Paul Verna

The Daily: Is Disney moving in the right direction, why Roku is doing better than expected, and why WBD is not

Audio

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On today's podcast episode, we discuss what a completely Walt Disney Co.-owned Hulu will look like, if the entertainment giant has a Marvel problem, and whether Disney+ can ever rival Netflix for the subscriber crown. "In Other News," we talk about why Roku's revenues and streaming hours are doing particularly well and why Warner Bros. Discovery's ad revenues and subscriber growth are not. Tune in to the discussion with our vice president of content Paul Verna.

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Episode Transcript:

Marcus Johnson:

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Paul Verna:

Well, it was supposed to be the Switzerland of streaming services. It's turned into something much different, and in many ways, it's turned into something bigger than the original partners expected and it's also really turned into its own brand.

Marcus Johnson:

Hey gang, it's Tuesday, November 28th. Paul and listeners, welcome to the Behind Numbers Daily and eMarketer podcast. I'm Marcus to them joined by our vice president of content who heads up our global coverage of advertising, media, technology and social media. He's based just above the city in New York. You know him as Paul Verna.

Paul Verna:

Great to be here, Marcus.

Marcus Johnson:

Hey, chap, thanks for hanging out today. Today's fact, I don't think this one's true. It's going to get out.

Paul Verna:

Well, it's a fact, isn't it?

Marcus Johnson:

Yeah, it's supposed to be, but it's also not at all. It is, but it's not. I just can't wrap my head around it. Our bodies are home to over 60,000, six zero, thousand miles of blood vessels. This seems wildly inaccurate, but it's not because backed by... So it's according to everyone, basically. Anyone who's a science person or medical anything, this Cleveland Clinic, National Institute of Health, the British Heart Foundation, everyone.

Paul Verna:

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I've heard that stat before and all I can say is that's not how I want to get to the moon. I'll just take a space suit and a nice little rocket, but not stretching myself out that way.

Marcus Johnson:

It's too many miles. It just feels like someone accidentally added a zero and they went 60,000. Was it supposed to be 6,000? We'll call it 60. For context, that's two and a half times round the world worth of blood vessels in your body. I don't think it's true. Let's pretend it's not.

Paul Verna:

It's crazy.

Marcus Johnson:

Anyway, today's real topic, is Disney moving in the right direction?

So in today's episode's, first in the lead, we'll cover Disney. Then for another news we'll discuss how Roku and Warner Brothers Discovery are getting on. We're starting with Disney, Paul, and the recent news that they're going to become the sole owner of Hulu, buying Comcast's remaining 33% stake for at least $9 billion.

Paul, some folks, sometimes I forget as well, but they may think to themselves, "Oh, I thought they owned the whole thing," but they didn't. They owned two thirds and Comcast has had the other third forever, and now they're going to give that third or sell that third, to Disney, so they'll be the sole owner of Hulu. What does that mean, first for Disney, and then for Comcast?

Paul Verna:

Well, first it's understandable that people have been confused about this because Disney took control of Hulu when it bought Fox, but it didn't have full ownership, so in an equity sense, Disney has been at two thirds and now they're going to acquire the remaining third.

As far as what it means, I don't know that it has tremendous meaning in the industry because it's really more about Disney's bottom line, the transactional aspects, and really the price, when it comes down to it. I mean, you mentioned the price that is a minimum of 8.61 billion based on how Hulu was valued when Comcast and Disney came up with this deal about five years ago. But there was always a provision that it would be based on, that would be a minimum, but it would be based on fair market value at the time of the execution of the deal,

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which is now. I think depending on who you ask, the value of Hulu is either lower or higher than that. I'm on the side of higher, and quite a bit higher, so I think-

Marcus Johnson:

Has to be.

Paul Verna:

Yeah, I think what's going to end up happening is first of all, the appraisal is going to come in much higher, and I will not be surprised if there is significant tension and maybe lawsuits between the two companies to arrive at a deal. I don't see this going smoothly. I think there's going to be some-

Marcus Johnson:

Haggling over the-

Paul Verna:

Yeah, some haggling.

