[Disney Massively Shits The Bed: Earnings Miss, Declining ESPN Revenue And Viewership, Layoffs]

DNC FINANCIER Disney Slides On Earnings Miss, Declining ESPN Revenue And Viewership, Layoffs

[Tyler Durden's picture]

by [Tyler Durden]

Disney is sliding after hours after another poor quarter, in which the Mickey Mouse company which recently severed relations with Netflix, reported a miss on the top and the bottom line, reporting Q4 EPS of $1.07, down 3% from the $1.10 a year ago, and below the $1.14 expected. The number would have been even worse had the company used the 34.3% effective tax rate it had one year ago instead of the lower 30.8% rate it used this quarter. The revenue miss was even worse, with DIS generating $12.78BN in Q4, 3% below a year ago, and over half a billion below the $13.32BN expected. Total operating income declined by 11% to $2.8BN from $3.2Bn a year ago, while free cash flow remained flat at $2.7 billion.

The segment breakdown was also disappointing, with virtually every segment missing on either the top, the bottom line, or both.

- **Cable Networks revenue $3.95 billion, unch;** estimate $4 billion; operating profit $1.24 billion, estimate $1.27 billion

- **Media networks revenue $5.47 billion, down 3%,** estimate $5.62 billion;operating income $1.48 billion, estimate $1.60 billion
- **Parks & resorts revenue $4.67 billion, up 6%,** estimate $4.53 billion ; operating income $746 million, estimate $911.0 million
- **Studio entertainment revenue $1.43 billion, down 21%,** estimate $1.52 billion; operating income $218 million, estimate $375.0 million
- **Consumer/interactive revenue $1.22 billion, down 6%** estimate $1.32 billion; operating income $373 million, estimate $452.0 million

A growing concern for Disney is what appears to be a secular decline in ad spend, as the company disclosed:

> Operating income at Broadcasting decreased $42 million to $229 million for the quarter **driven by lower advertising revenue** and a decrease in program sales, partially offset by an increase in affiliate revenue, due to rate increases, and lower programming costs. **The decrease in advertising revenue reflected lower network impressions, lower political advertising at our owned television stations and the absence of the Emmy Awards show, partially offset by higher network rates.** Lower network impressions were driven by a decrease in average viewership, partially offset by an increase in units delivered.

But the one aspect of Disney's business that investors were most curious about was the performance of ESPN. This is what Disney had to say:

> Results at ESPN were comparable to the prior-year quarter as higher programming costs and lower advertising revenue were offset by higher affiliate revenue. The programming cost increase was driven by contractual rate increases for NFL, college sports and MLB, partially offset by the absence of costs for Olympics programming internationally and the World Cup of Hockey. **Lower advertising revenue was due to a decrease in average viewership and lower units delivered**, partially offset by higher rates. Affiliate revenue growth resulted from contractual rate increases, **partially offset by a decline in subscribers**.

And then this from Bloomberg:

- **DISNEY SAYS ESPN AD REVENUE DOWN LOW SINGLE DIGITS IN 4Q**
- DISNEY SAYS ESPN AD REVENUE PACING DOWN IN CURRENT QUARTER

Which also explains why alongside the DIS earning report, SI reported that **ESPN would lay off another 100 staffers after the Thanksgiving holidays.** The layoffs will hit positions across ESPN including front-facing talent on the television side, producers, executives, and digital and technology staffers. **The SportsCenter franchise is expected to be hit hard—including on-air people—given the frequency of the show has lessened considerably on main network ESPN.**

Investors were not happy with the result, and after climbing its way back above $100 in recent days, the stock was down 4% after hours, and back into double digit territory.