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L 2021 • 10 slides • LTS Challenge

Presentation on why Disney should permanently suspend yearly $3bn dividends to finance streaming operation.

RELATED CONTENT EXTRAS DETAILS

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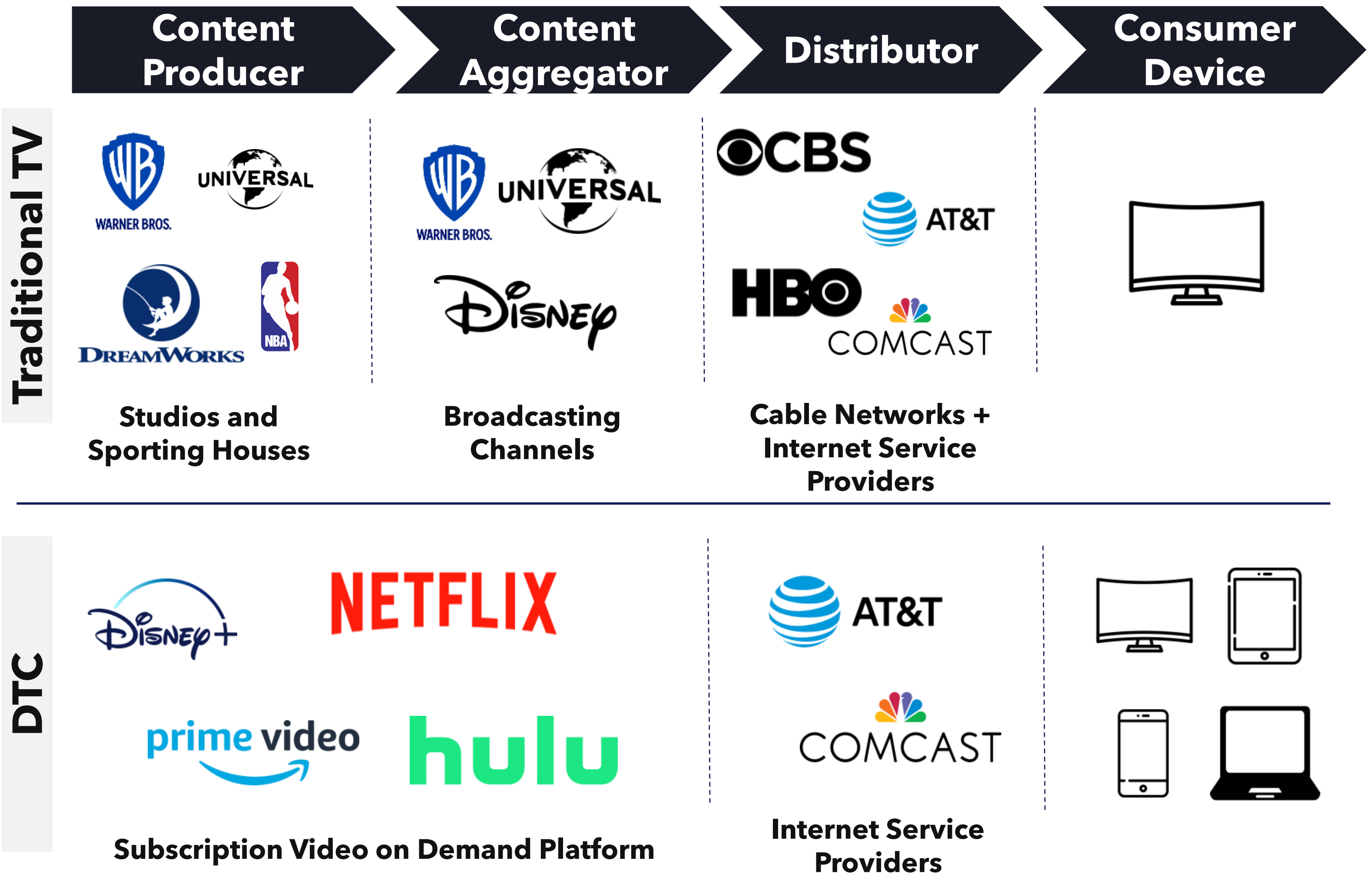
What does DTC bring to the table?

We assess DTC differences to traditional pay-TV based on five segments: (i) competition, (ii) price and switching costs, (iii) distribution costs, (iv) revenue per subscriber and (v) scale. Differences are a consequence of supply chain's specificities.

1 A disruptive chain especially in the early end

Value chain by model



2 The old vs new business battle

	DTC	TRADITIONAL TV
Competition	**Low barriers of entry** Better IT knowledge and still underpenetrated segment allows competition entry.	**High barriers of entry** Networks' contract with main channels and few substitutes posed as high barriers.
Price and switching costs	**High price transparency and low switching costs.** Clear pricing and easy monthly sign up and cancellation.	**Low price transparency and high switching costs.** Shady pricing and a toilsome cancellation process.
Distribution costs	Operational technology and streaming costs are fully borne by **content producer/aggregator**	Operational technology and transmission costs are borne by **distributor**
Revenue per subscriber	Mainly subscriber fee. Few ways to monetize content investments as licensing fades given catalog exclusivity	Lower affiliation impact (as % of total) – advertising and licensing adds to the mix
Scale	**Global** Digital and therefore global	**Domestic** Tied down to a physical distribution barrier

A new sheriff in town: the consumers

The Walt Disney Company

Cable TV is being dropped for two main reasons: **(i) streaming versatility**, that allows customers to watch whatever they want whenever they want, causing changes in content release and **(ii) price,** not only expensive but usually bundled as content schedule is fixed.