Marcus Johnson:

Yeah, probably because I mean, it's a very valuable property. I mean, number one, Hulu is one of the few streaming services that actually turns a profit, Netflix being the other. Number two, our briefings team noting that 7% of Hulu subscribers watch the service with ads, according to some antenna data. That plus their strong overall subscription numbers and pay TV service gives Hulu a higher average revenue per user figure than most streamers. Then third, we estimate that Hulu has the third most viewers, not subscribers, but viewers of any streaming platform, paid or ad free, in the US behind the usual suspects, Netflix and Amazon Prime Video, and also they've got Hulu with live TV. That's 11 million viewers, which is second to YouTube TV with 15 million in the streaming TV space. So there's a lot there to get excited about to get, to get sole control over it.

Paul Verna:

Yeah, absolutely. Yeah, I mean, Hulu started out as this amalgamation or really, this almost consortium, of all the major media companies rolling out a streaming service very early during the streaming era. It was an experiment. It was a way for them to keep control. It was

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supposed to be the Switzerland of streaming services. It's turned into something much different, and in many ways, it's turned into something bigger than the original partners expected, and it's also really turned into its own brand. So it does have a lot of equity, a lot of brand value.

Marcus Johnson:

The price has to be higher than what we were talking about. I mean, the other thing here is there's a lot of room to grow, because even though it is such a significant player, in terms of time spent, our numbers suggest that it's just accounts for 12% of all the time spent watching connected TVs. Just 12%, YouTube's at 26, Netflix at 21, it is in third place with 12%, Disney+ has 3% for reference, but just 12% of the pie, that could definitely grow. So try and get people to spend more time with the product is going to be a key to this, but it's incredibly valuable for a lot of different reasons that we just mentioned.

Paul, let's turn our attention to the other streaming part of Disney's business, Disney+, Disney added 7 million new subscribers to Disney+ and Hotstar, which is what's called in India, in Q3, bringing its total to over 150 million. 1-5-0 million. It has 112 million Disney+ subscribers, 150 million Disney+ and Hotstar people combined. Disney's goal though, Paul, was 215, 2-1-5, to 2-4-5, 215 to 245 million subscribers by the end of 2024. That's the end of next year. This goal they had used from the jump when they launched the platform. They were saying that's where they wanted to get to.

So do you see Disney+'s 150 million subscribers at this point as glass half full, pretty good, lots of people, or glass half empty, because they're not that close to the goal they set out.

Paul Verna:

I see it as about three quarters full and half.

Marcus Johnson:

That's not a saying. It is now. That's a good one.

Paul Verna:

Yeah, so I see it as, I mean, 150 million is a big number, but getting to that 215 or more, is going to be much easier said than done, especially within a year. And there also have been a lot of rumblings about Disney selling its India business, so if that happens, then they would obviously

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lose a big part of their subscriber base, so I don't think they're going to get to 215 by this time next year. I think they're actually going to move the goal posts and potentially merge the brands, Disney and Hulu. At least outside the US, because Hulu doesn't operate outside the US, so if they consolidate the two services or their content offerings and basically roll it out or try to expand Hulu in countries where it doesn't currently operate under a Disney brand, something along those lines. But maybe an escape hatch so that they don't have to go back to that original number for Disney+, so in other words, there may be another way they can spin it.

Marcus Johnson:

What do you make of this plan to combine Disney and Hulu into this one app experience is what they're saying, so by the end of this year... Hulu will also continue as a standalone product, charging $18 for ad free access, $8 for an ad supported option. But yeah, is this Hulu and Disney+ into one app a good or bad idea in your opinion?

Paul Verna:

I think it's a little murky. On the one hand, people want a unified experience. There are too many streaming services out there. There's a lot of churn and it's a way to capture more people. But if they're still going to run Hulu separately, then I think it just creates a lot of confusion in a way that other companies like Warner Discovery have done where they've really just pivoted with so many brands and shut certain brands down, consolidated others and just made the whole thing very confusing.

I would not like to see Disney go down that path, but I also don't see a whole lot of value in putting these brands together under one app unless it's a precursor to consolidating them completely. I also by the way, see the possibility of Hulu remaining as the live TV brand. You mentioned Hulu with live TV. So Hulu basically becomes a TV brand and then Disney becomes a brand for everything else, for all the on-demand content.

Marcus Johnson:

Yeah, that's an interesting take. Something else that Disney is going to have to fight against in terms of, it's 150 million subscribers, it's easier to get your first million than it is your next few. And now they're going to have to contend with, they say they're going to spend $2 billion less on content next year. Now, they were already trying to be more profitable, a lot of these streaming services, before the strikes, the actor strike, the writer strike, but they're spending

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2 billion less on content, so they're spending less on content, but still trying to attract more people, number one.

