Disney faces an Avengers: Endgame-sized hole as earnings plummet



Disney continues to face financial woes in just about every part of its business, but one year after *Avengers: Endgame* came out, it's clear just how much the pandemic has affected its studios division.

Disney didn't release any major films last quarter, and the third quarter earnings report shows how much that impacted the company. Overall, revenue hit $11.78 billion, down from $20.2 billion the year before, but most of that came from streaming. Studio revenues decreased 55 percent in the quarter to $1.7 billion, the company announced. That means Disney made $1.7 billion this quarter, and $3.8 billion in the same time frame last year. What it shows is there's a big *Avengers: Endgame* hole in the calendar, and it's a perfect example of just how much of an impact the pandemic has had on one of Disney's core businesses.

"Theatrical distribution in the quarter was negatively

impacted by COVID-19 as theaters were generally closed domestically and internationally," the report reads. "No significant titles were released in the current quarter compared to the release of *Avengers: Endgame, Aladdin* and *Dark Phoenix* in the prior-year quarter."

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Last year, revenue in the third quarter for Disney's studios business saw $3.8 billion – an increase of 33 percent over the previous quarter. That's an impressive sum, helped by *Avengers: Endgame*, the biggest movie in history. It's even more impressive considering that Disney also saw substantial losses in its film division ($170 million in operating revenue) because of underwhelming 20th Century Fox movies, particularly *Dark Phoenix*. Even with those losses, Disney had enough blockbusters to bring in sizable revenue, leaving executives to pat each other on the back for a job well done.

Now, Disney's theatrical arm is up in the air. *Mulan* was taken off the theatrical calendar, and questions are already being lobbed about what it means for *Black Widow*, which is due out on November 6th. What happens over the next several months is crucial. Could Disney release its biggest films of the year (*Mulan* and *Black Widow*) as a staggered release? Warner Bros. is exploring the staggered release route with Christopher Nolan's *Tenet,* which will see the film premiere in 70 international territories on August 26th before being released in select cities in the United States on September 3rd. Could *Mulan* debut internationally before hitting US theaters?

Or could Disney use a combination of digital rentals and its booming streaming business in the interim until theaters can reopen safely and people can head back to the movies? It seems unlikely considering how much *Mulan* and *Black Widow* could make in theaters, but that was in the Before Times. Things might not be going great for the House of Mouse, but the company's

streaming division is continuing to grow at an incredible speed. Disney Plus now boasts more than 60 million subscribers. Disney's streaming division also saw revenues increase two percent over the quarter to $4 billion. A lone bright spot for the company.

"Despite the ongoing challenges of the pandemic, we've continued to build on the incredible success of Disney Plus as we grow our global direct-to-consumer businesses," CEO Bob Chapek said in the earnings report. "The global reach of our full portfolio of direct-to-consumer services now exceeds an astounding 100 million paid subscriptions – a significant milestone and a reaffirmation of our DTC strategy, which we view as key to the future growth of our company."

Disney Plus, Hulu, and even ESPN Plus all saw growth in the last quarter, but it was Disney Plus that continued to shine. Part of that comes from *Hamilton* landing on the streamer – a high-profile film that brought in a bunch of new subscribers for Disney Plus. While Disney is facing the same production woes as its competitors, the company can bring older titles to its platform until new shows – like *The Mandalorian*'s second season in October – debut.

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Disney is already doing this; the company has turned boring licensing deals into a "Summer Movie Nights" festival, marking each week with an X-Men movie or the arrival of Pixar's *The Incredibles 2*. While Disney owns Pixar and the X-Men franchise following its acquisition of 21st Century Fox, the films were tied up in previous licensing deals and unavailable until now. They're not new films by any means, but the marketing makes it seem like Disney Plus has a couple of exciting new additions, and it may be enough to get some people to reengage with the platform or sign up.

The big question is whether Disney Plus and Hulu are enough to weather the storm. Disney's parks and cruise sector faced total closures or limited reopenings in countries like China for the quarter, and similar to Comcast, Google, and Twitter, advertising revenue for networks like ESPN and ABC was down year over year.

Disney's ability to quickly bounce back is far from a certainty. The company's ad revenue in June alone fell 36 percent compared to 2019 due to the lack of sports, according to *Variety.* Its media networks division is hopeful things will get better with the return of sports, but that could go awry, too, if games are canceled. Disney reported its media division decreased 2 percent to $6.6 billion. Parks face a similar problem. The phased reopening seems to be going well for Disney so far, but cases in Florida and California continue to grow. Those parks could see shutdowns again if cases continue to climb. Parks revenues for the quarter decreased 85 percent, according to the report.

Disney's earnings aren't great, but they're not unexpected. As streaming remains the lone bright spot, it'll be interesting to see just how much Disney leans on it in the coming months, as executives figure out how to get things back to some semblance of normalcy.

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