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The Walt Disney Company

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Disney to ditch Netflix Inc and launch two streaming services of its own

Streamed media giant Netflix Inc (NASDAQ:NFLX) was dealt a blow as Walt Disney Co (NYSE:DIS) announced plans last night to launch its own streaming services.

The film studios and theme parks operator said a sport-based streaming service under its ESPN banner would be available next year, while a film and TV offering, featuring original Disney content, would go live in 2019, coinciding with the end of its distribution agreement with Netflix.

Disney has some big releases scheduled for 2019, including Toy Story 4; the sequel to Frozen; and a live action version of The Lion King. All of these will be exclusively on Disney's subscription-video-on-demand service.

Netflix shares fell 3.0% to US$172.95 in after-hours trading, while Disney shares fell 3.8% to US$102.92 on the back of weak fiscal third quarter results.

Disney also announced it would pay US$1.58bn to acquire an additional 42% holding in streaming technology company BAMTech, taking its stake up to 75$. BAMTech was created by Major League Baseball.

"The media landscape is increasingly defined by direct relationships between content creators and consumers, and our control of BAMTech's full array of innovative technology will give us the power to forge those connections, along with the flexibility to quickly adapt to shifts in the market," said Robert Iger, chairman and chief executive officer of The Walt Disney Company.

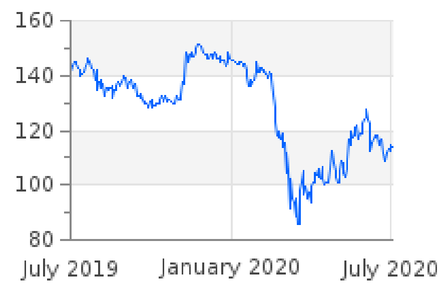
"This acquisition and the launch of our direct-to-consumer services mark an entirely new growth strategy for the company, one that takes advantage of the incredible opportunity that changing technology provides us to leverage the strength of our great brands," Iger gushed.

Disney's third quarter earnings were underwhelming, with net income down 9% from a year earlier at US$2.37bn.

Price: 116.66

Market Cap: $210.72 billion

1 Year Share Price Graph



Share Information

Code:		DIS
Listing:		NYSE
52 week	**High**	**Low**
	153.41	**79.08**
Sector:		**Media**
Website:		**corporate.disney.go.com**

Company Synopsis:

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company. The Company operates in five segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive Media.

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Adjusted earnings per share topped expectations by three cents at US$1.58, but revenue of US$14.2bn was a shade below the US$14.5bn the market had been expecting.

Interestingly, the media networks unit, which includes ESPN as well as the ABC network, saw operating income slide 22% from a year earlier to US$1.84bn, making it the fifth quarter in succession that the division's operating income had fallen, reflecting lower advertising revenues; a subscription-based service is less reliant on advertising revenues, which may explain why Disney is severing its relationship with Netflix and going it alone.

"The potential ramifications from this are huge, particularly for the pay-TV industry, which now faces the threat of disintermediation if others follow. It also emphasises, again, the importance of owning content that people want," said the media team at Liberum.

The broker said the decision threatens the pay-TV model.

Historically, content producers have been happy to farm out their catalogues to the pay-TV companies because the cost of reaching the consumer directly has been too high, Liberum opined, adding that the advent of streaming services has drastically reduced the cost of reaching consumers directly.

"We suspect other big content providers are thinking of going down the Disney route," Liberum revealed.

"If you own content that consumers want, you are in a strong position. It is not hard, for example, to imagine the Premier League deciding, at some point, it makes more sense to go directly to consumers, which also gives it leverage in any negotiations over the cost of the rights. It may also not be coincidence that Netflix made its first acquisition, of a comic content company, in the same week as Disney's announcement. That may indicate that pay-TV companies now expand their efforts to acquire content," Liberum said.

The UK broker reckons that London-listed Sky PLC (LON:SKY) is the European media stock most likely to be affected by this trend, given the relatively strong importance of US content to its pay-TV offering, the potential for its major sport providers to consider a direct-to-consumers route and the fact that the UK pay-TV is probably the most cut-throat of the subscription-based content markets at the moment.

It noted that terrestrial broadcaster ITV plc (LON:ITV) is well-placed to benefit from the "content is king" paradigm, as is Peppa Pig maker Entertainment One Ltd (LON:ETO).

--- adds broker comment ---

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