

The Daily: Disney's next moves, where Roku stands, and what YouTube Premium has proven

Audio

On today's podcast episode, we discuss how the upcoming giant sports streaming service from Fox, Warner Bros. Discovery, and ESPN benefits The Walt Disney Co.; what will happen when Hulu and Disney+ combine; and why Disney is now choosing to invest so much in Epic Games. "In Other News," we talk about what to make of Roku's current market position and what YouTube Premium has taught us about ad-free video. Tune in to the discussion with our analyst Ross Benes.

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Episode Transcript:

Marcus Johnson:

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Ross Benes:

Sports leagues theoretically could benefit from this because it could bring in another bidder of rights and it could end up being a good thing, but there's no guarantee they're all going to view it that way. There's a lot of different leagues involved, so there's a lot of different entities that could challenge this and tank it before it ever arrives.

Marcus Johnson:

Hey gang, it's Thursday, March 7th, Ross and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by Nielsen. I'm Marcus. Today I'm joined by one of our senior analysts who covers everything digital advertising and media for us. He's based just north of New York City. It's Ross Benes.

Ross Benes:

Hey, Marcus.

Marcus Johnson:

Hey fella. Thanks for hanging out today. Today's fact is talking about the largest animal on earth, which is the blue whale. So I didn't know much about the blue whale, Ross. I'm going to be honest.

Ross Benes:

Yeah, I don't either.

Marcus Johnson:

I don't know why I would know much about it, but it is the largest animal on earth, so maybe I'm surprised it's not the largest, the smallest, the fastest, the slowest. I feel like those things it talks about quite a lot, but I had no idea any of these facts about the blue whale. They can grow to be around a hundred feet long. So for context, that's two and a half buses end to end. This is why I don't go in the ocean.

Ross Benes:

Oh, yeah, it's terrifying.

Marcus Johnson:

Can you imagine, there's something the length of three buses swimming at you? Nope. The whale weighs 300,000 pounds. That's 25 elephants. The heart of the blue whale is five feet long and weighs 400 pounds. Just the heart. They can live until they're about 90, which is very long. This one's heartbreaking though. Sadly, there are only about 10 to 20,000 left in the ocean. For the oceans. Not one specific ocean. There are a lot more, but early 1900s to 1960, I think a lot of them were hunted and killed.

10 to 20,000 left. Anyway, some facts on the blue whale. Fascinating. I'm still not going in the ocean. Too big. Today's real topic, Disney's next moves.

In today's episode, first in the lead, we'll cover Disney. Then for in other news, we'll discuss where Roku stands at the minute and the significance of a huge YouTube Premium milestone.

We start Ross with the lead. We'll set the table in case folks haven't been paying attention to how they've been doing recently performance wise, looking at their earnings, our briefings writer Daniel Constantinovich explains that. The company made 24 billion in revenues in their latest quarter. That's on par with the same quarter a year ago. Net income for the quarter was nearly 2 billion. That's up from 1.3 the previous year, so that's much better. And streaming losses were around \$200 million. So they still lost money, but that's drastically better than the over billion dollars that they lost a year ago.

So that's the financial picture for the company, but we're going to start Ross with this huge deal that ESPN, Disney by proxy is a part of, huge streaming deal. ESPN, Fox and Warner Bros. Discovery recently saying they're going to combine their sports content into a giant sport streaming service by this coming fall in time for the NFL and NBA seasons.

The new streaming product combines 14 linear networks across the three companies, including channels like ABC, FS1, TNT, ESPN, the SEC Network and more. The new streaming service will include content from all of the sports leagues pretty much, NFL, NBA, WNBA, MLB, NHL, college sports, NASCAR, et cetera.

Still no name or pricing details, but Ross, looking at this from the, we covered this already, I think it was our Super Bowl episode, looking at all the different players, but looking at it from just the kind of Disney ESPN angle, how does the Fox-Warner Bros. deal benefit Disney's ESPN?

