

Disney's Streamers Are Lone Bright Spot in Quarter as It Takes \$1.4 Billion Covid-19 Hit



|
4 hours ago
Key insight:

- Disney expects ESPN to take a much bigger ad revenue hit than other its networks while live sports are paused.

Media and entertainment companies of almost all stripes are facing unprecedented challenges due to the novel coronavirus pandemic and its related economic headwinds. For Disney, the fallout from Covid-19 resulted in a \$1.4 billion income hit in its most recent fiscal quarter.

In its quarterly report today, Disney said shutdowns due to the ongoing pandemic had a \$1.4 billion income impact in Q1, \$1 billion of it due to closures in Disney's global parks, cruise and consumer products segment. Revenues for the quarter in that segment decreased 10% to \$5.5 billion, and that

segment's operating income decreased 58% to \$639 million. The company's extensive theme parks, cruise line and retail businesses count as its biggest revenue driver, comprising nearly 38% of Disney's revenue in 2019, or more than \$26 billion, according to company filings.

That exposure, plus hits to other segments to the business including theatrical releases and advertising revenue on its broadcast networks, has made Disney+ even more crucial to Disney's portfolio. On a call with investors Tuesday, Disney CEO Bob Chapek, who assumed the position in February, offered up a more positive figure for investors to hone in on. Disney+ had 33.5 million paid subscribers at the end of the quarter, with customers paying an average of \$5.63 per month for a subscription.

"Our company's top priority and our key to our growth are our direct-to-consumer business," Chapek said during the call.

It's another major milestone for the streamer, which surpassed 50 million total subscribers in April and included customers coming into the service through free promotional offerings due to deals with partners like Verizon. As of May 4, Disney estimated it had 54.5 million Disney+ subscribers, chief financial officer Christine McCarthy told investors on the call.

The rest of Disney's streaming properties also highlighted significant growth. Hulu had 32.1 million paid subscribers, a 27% increase from the year prior, but average revenue dipped slightly from \$12.73 per subscriber to around \$12.06 per subscriber. Chapek pointed to the debut of FX on Hulu as a success, with 45% of Hulu subscribers having accessed some FX on Hulu programming since the offering rolled out on March 1. ESPN+, the company's sports-centric streamer, counted 7.9 million paid subscribers, compared to 2.2 million paid subscribers a year prior.

Disney's direct-to-consumer and international segment revenues increased considerably in the quarter from \$1.1 billion to \$4.1 billion, primarily due to the addition of Disney+. However, segment operating losses increased from \$385 million to \$812 million due to the continuing costs of debuting Disney+ globally and consolidating Hulu into Disney's DTCI segment.

The glimmer of good news isn't enough to have Disney reevaluating previous projections about reaching profitability in the segment. An international expansion of Hulu, which Disney teased earlier this year, may also be stymied by the ongoing pandemic. While Disney remains "bullish" about expanding Hulu internationally in the long-term, the company will not move to make a short-term push due to its cash situation and ongoing uncertainty, Chapek said.

As with most media companies, Covid-19 has meant other challenges as well. Disney, which remains "committed" to theatrical releases, Chapek said, saw negative effects on theatrical revenue due to theater closures, including on its Pixar animated title Onward, which Disney released for digital rental in April after its March theatrical release was upended due to closures. With that said, studio entertainment revenues for the quarter increased 18% to \$2.5 billion, which Disney said was partially due to folding 21st Century Fox into the Disney portfolio.

Disney's considerable linear television footprint is also facing challenges due to advertiser uncertainty and pauses in ad spend, stemming not just from economic challenges but due to the loss of live sports programming. While Disney's cable networks revenues in the quarter increased 17% to \$4.4 billion and broadcasting revenues were up 49% to \$2.8 billion in the quarter, McCarthy said the company was experiencing a "significant impact" on ad sales, primarily due to the lack of live sporting events and a pullback from advertisers from categories like movie studios, retail, domestic auto and

travel.

Continue Reading

Pages: 1 2

<https://www.adweek.com/digital/disneys-streamers-are-lone-bright-spot-in-quarter-as-it-takes-1-4-billion-covid-19-hit/>