



Holland Views – Disney – Price: \$111; MCap: \$165bn

## Blowing up the castle (to save the kingdom)

*“Creative destruction is the essential fact about capitalism”* – Joseph Schumpeter

Today, we remind clients of our recent in-depth work on Disney<sup>1</sup>. Four months on, we wouldn’t change a word. We also give a brief update on adjacent market developments and highlight some of the better articles we have read on Disney’s navigation of the industry’s disruption by Netflix. WWE – another media pioneer (and one that we know well) – showed recently just how much many of us still underestimate the value of unique media content. WWE’s TV rights renewal just garnered 3.6x the dollar value of the previous award in 2014. That windfall is in addition to its ongoing OTT<sup>2</sup> monetisation! It is a clear reminder of the immense potential within Disney. **Buy Disney.**

The frequency of articles published on Netflix (the ‘N’ in FANG) is surely correlated with its exponential Market Cap trend (Fig.1). That its market cap (\$156bn or 10x its revenues) now exceeds Disney’s, gives excuses for much comparison. Netflix is a true media disruptor and through our work on Disney we have become quite familiar with his pioneering business model. Disney’s nascent efforts to follow-suit by reinventing its own business model and distribute its massive content back-catalogue (along with Fox’s) in an OTT platform are, we believe, massive game changers. We urge clients to review our earlier analysis of Disney’s reinvention.

Fig.1: Netflix’s exponential market cap vs Disney



Source: Bloomberg

<sup>1</sup> Holland Views: Disney - Mouse marries Fox - \$102, March 2018

<sup>2</sup> OTT: Over The Top distribution of media content via the internet.

## Disney vs. Netflix? Not a zero-sum game

We link two of the more useful in-depth articles on Netflix and Disney that we have read recently. What follows is a few excerpts but we encourage clients to read them in their entirety.

The New York magazine <http://www.vulture.com/2018/06/how-netflix-swallowed-tv-industry.html>  
 The Atlantic magazine <https://www.theatlantic.com/magazine/archive/2018/05/disneyflix-netflix/556895/>

**In case you forgot: the ‘linear’ broadcast model of old is dead!** Watching a movie on a TV channel interspersed with ad breaks seems quaint to many. Most of us are streaming our home movies and TV series via Netflix, Amazon, Hulu, HBO.com, Sky Go etc. etc. This is one reason why live content like Sport is so attractive to advertisers.

spends too much money: TV is simply evolving, from a linear, ad-supported business to a subscription model built around making consumers happy — not advertisers. Netflix has had a big head start in shaping this new world, and it

**But Pricing Power is in evidence (perhaps easy relative to a \$100 monthly bill!).** Netflix is raising prices.

evidenced by its ever-rising stock price and subscriber tally. But right now, the average American cable bill is about \$100 per month. Even assuming Netflix continues to raise its price (last year, it went up from \$9.99 per month to \$10.99), consumers will still be able to spend a big chunk of their entertainment budget supporting competing services. “There’s plenty of room for multiple players to be successful in this space,” Sarandos says. “If you love *Game of Thrones*, you don’t cancel HBO to join Netflix. I don’t know why that dynamic wouldn’t continue to play out with Disney, Apple, Amazon, or anyone else.”

We highlighted a similar point made by CEO Hastings in our March piece who noted the likely coexistence of Netflix and Disney’s competing services.

### Mouse and Fox get married

*“I’m surprised as anyone else that Fox is willing to sell, and to have all those cable networks together in one bundle gives them tremendous pricing power against MVPDs; I can see the attractiveness of it... I know I’ll be a subscriber of it for my own personal watching” – Reed Hastings, Netflix CEO on Disney buying Fox and launching OTT*

**Netflix simply has to spend heavily to create its own content** (as 3<sup>rd</sup> parties like Disney, build their own distribution and are bringing content previously distributed by such third-parties, back in house). So whilst Netflix’s ever-rising content budget (it will spend c\$8bn on content in 2018) is rising at a phenomenal rate, it is in no small part because they have no choice as they can no longer rely on third-party content creators like Disney et al and have to build it their own in house. Whilst Netflix is building, meanwhile Comcast, AT&T and others (including Disney) are buying. Disney/Fox we conclude possess the killer global content many global eyeballs will be searching for, many years into the future.

will make its current offerings seem meager in comparison. Disney and other studios have already started the process of removing their content from Netflix’s library, so the company will become even more reliant on originals. And while my visit to Netflix focused on TV production, Sarandos is clearly looking to disrupt the film business, too: With former Universal Pictures executive Scott Stuber leading the features division, movies seemed poised to become an even bigger part of the programming mix.

Source: <http://www.vulture.com/2018/06/how-netflix-swallowed-tv-industry.html>

To view the remainder of this in-depth report, please contact Andrew Hollingworth, [Andrew@hollandadvisors.co.uk](mailto:Andrew@hollandadvisors.co.uk) for a complete PDF copy.

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