Ross Benes:

Well, ESPN is going to be the anchor of the product. If you look at who has the most valuable sports rights, Disney's sports rights are more valuable than Turner and Fox's combined, and most of the revenue for this product is going to flow toward Disney. I don't think it's been entirely hashed out, but there's been suggestions that even though each company owns a third, the revenue will be apportioned, kind of like how the cable subscriber fees are for each channel. So it definitely costs more to have. The amount of dollars that ESPN gets per cable subscriber is definitely higher than TNT or FS1.

If this product takes off, it's only going to further see ESPN as the established sports service because if anyone's chipping away at ESPN right now, it's the companies that aren't included in this like Amazon.

Marcus Johnson:

Right. Right. Yeah. In terms of the splits, that's going to be interesting to see how they divvy up the dollars, because you're right. Yeah, just in terms of sheer volume of channels, Disney is contributing more. So just to break it down for a second-

Ross Benes:

Well, it's not even just channels either. The Turner channels aren't even sports channels. Like TNT and TBS aren't necessarily sports channels. TNT might have a few NBA games on.

Marcus Johnson:

They have. Exactly.

Ross Benes:

You know what I mean?

Marcus Johnson:

Yes.

Ross Benes:

Most of their programming isn't sports. So if it was a tricycle, the Turner leg would be a very weak leg, and the Disney one is so much more dominant.

Marcus Johnson:

Yeah. Yes. Yeah. Warner Bros. Discovery, they've got TNT, TBS and TruTV.

Ross Benes:

And TruTV, that's like 15 March Madness games. That's the only sports they do in the entire year.

Marcus Johnson:

Right. Fox has Fox, then they've got FS1, FS2 and the big 10 network. So that's about seven channels combined with Fox and Warner Bros. Discovery. And then Disney has the rest, ESPN, ESPN2, ESPNU, ESPNNews, ESPN+, ABC, SEC Network, and the ACC Network as well. So bringing a lot more to the party than the other two players.

Ross, they also announced Disney and therefore ESPN that a direct-to-consumer ESPN streaming service will launch in the fall of next year, 2025. That will include personalization features and also access to sports betting platform, ESPN BET. Obviously there's ESPN+, but that doesn't contain all the content that the traditional cable version of ESPN has. But this new standalone version will. It'll be taking ESPN from your cable bundle, from your TVs and putting it into a standalone streaming package.

Ross, how do you expect the standalone ESPN streaming service to be received next year, I guess?

Ross Benes:

Well, initially it'll be received very well because it'll be sold cheaply. They'll operate at a loss. So consumers will probably think this is awesome. I'm getting all of ESPN for really cheap, just like you used to be able to get Sling TV for 20 bucks back in 2016. And then over time, ESPN is going to raise it to around its true price, and people will complain and they'll be stuck with the same problem that they have now with cable.

Marcus Johnson:

Yeah. It's been a bit of a turnaround at ESPN. They were struggling, but their operating income, it's in the black again. So that's positive for ESPN.

Also, interesting to see that they'll probably add fantasy to this, fantasy sports to this channel as well, Ross, because like I said, they're going to be having ESPN BET available through this standalone product. I'm sure they'll throw fantasy in there as well. So it's going to have multiple facets, this standalone service, trying to keep folks engaged as much as possible.

But it is further out. You were saying to me before we hit record that you're not convinced that it will actually happen.

Ross Benes:

Well, I'm not convinced that both services are going to launch. So to have the sports streaming venture and the ESPN standalone app both coming out not that far apart, I suspect one of them will not end up being sold as advertised, though the sports streaming venture is more likely to have issues due to you got to get frenemies to work together to start with, and then you just have a massive infrastructure overhaul to get this done. But there's so many legal issues that can tank this.

The Justice Department could look into it as this is a monopoly because you have the holders of the most lucrative sports rights banding together is deemed anti-competitive. The cable and satellite companies are taking issue. Fubo already filed a lawsuit for this reason because if you're cutting out the distributors, the distributors aren't going to like it. You might see challenges from other TV networks that aren't included.