1 Release windows are changing with DTC Streaming Industry

Standard Film Released Windows

Theatrical Release → **VOD & PPV** → **SVOD & AVOD** → **Broadcast TV**

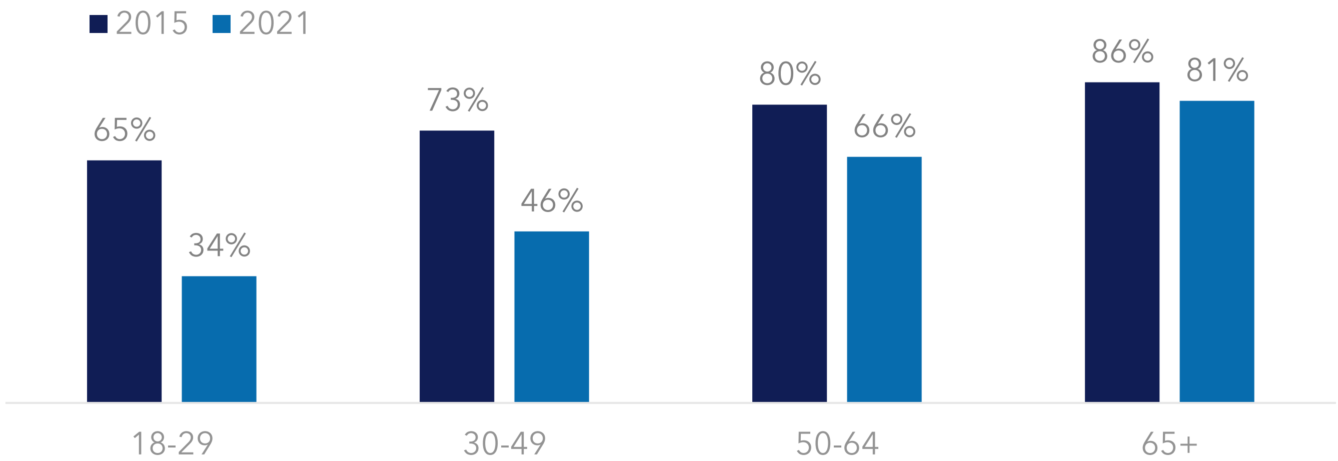
Films used to be released first in theaters where they remained on display for a long period, but with SVOD's platforms and the increase adherence content distribution is changing. For instance, there are movies been released in theatrical and SVOD at the same time or even not been released on theatrical rooms. These new dynamics are disrupting the value chain of media and entertainment industry.

2 Price and content show why – a costumer reaction in NPS

	SVOD	Cable TV
Avg. Price/Month	$8	$65
Content	• On-demand content; • Selection straight from pool of services.	• Channel Bundling; • You can only watch shows available at the time.
NPS	38%	-3%

3 Cable TV is losing force – special with younger audience

% of U.S. adults who say they receive cable TV



4 Yet streaming content flexibility is the main reason why

Reason to cord cutting cable TV in U.S.

Cable TV is losing share to online content, which includes SVOD's Platforms. Consumers prefer to watch desired content, at any time and at any place.

Source: Pewe Research Center, Ampere Analysis

The winning formula

The Walt Disney Company

We assess a DTC winning strategy based on three factors: **(i) brand:** ownership of renowned brands and loyal viewership, **(ii) production:** original content is essential to consumer acquisition. **(iii) catalog:** presence of a deep and vast library is key to consumer retention and a strong barrier of entry.

1 Acquisition and retention: the two sides of the coin of DTC success

ACQUISITION

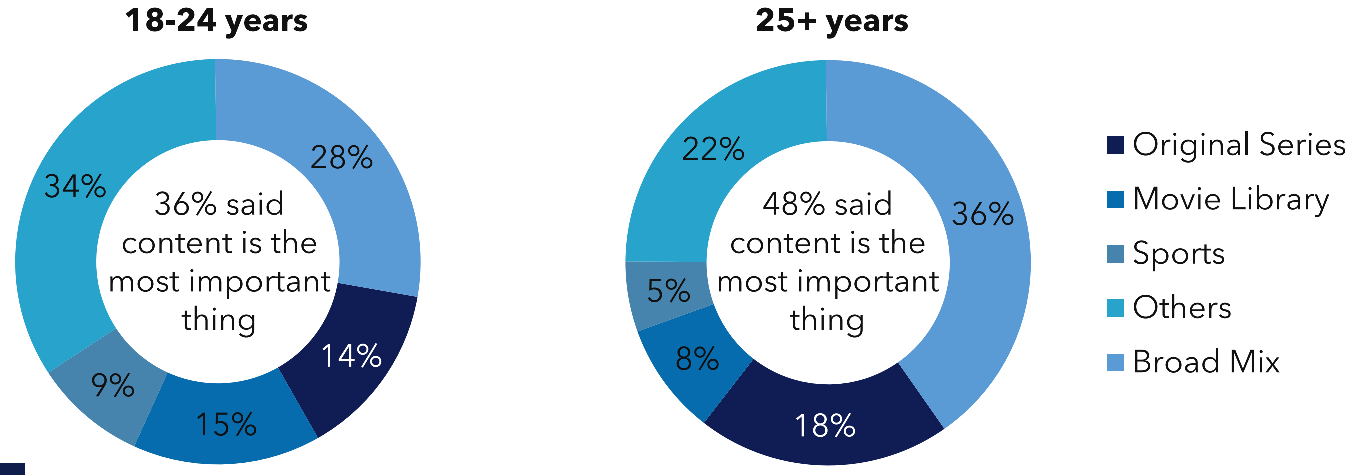
Customer acquisition strategy covers essencially two of the three factors: brand and production. Brand as a primarily recognition of streaming service given price sensative audience and tougher competition. In addition, the production (and adjacently catalog) aspect of the business - as 28% of consumers said they have subscribed to a streaming service to check out just a single title (Statista).

RETENTION

On the other hand, customer retention is part of two combined aspects: production and catalog. The latter acts as an important barrier of entry through the recall of licensed movies/shows as more production companies start their own DTC segment. Production aspect also plays a role as a differentiation strategy, mainly driven by brand's infrastructure and former success.

