What could go wrong with Disney+

The Risks Are:

- ✓ Elevated non-renewals, i.e. churn, due to not enough content or subscriber fatigue
- ✓ Subscriber Acquisition Costs (SAC) materially higher
- ✓ Technology and regulatory problems

"Stressed" financial model for Disney+

(millions)	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e
Blended ARPU	$4.33	$2.81	$2.45	$2.68	$2.95	$3.23	$3.55	$3.90	$4.29
Subs									
Domestic Churn Rate				2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Domestic Subs	27	35	39	39	41	43	45	47	50
Domestic Churn Rate				3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
International	53	158	337	340	357	375	394	413	434
Total Subs	**80**	**193**	**376**	**379**	**398**	**418**	**439**	**461**	**484**
Avg. Subs	40	136	285	377	388	408	428	450	472
Total Revenue	**$2,073**	**$4,605**	**$8,377**	**$12,158**	**$13,726**	**$15,821**	**$18,245**	**$21,039**	**$24,302**
Programing & Other COGS									
Total Programming Costs	$1,950	$2,989	$4,227	$7,794	$8,664	$10,818	$11,681	$12,606	$13,598
Per Sub/Mo			$1.24	$1.72	$1.86	$2.21	$2.27	$2.34	$2.40
Other COGS	$100	$242	$471	$475	$488	$513	$539	$565	$594
Total COGS	$2,050	$3,231	$4,698	$8,269	$9,152	$11,331	$12,220	$13,172	$14,192
% of Revenue				68%	67%	72%	67%	63%	58%
Marketing	$600	$750	$900	$1,300	$1,460	$1,596	$1,767	$1,948	$2,146
% of Revenue	28.9%	16.3%	10.7%	10.7%	10.6%	10.1%	9.7%	9.3%	8.8%
Brand & Show Marketing	$600	$750	$600	$630	$662	$695	$750	$800	$850
Customer Acquisition	$0	$0	$300	$670	$798	$901	$1,017	$1,148	$1,296
Gross Adds	0.0	0.0	0.0	159.8	177.1	186.0	195.3	205.0	215.3
SAC				$4.19	$4.51	$4.84	$5.21	$5.60	$6.02
Other Expense	$200	$300	$338	$243	$275	$316	$365	$421	$486
% of Revenue	9.6%	6.5%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
EBIT	**-$777**	**$323**	**$2,441**	**$2,346**	**$2,840**	**$2,578**	**$3,894**	**$5,498**	**$7,478**
YoY $ Change			$2,118	-$95	$494	-$262	$1,315	$1,605	$1,980
Margin Rate			29%	19%	21%	16%	21%	26%	31%

1) Doubled churn rates

2) Reduced international gross subscriber additions

3) Added $2.5B in additional programming

4) Increased SAC by 25%

Conclusion:

We see limited downside risk to Disney + reaching spectacular long-term profitability and material profit growth.

Discussion:

We have stress tested our Disney + model assumptions to incorporate reasonable ranges and for the business metrics to perform worse than Netflix and our home-run-case assumptions. These lead to a lower margin of 31% vs. 46%. Nevertheless, the business still should produce excellent levels of profit contribution and profit growth. Also, for context, Netflix's streaming business should generate over $8.5B of EBIT by 2021.

Given that Disney has had the opportunity to stress the BAMTech platform, owns HotStar, and has the benefit of unlimited influence and resources, we do not see much for technology problems and risk. In terms of regulations, HotStar is Indian and Netflix is in India; therefore, interference from regulators seems of little risk in India, or elsewhere. Access to China is the big unknown and we have presented how and why we believe that Disney+ will be granted access.

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