LikeFolio

MegaTrends
Screen Time

November 2020

A Letter From Our Founders

As we complete our seasonal migration back to the sofa, we can't help but wonder…what in the world are we going to do for the next few months?

On Netflix's last earnings report, something to this tune caught our attention. Instead of noting streaming competitors, the company called out key fighters for your "screen time."

This is brilliant. This is *exactly* the lens we need to understand which companies are poised to capture consumer attention – and, more importantly, dollars – in the coming months.

This report highlights names that are excelling or struggling to hold your attention and keep you entertained.

Here's a quick summary of what you'll find inside:

- **Netflix (NASDAQ: NFLX) –** We are neutral… but barely. New subscription mentions have flattened in the last month, but a recent stock correction places the name better in-line with a slowdown in growth. Big-name releases are on the horizon, and content-driven retention will be critical to support its high valuation.
- **The Walt Disney Co. (NYSE: DIS)** – Neutral. In the next month, Disney+ subscriptions will be tested as Verizon free trials expire. Will streamers stick around to help offset a second wave of park struggles?
- **Microsoft (NASDAQ: MSFT)** – Leaning bullish as consumer demand for gaming products and services explodes ahead of the holiday season.
- **Roku, Inc. (NASDAQ: ROKU)** – Remaining bullish. Roku mentions reached the highest levels we've ever recorded in 20Q3… and shares followed suit. No clear edge, but we've been bullish on this name for a long time and haven't detected major negative waves… yet.
- **DraftKings (NASDAQ: DKNG)** – Leaning bullish. Sports gambling is fanning momentum for this betting platform, but its short-term performance is also reliant on live sports continuing to play.

Enjoy,

Andy Swan & Landon Swan
Founders, LikeFolio

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NETFLIX

NFLX
Netflix

Purchase Intent: Flat YoY

Trend Watch: Content Discovery: +9% YoY
(-6% in last month vs. prior report)

Sentiment: 73% Positive

Swans Say...

Last month we warned subscribers that Netflix could be due for a pullback ahead of a critical earnings report.

While a clear content leader, trouble was brewing: **growth slowed** and competition for eyeballs rose. Netflix shares have shed around 13% in value since October highs.

In the meantime, Netflix's growth rate continues to trend lower. Purchase Intent is now flat YoY in the last month, and new subscription mentions have flattened in the same time frame.

New content is going to be critical for this name's future success. They have a handful of big launches through the end of the year, with *The Crown* being the most highly anticipated.

We've got a close eye on cancellation mentions in the coming months and may adjust our outlook accordingly if metrics don't improve. New content is NECESSARY.

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Consumer Demand:

- Netflix Purchase Intent (mentions of consumers signing up for and using the streaming platform) continues to soften, shrinking QoQ and pacing for flat YoY growth in 20Q4.
- New subscription mentions specifically are also flat in the last 30 days vs. prior year.

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NFLX: Shrinking Consumer Demand

Consumer Happiness:

- Consumer Happiness was tested during a *Cuties* content scandal, but has normalized.

- Comparatively, Netflix sentiment is lower than some peers, but boasts a MUCH larger sample size.

- Hulu: 68% Positive
- **NFLX: 73% Positive**
- Peacock: 75% Positive
- HBO Max: 77% Positive
- Disney+: 79% Positive

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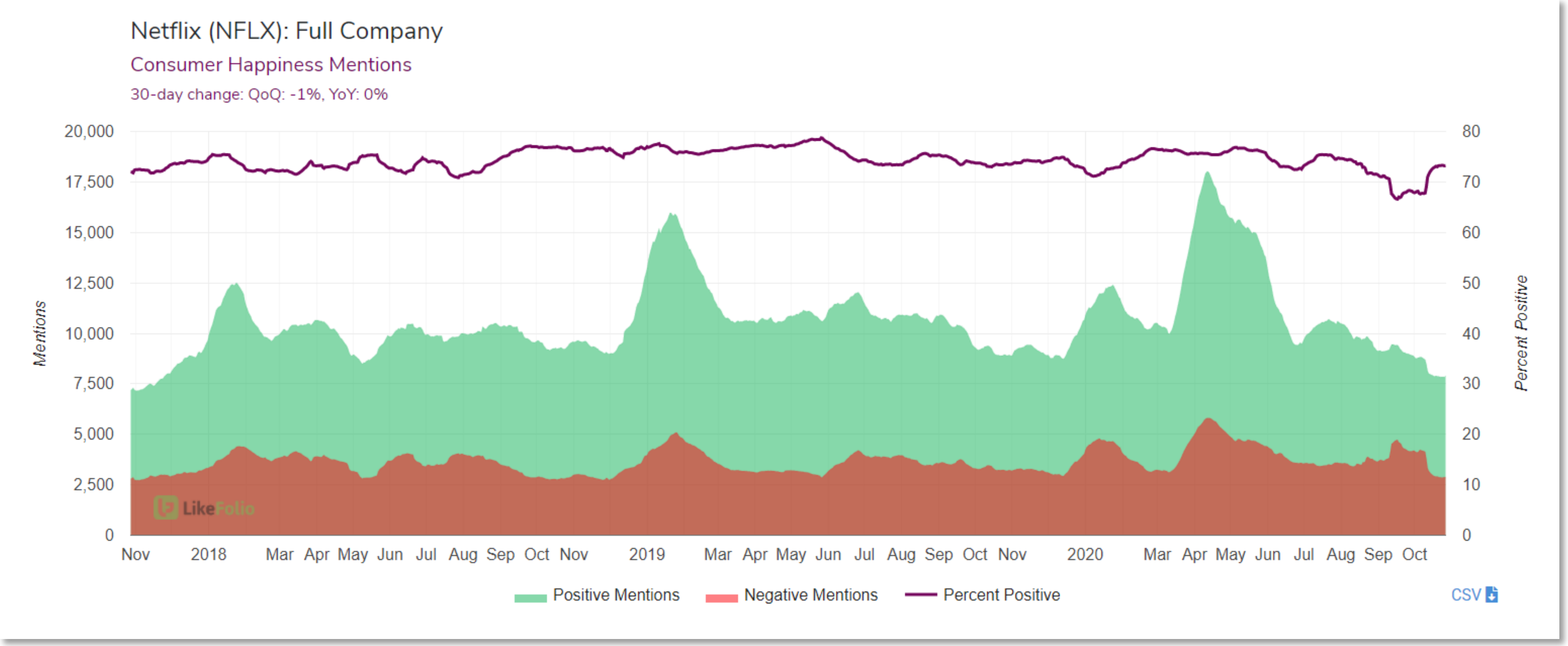
NFLX: Consumer Happiness is Stable



NFLX: New Content is a Sentiment Driver

- New content retains users and boosts sentiment.

