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Disney celebrates its first quarter of streaming profits

Article

The news: **Disney** posted **its first-ever streaming profit** in its fiscal Q3, reversing years of losses on **Disney+**. But while its streaming venture became profitable before its end-of-year goal and the box office business had successes, softness in parks could pressure streaming.

- Additionally, Disney is raising prices for **Disney+** and **Hulu**. Both its ad-supported and ad-free tiers will increase by $2 monthly; Disney+ with ads will cost $9.99, while ad-free viewing will be $15.99.
- Hulu's ad-supported tier will similarly climb to $9.99, while ad-free viewing will rise $1 to $18.99. The ad-supported bundle of the two services is increasing by $1 to $18.99.

By the numbers:

- Revenues were **$23.2 billion**, up 4% year over year. "Entertainment" made up the bulk of revenues at $10.6 billion.
- "Direct-to-consumer" entertainment outperformed linear, which brought in $5.8 billion and $2.6 billion, respectively.
- The streaming business, including Hulu, **ESPN+**, and Disney+, had **operating income of $47 million** against a prior-year loss of $512 million.
- Global Disney+ subscribers edged up 1% to 118.3 million, while Hulu grew 2% to 51.1 million.
- Operating income for the company's parks division was down 6%, while international parks rose 2%.

Why it matters: Disney has faced increased pressure from investors to make its streaming division profitable. After a year of steep layoffs, the company reached that goal one quarter earlier than it expected.

- The company also enjoyed a return to box office success after major flops among its leading franchises. Two films—"Inside Out 2" and "Deadpool & Wolverine"—rang up significant receipts.

In context: Disney's parks business had given it a cushion for several quarters while it attempted to steer the streaming business to profitability. Now, inflation and lower foot traffic during the summer has reduced its ability to rely on parks. The good news is that downturn came just as the long-awaited streaming profitability materialized.

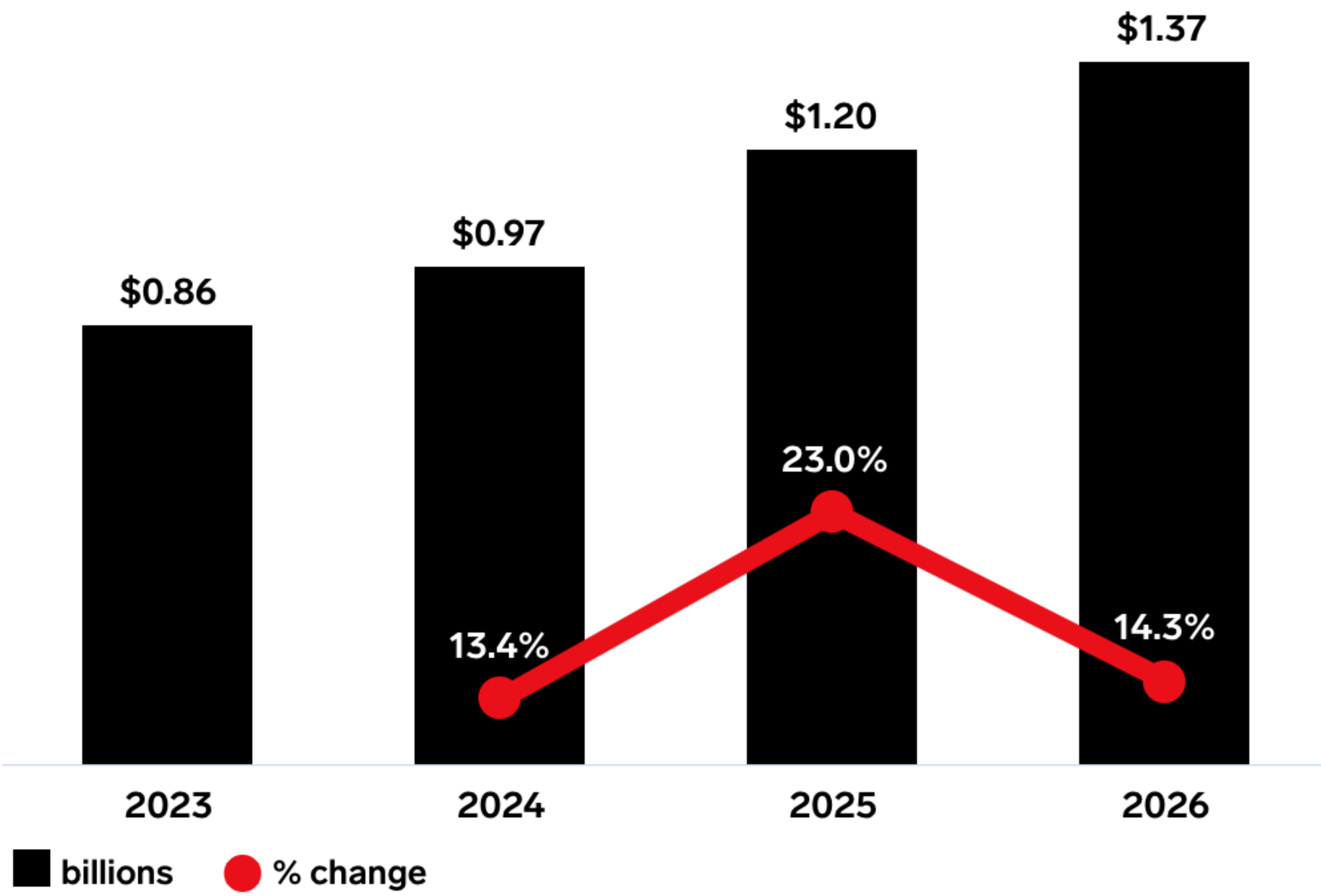
- The next challenge for Disney is maintaining streaming profits despite expectations of slower subscription growth in the coming quarter.
- Disney went on an aggressive cost-cutting spree in 2023 and the first half of this year, laying off hundreds across its many divisions.

- While Disney has a strong portfolio of children-oriented content to lure families, it is losing young audiences to **YouTube**—a trend that could pose a serious threat to its long-term streaming viewership.

Our take: Disney's first quarter of streaming profit likely couldn't have been achieved without Hulu, an established streaming advertising force. Its fiscal Q3 saw the company find firm footing as it looks to reduce costs and entice advertisers to spend on its platforms.

Disney+ Ad Revenues

US, 2023-2026



Note: includes in-stream video such as those appearing before, during, or after digital video content on a subscription-based OTT platform (pre-roll, mid-roll, or post-roll video ads) and video overlays; appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices for all formats mentioned

Source: EMARKETER Forecast, March 2024

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