs maintaining one platform)

### Programming and production costs for Disney+, Hulu and ESPN+, 2021–2022 (\$M)

	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	2021	2022
Disney+	654	772	974	920	1,196	1,435	1,476	1,681	3,320	5,788
Hulu	1,626	1,700	1,730	1,832	1,913	1,894	1,925	2,106	6,888	7,838
ESPN+ and other	306	297	278	427	454	385	298	395	1,308	1,532
<b>Total programming and production costs</b>	<b>2,586</b>	<b>2,769</b>	<b>2,982</b>	<b>3,179</b>	<b>3,563</b>	<b>3,714</b>	<b>3,699</b>	<b>4,182</b>	<b>11,516</b>	<b>15,158</b>

Data compiled March 2023.

Sources: Kagan estimates; company data; industry data.

Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.

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## How Are the Factors Linked?

The goal of optimization aims to create a well-rounded streaming service that can meet the subscribers' needs while ensuring financial responsibility and global competitiveness.

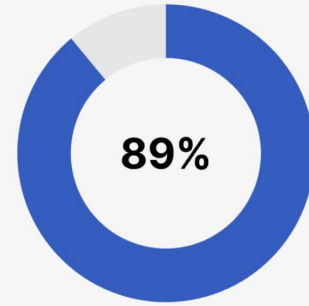
This includes seamlessly integrating Hulu and Disney+, providing subscribers with a smooth and efficient user experience. It lastly involves careful consideration of financial strategies to recover from past losses, support revenue generation through advertising, and offer lower-cost options with a focus on annual subscriptions.

# Strengths and Weaknesses

## Strengths

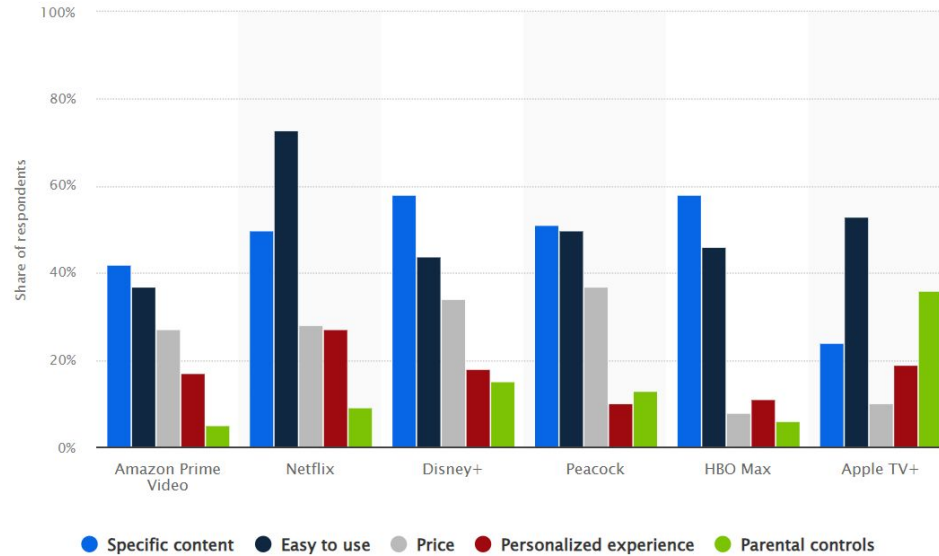
- Original content exclusively on platform (Disney and Hulu)
  - Comparison: Netflix 83% and HBO 72%
- Different audiences per sector
  - Physical attraction/retail: Families
  - Streaming: Millennials/Gen Z
- Low Risk, solely integrating both platforms

**89% of content on Disney+ is exclusive (not available on any other US streaming service)**



Generation	Share
Generation Z	22%
Millennials	42%
Generation X	23%
Baby boomers	13%

# Strengths



Details: United States; Q1 2021; 1,250 respondents

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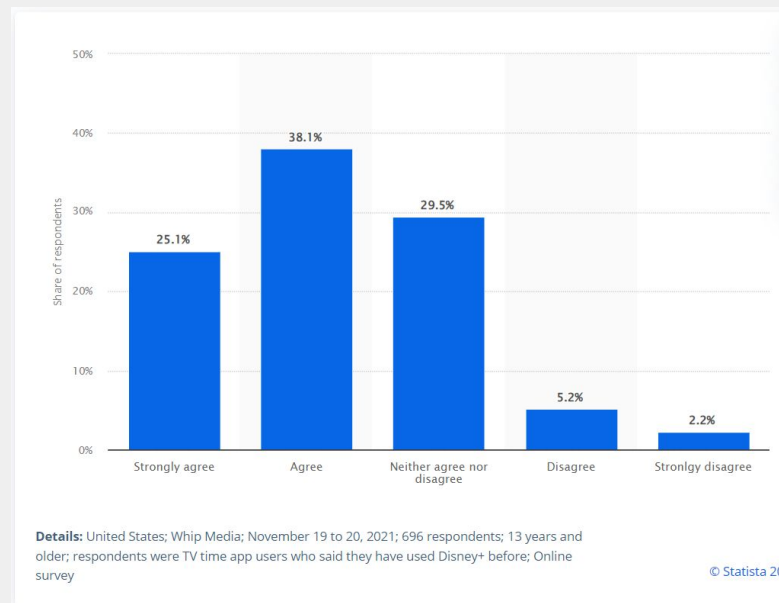
"Features that impact preference of video streaming services in the United States in 1st quarter 2021"

# Strengths and Weaknesses Cont'd

## Weaknesses

- Niche Trap - Difficult to adapt with popularity
- Lack of content variety and promotion
- Retention difficulty (High churn rate)