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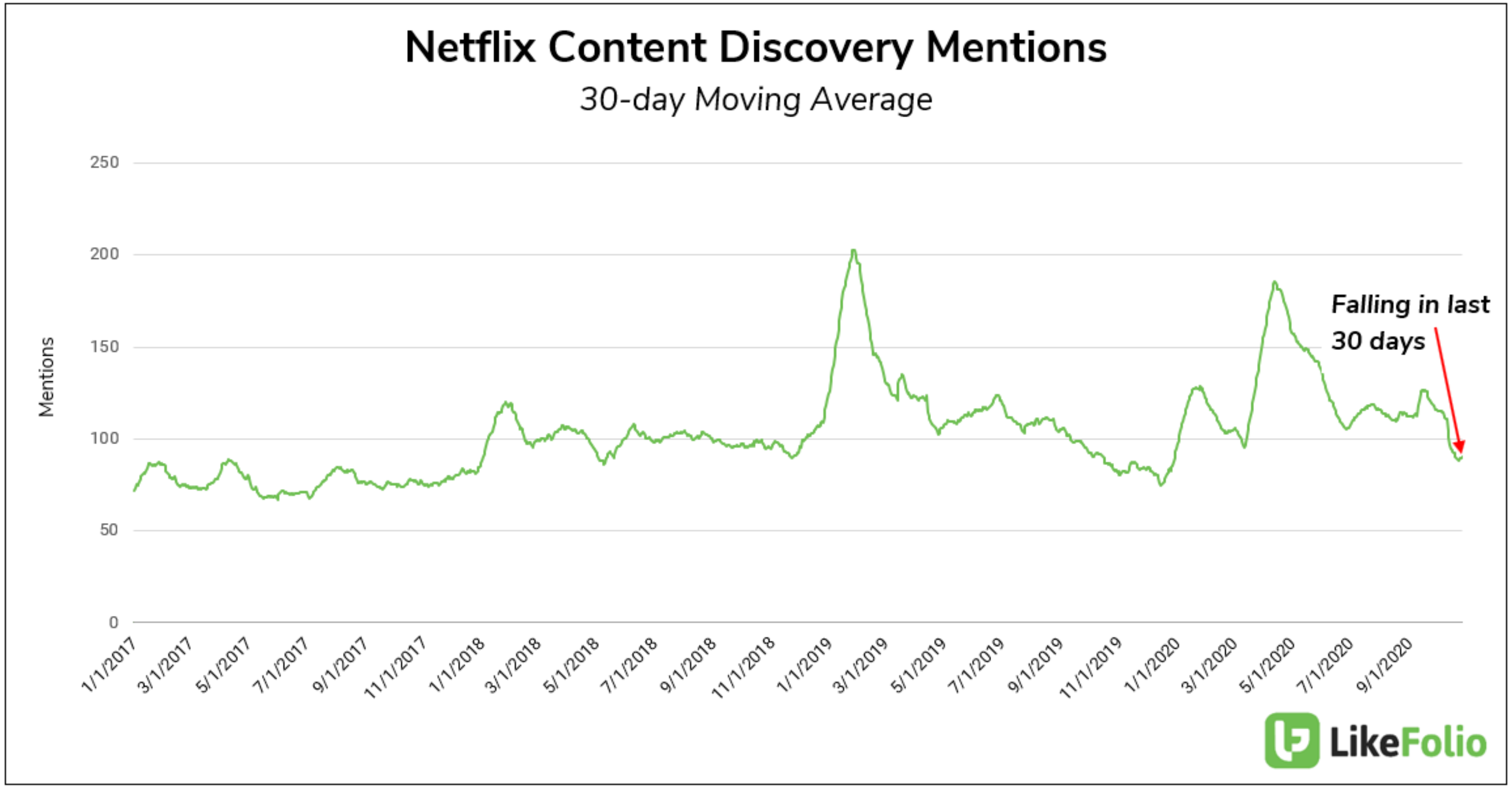
Macro Headwind… or Tailwind?

- The main drivers of streaming platform success are *original content and content discovery…*
- Netflix Original Content discovery is elevated YoY, but softening in the last month.
- On the last report, we noted Original Content Discovery +15% YoY. Now that number is at 9% YoY. Consumers want fresh shows and movies.

Trend Watch: Original Content Lagging



NFLX: **Reports and Business Updates**

- Shares are up 47% YTD, but shed ~8% in value since the company's last earnings release.

- **20Q3 new subscriber additions fell short of investor expectations**: 2.2 million vs. 2.5 million expected.

- Netflix doubled down on a slowdown in growth, forecasting +6 million new subscribers in 20Q4 vs. an expected +6.54 million.

- **New content production has resumed**: New seasons in fan-favorite titles *Stranger Things* and *The Witcher* are slated for 2021.

Netflix CEO Reed Hastings explained *why content seems more significant now* vs. prior quarters: "Let's say there's a 5% variation because of content on the margin. And 5% used to be a small part of the growth, so then you really didn't notice it that much. And now 5% might be half of the annual subscriber growth, so you noticed it much more..."

- Management pointed to positive signs of retention: "healthy levels, better than we were a year ago."

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NFLX: Reports and Business Updates

- Netflix recently announced plans to increase pricing. This is something investors love to hear... if consumers can stomach the extra cash. So far, LikeFolio data suggests subscribers are giving Netflix a pass.

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DIS
The Walt Disney Co.

Disney+

Purchase Intent: -68% QoQ

***Trend Watch:* Cancel** Disney+: -40% QoQ

Sentiment: 79% Positive

Swans Say…

Disney+ had an unbelievably successful platform launch around this time last year – 10 million+ subscribers on its first day. This launch date was the highest launch spike in Purchase Intent we've ever recorded for a streaming platform.

Users piled in thanks to Disney-sponsored and Verizon-sponsored free trials, and tantalizing *Star Wars* original content: *The Mandalorian*.

Now here's where it gets interesting. All Disney+ free trials come to an end in the coming month… and Disney's new content cycle is relatively weak (barring a strategic drop of *The Mandalorian*: Season 2).

While cancellation mentions are CURRENTLY trending down QoQ, mentions suggest trouble may be brewing. ***Without new content, users indicate they are unlikely to stick around.***

We've got a close eye on churn, especially when Verizon free-rollers must pay the piper. Stay tuned…

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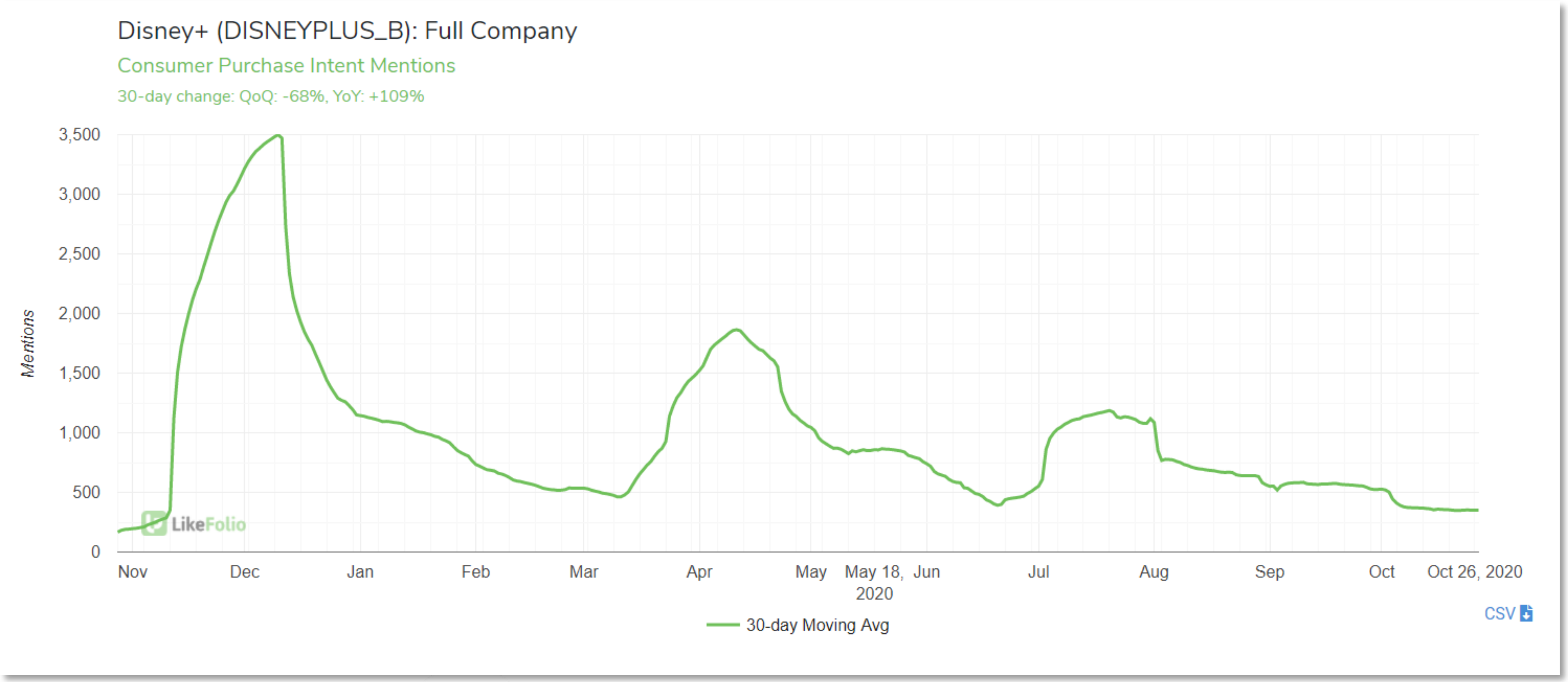
Consumer Demand:

- Disney+ Purchase Intent is elevated YoY (it didn't exist this time in 2019) but continues to fall QoQ.
- New subscription mentions have fallen 41% QoQ heading into a critical year-end push: when free members convert (or don't convert) to paying subscribers.