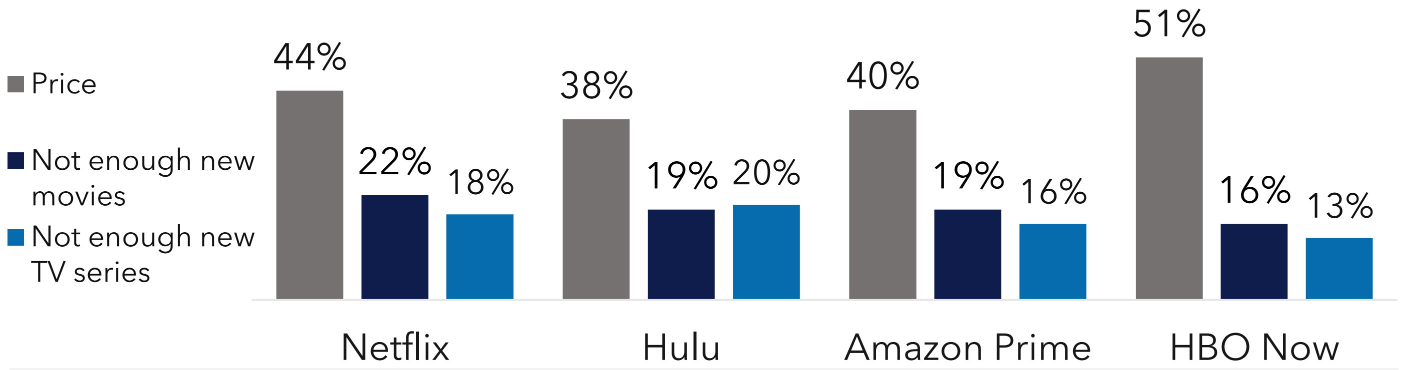
2 An industry where having a broad and diverse catalog is key

Importance of content type by group age (%)



3 Yet after price, lack of new content is the main factor for churn

Reasons for SVOD drop (%)

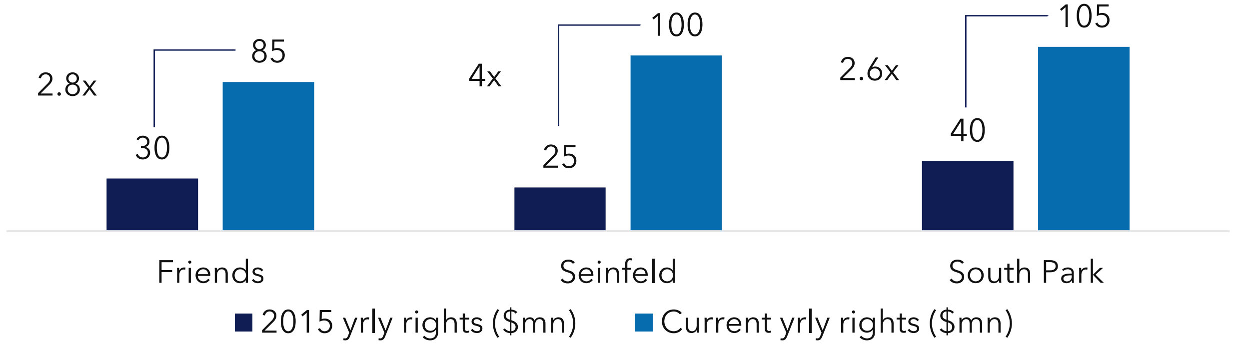


Netflix originals accounted for an average 61% of weekly's top ten most watched minutes.

New content is also a key driver of subscriber growth.

4 Production gets more important as catalog gets more expensive

Cost of acquiring streaming rights has risen significantly over last 5 years - main media producers should benefit from licensing agreements (catalog) and in producing end.



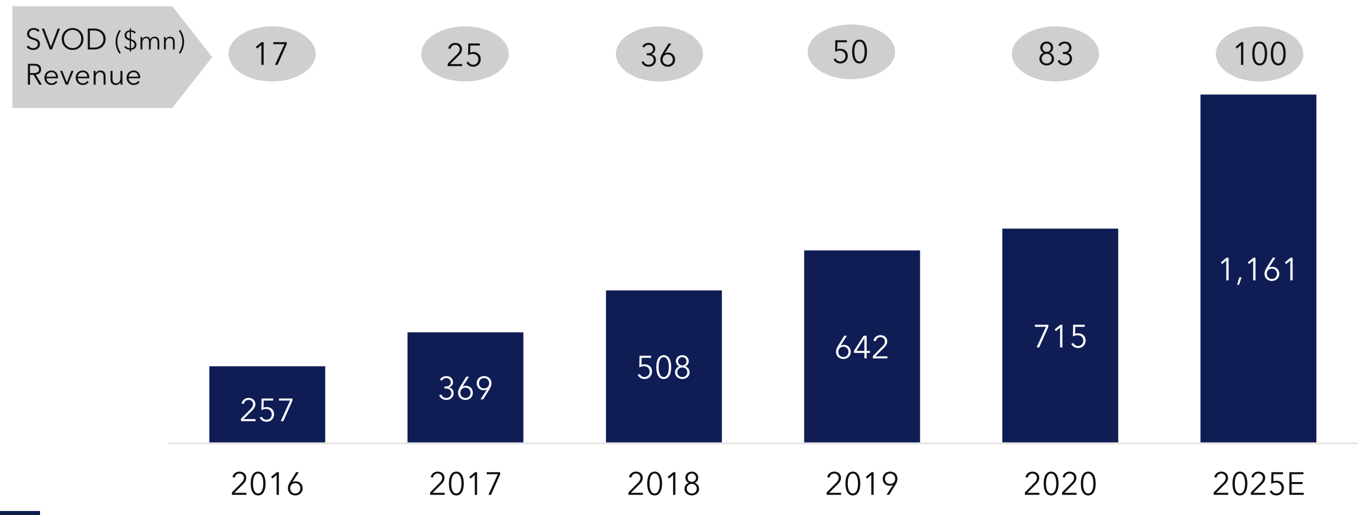
From clicks to clicks

The Walt Disney Company

DTC was boosted by COVID-19 pandemic but growing trend was already visible in previous years as a result of **(i) technology development, (ii) tougher piracy restrictions, (iii) theater experience transformation and (iv) Asia-Pacificic increasing participation.**

