The Washington Post

December 14, 2017 Democracy Dies in Darkness

Disney buys much of Fox in megamerger that will shake world of entertainment and media

By Steven Zeitchik

NEW YORK — The Walt Disney Company, an entertainment firm as sprawling as one of its landmark theme parks, has pulled off one of the largest media mergers in history by acquiring the majority of assets from rival 21st Century Fox.

The announcement resets the Hollywood power grid. Disney, the nation's largest studio by box office returns and the company behind Marvel Studios and the "Star Wars" franchise, is acquiring Fox, the third-largest studio by that metric, known for the blockbuster "X-Men" and "Avatar" franchises as well as a host of mid-budget crowdpleasers and critically acclaimed films.

It also brings brands such as FX, National Geographic and "The Simpsons" into the same fold as ESPN and ABC — all part of Disney's gamble that a beefed-up company will be better equipped to tackle a slew of Silicon Valley giants.

It goes beyond the Star Wars franchise. As Disney acquires 21st Century Fox, here's what the deal means for your some of your favorite movies and TV shows. (Nicki DeMarco/The Washington Post)

Disney will pay $52.4 billion for Fox, which for its part will spin off Fox broadcast networks, the Fox News Channel and Fox Business Channel, the Fox studio lot in Los Angeles and several national sports channels, leaving them in the hands of 21st Century Fox chairman Rupert Murdoch and his family. Robert Iger, the chairman and chief executive of Disney who had been discussed as a potential 2020 presidential candidate, will continue with the combined firm through 2021.

The deal takes two media and entertainments titans and, after a period of negotiating chess, essentially divides up territory between them. Iger will lead the legacy-entertainment charge against a slew of new competitors, while Murdoch will attempt to fend off the challenge on another front, as the business of news and live programming faces challenges from digital upstarts.

Each side sought to paint their business as stronger because of the moves.

"The acquisition of this stellar collection of businesses from 21st Century Fox reflects the increasing consumer demand for a rich diversity of entertainment experiences that are more compelling, accessible and convenient than ever before," Iger said in a statement Thursday morning. "We're excited about this extraordinary opportunity to significantly increase our portfolio of well-loved franchises and branded content to greatly enhance our growing direct-to-consumer offerings."

"The new Fox will draw upon the powerful live news and sports businesses of Fox, as well as the strength of our broadcast network," said Murdoch. "It is born out of an important lesson I've learned in my long career in media: namely, content and news relevant to viewers will always be valuable."

On a conference call with analysts, Murdoch said the acquisition would leave the entertainment world with "two of the most iconic, relevant and dynamic media companies" while on his own call Iger noted that Disney would be "well-positioned to flip the switch to distribute programs and channels direct-to-consumers," alluding to the ways that the Silicon Valley companies have disrupted the entertainment business.

There had been reporting that James Murdoch, one of Rupert's sons and the CEO of 21st Century Fox, would be given a top executive role at Disney as part of the deal, but Thursday brought no definitive word of such a move. Iger said he "look[s] forward to talking to him about it" in the coming months, referring to James.

As part of the all-stock deal, Disney will also acquire Fox's 30 percent stake in Hulu, a group of U.S. cable stations including FX and National Geographic, several powerhouse international satellite channels such as Star India and Sky Italia, and a host of U.S. regional sports outlets.

The deal takes Murdoch out of much of the scripted television game and all of the film business, ending a Hollywood association that began more than three decades ago when Murdoch paid about $600 million to buy 20th Century Fox from industrialist Marvin Davis and crested as recently as 2014 when Fox led all studios by market share for the first time this century.

On their call, the Murdochs sought to explain their rationale for the sale.

"I know a lot of people are asking why the Murdochs came to such a momentous decision," Rupert Murdoch said. The company was not retreating, he noted, but "proud to recommit and enable shareholder [opportunities] for years to come."

Lachlan Murdoch, Rupert's son and the executive co-chair of 21st Century Fox, noted that "while the merged business is about scale, the new Fox is about returning to our roots as a lean and aggressive brand."