DIS: Usage, New Subscriber Growth Slows



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Consumer Happiness:

- **Disney+ recorded the most positive sentiment score vs. peers : 79% Positive**

- Hulu: 68% Positive
- NFLX: 73% Positive
- Peacock: 75% Positive
- HBO Max: 77% Positive
- **Disney+: 79% Positive**

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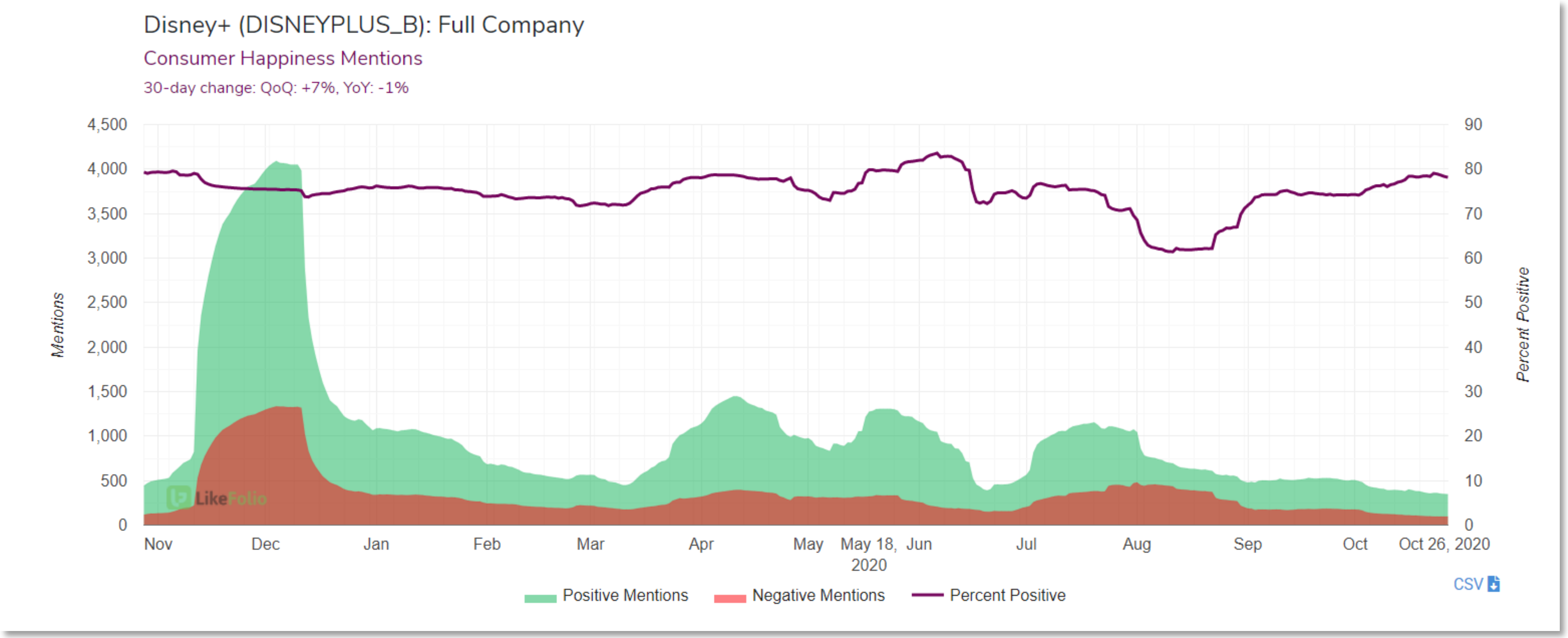
DIS: Industry-Leading Sentiment



Macro Drivers:

- Disney+ Cancellation mentions are on the downtrend comparatively, but the company is approaching a significant free-trial end date.
- It will be critical to monitor how many free subscribers Disney converts to paying subscribers after it reaches its one-year launch anniversary in the coming month.

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Trend Watch: **Cancellations Incoming**

DIS: Trend Watch Driver – Content!

- New content is make-or-break for Disney+ paying subscribers.

AG
@_AyeGee2

"Your Disney+ trial is ending on 11/12/2020 and you'll continue to enjoy Disney+ for $6.99/mo billed to your Verizon account unless you cancel."

And that's the end of that...

4:42 PM · Oct 13, 2020 from East Lake-Orient Park, FL · Twitter for iPhone

Disney+ UK @DisneyPlusUK · Oct 20

Don't miss a moment of #TheMandalorian ! ❤️ this Tweet to receive a reminder when each new episode starts streaming on #DisneyPlus.

107 546 13.9K

Aaron
@Mr_Yib

Replying to @DisneyPlusUK

Nope. Cancelled DisneyPlus because one half-decent series wasn't enough to merit keeping it.

5:26 AM · Oct 27, 2020 · Twitter for Android

Ciarán Grumley
@CiaranGrumley

Was ready to cancel my Disney positive subscription when I remembered the Mandalorian Season 2 is imminent

6:51 PM · Oct 21, 2020 · Twitter for iPhone

Miki
@mikiyaah

Finally cancelled my disney plus. Honestly except for hamilton there was nothing there. I love disney but they need more content

8:51 AM · Oct 21, 2020 · Twitter for iPhone

Desi 💕
@lovemehhx3

I've been thinking about canceling Disney plus. There's literally nothing on there that i watch...

12:05 AM · Oct 23, 2020 · Twitter for iPhone

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DIS: Reports and Business Updates

- **DIS is trading -19% YTD.**

- **20Q3: DIS shares popped after revealing 100 million paying streaming subscribers* –** half of these streamers are on Disney+, the rest can be attributed to other Disney-owned platforms (ex: Hulu, ESPN+).

- LikeFolio data: While Disney+ recorded significant growth in 2020, **EPSN+ struggled from a lack of live sports** (demand down 27% YoY in last 90 days), and **Hulu shared a similar post-quarantine lull** (-28% YoY in same time frame).

- **Closed parks sucked $3.5 billion from Disney's operating income.** According to a report by the *Orlando Sentinel in early October*, attendance remains low. On a recent weekend at Magic Kingdom, daily attendance was ~19,000/day vs. typical 60,000/day.

- Google Trends reveals an uptick in "cancel Verizon Disney Plus" in the month of October.

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Microsoft

MSFT
Microsoft

Purchase Intent: +27% YoY

Trend Watch: Xbox gaming: +127% YoY

Sentiment: 67% Positive

Swans Say…

When you think of screen time, streaming TV is usually in the front of your mind. But in the last two quarters, we've tracked a massive surge in gaming mentions.

Not only are more gamers gaming (+18% YoY), but new gamers are joining the fun. First-time gaming mentions increased 120% YoY in the last quarter. That. Is. Huge.

And what's the key takeaway here? For Microsoft, it's what console gamers prefer. Lucky for MSFT, in the last quarter, it's Xbox… by far.

Not only is Microsoft killing the gaming game, the company reported YoY growth in all three operating groups in its last report.

Slowing Cloud growth (and meh sentiment) gives us pause for concern. But demand for consumer-facing products and services is heating up, and we're monitoring closely to confirm an explosive holiday season.