The local affiliates of some of the networks that are included already may be upset. So Fox and ABC Sports will be on here, but if you're like Nexstar or Gray or Sinclair Station that's a local affiliate, it's not clear how you're going to benefit. And local affiliates have been a huge part of sports broadcasting for these companies for years. So they may have a challenge.

The sports leagues, the NFL didn't know this was going to happen until right before they announced it, which is insane. I don't know why you would poke your biggest partner in the eye like that. So some sports leagues, the sports leagues theoretically could benefit from this because it could bring in another bidder of rights and it could end up being a good thing, but there's no guarantee they're all going to view it that way. There's a lot of different leagues involved. So there's a lot of places, a lot of different entities that could challenge this and tank it before it ever arrives.

Marcus Johnson:

Yeah. It was odd that they hadn't, Fox, Warner Bros. Discovery and Disney ESPN hadn't informed the NBA or NFL that they were going to be doing this until basically when they announced it. It does seem like more of a they thought maybe there was going to be a problem and they'd rather ask for forgiveness than permission, perhaps.

Talking about a monopoly, these guys getting together and will actually go through. Citi analysts expecting the new super sport streaming service to encompass about 55% of US sports rights as this was noted in a Wall Street Journal article by Joe Flint and Isabella Simonetti.

Ross Benes:

Something about the anti-competitive thing though, it would be like not in the consumer interest if let's say this gets struck down for being anti-competitive, and then the result is the tech giants just swoop in and get the sports rights like, "Oh, we can't let the struggling TV networks work together. Amazon and Apple have at it," because they're the ones who need the help from anti-competition.

Marcus Johnson:

True.

Looking at Disney's streaming efforts, Disney+ in particular, checking in on those numbers, Robbie Whelan of the Journal was writing that the number of domestic Disney+ subscribers fell slightly to 46 million, likely the result of price increases he was saying, but the service lost fewer subscribers than Wall Street analysts had predicted. Overall, global subscribers to Disney+, including its Hotstar service in India, also fell slightly to 149 million from 150 year-on-year.

And now Ross, there are plans to combine the Disney+ and Hulu brands or content under the same app starting in this month, I think in March. What do you expect to see from Disney's one app experience that will combine Disney+ and Hulu?

Ross Benes:

Well, Disney+ will end up being the brand that matters more than Hulu. They're going to push Disney+ harder, so you're going to have more people accessing content or spending more time with Disney+. I think that's going to take some share away from Hulu, but I guess that's somewhat academic because now Hulu is completely controlled by Disney, so it's still going to

the same company. It's not divvied up among three different companies like it had been in years past.

And you're going to see some weird stuff happen with the Disney+ branding because Disney+, since it launched, it was limited to the goody two shoes stuff that Disney has always released. You could watch old movies like Cinderella and Fox and Hound and new series based on Monsters Inc and very family friendly. Now, you could stream movies that are on Hulu that are more for adults like World's Greatest Dad, which is a very dark comedy starring Robin Williams. You can watch that on Disney+ now, which is weird. But going with kid-friendly or family-friendly content that's primarily aimed at kids will only get Disney+ so far to become a broader service competing in time spent with Netflix and Prime Video. They do need the R rated mature videos and films.

Marcus Johnson:

So do you think they're going to keep the Hulu brand just inside the Disney+ app? Is that what you foresee?

Ross Benes:

Yeah, and I think Hulu is still going to be, you could still subscribe to Hulu a la carte if you so choose.

Marcus Johnson:

Right. You don't have to have them both.

Ross Benes:

Expect more of it to get folded into Disney+. That probably would've happened sooner if they had controlled Hulu even sooner. This is happening now because they had to wait for everything with Comcast's ownership of Hulu to clear.

Marcus Johnson:

Yeah. Yeah, they'd had two thirds and Comcast had one third, and Disney just bought the rest of Hulu, so now it can do what it wants with it.