Date	Average revenue per user
December 2019	\$5.56
March 2020	\$5.63
June 2020	\$4.62
October 2020	\$4.52
January 2021	\$4.03



“Share of viewers that would watch more Disney Plus if it offered more adult content in the United States as of November 2021” – Statista



# Environment for Strategy to Succeed

- **Disney's reputation needs to adapt to live longer**
- **Comcast and Disney need clear boundaries of who is taking control and what they want to see changed for Hulu and Disney (this is only if Disney doesn't buy the remaining 33% of Hulu from Comcast)**



# Timeline of Changes in the Environment

**One-app  
experience  
Launch**

**Financial  
Results  
Published**

**Netflix  
Responds**

**More apps  
launched**



**NETFLIX**

# Three Key Actions

**Marketing and  
Communication**

**Technological  
Innovation**

**Ever Changing  
Content Variety**

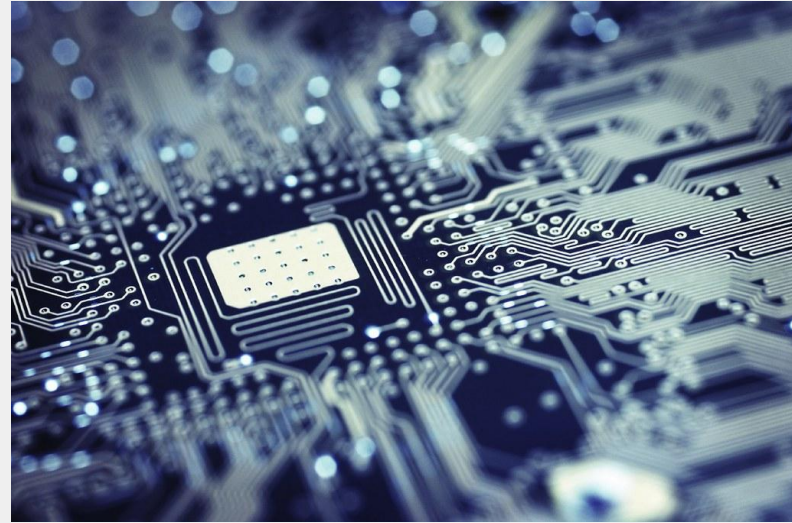
# Marketing and Communication

- Market Research
- Strategic Partnerships
- Utilize various marketing channels, including social media, email campaigns, and partnerships, to reach a wide audience



# Technological Innovation

- Backend enhancements, optimization for various devices, and user interface improvements
- Conduct thorough testing to identify and address any potential technical issues before the official launch
- Continuously update and evolve the technology to adapt to emerging trends

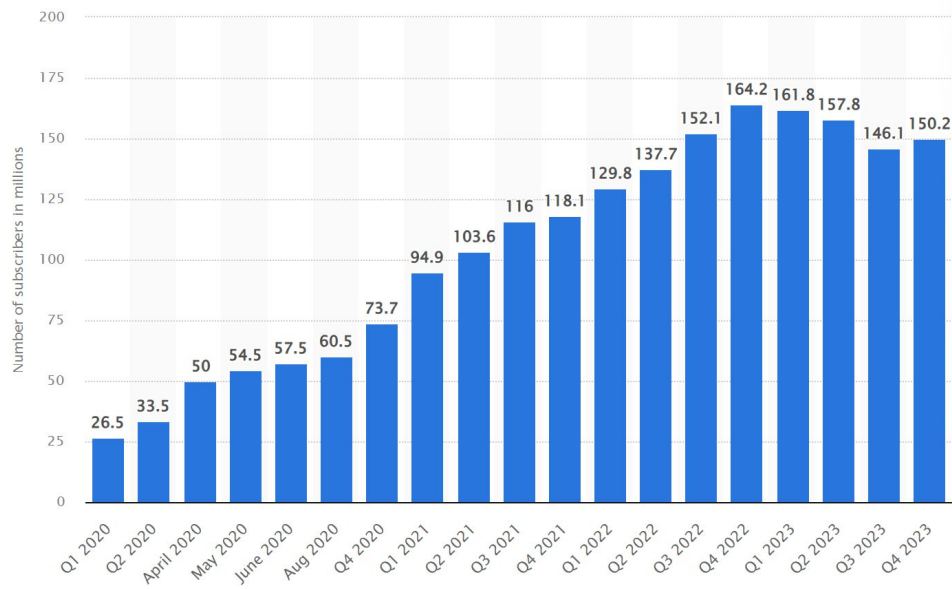


## Ever Changing Content Variety

- Ensure a compelling content library by securing licensing agreements for a diverse range of high-quality content
- Acquire new and exclusive titles
- Regularly assess consumer preferences and industry trends to curate content that resonates with the target audience and to differentiate from other streaming platforms



# Number of Disney Plus Subscribers Worldwide (millions)



## Notable releases:

- WandaVision: Jan. 15, 2021
- Loki: June 9, 2021
- Black Widow: July 9, 2021
- Book of Boba Fett: Dec. 29, 2021
- Guardians of the Galaxy Holiday Special: Nov. 25, 2022

## Impact on Stakeholders

- Initial investment into the one-app experience will cause a dip in EPS
- The one-app experience will create additional value for consumers, causing more people to subscribe
- Addition value for consumers means the stock will become more valuable, positively impacting stakeholders

**Vanguard**<sup>®</sup>

 **State Farm**<sup>®</sup>

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Capital Management, LLC



# THANK YOU

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