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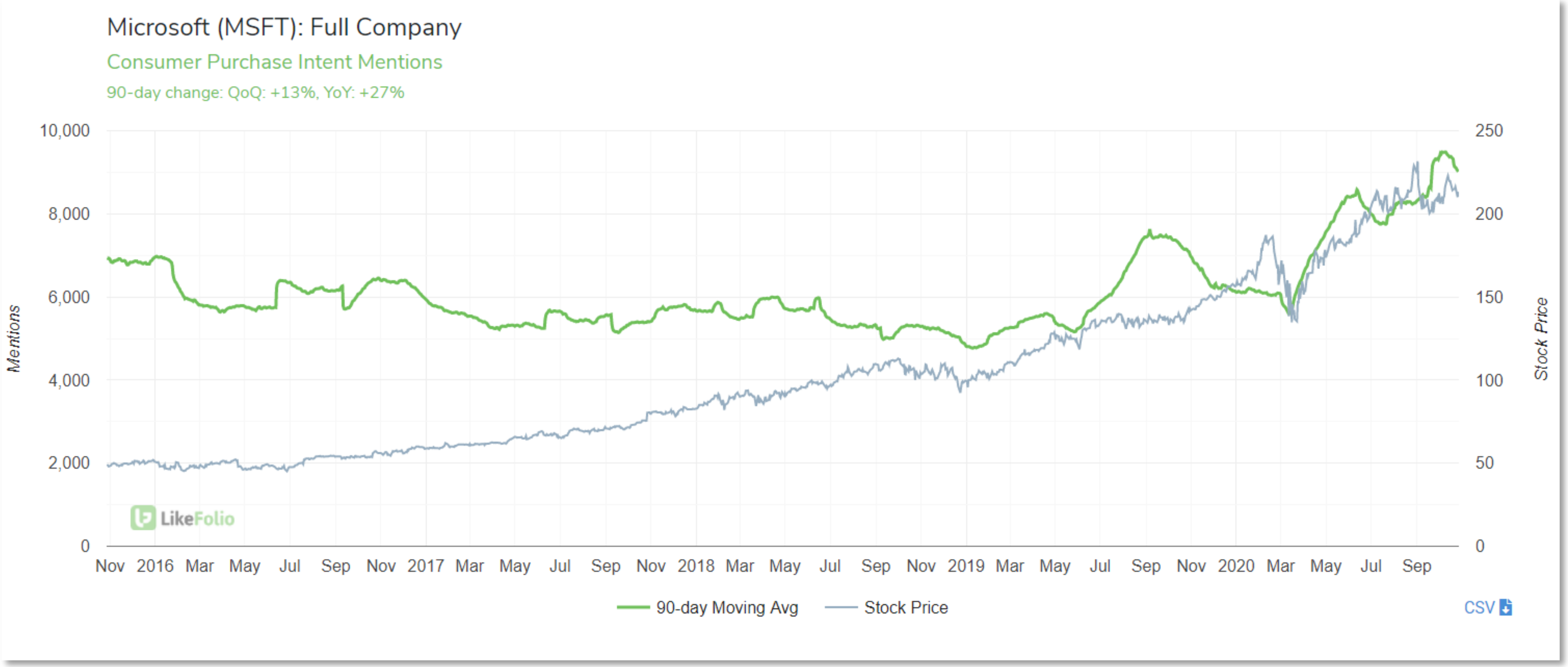
MSFT: Gaming Segment Driving Demand

Consumer Demand:

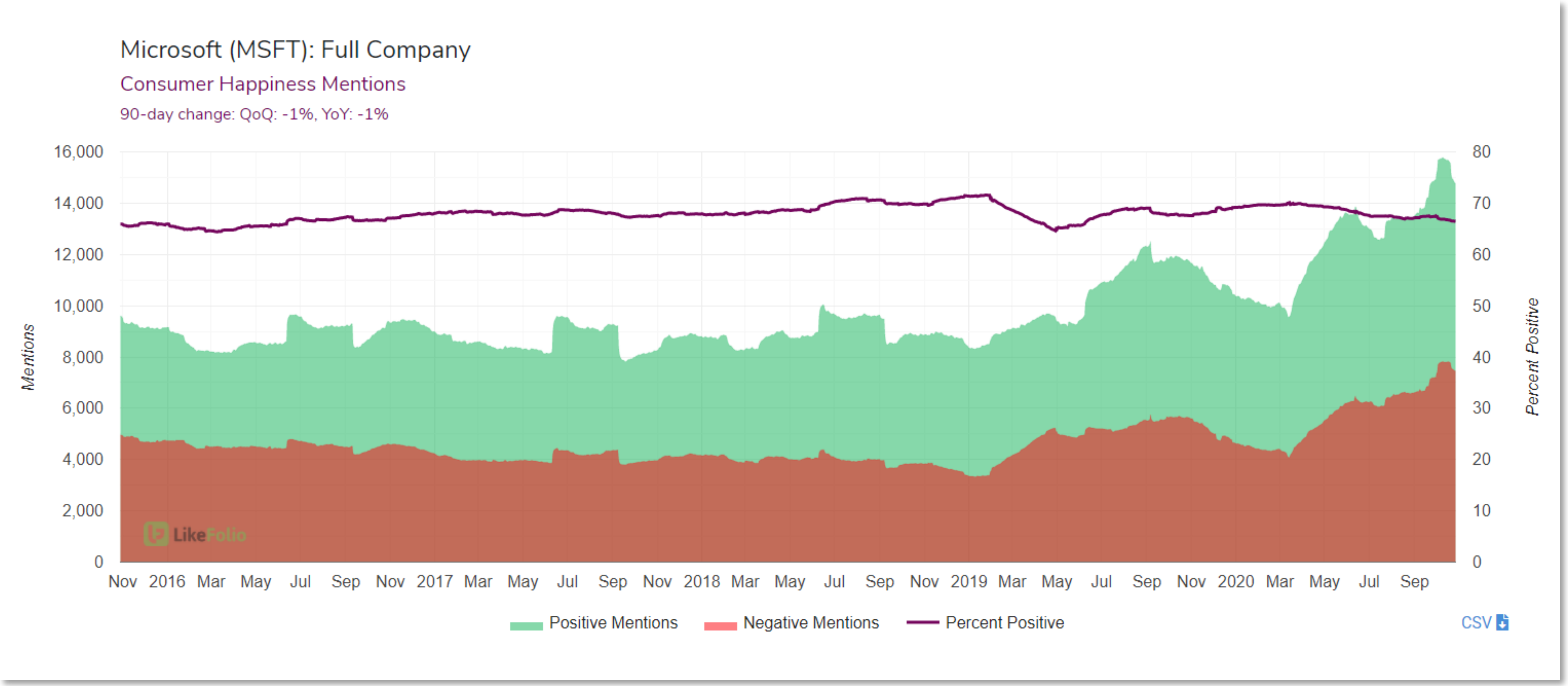
- Xbox Purchase Intent mentions soared upon pre-order launch, *increasing 80% YoY* in the last quarter.
- Microsoft Purchase Intent increased 27% YoY and 13% QoQ in the last 90 days company-wide.
- LikeFolio data lends itself to consumer-facing brands, including Microsoft Teams, Microsoft's document suite and its Xbox-powered gaming segment.



MSFT: Consumer Happiness is Flat

Consumer Happiness:

- **Consumer Happiness is relatively flat, landing near 67% positive.**
- **Xbox sentiment actually increased 2 points upon new product launch, but a couple of product segments trail peers:**
- **Microsoft Teams (66% positive)** vs. Slack (76% positive)
- **Azure (82% positive)** vs. AWS (87% positive)



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Macro Tailwind:

- Consumer Mentions of gaming on an Xbox console grew significantly in 2020, increasing 127% YoY in the last 90 days.

- This places Xbox demand well above all other console (or PC) competitors tracked by LikeFolio:

- ***Xbox: +127%***
- PC Gaming: +92%
- PlayStation: +81%
- Nintendo: +38%

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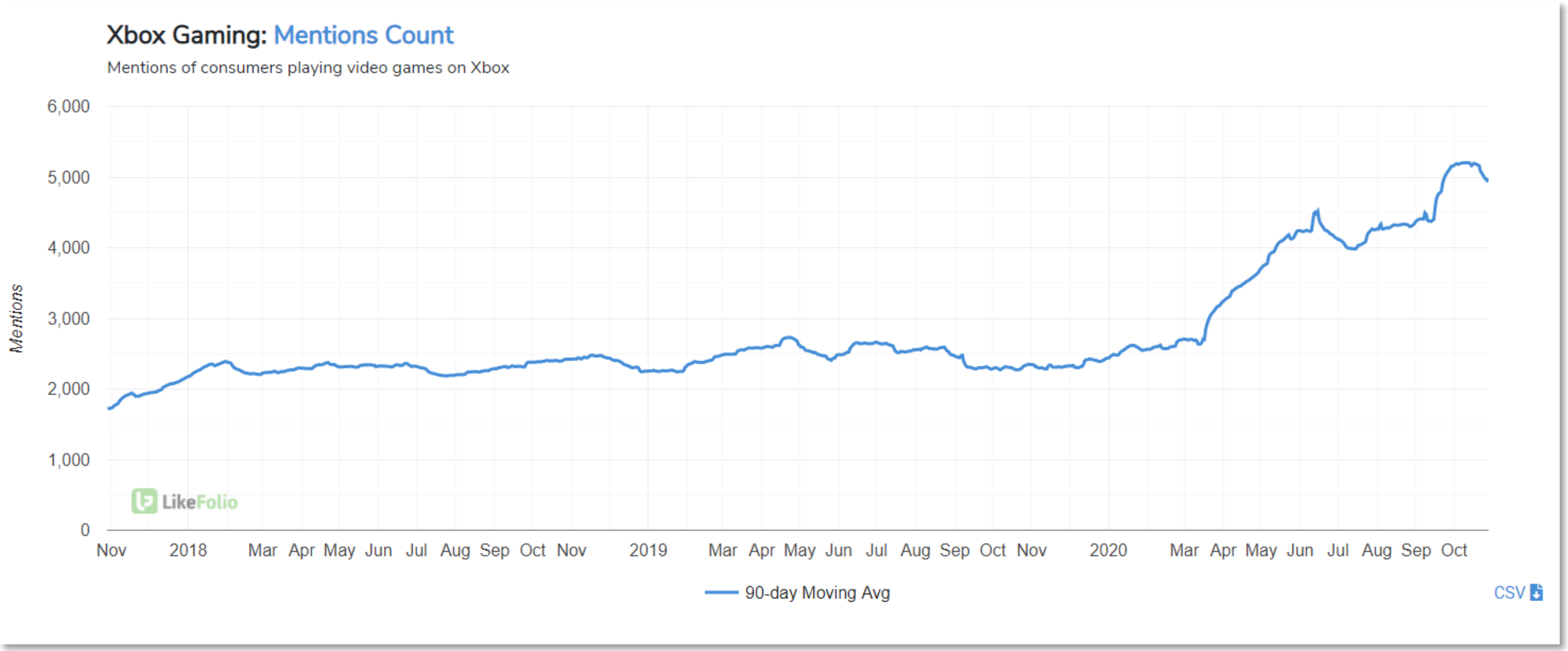
Trend Watch: **Xbox Gaming Booms**



MSFT: **Reports and Business Updates**

- **MSFT is trading +29% YTD.**

- **21Q1: Beat EPS and revenue expectations as the company continues to profit from a work-from-home shift driving sales** related to working activities (think Teams, Surface, Office suite). To give scale, Microsoft's Surface revenue increased 37% YoY… in a quarter with no new devices.

- **Demand is so high for the new Xbox lineup, the company anticipates supply constraints to cap revenue growth at 40% next quarter.** Xbox's Phil Spencer noted: "All of our day-one units are at retailers, or very close to that. We've built all of our day-one allocations. We know what our supply will look like, basically for the rest of the year. **We're going to have more demand than supply, and I'll apologize in advance for that. […] And I think we're going to live in that world for a few months** – a lot more demand than we have supply. On the supply-chain side, it's 'What can we do to get more inventory?'"

- Looking ahead: **Xbox gaming may transition from a console to a service.** Sales of Xbox slowed down ahead of a new product lineup, content and services revenue increased 30% YoY, thanks in part to 15 million Xbox Game Pass subscribers.

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ROKU
Roku

Roku

Purchase Intent: *+10 %* YoY

Trend Watch: Streaming Device Usage: +35% YoY

Sentiment: 67% Positive, -5% YoY

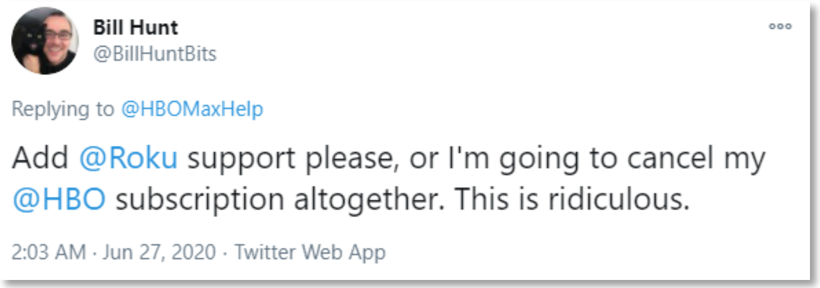
Swans Say…

Demand for Roku's streaming devices – the stick and Smart TV software – has been on a tear for years now. (And we've been trying to tell ya).

Purchase Intent (mentions of purchasing a branded device) has slowed, but is still pacing for YoY growth in the next quarter to be reported.

Perhaps more significant: ***Overall Roku mentions reached the highest level we've ever recorded in 20Q3***: +53% YoY, and +9% QoQ. Talk about platform retention!

When HBO Max and Peacock launched without Roku compatibility, consumers revolted… not necessarily against Roku, but against the content provider.



As advertising spend normalizes, Roku will continue to benefit. We're still bullish.

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Consumer Demand:

- Roku Purchase Intent mentions (lean toward device purchases) in 20Q3: +10% YoY, -4% QoQ
- Roku Channel usage mentions are booming, pacing +109% YoY, +27% QoQ.

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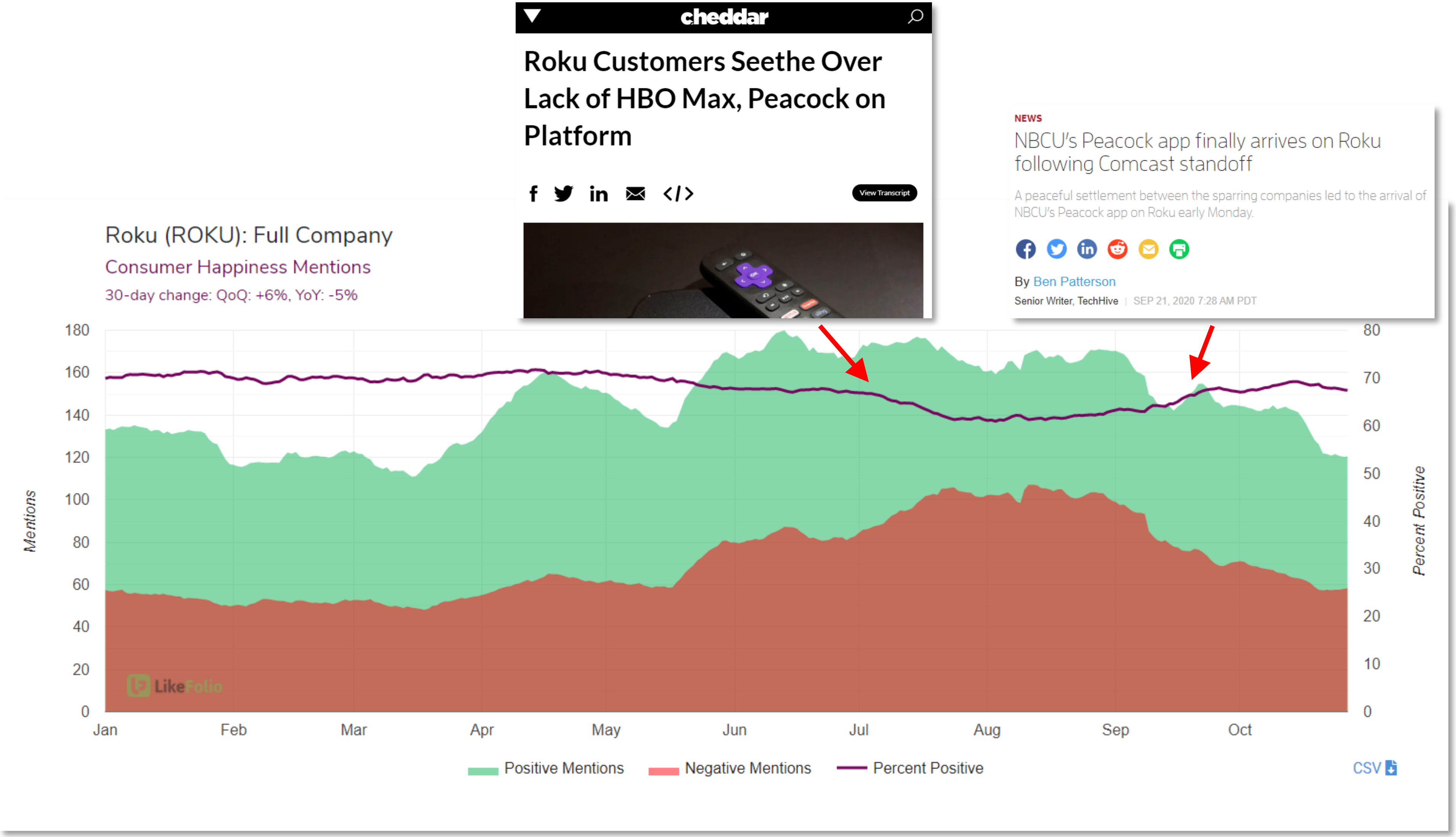
Roku: Demand Grew in Q3 at Slowing Rate

Consumer Happiness:

- Historically, Roku touts high levels of Consumer Happiness.
- Happiness has been tested in the last quarter due to disputes with content providers HBO Max and Peacock, blocking app access for Roku streamers.
- Roku and Peacock settled a dispute in September, making Peacock available on Roku devices… and sentiment began to rebound.
- An update to AirPlay functionality temporarily allowed HBO Max mirroring for some, but the service is still missing from ROKU devices.