Number two, Disney though Paul is planning, at some point, to pull the password sharing lever, or lever, so that could help give them a bit of a shot in the arm. Interesting to see that half of the new Disney+ signups in its latest quarter chose the ad supported tier, so they're also trying to ramp that business up.

Paul Verna:

They definitely have some room to maneuver there with the password sharing, but I think the spending a lot less on content and expecting big subscriber growth, that is definitely trying to have your cake and eat it too, or trying to have it both ways, I should say. So yeah, we'll see how it all plays out. I think they may be a little timid with the password sharing because Netflix has been out in front and more aggressive with that, and I think in general, at least their short-term results have been very good. So I'm not sure what Disney is waiting for to do that. They probably should have already done it.

Marcus Johnson:

Yeah. Yeah, maybe they're a bit nervous because of user fatigue from other services and whether they say, "Look, I can do it with one, but I'm not going to do it with you as well."

Paul Verna:

Right.

Marcus Johnson:

Let's finish talking about Disney pivoting and talking about their Marvel cinematic universe. So there was an article in The Wall Street Journal, and it's from Dan Gallagher saying, "Marvel's bomb won't blow up Hollywood's formula," saying that movie audiences are tiring of overused franchises. The Blockbuster success of Barbie and Super Mario demonstrates the value of familiar properties. The article was saying basically that the Disney Marvel cinematic universe has been the most successful movie franchise in history, grossing nearly $30 billion, 3-0 globally, over 33 films to date. Seems like a lot more than that Paul.

It was saying that The Marvels though, the latest film, The Marvels, grossed a mere 47 million for its domestic box office debut, a record low for the franchise, and a major disappointment

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even against other recent Marvel movies, which have been showing signs of strain, pointing to nine other Marvel movies that have opened since the pandemic, closed movie theaters in 2020. They've averaged a domestic opening a weekend of basically three times what this latest one did according to Box Office Mojo. So Paul, do you think Disney has a Marvel problem?

Paul Verna:

I think the fundamental problem is when you overdo it with any of these franchises and you just tire people out, or when you just put out stuff that's just not great, not creative, and just repeating the formula. So I don't know if it's specific to Marvel. I think Marvel still has such a huge following as a brand that it's entirely conceivable that the next one will be great, but it's not the first time that one of these big franchises has hit that fatigue factor, so I think they've just been overdoing it. I mean, you made a crack a moment ago about how it seems like there've been more than there to be the 30 films, so that in itself is an indication of just too much of a good thing.

Marcus Johnson:

Yeah, you'd think but people keep consuming it. I don't have the year to year numbers in terms of if you stacked up all the Marvel across the years, these films, I said these films, is it going down? Are people going to Marvel movies the most because they're the big blockbusters, but they're going to them less than they used to? Because if you look at, this article has a list of the top, so Global Box Office Sales, Top US releases 2023, and it's Barbie number one, which again, that's a known franchise. That's not like a brand new thing, it's a known franchise. I mean, in terms of it being a brand.

Super Mario Brothers movie, obviously known franchise, and even though that was the first one, it's not a remake, but there have been Super Mario Brothers movies before. Oppenheimer, that's the one that stands out here.

But then if you look at sequels and remakes, they're basically fourth. Guardians of the Galaxy 3, fifth. Fast and Furious 10, I think, sixth. Spider-Man, Across the Spider Verse, Little Mermaid, Mission Impossible, et cetera. You get the point. And so it seems like there is a bit of fatigue here, but people still seem to be going to... Maybe it's just because that's all you can go and see. There's nothing else to go. There's not a remake or a sequel, but it does seem like familiar works.

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Paul Verna:

Yeah, I mean it's true that, at this point, almost the entirety of the theatrical film business is about sequels and franchises. So yeah, there's not much more to see. I think the issue becomes just what it costs to make these things and what the return is.

Marcus Johnson:

Good point.