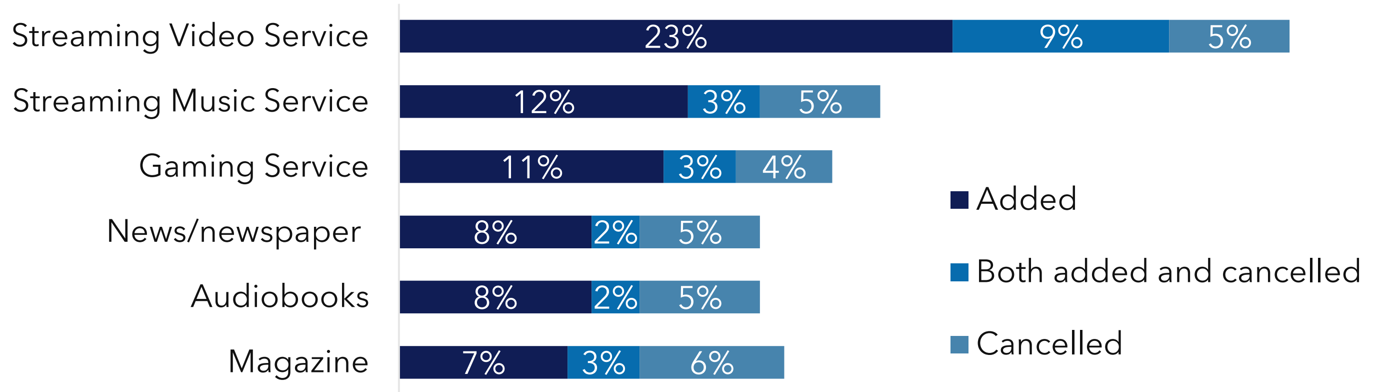
1 SVOD is growing and it is growing fast

Number of SVOD subscribers (mn)



2 DTC video streaming was more subscribed by U.S. adults during COVID

Changes in paid subscriptions since COVID-19 pandemic began



Main Drivers

Number of devices capable of supporting digital media, internet access speed and 5G will provide consumers an option to watch content anywhere, from any device and anytime.

Decrease piracy will also encourage consumers to find its favorite content into streaming platforms that own its rights and licences.

Transformation of cinema experience into a more exclusive, better quality and pricier alternative seeking diversification. Theaters converted to couple seating pattern.

Asia-Pacific will surpass North America as world's biggest region in streaming revenue.

Source: Statista, Deloitte

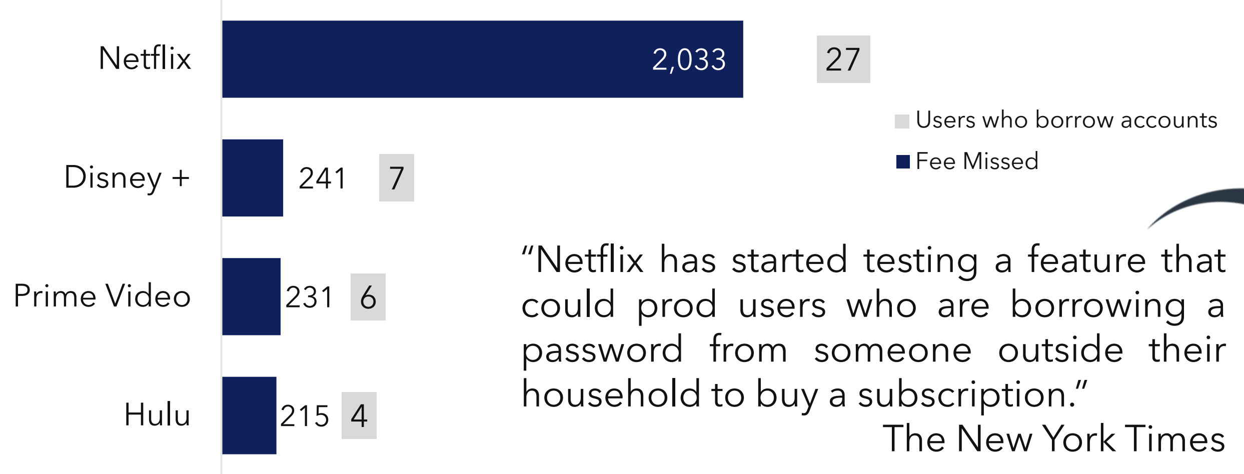
In the next episodes...

The Walt Disney Company

Increasing use of tech to solve key problems within industry: password borrowing and customer personalization – mainly through the use of Big Data and AI. Companies also betting on weekly releases as oposed to binge watches – creates regular engagement.

1 The end of password borrowing to market size in U.S.

Estimated password's borrowers and total missed fee in U.S. (in #mn and $mn, respectively)



"Netflix has started testing a feature that could prod users who are borrowing a password from someone outside their household to buy a subscription."
The New York Times

Which represents a loss of $4 bn just in U.S.

2 And increased used of tech – mainly Big Data in AI

Reduce Churn

Customized and unique platform for every subscriber

Production capacity: the more information, the more the power of creation

Is it the end of Binge Watching?

Binge watching was a strategy initially lauched by Netflix, with House of Cards. However, binge watch worked in an environment with lower competition. We believe the best strategy embraces a weekly released content for two reasons:

Habit: once a week for 2 to 3 months, consumer would log into streaming to watch his favorite show. Habit has a costumer captivity potencial.

Marketing: releasing content weekly could engage the title for consecutive weeks; meawhile binged watching release could engage for a lower period of time.