Final question, Ross in the lead talking about Disney and gaming. So Disney is investing 1.5 billion into Fortnite creator Epic Games in the company's most significant venture into gaming

yet writes our Daniel Constantinovich. Two companies will build what they're calling an expansive and open games and entertainment universe that offers opportunities for folks to play, watch, shop, and engage with content, characters and stories from Disney, Pixar, Marvel, Star Wars, Avatar, and more, so a bunch of the different Disney brands.

Daniel reminds us that Disney was once a publisher of significant games, but in recent years, it stuck to licensing out its properties to establish large budget studios to great success, saying that hands-off approach let Disney skirt the more uncomfortable aspects of video game development, their long, volatile production schedules that can be incredibly costly to maintain. But now Disney is getting directly invested in the process. So Ross, the question is why is Disney choosing to invest so much in Epic Games now?

Ross Benes:

Video games make more revenue than film, television, music combined, and they are a very popular entertainment format for young people. So if you want to become less dependent upon box office and getting the eyes of-

Marcus Johnson:

Which is struggling.

Ross Benes:

Yeah. Investing in games is a pretty reasonable thing to do.

Marcus Johnson:

Yeah. And they've worked together before. Disney and Fortnite have collaborated in the past. Andrew Webster of The Verge, noting that back in 2020 there was an entire Marvel themed season in the Fortnite Battle Royale game. Marvel obviously owned by Disney.

That's what we've got time for the lead. Time for the second half of the show. Ross, today in other news, where does Roku stand at the minute and YouTube Premium hits a heck of a milestone.

Story one, where does Roku stand at the minute? Roku is navigating a challenging landscape in the streaming and advertising sectors facing intense competition for ad dollars from giants like Netflix and Amazon Prime Video writes our senior director of briefings, Jeremy Goldman.

Roku's shares were down 20% recently, following not-so-great earnings and also Walmart's purchase of Vizio. But Ross, what do you make of Roku's current market position?

Ross Benes:

Roku is still the most popular connected TV operating system in the United States. Vizio's going to eat into some of that share because they're going to benefit from Walmart's distribution. Amazon is ready, then gaining some market share by pushing its Fire operating system into more TV brands. But Roku isn't. It's not like they've gone away or anything. I think some of the reactions have been a little dramatic. They still control the home screen for so many people.

Marcus Johnson:

Yeah, yeah, very true. And according to our numbers, they just make the top 10 in terms of digital ad players. We have Roku basically joint 10th with Pinterest in terms of the largest US digital ad players with just under 1% of the total US digital ad pie, just for Roku making \$2.5 billion this year and growing a very healthy 16%.

Story two. YouTube Premium hits 100 million subscribers showing an appetite for ad-free video suggests our analyst, Daniel Constantinovich. He explains that launched back in 2015, a standard subscription to YouTube Premium includes access to both ad-free YouTube viewing, no ads, and YouTube Music for \$14 a month, which makes YouTube Premium. This figure does include folks on free trials though. Daniel notes that its push to increase ad-free YouTube Premium subscriptions puts it at odds with the ad-supported push its competitors have made.

Ross, to you, what's the takeaway of this 100 million subscriber milestone from YouTube Premium?

Ross Benes:

Most streaming services are becoming hybrid. YouTube is diversifying away from being solely dependent on ads in a way that Netflix is diversifying away from being solely dependent upon subscription revenue. YouTube still generates much more advertising revenue than it does for subscriptions, and Netflix does much more subscriptions than it does advertising. But Netflix is walking YouTube's way. YouTube is walking Netflix way, and they meet in the middle like that 1990s country song.

Marcus Johnson:

Excellent point. That's what we've got time for for this episode. Thank you Ross for hanging out today, my friend.

Ross Benes:

Thanks, Marcus.

Marcus Johnson:

Yes, indeed. Thank you to Victoria who edits the show. James, he copy edits it. Stuart runs the team. And Sophie does all of our social media. Thank you to them. Thank you to everyone for listening in, taking a bit of time out of your day to hang out with us. We hope to see you tomorrow for the Behind the Numbers Weekly Listen as an eMarketer video podcast made possible by Nielsen.