ROKU: Carrier Disputes Ding Happiness



Macro Tailwind:

- Streaming device usage mentions increased 35% YoY in the last quarter.
- Roku maintains the most significant market share of device usage mentions, currently comprising ~50% of mention volume.

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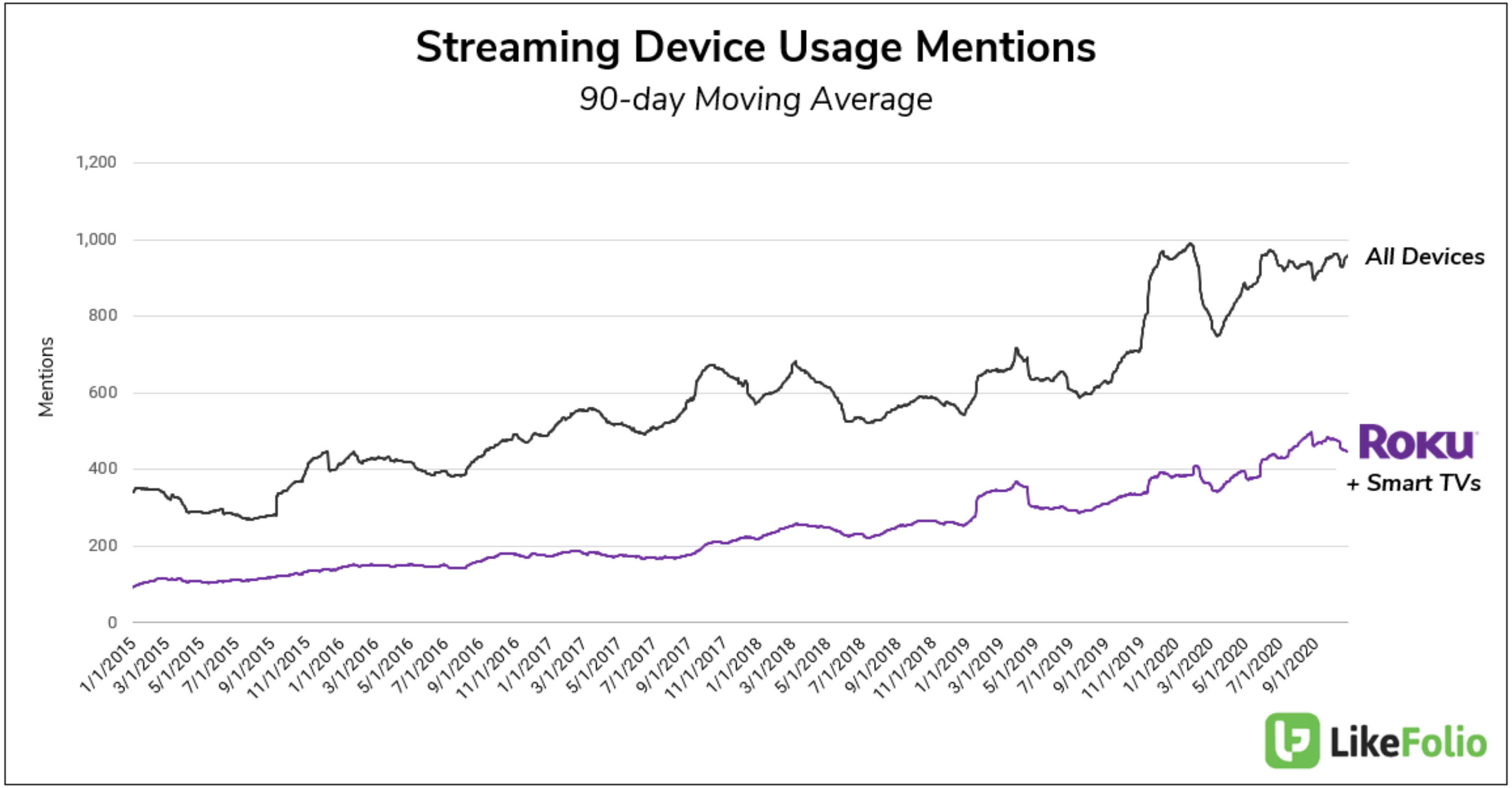
Trend Watch: **Streaming Device Usage Grows**



ROKU: Reports and Business Updates

- **ROKU shares have gained ~57% YTD.**

- **Active accounts added in Q2 were holiday level**: +3.2 million, +41% YoY.

- **Roku Channel is thriving… even on non-Roku devices.**

Roku's free* (*cough, cough* ad-supported) Channel launched on Amazon devices in October. This brings Roku's channel reach to ~43 million U.S. consumers. The more eyeballs actually watching this content, the more leverage Roku has for ad dollars.

- **It's never been about the hardware. It's always been about the ads.**

Platform revenue (ads) composed ~68% of revenue in 20Q2…and this bucket grew 46% YoY last quarter.

Summary Financials ($ in millions)	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	YoY %
Platform revenue	$ 167.7	$ 179.3	$ 259.6	$ 232.6	$ 244.8	46%
Player revenue	82.4	81.6	151.6	88.2	111.3	35%
Total net revenue	**250.1**	**260.9**	**411.2**	**320.8**	**356.1**	**42%**

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DKNG
DraftKings Inc.

Purchase Intent: +132% YoY

Trend Watch: Sports Gambling: +16% YoY, +49% QoQ

Sentiment: 60% Positive, -9% YoY

Swans Say…

DraftKings is one of the newest names in LikeFolio's coverage universe… and honestly, it's recording some of the most impressive growth in demand: ***+127% YoY***… in a time when live sports are only JUST returning for viewing..

In the two-plus years since the Supreme Court ruled in favor of sports betting, consumer mentions of gambling on sports has increased significantly.

Eighteen states (~30% of U.S. population) have regulated sports betting markets… and our data is exploding.

DraftKings reports 20Q3 earnings soon, and we expect the report to sizzle.

Long-term, we're drooling over this set up. The stock has pulled back significantly from all-time highs. But sentiment reveals some problems with execution. We'd like to see some resolution to platform struggles before making an official call.

Leaning bullish in the meantime… so close.

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Consumer Demand:

- Purchase Intent reached all-time highs in Q3 and presses onward: pacing +132% YoY in the past 90 days.

