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Disney+ adds millions of subs, but its real target is higher user revenue

Article

The news: Disney added 12.1 million streaming subscribers in its latest quarter, up 39% year over year and blowing **Netflix**'s recent 2.4 million quarterly subscriber comeback out of the water.

But streaming growth isn't enough on its own anymore—Disney stock fell more than 6% Tuesday and an additional 13% Wednesday after missing revenue expectations by $1 billion and doubling its streaming operating losses.

Streaming gains: Disney's strong streaming subscription growth in a year in which other competitors (you know the one) have struggled to keep up shows its resilience in streaming, but those numbers aren't driving revenue enough to satisfy investors.

- Not everything moved up and to the right: Streaming operating losses across Disney+, **Hulu**, and **ESPN+** more than doubled year over year to **$1.47 billion**. Disney partly blamed a lack of "premium" streaming content like theatrical releases and said it expects its streaming losses to reach their lowest point in the current quarter.
- The significant subscription growth also alleviates some concerns that consumers would cut back significantly on streaming subscriptions due to inflation and the rising number of competing services.
- Some cutbacks will still likely occur—we expect US subscription over-the-top video subscribers to rise just 2.1% this year and less than 2% for the following four years. But Disney's huge brand presence will benefit it over smaller services, and consumer spending has remained relatively strong.

Pumping up the ARPU: Since adding subscribers on its own isn't enough to please investors, Disney is working to squeeze more value out of them. There are several new initiatives underway to increase the average revenue per user (ARPU) on Disney+.

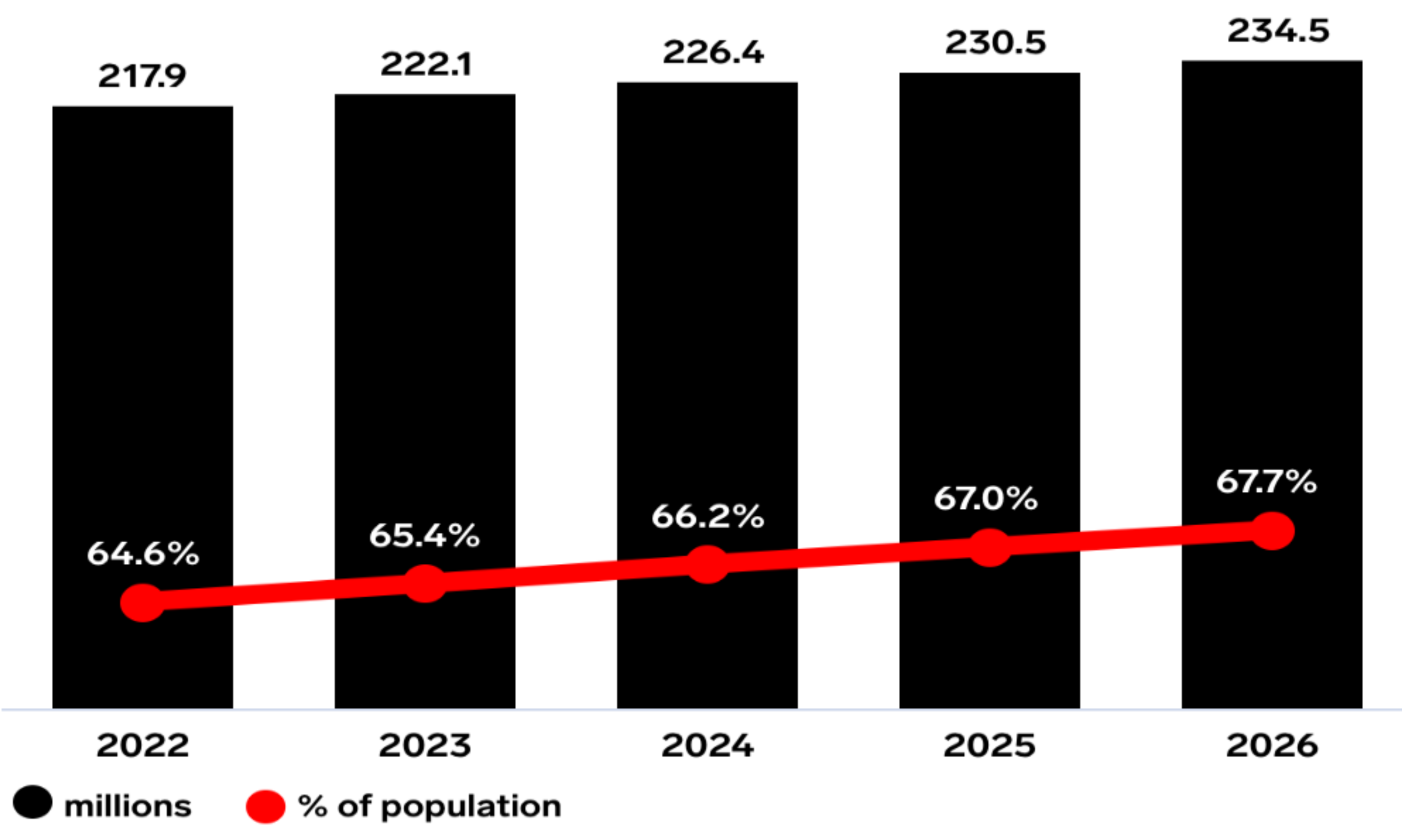
- The streamer announced a significant price hike that will debut with its ad-supported tier in December. The monthly ad-free subscription cost will increase 38% to **$10.99**, and the ad-supported tier will adopt the standard subscription's former **$7.99** price point.
- Disney has also floated the possibility of launching **"Disney Prime"** subscriptions similar to **Amazon Prime** that would give customers access to **exclusive retail products** related to Disney+ shows, among other perks.
- Disney has also looked toward sports gambling. The company is reportedly in talks with **DraftKings** to bring betting features to **ESPN+** in the near future, though it has said in the past that it will never handle betting money directly.

Our take: Strong subscription growth on Disney+ just before a major price hike shows that consumers are still willing to dish out for content—as long as it's viewed as essential or "premium" programming.

- But Disney's aggressive attempts to pump up ARPU show it isn't satisfied with growth on its own. A subscription decline has been on the horizon for some time, and the company warned that subscriptions will slow significantly next quarter.

Subscription OTT Video Viewers

US, 2022-2026



Note: individuals of any age who watch video at least once per month via any app or website that provides paid subscription access to streaming video content over the internet and bypasses traditional distribution; examples include Amazon Prime Video, Disney+, Hulu, Netflix, Sling TV, and YouTube Premium; OTT video services are not mutually exclusive; there is overlap between groups
Source: eMarketer, October 2022

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