3 Netflix is testing a weekly released content strategy in some shows; meanwhile Prime Video and Disney+ are already releasing its content weekly

NETFLIX → THE LAST DANCE, THE CIRCLE EUA

prime video → THE BOYS, INVINCIBLE

Disney+ → WandaVision, THE MANDALORIAN

Source: Cordcutting.com

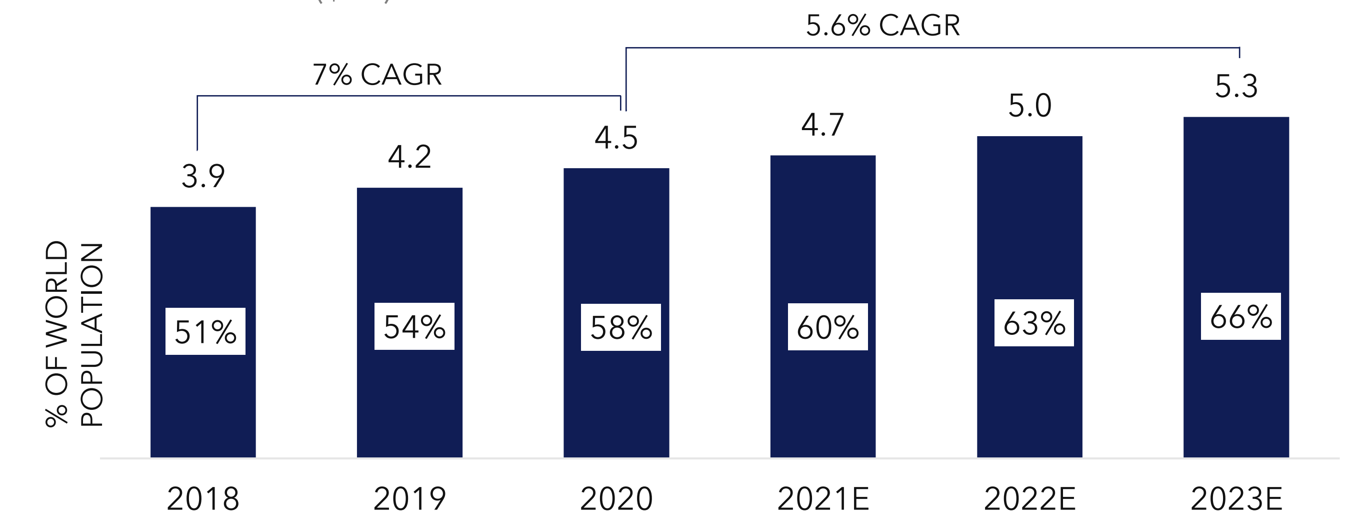
Internet growth is far from done

The Walt Disney Company

Addressable market should continue to rise as internet penetration increases as services get cheaper, infrastructure expands and technologies are developed (5G). We estimate a 2023 1.7bn subscribers TAM – as a result, revenue pool should reach $22.5bn including a 73% growth over next five years.

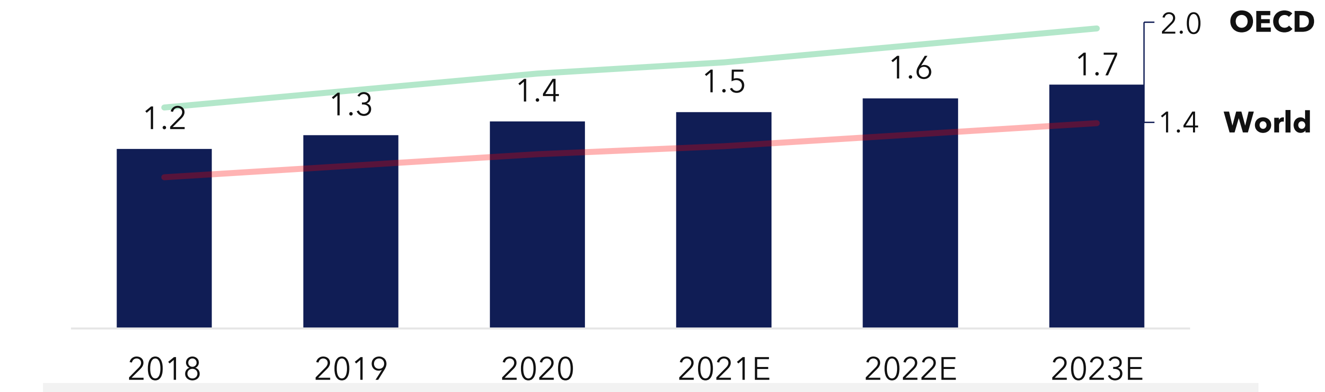
1 Internet users to grow by 800mn by 2023 (66% of est. 8bn pop.)

Global internet users ($bn)



2 Subscriber addressable market should reach 1.7bn by 2023

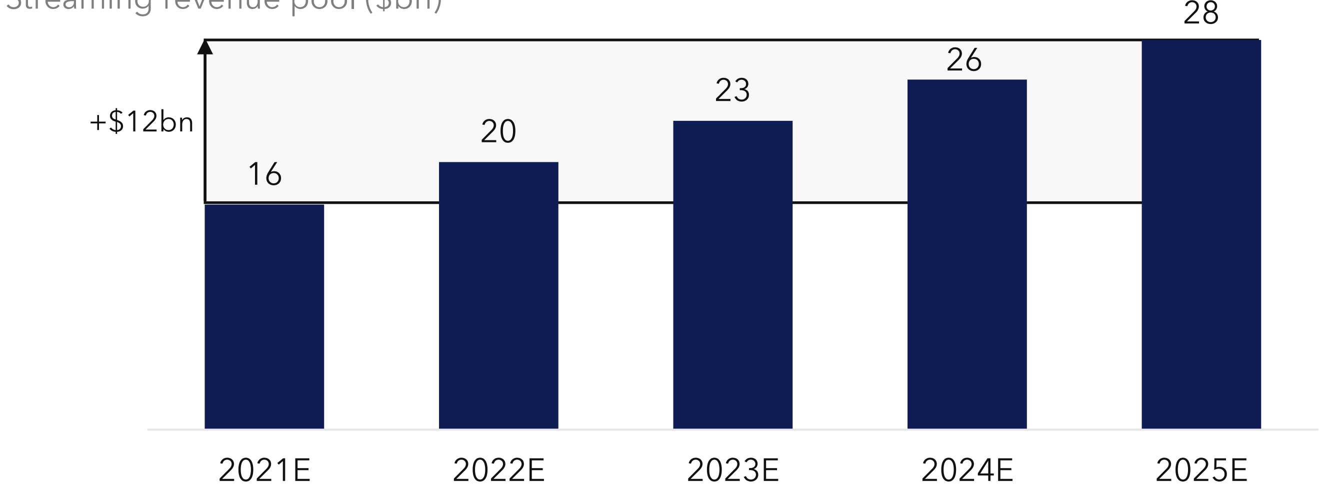
Global internet users (bn)



