

How Disney could be facing a lot more than a lost summer

'Hamilton' is all the rage on its streaming service, but the company must climb a mountain of existential challenges

By Steven Zeitchik

Disney, the quintessentially American entertainment company, has long owned July 4.

As the nation celebrated its independence last year, the firm was behind three of the country's top five movies, including new installments of Spider-Man and Toy Story; dominated cable ratings with tennis and a hot dog-eating contest; and drew large crowds to its new Star Wars: Galaxy's Edge theme area in Anaheim. The day after the weekend, it attracted nearly 6 million Americans to watch a baseball home-run derby.

This year, none of that will happen except for a scaled-back hot dog contest.

The debut of "Hamilton" on Disney Plus this weekend is bringing the company a much-needed win, as many existing and new subscribers are tuning in for the Broadway musical about the roiling early days of the republic, then jumping on social media to talk about it.



The entrance to the parking lot of Magic Kingdom at Walt Disney World in Florida is closed. (John Raoux/AP)

Several of the show's stars were trending as of Friday afternoon, and the telecast of the Lin-Manuel Miranda musical has earned strong reviews.

Yet the fervor over the show, which Disney acquired in February, conceals a much deeper and more complex set of challenges. With every passing day of coronavirus uncertainty and social upheaval, Disney finds itself scrambling not

only for revenue but also for relevance.

The results for Disney's fiscal third quarter, which ended Tuesday, are expected to be dismal, with revenue massively down compared to 2019's \$20.3 billion. But a growing number of voices are starting to ask whether a more fundamental change is brewing, a change that will affect Disney beyond one bad quarter.

They're wondering whether a company built heavily on a foundation of in-person gatherings, and on the peddling of an inoffensive utopia that largely exists outside racial identity, can be effective in a prolonged period of isolation and fulmination.

"What Disney has to do is figure out how to make itself matter, how to get in front of audiences in very different ways than it has in the past," said Carmen Higginbotham, a professor at the University of Virginia who is one of the country's leading experts on Disney and popular culture. "Because the previous rules — of gathering a lot of people in one place, of just riding safely down the middle of American society — won't apply for the next 12 months. And maybe a lot longer."

Similar comments were made by nine entertainment industry experts interviewed by The Washington Post, from Hollywood managers to Wall Street analysts. Disney, they said loudly if not always publicly, needs not just a new set of dates to reopen its businesses but a new set of principles to guide its mission.

For much of the American postwar period, Disney has been an entertainment refuge — a place to which people have retreated for a safe sanctuary of reliable entertainment. After the Vietnam War, veter-

ans came to its parks to reassure themselves that life was worth living.

That has intensified in Hollywood's current era of franchises and name brands. Nearly every major moment on the American entertainment calendar is defined by a Disney product — from the Pixar release in the fall to the winter break trip to Disneyland, from the major Marvel movie in the spring to ESPN's evenings of "Sunday Night Baseball" in the summer.

The absences this year will be jarring for American consumers, who will suddenly feel a large part of their entertainment summer gone after enduring a similar emptiness this spring. Josh Spiegel, a writer and frequent chronicler of Disney, likened it in an interview to "a limb being cut off, or an entire food group being removed."

One manager of well-known film writers and directors, who spoke on the condition of anonymity so as not to jeopardize relations with the company, noted how the depth of the absence is being felt in Hollywood.

"When you see how empty the landscape is, it hits you how much of what's missing usually belongs to Disney," the manager said. "And then ask yourself: 'What happens if it stays empty?'"

There is, first, the economic

impact. Disney's fiscal fourth quarter — the July to September period — last year generated more than \$19 billion in revenue. Its studio spun off more than \$3 billion of that money, theme parks produced \$6.7 billion, and its TV division brought in \$6.5 billion. (The remaining dollars came from merchandising.)

The numbers this summer will be a fraction of that. The company has three movies set for the quarter, all in the back half: the twice-delayed "Mulan," now set for Aug. 21, and new installments in the X-Men and Kingsman series in the weeks following. Even if they can remain on the calendar, many U.S. movie theaters may not be open, and it's unclear whether consumers will come if they are. California Gov. Gavin Newsom (D) on Wednesday ordered the few movie theaters that had opened to close for three weeks as the number of coronavirus cases surge.

TV networks, meanwhile, are in a similarly bad place. While ABC has had modest success so far this summer with game shows like "Don't," shot before the pandemic, ABC's fall season is part of the industry-wide disarray that has taken hold without the ability to safely shoot new episodes. ABC just announced this week which pilots it will shoot for the fall, saying only that it has

the “intent to shoot the pilots once production can safely begin.” That process would normally have been completed in the spring, the shows would have been ordered in May and production on the series would have started this month.

Without those fall shows, viewership and advertising revenue is likely to take a major hit. The company is expected to get a boost with “Hamilton” sign-ups, but analysts are skeptical a slew of \$7 monthly subscriptions can make up the shortfall.

