

Disney's earnings show a company in transition

Article

The news: Disney had a strong Q1 (ended January 1, 2022), reporting a **34%** year-over-year (YoY) increase in revenues, **per** a company release.

- Streaming subscriptions also rose 34% YoY to **196.4 million** across **Disney+, ESPN+, and Hulu**. Disney+ alone hit **129.8 million subscribers**, above analyst estimates.

The pandemic recovery continues: Over the past 100 years, Disney has amassed an entertainment empire, spanning films, TV, merchandising, hospitality, and much more. However, its biggest moneymakers (theme parks and merchandise) are yet to fully recover

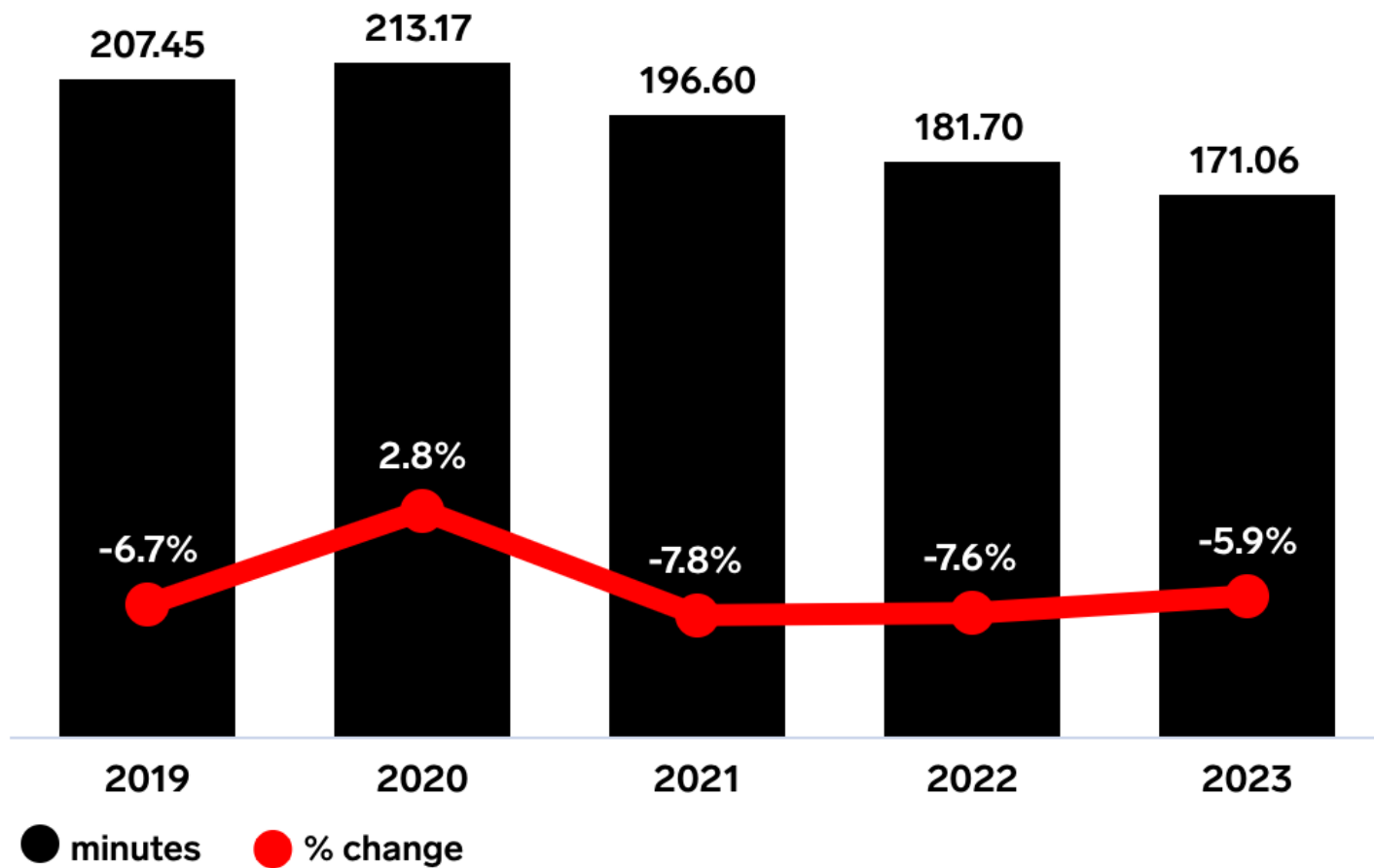
from the effects of the pandemic, and films that would ordinarily be blockbusters have **failed** to drive audiences to the cinema.

The company's network channels are also struggling to adapt to a decline in viewership. While Disney's linear revenues for Q1 remained virtually unchanged from the prior year, its operating income in that segment **decreased by 13% YoY**, with the company blaming higher production and programming costs, as well as a drop in average viewership.

- Disney managed to keep revenues steady by raising ad prices, but as audiences shrink further, it will be harder to persuade advertisers to pay more for fewer impressions.

Average Time Spent per Day with TV

US, 2019-2023



Source: eMarketer, January 2022

eMarketer | InsiderIntelligence.com

Covering its bases: One way that Disney can mitigate the effects of viewership decline is by doubling down on a proven vehicle that consistently attracts millions of viewers: sports.

- In an interview with CNBC, CEO **Bob Chapek** confirmed that Disney would bid for NFL Sunday Ticket, a package that allows fans to stream NFL games. This addition would augment Disney's already robust slate of sports programming on its ESPN channels and the ESPN+ streaming service.

- However, there are only so many pro football games in a year—and Disney isn't the only entertainment company with a struggling broadcast business.

Streaming intensifies: The biggest story to come from Disney's earnings is about Disney+; namely, its ability to do what Netflix could not—grow its domestic subscriber base.

- Disney+ recorded **42.9 million** subscribers in the US and Canada in Q1 2022, or **18% YoY** growth.
- Yet this number doesn't tell the whole story: Disney notes that subscribers to its streaming bundles are counted as paid subscribers to each service included in the package, regardless of whether they use the services.
- Bundling is an effective tactic for boosting sign-ups in the short term, but at a certain point, Disney is going to have to raise prices significantly if it wants to see any streaming profits. Once that happens, user growth will inevitably slow.

The takeaway: Disney has its finger in many pies, but it is increasingly clear that streaming is where the company's focus lies.

- Disney's decision to release "Encanto" on Disney+ one month after the theatrical release gave the film a broader audience, culminating in Oscar nominations and a **chart-topping** song. With movie theater attendance still severely depressed, "Encanto's" success gives the entertainment company a blueprint for successful digital releases.