Considering a mean 3.2 users for every SVOD subscription – average between OECD's 2.6 members/household and world's 3.8. Addressable market could range from 2.0 – 1.4 bn (base = 1.7 bn)

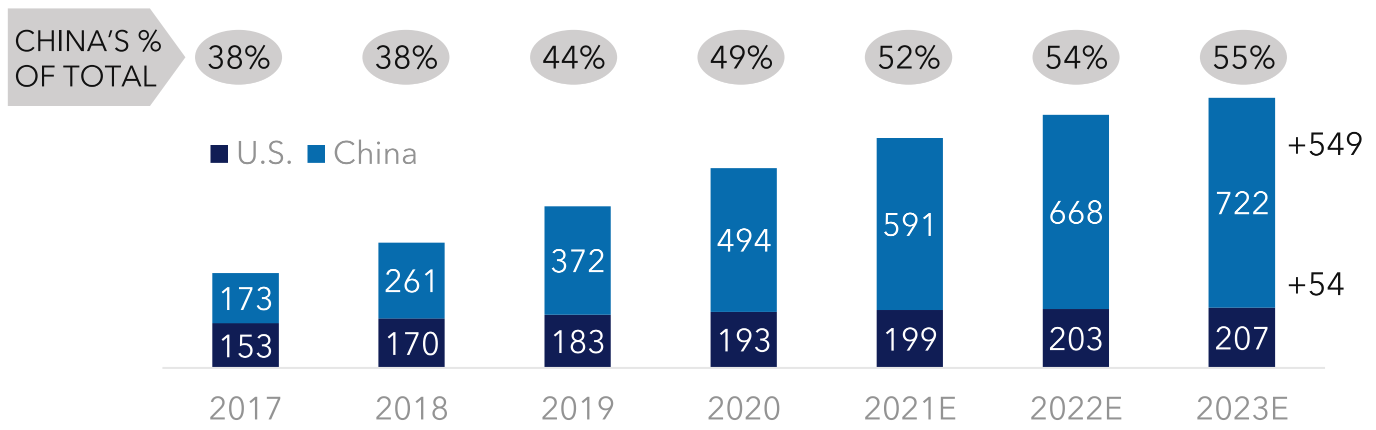
3 Revenues should follow the same trend as subscribers enter

Streaming revenue pool ($bn)



4 Subscribers mainly coming from China – extending lead over U.S.

Number of viewers (mn)



Source: Cisco, OECD, UM, U.S Labor and Statistic, PwC, Deloitte

Grab your snacks, competition is coming…

The Walt Disney Company

Netflix disruptive business model started aggregation and then creating their own content. It is faced a current scenario where multiple content producers - with huge libraries - are starting their own platforms. This new dynamic changes DTC industry - lowering barriers of entry and increasing competition.

1 A quick review of streaming history

2007 NETFLIX
Netflix launches its streaming services

2008 hulu
Hulu enters the industry to compete with Netflix

2011 prime video
Amazon lauches its streaming platform: Prime Video

2013
First Original Content in Coming:
- **Netflix:** House of Cards
- **Prime Video:** First John Goodman Show 'Alpha House' - Variety.

2019 Disney+ tv+
Apple and Disney enter in the streaming, increasing competition.

2020 peacock HBO max
HBO launches HBO Max. NBC follows with Peacock.

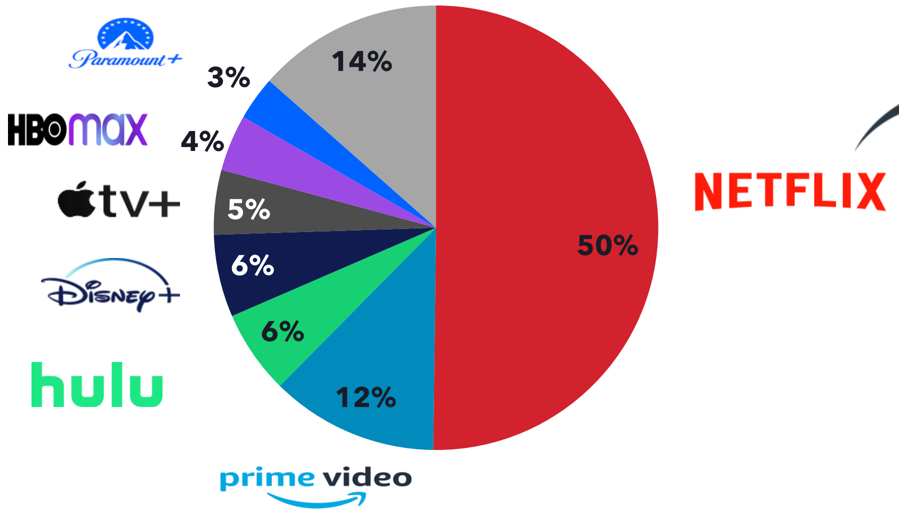
2021 Paramount+
Paramount also enters in the streaming business.

2 DTC video streaming competitors at a glance

SVOD	Price ($)	Simultaneous Devices	Total Subscribers (mn) 2020
Prime Video	8.99	3	150
Disney +	7.99	4	95
HBO MAX	14.99	3	17
HULU	5.99 | 11.99	2	39
Netfflix	8.99 | 13.99 | 17.99	1 | 2 | 4	204
Apple TV+	4.99	6	10
Paramount +	5.99 | 9.99	-	18

3 Netflix still dominates and has audience preference, but competition is coming

Global platform demand share for digital originals (%)



As price been a big issue when choosing a DTC video streaming, we can conclude two things with Netflix clearly dominance:

- Being the first mover matters;
- SVOD Industry is a business that players could create competitive advantage more especifically a costumer capitivity.

Streaming Wars: a huge battlefield

At the end of the day content is what matters and all media companies have a huge libraries. Moreover, SVOD also compete for attention - thereby competition is larger than DTC industry.