Paul Verna:

If the latest Marvel film has grossed 100 million or whatever, that's just not going to cut it because these things now cost 200 million and up to produce. So it becomes diminishing returns, so you have to hit that wave when you're investing a certain amount, but you're maybe spacing them out more and getting people to come. But if you look at franchises through history from, whether it's James Bond or Top Gun or Indiana Jones or Star Wars, they've all hit troughs, and we've seen the latest Indiana Jones movie was not a success. James Bond has been up and down through the years, so you're not going to hit it every time, but at some point the franchise has value. So I think you just have to get creative and reimagine it.

I think a lot of the superhero movies, not just Marvel, are an example of that where when you've seen a really fresh take on it, like Wonder Woman a few years ago. When somebody comes up with a novel way to approach the franchise, refresh it, then it can reinvigorate it and that's probably where Marvel is right now. I think they just need to take a step back and rethink it.

Marcus Johnson:

Yeah, Batman, The Dark Knight, huge numbers for a very familiar franchise. That's what we've got time for the lead, skip the halftime report. Let's move straight to the second half of the show today. In other news, how Roku and Warner Brothers Discovery are currently positioned.

Speaker 3:

Power back one.

Marcus Johnson:

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Story one. Roku grows both revenues and streaming hours by 20% or more in Q3, writes our senior director of briefings, Jeremy Goldman. He points out that free and supported TV or fast viewership in the US has eclipsed 50% in recent years, and Roku is well positioned to capitalize on the trend, especially in a moment where inflation has made many households more sensitive to cost. But Paul, what do you make of how Roku is currently positioned, given a pretty well performing Q3?

Paul Verna:

Well, I would go farther than saying they're poised to capitalize on the trend. I think they're driving the trend. I mean, they are the biggest player among fast channels, and I wouldn't say they created the category, but they definitely supercharged it. And what I keep coming back to, and I promise you and your listeners that I won't keep doing this every time I look at Roku's numbers, but I'm always amazed at how, in a few short years, they've transformed themselves from a hardware device company to an advertising company.

I mean, the net revenues they posted in this last quarter, 86% of their revenues are now from advertising.

Marcus Johnson:

Wow.

Paul Verna:

So that's about a complete reversal of what we would've seen, I don't know, three, four or five years ago, where advertising was just a fraction and the rest was coming from the Roku boxes. So I think that in and of itself is amazing. But of course the video advertising business is extremely competitive, and getting more competitive every day when you have the likes of Netflix and Disney+ and soon Amazon joining the game, Apple's probably not far behind. So it's a high stakes game, it's very competitive, but I think Roku is in a good position to continue being a leader.

Marcus Johnson:

Story two. Our briefing's analyst, Daniel Constantinovich writes that Warner Brothers Discovery posted lower than expected Q3 earnings with a significant drop in ad revenues and slow subscriber growth that show Hollywood strikes taking their toll. It's certainly being a mixed bag of results for the company. On the plus side, revenue met expectations with $10

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billion. The Barbie movie brought in 1.5 billion in revenues in Q3, and streamings over $100 million in profit was its second ever profitable quarter.

The other side of the coin shows the company's TV segment ad revenues down 12% year-on-year, and streaming subscriptions falling 700,000. But Paul, what's your biggest takeaway from Warner Brothers Discoveries Q3?

Paul Verna:

My biggest takeaway is that they are attributing a lot of these losses to the strikes, and I'm not one to minimize the effect of the actors and writer strikes. I think they have been very disruptive and the effects are going to linger for probably another nine months to a year. But I also think that this company has been one of the clumsiest and most impulsive in terms of how it approaches streaming business, in terms of branding, in terms of content investments, in terms of decisions made to cut movies that were already made, and just a lot of whiplash shutting down CNN+. Right down the line, this company has, I think, taken a lot of missteps. So whenever you see bad results being attributed to anything, you have to wonder is that really what's going on?

I think it's partly responsible. I think the strikes are partly responsible for these results, but I think there's a lot more going on beneath the surface.

Marcus Johnson:

That is all we have time for this episode. Thank you so much, Paul, for hanging out today, mate.

Paul Verna:

Always a pleasure.

Marcus Johnson:

Yes, sir. Thank you to Victoria who edits the show, James, who copy edits it, Stuart who runs the team, and Sophie who does our social media. Thanks to everyone for listening in to the Behind the Numbers Daily and eMarketer podcast. We hope to see you tomorrow where you can hang out with host Sarah Lebow on the Reimagining Retail Show. She'll be speaking with Ariel and Catherine all about the changing ways that Gen Z are shopping.

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