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Disney just named a new chief executive. He'll face challenges Bob Iger never imagined.

By Steven Zeitchik

Disney has been riding the kind of hot streak traditional media firms weren't supposed to enjoy anymore.

Over the past decade, the company has spent billions on acquisitions, watched annual box office receipts reach competitor-topping sums and become the dominant entertainment firm of the modern era. Disney's share price climbed to an all-time high of $151 at Thanksgiving, five times greater than its value 10 years ago. The company was so well-regarded that on the day that its then CEO, Robert Iger, announced the plans for Disney Plus last April, warning profitability wouldn't arrive until at least 2023, the stock rose 11 percent.

But the party could soon be ending. Analysts say Disney now faces the type of hurdles it has not confronted in years. The fears weren't much discussed by company officials as

Mattel displays a Baby Yoda toy from the Disney Plus show 'The Mandalorian' at the Toy Fair in New York. Disney is at a crossroads as Bob Iger steps down as chief executive. (Carlo Allegri/Reuters)

Iger turned the company's reins over to Bob Chapek in a surprise headline-grabbing announcement this week. But they appear to be significant — and go well beyond the adjustment the company will have to make to an untested leader.

"This is not about Chapek vs. Iger vs. Kevin Mayer," said LightShed's Rich Greenfield, the longtime media analyst, referring to the Disney Plus executive who was passed over for the top job. "This is about the fact that there's a significant challenge in nearly every one of Disney's core businesses.

"And its new business," he added, referring to Disney Plus, "is losing money."

Most immediately, Disney must absorb the impact of coronavirus. Disney's theme-park business depends on consumers traveling and gathering easily — the very activities most threatened by the spread of the virus. The company has already closed parks in Shanghai and Hong Kong indefinitely, resulting in a loss of $175 million by its own estimates. It announced a two-week shutdown of Tokyo Disneyland beginning Saturday.

Closures of other parks could be in the offing. Theme-park experts in Orlando say shutterings in the region — site of such popular parks as Disney's Magic Kingdom — are a legitimate concern. Emergent health risks in crowded venues reverses what has long been a historic strength of Disney: a core business impervious to digital disruption. The popularity of movie theaters also remains an unknown as the virus spreads.

But the challenges go well beyond the disease. Cord-cutting still gnaws, as younger viewers flee the ad-supported television business in which Disney, via its ownership of networks like ABC and ESPN, is deeply invested. The research firm UBS projects that more than 6 million new homes will cancel traditional TV subscriptions in 2020, essentially matching the figure from 2019.

Meanwhile, Fox, which Disney bought last year for $71 billion, has yet to produce many tangible benefits outside of a 30 percent stake in Hulu and scattered hits such as the recent "Ford v. Ferrari." Anticipated film-sequel "Avatar" is still 22 months away. Iger last summer in part blamed the acquisition for quarterly financial shakiness.

Content and sports-rights costs also continue to rise. Apple and Warner Bros. recently got into a bidding war for J.J. Abrams to work entirely within their universe. (WB won the battle with a bid totaling some $250 million.) In the age of rising content costs, many companies are caught in a bind: take financial hits or miss out on creators.

And while it is off to a strong start with 28.6 million subscribers in the U.S., Disney Plus has yet to launch in many foreign countries, key to the service's Netflix-challenging ambitions. Disney also has to worry about churn — the idea that curious consumers, many coming off slick Disney Plus promotions, abandon the service once the novelty wears off.

"The path gets a lot harder for Disney from here on out," said Lloyd Greif, a prominent Los Angeles-based investment banker who follows Disney closely. "The company has an incredibly lofty valuation, and the rubber's going to hit the road soon." Disney, he said, is "facing major head winds."

Other analysts suggested that Iger may have detected those difficulties and chose to go out on top, though as executive chairman he will remain involved in the company's content efforts through 2021, his reputation tethered to the company's.

Disney executives say that Iger has laid the groundwork that can now be built on by Chapek.

"Our achievements to date will serve as the foundation for this future," Chapek told analysts after this promotion was announced, allowing Disney to flourish with the help of "bold innovation and thoughtful risk-taking."

Chapek — who has specialized in theme parks, consumer products and home video over his 27 years with Disney — acknowledged that "each one of our businesses, just like every business in the world, is experiencing disruption." But he said it can be navigated if Disney stays "on the front end of that wave." He said he favored a level approach.

"If the need to change arises it's something we'll reevaluate, but frankly I think we're the envy of the industry," he said.
A spokesman declined to comment further for this story.

Perhaps the most surprising challenge lies with theatrical movies. Disney's films garnered a record $11.1 billion worldwide last year and accounted for a third of all U.S. ticket sales. The studio is, quite simply, a megalith.

But the future is murkier. With its sequel trilogy now completed, the "Star Wars" franchise is at a crossroads; the company recently announced that Kevin Feige, the president of Disney's Marvel unit, would develop a movie in the franchise with Kathleen Kennedy, who has had an at-times rocky tenure as the chief of Lucasfilm.

The most recent phase of Marvel movies, meanwhile, came to a close with "Avengers: Endgame" last year. The studio has just two films set for 2020 — "Black Widow" and "The Eternals," both of which are considered commercial uncertainties. And both franchises are steering more properties to Disney Plus, which does not result in direct revenue like theatrical releases do.

"They don't seem to be clear on where they're headed with either of these franchises," said Brush Nash, a movie-distribution expert who runs the film site The Numbers. "There are certainly a lot of tough questions."

More immediately, he said, is the upcoming release of "Mulan." The Chinese-centric reboot starring Liu Yifei was expected to pour hundreds of millions of dollars into Disney in China. But the movie is now facing an unclear release fate there as the country battles the coronavirus outbreak, shuttering factories and discouraging large gatherings.

Experts note that Disney has overcome naysayers many times before. The current box-office golden age, in fact, came out of a failed tenure of Rich Ross, a Disney Channel executive who was named chair of the studio in 2009 and presided over a number of flops. He was replaced in 2012 by veteran studio chief Alan Horn, who engineered a comeback. The Iger era itself was born from an ugly power struggle involving Michael Eisner a decade earlier.

"You have to remember Disney is a very cyclical company," said Tuna Amobi, an analyst at the investment-research firm CFRA who tracks the entertainment space. "The important thing is the fundamentals are still very much in place."

He and others tout the power of Disney Plus, with a model that allows the company to keep much of the $6.99 paid monthly by subscribers and that can also serve as a breeding ground for new properties; these can be tried out in the lower-profile streaming world and, if they're successful, flow into movies, theme parks and merchandising. Already the company is orienting in that direction with Marvel series such as "WandaVision" and "The Falcon and the Winter Soldier," along with a new season of "The Mandalorian," which has given the studio a potential franchise vehicle in the often-memed Baby Yoda character.

Perhaps the biggest test, though, will come in movie theaters.

"A lot of how we think of Disney going forward — especially how we look at the Fox acquisition — is going to depend on 'Avatar,'" said Greenfield.

James Cameron's planned sequels to his 2009 global megahit, with their massive effects and high expectations, have been delayed several times. The witching hour finally arrives on December 2021, when Disney releases the first of the follow-ups. It is, observers note, the month Iger will officially leave the company.