1 Key production brands as part of enormous houses of brands

Media brands by company

Disney	AT&T	Comcast	ViacomCBS
A&E Networks ABC Broadcast ESPN FX Network Lucasfilm Marvel National Geographic Pixar Walt Disney Pictures 20th Century Fox	CNN DC Entertainment HBO New Line Cinema TBS Turner Warner Bros	CNBC DreamWorks E! MSNBC Sky Group Telemundo Universal Pictures	BET CBS Comedy Central MTV Nickelodeon Paramount Showtime TV Land

2 But an even bigger competitive scenario

Fortnite Numbers 2020

+350 Mn
Registered players

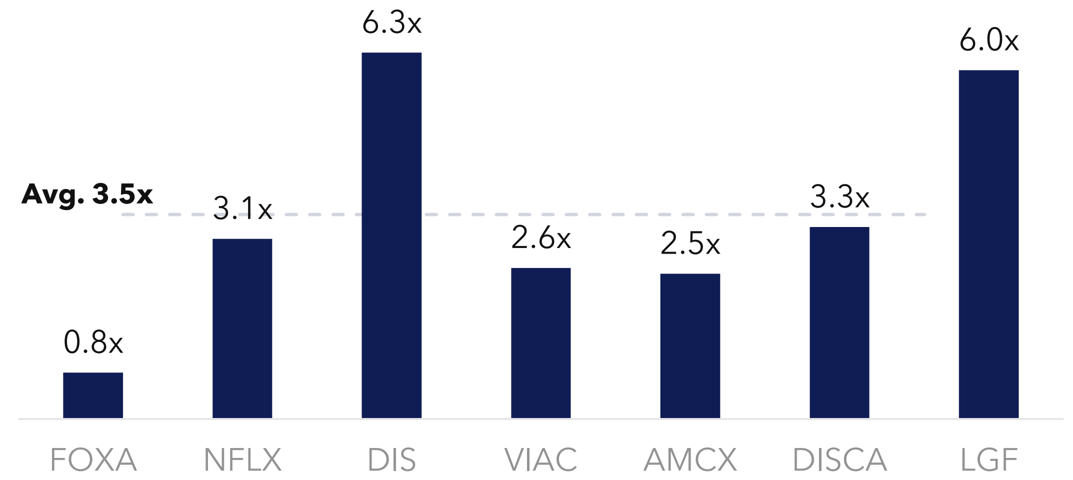
+3.2 Bn
Hours in game

Besides competing with each other, SVOD platforms also compete for attention.
Netflix competes with Fortnite, when consumers prefer to play the game and when they prefer to watch Fortnite's content.

"We compete with Fortnite more than HBO"
Netflix

3 And most traditional media companies have a healtly balance sheet to invest in new content

Net Debt/EBITDA 1Q21 LTM



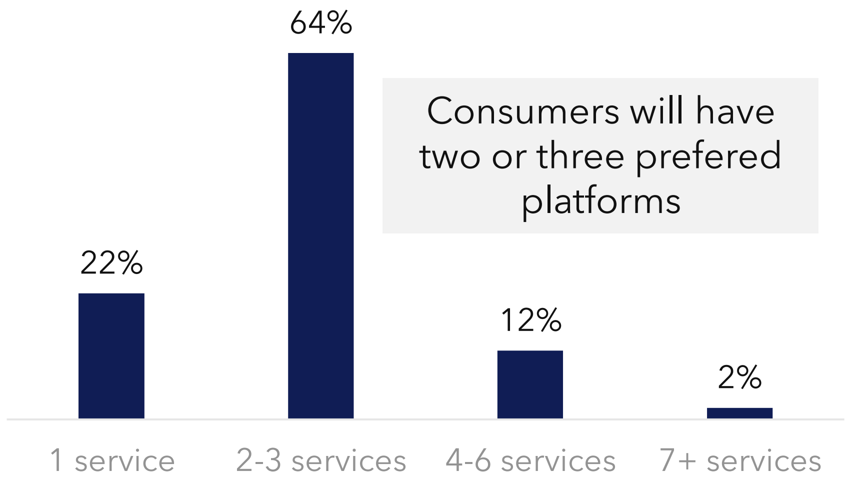
4 DTC video incumbents are not behind

Network	Emmy
NETFLIX	160
HBO	107
NBC	47
prime video	30

Studio	Oscar
NETFLIX	35
prime video	12
Walt Disney	8
WB Warner Bros.	8

5 Not a winner takes all business

How many SVOD platforms do you have access to?



Source: KPMG, Deadline, CapitalIQ

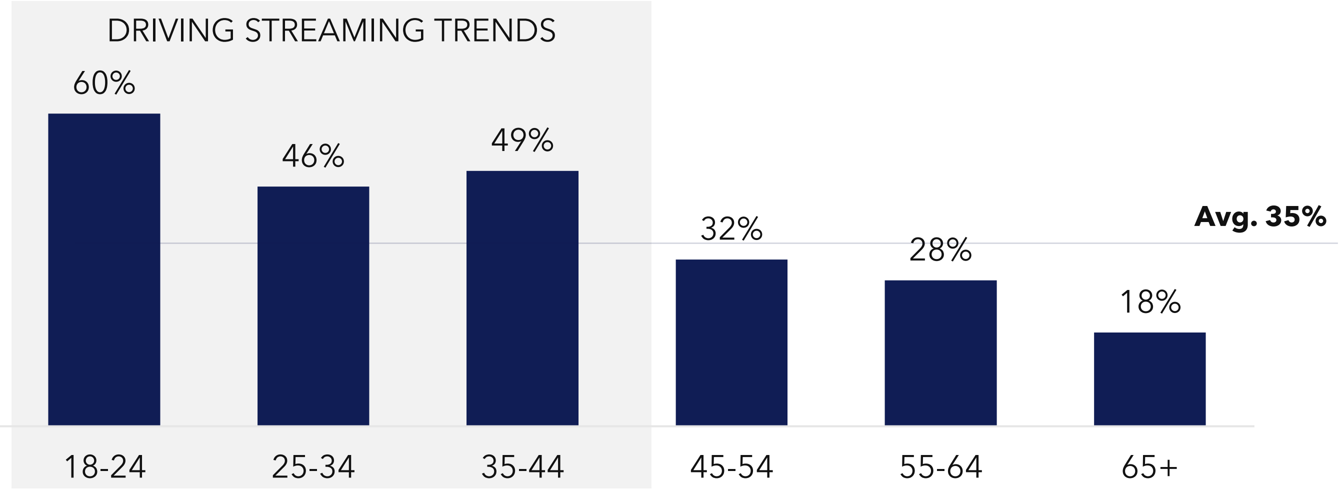
The sports free-way, games-podcast face traffic

The Walt Disney Company

A gradual transition for sports as rights shift to DTC – should be more successful for traditional pay-TV sports channels as a segment of established DTC strategies. A bundled approach could be a client acquisiton plan - as remaining cable subs still held up by sports and news – and also a churn reducer given sports calendar.