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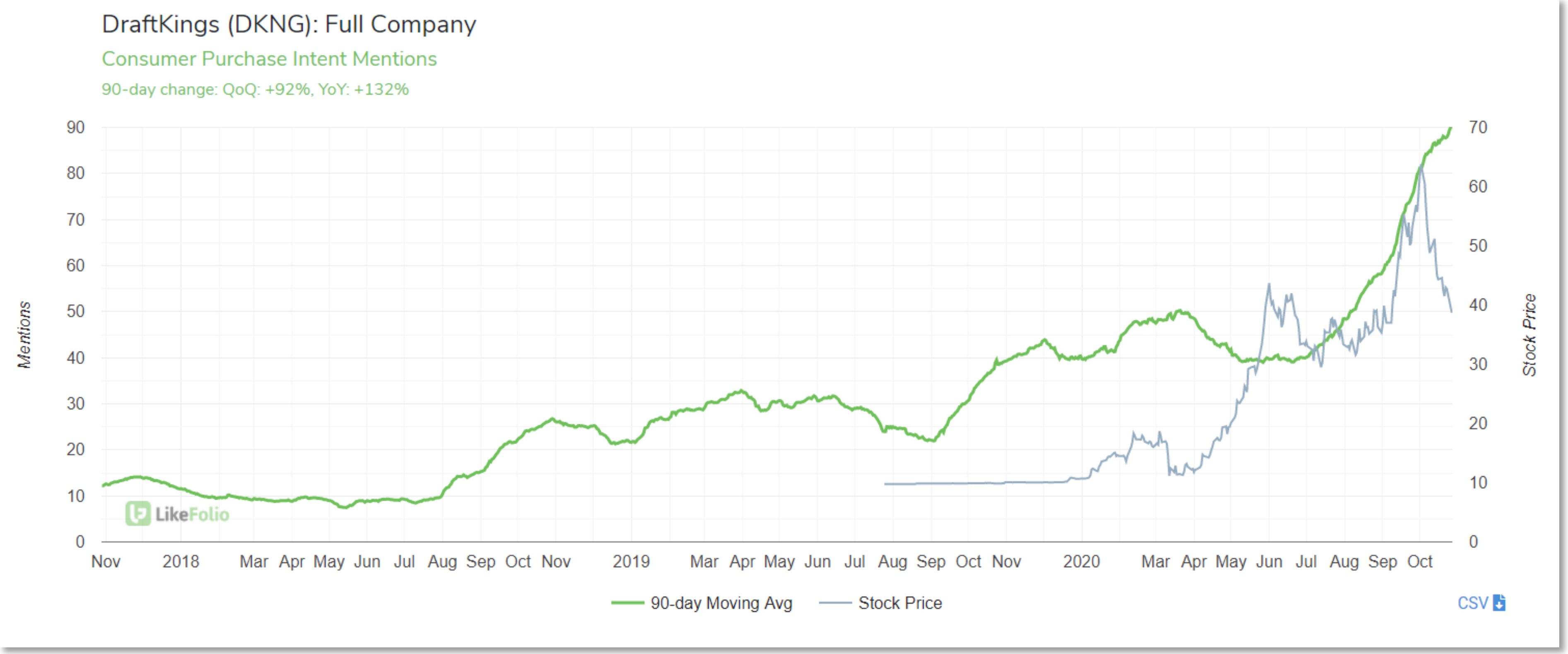
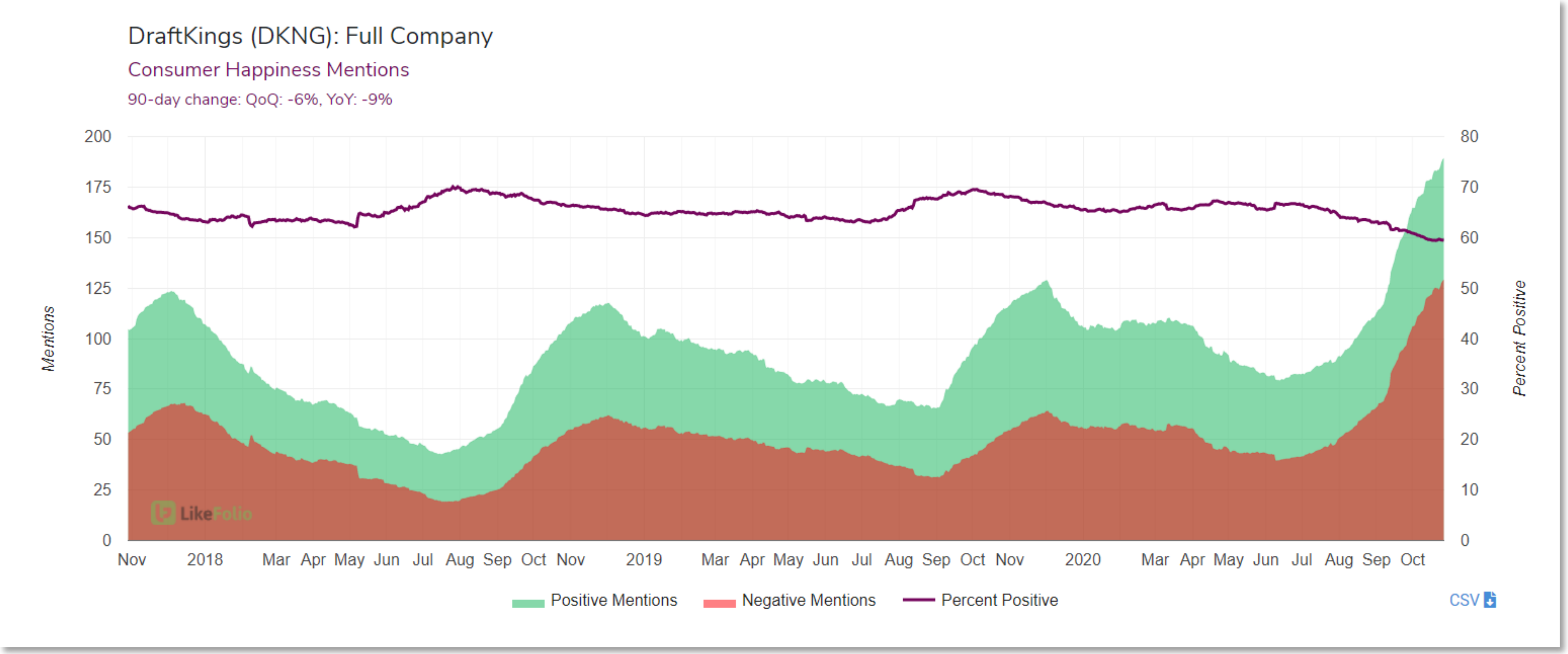
DKNG: Explosive Platform Growth



Consumer Happiness:

- Consumer Happiness fell significantly in the last quarter as an extreme demand surge tested DraftKing's support capacity.
- Tweets reveal the main cause of falling sentiment was platform down-time.

DKNG: Demand Pushing Platform Capacity



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DKNG: Sentiment Driver – Platform Issues

Scott Arnold @ScottAr89881221

Here's a shocker, @DraftKings is down during the Rams/Bears game. Again. Can you please fix your god awful app?? @DK_Assist

8:57 PM · Oct 26, 2020 · Twitter for iPhone

Jeremy Lapp @JeremyLapp1 · Oct 11

@DraftKings has been down for 24 hours and they refuse to respond. Not one game has finalized from yesterday. The scoring is completely messed up. Not one lineup has the correct points applied. Use a different **site** if you intend on watching as the games are played.

Drew Wayne @Drewdini_ · Sep 20

Replying to @DraftKings and @DKSportsbook

@DKSportsbook is down again. This **site** sucks

CMC Cards @CMC_Cards · Sep 20

Replying to @SweetBabyYays and @DraftKings

Literally everyone's is down right now. Can't bet, hedge, cash out, nothing. Not a good look **@DraftKings** @DKSportsbook think you owe a bunch of people free **site** credit at the least.

2

Beard of Knowledge @603_BETS · Oct 25

Replying to @AmericanBettors

This sounds good since the **DraftKings app** is **down** AGAIN.