And ESPN will finally return to live team sports, but with much uncertainty. How players and fans will react to a baseball season barely one-third its normal length after months of labor unrest is unclear. So too is an NBA restart, which is scheduled to feature as many as four televised games daily but faces questions over whether athletes will return or can stay healthy. Disney will at least collect some money from players staying at its ESPN complex in Orlando. A corporate spokesman for Disney declined to comment for this story.

(Wall Street has not yet shown itself to be too concerned, with the stock price roughly flat to where it was in mid-March, when shutdowns began. But many experts call this a false positive because Disney has yet to reveal earn-

ings from most of the shutdown period.)

One of the divisions hit hardest will be theme parks. Disney will see international revenue this summer as Asian parks are open at limited capacity and its Paris venue is set to open later this month. But reopenings in California, the site of its flagship Disneyland, have been put on hold indefinitely as Newsom has refrained from offering guidelines on a reopening and 17,000 union members protested an earlier plan to reopen in July.

And while Florida officials say they are continuing to give their blessing to the opening of Disney World and other Orlando-area parks in mid-July despite a surge of cases in the state, how many guests will fly in to visit them is uncertain. Nearly 18,000 cast members have signed their own petition asking Disney to delay the opening.

A spokesperson for Mayor Jerry Demings of Florida’s Orange County, Kelly Finkelshtein, said, “At this time there are no plans to revisit the reopening plans,” even as the state records its worst infection levels yet. A spokeswoman for Disney’s theme park division said the openings in Florida remain on track.

But some experts ask whether issues like reopening dates and immediate financial impact miss a larger point, say-

ing the world has changed so dramatically that Disney’s all-in bet on in-person gatherings is fundamentally flawed. With cases probably coming in waves around the country for the foreseeable future, they say the answer is not as simple as waiting out the bad news. A more bedrock shift needs to happen.

“This is about Disney needing to find a new way to do business that doesn’t require a lot of people to be in one place,” said Greif & Co.’s Lloyd Greif, a Los Angeles-based investment banker who closely tracks Disney. “They need to be making those contingency plans right now.”

The company thus far has made very few investments in virtual reality, gaming and companies centered on home-based entertainment. While global rivals like Chinese giant Tencent have made major investments in live-streaming since the pandemic began, Disney has largely stayed out of the game, instead putting its hope in the idea that people soon will feel comfortable returning to public spaces. In their public comments, executives have emphasized not a virtual pivot but the company’s value upon a return to public gatherings.

“[W]e believe people will resume familiar activities once this crisis ends,” Executive Chairman Bob Iger said during

an analyst conference call in May. "They miss doing the things they enjoy, things that make them feel happy and connected with family and friends, whether it's going to movie theaters to see our films, or visiting our theme parks around the world, or watching live sports on ESPN."

Greif noted this is a problem, with the company waiting on a vaccine it can't create and a consumer psychology it can't control. Disney Plus, he said, represents a positive step, but is not on the cutting edge and has no expectation of profitability until at least 2023.

The Hollywood manager noted that, at the very least, Disney should go on a buying spree of existing shows and content to feed Disney Plus. The firm bought rights to "Hamilton" for \$75 million shortly before the pandemic but has not made many similar acquisitions since it began.

Equally critical, some experts say, Disney must contend with a social climate very different from just several months ago. The worldwide Black Lives Matter protests that sprang up in the wake of the killing of George Floyd in the custody of Minneapolis police have infused many Americans with a sense of anger and social justice incompatible with Disney's make-no-waves message of harmony.

"Since the time of Walt, the

Disney corporation has been about safety and constancy," Higginbotham said. "But how do you maintain that when American culture feels unmoored?"

The company, she said, "can't go on just making a lot of Marvel movies — even our whole idea of superheroism has changed." She said she was pessimistic the shift could happen in a wholesale manner. "They don't pivot; that's not what they've been about as a corporation since the beginning."

What Disney might do, she said, was make very small changes — "the kind that seem radical for them but innocuous for everyone else, the kind that put them just barely on the right side of history."

The clash between the social justice moment and Disney incrementalism could come to a head on the basketball court. The NBA has apparently given permission for players to put social messages on their jerseys.

But it's unclear how much commentators on ESPN, which will air the games, will engage with the subject. The network has put almost no political restrictions on personalities since the protests, but those are not game situations. In recent years, ESPN discouraged politics and sports, famously buying out former anchor Jemele Hill after the two came into

conflict over her political outspokenness.

Disney has long been an outfit fueled by nostalgia. That would seem to offer an advantage during a pause; there are, after all, many old movies to re-watch.

But Disney's little secret is that such nostalgia cannot stand on its own — it needs to be continually fed and reinforced. A new set of Star Wars drives longing for the '70s, a "Beauty and the Beast" remake powers nostalgia for the 1990s, Marvel movies draft off pleasant feelings of a childhood of comic books (and, 12 years into their run, of themselves). Disney is a constant interplay between past and present, a continuous bicycle chain between the pieces we once loved and the current releases we run out to see to remind us of them. And that chain has now been severed.

"What Disney really needs to do, what they rely on, is creating new nostalgia; they can't just let the old kind stand for itself," Spiegel said. "Because, at some point, the umpteenth time you re-watch 'Frozen' is the last time you watch 'Frozen.'"