The family said there had not been talk yet of recombining with the print media-driven News Corp. "If we do, it's well into the future," Rupert Murdoch said.

Some insiders said they saw Murdoch's end-game as going beyond Fox.

"Rupert doesn't see this as much as selling as he does buying," the Los Angeles-based investment banker Lloyd Greif said. "He's buying Bob Iger and his Midas touch when it comes to filmed content," Greif said, referring to the stock transaction, which will put about 25% of Disney shares in the hands of Fox shareholders.

"It's a vote of confidence by Rupert in Iger and his management team over his own. He sees troubled waters ahead and wants the best ship and crew to navigate them."

For Iger, Thursday's deal amounts to another feather in an already decorated cap that includes the successful acquisitions of Pixar, Marvel and Lucasfilm.

But Fox will provide the greatest integration challenge yet, with many of the newly acquired company's divisions overlapping with Disney's existing operations. And greater scale, while valuable in negotiating traditional distributor deals with cable operators and movie theaters, is no guarantee of direct-to-consumer success.

Wall Street was bullish on the announcement, sending Disney's stock up nearly 3% and Fox almost 7%.

Regulators and shareholders must still approve the Disney-Fox deal, but most analysts do not expect it to face problems. In a very different scenario, the DOJ is currently suing AT&T to stop its acquisition of Time Warner, noting concerns about the marriage of a distributor and content provider.

A few experts dissented, though, and said the sheer volume of creative assets could give regulators pause.

"The scrutiny could be very close and the new antitrust leadership is unpredictable at this point, as witnessed by Time Warner-ATT," said Carl Tobias, a professor at the University of Richmond law school who has studied antitrust issues. "I expect DOJ and Congress will be most interested in what this combination will mean for consumers and whether it concentrates too much power in the new entity."

Combined, the new Disney could boast as much as $75 billion in revenue, with nearly a third coming from Fox assets. Fox currently employs well over 20,000 people around the world, many of them at the divisions being acquired by Disney.

The deal makes Disney a behemoth of the type entertainment has never seen before and sets the stage for a battle with Silicon Valley titans like Netflix, Apple and Google. The conglomerate is building up an arsenal of programming in the hope of fending off those firms' forays into the content market. With enough material, it hopes, it can develop a streaming service that will win over customers who've cut the cord on its products in favor of subscriptions to digital rivals.

On the Disney call, Iger said that he envisions Disney's new service, set for 2019, coexisting with Hulu, the former in a "family vein" and latter as "adult-oriented." Analysts, however, have wondered what the long-term future of Hulu will hold now that Disney owns a controlling 60% stake (Comcast Universal has 30% and Time Warner the remaining 10%). Would executives shelve the service and shift their resources to Disney's proprietary platform? Or would they actually try to maintain both Hulu and a separate streaming service?

"I think it's going to be tough– I don't understand how you would segment it," said Aaron Shapiro, the founder of Huge, a digital marketing agency that has done work for Hulu.

He said he eventually saw one Disney entry point for consumers, under one brand, whatever it was called. "I think they need to put all their eggs in one basket and go for it," he said, noting the challenge of attracting many of the 100 million+ subscribers who've signed on for Netflix.

The Disney acquisition hints at a further industry consolidation, Greif said, that could see Viacom, CBS, Lionsgate and Sony seek large buyers too, and leave just a few large legacy conglomerates such as Disney-Fox, Comcast Universal and a potential AT&T Time Warner.

Insiders said they believe Disney will become a kind of canary in the coal mine for other content providers as they seek to launch direct-to-consumer businesses; if the world's largest media conglomerate is unable to successfully do so, it might make them reconsider whether they should even try.

The news provides a bookend of sorts to a 1995 merger that also saw Disney combine with a television giant — Capital Cities/ABC — setting off a wave of entertainment-industry consolidation. Coincidentally, it was that deal that brought Iger into the Disney fold: he was the president of Capital Cities/ABC at the time.

In the call, Iger alluded to that past, saying he was a "product" of that merger, which in turn makes him "respect and appreciate the talent" that comes with the Fox acquisition.