1 1

Dakari Whitehead @DakariWhitehead · Oct 25

Replying to @Eaglzfan5 @FanDuel and @DraftKings

DraftKings app has been **down** the last hour lmao

1 1

Sesshomaru @XavierGarrett · Oct 25

@DraftKings @DKSportsbook y'all can fake like the **app down** but y'all still gonna have to pay us

1

Connor @ConnorBandicoot · Oct 25

DraftKings is trying to find a way to take my winning bets from me shutting **down** the entire **app** lol

1 9

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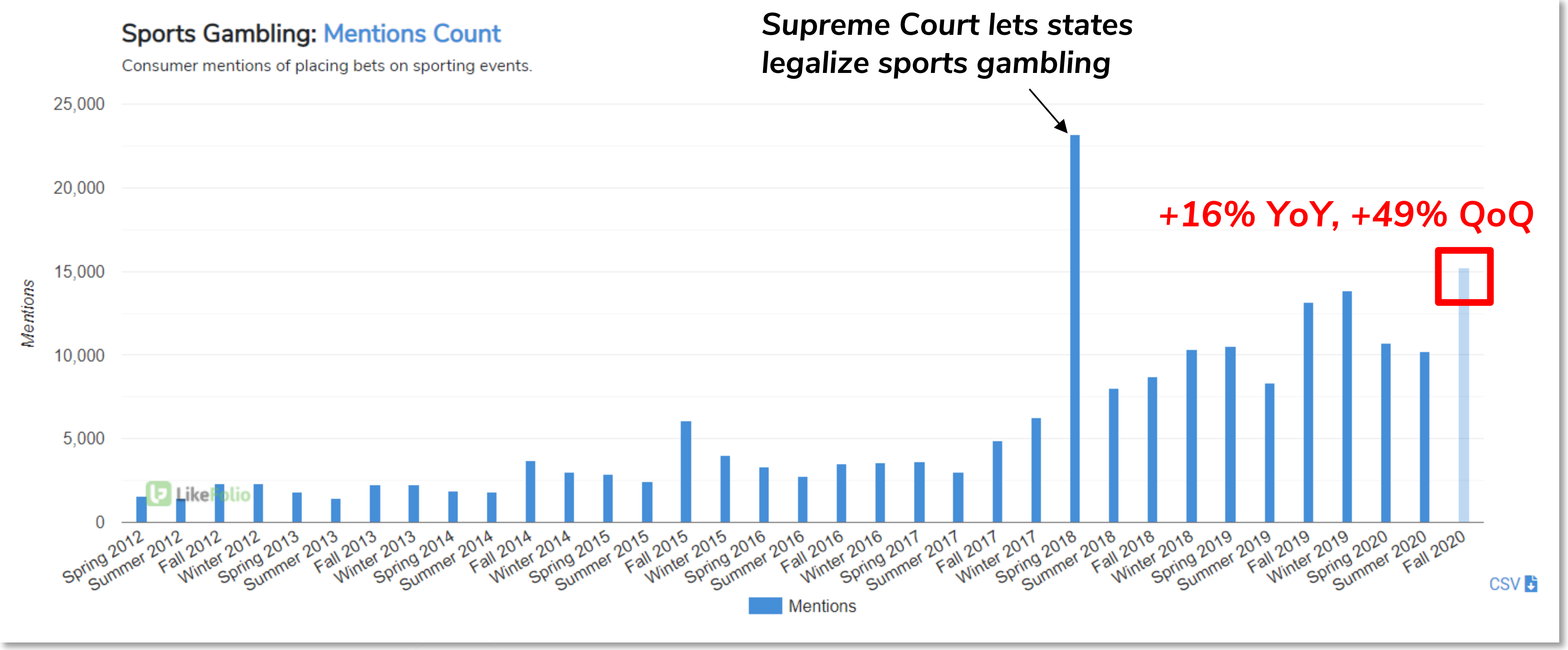
Macro Tailwind:

- Consumer Mentions of placing bets on sporting events is on pace for a record-setting fall (Sept. 1 – Dec. 1)… excluding buzz surrounding the Supreme Court decision to allow states to authorize or prohibit sports gambling.

Trend Shift: Sports Gambling Is Booming



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DKNG: Report and Business Updates

- **DKNG has gained more than 250% in value YTD.**

- **20Q2: Pent-up demand is palpable.** DraftKings observed sequential revenue improvement upon the return of traditional live sports (MLB, NBA, NHL). The Yankees game on opening night set records.

Earnings Call: "…there is clearly pent-up demand that is compounded by a truly unique sport calendar. A byproduct of this demand is that we're seeing very strong marketing response rates and return on advertising spend. And in response to these great returns, we intend to invest to expand our leadership position in the market."

- **DKNG shares fell (~6%) after its initial report showed a wider-than-expected loss.** Shares fell again in October after the company issued new shares – 32 million – and some existing shareholders presumably took profits.

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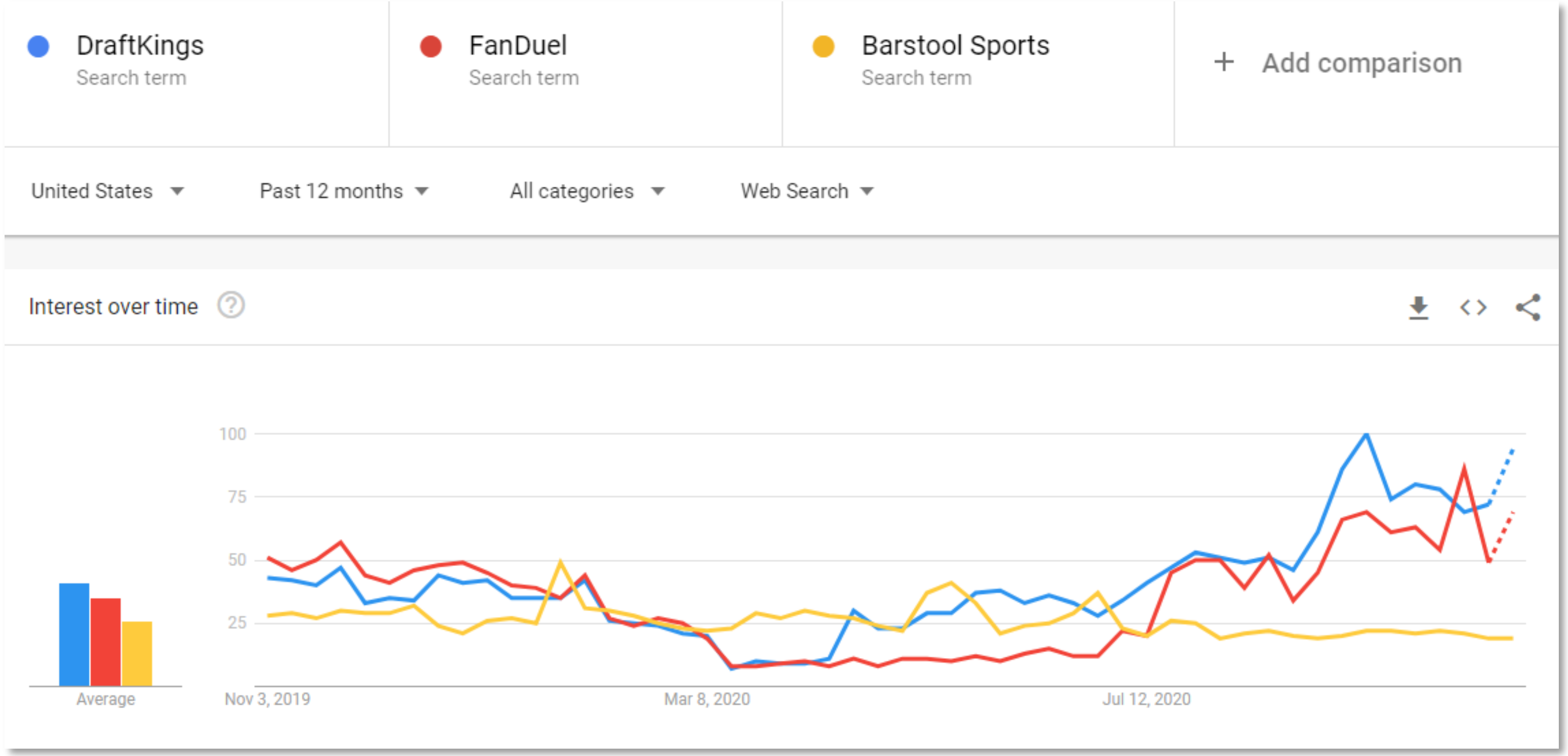
DKNG: Report and Business Updates

- DraftKings is leading sports-betting peers in initial interest (searches), according to Google Trends.



MegaTrend Summary: Screen Time

As we all head indoors for the winter of 2020, the battle for our attention will intensify, and winners and losers will emerge. Here's what sharp investors will be watching for:

- CONTENT is king. Without original and compelling content, consumers will look elsewhere.
- Consumer Happiness (sentiment) is the best predictor of future subscriber growth – both in terms of new subscribers and churn through cancellations.
- Winners and losers will become clear over the next 100 days, as consumers decide who gets their attention... and therefore their money.

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Before investing in any strategy, consider your investment objectives and speak with a professional.

Past performance does not guarantee future results, and the likelihood of investment outcomes is hypothetical.

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