1 Streaming audience likely to cut cable as sports shift to DTC

Likelihood to cancel pay-TV if sports are available in streaming (%)



2 Major channels shifting rights to streaming as try to go exclusive

DTC	Current streaming rights (U.S. only)
ESPN+ (Disney)	Baseball (MLB and college), Hockey (NHL), Soccer (Serie A, FA Cup, MLS, UEFA Nations League), Football (NFL Monday Night Football, College), Basketball (NCAA) & Tennis
Paramount+ (Viacom)	Soccer (UEFA Champions and Europa League), Basketball (March Madness), Football (NFL, College) & Golf (PGA Tour)
Peacock (Comcast)	Soccer (Premier League), Golf (U.S. Open Championship), Olympics (Tokyo Summer 2021, Beijing Winter 2022), WWE exclusively & Football (NFL Wild Card)

Currently format mainly includes simultaneous casting but some exclusivity is being negotiated especially in the NFL – Amazon is reportedly paying $1bn annualy to exclusively stream Thursday Night Football games in Prime Video by 2022-23.

3 Segmented and bundled-based approach to thrive long term

	HULU & DISNEY+ 'BUNDLE'	3-SERVICE BUNDLE	ESPN+ BUNDLED PRICE
Disney+ FAMILY	$6.99		
hulu GENERAL ENTERTAINMENT	+ $5.99	$12.99	
ESPN+ SPORTS	=$12.98		+$0.01

Bundle subscribers getting ESPN+ for free:

1. Encourages bundle acquisition given price discount and eases cable-DTC transition.

2. Reduces churn as there is no incentive to cancel during single sport's off season.

4 Difficult entry in other segments due to not being first mover

Other segments might not be consolidated but are heavily concentrated in gigantic first-movers in industries where brand is strong barrier of entry even considering significant CAPEX capability and M&A opportunities.

Gaming

Amazon's Twitch has an estimated 72.3% market share against efforts from Alphabet's Youtube, Facebook and – previously – Microsoft's Mixer in challenging Twitch's reign. Despite managing to hire big names (e.g. Ninja's move to Mixer), public generally stays within the platform (36k average viewers before leaving Twitch vs 12k on Mixer).

Podcasts

Podcast industry's three main players – Spotify, Youtube and Apple – concentrate 58% of total listening minutes – mainly correlated with previous expertise in adjacent segments: Spotify and Apple (Apple Music), through music streaming and Youtube as the main video sharing platform in the world. The podcast ecosystem Spotify-Youtube-Apple Music seems hard to break as it becomes the 'rule of thumb'

Source: Company data, Nielsen, Kagan, Press reports, Dot esports, Business Insider

Should Disney reinvest dividends on streaming?

The Walt Disney Company

ADDRESSABLE MARKET

We estimate a 1.7bn subscribers TAM by 2023 considering a 5.3bn internet users and an average 3.2 members per household. Revenue should grow 73% over the next five years to a total of $28bn.

HISTORICAL & PROJECTED INDUSTRY GROWTH

Subscription Video On Demand (SVOD) growth supported a 29% CAGR$_{2016\text{-}20}$, and the projected growth of this industry is reaching a 10% CAGR. Moreover COVID-19 and social distancing accelerated this growth - many people started subscribing to paid video streaming platforms while staying at home. DTC video streaming will continue to grow at a accelerate pace in 2021, even considering the new normal and subscription cancelling possibility.

MAIN DRIVERS

Amongst key drivers to subscription and revenue growth are: **(i) technological and internet development**, enabling users to access content from anywhere and whenever, **(ii) tougher piracy politics**, allowing access to licensed content through streaming, **(iii) theater experience transformation,** as differs by becoming a more expensive and higher quality service and **(iv) underpenetrated Asia-Pacific region,** that will surpass North America as the main streaming revenue generator.

COMPETITION ENVIRONMENT

The competition environment is fiercer as platforms enter the game. But the difference to other industries is that these new entrants are already an incumbent in Media & Entertainment Business. These players have content to put in their catalog and have healthy financials to invest in new content or subsidize costumer. Besides competing against each other, players in DTC business also compete for attention, a bigger competitive scenario.

GROWTH AVENUES

Main growth avenue available is **sports** – cable TV subscribers mainly have not dropped it because of sports and news. Current major leagues contract renegotiations should allow DTC companies (that own sports channels such as DIS-ESPN) to shift some of the games to streaming as a start for future exclusive deals. Other avenues – esports, podcast – already have consolidated first-movers.

WHAT MATTERS

Streaming industry can be summarized in two aspects: **price** and **content.** A relative price sensitive industry as 25% said they would not pay a cent more for streaming services – industry should concentrate in 2 services per person. Content-wise it can be highlighted the importance of not only having a broad catalog but also original content initiatives.

THE REWARD

Customer preference in an industry currently worth $83 billion, which is growing at a forecasted 15% CAGR$_{2018\text{-}25}$.

CONCLUSION

Although having an established platform in Disney+ and a vast previous library to support content demand, we believe that **Disney should permanently suspend its $3bn annual dividends to finance streaming operations** given the large need of cash for original content creation – key to consumer retention and acquisition - and high growth prospects for industry boosted by Disney's brand recognition and excellence which makes it a contender for coming out on top – beyond having a unique synergy between DTC and other businesses.