Disney reports streaming profit but theme parks under strain

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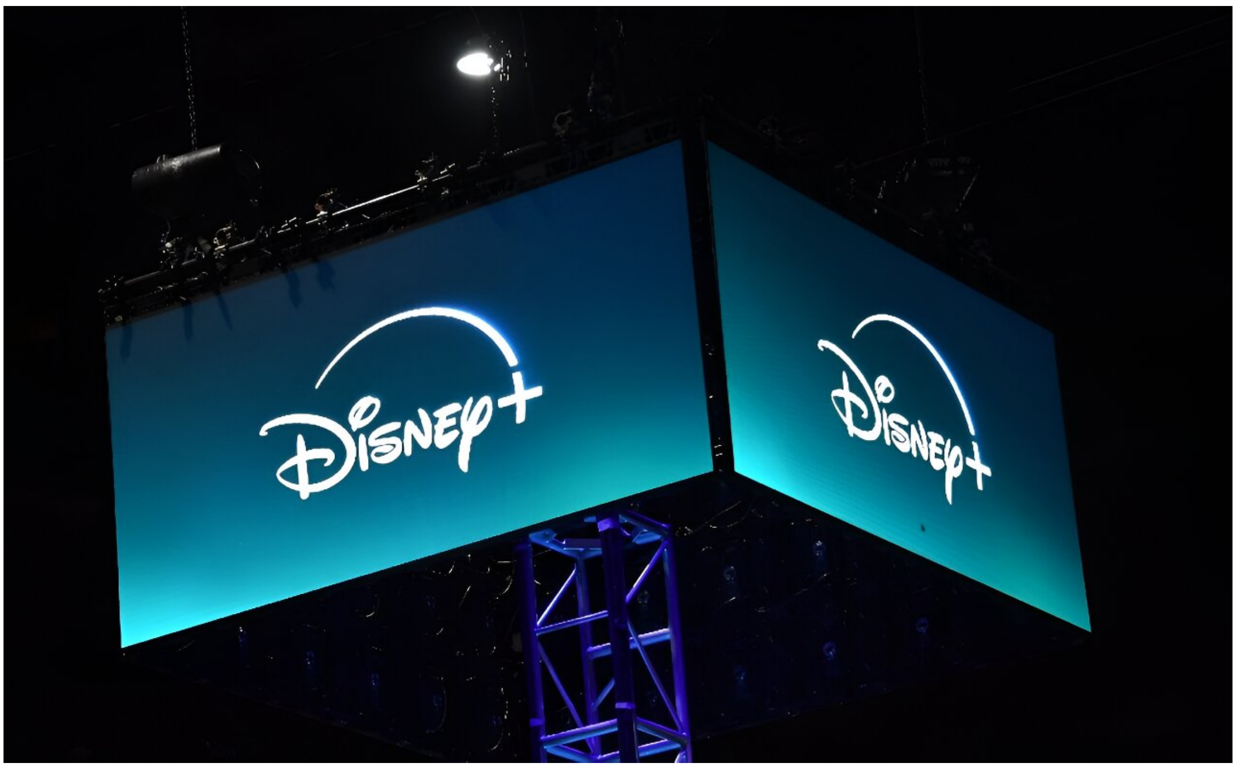

Disney said it turned a profit on its combined streaming business for the first time, and a quarter ahead of schedule.

Disney reported Wednesday better revenues than anticipated in the most recent quarter, atop a first profit in its streaming business, but its theme parks are coming under pressure.

The mixed picture drove its shares down 2.1 percent in morning trading.

The company saw revenues of $23.2 billion, beating projections of $23.1 billion according to analysts polled by FactSet, while overall profits reached $2.6 billion.

"This was a strong quarter for Disney, driven by excellent results in our Entertainment segment both at the box office and in DTC (direct-to-consumer)," said Disney chief executive officer Bob Iger in a statement.

He added that this came "as we achieved profitability across our combined streaming businesses for the first time and a quarter ahead of our previous guidance."

Its streaming unit, which includes Disney+, Hulu and ESPN+, reported an operating income of $47 million.

Disney said it is still "on track for the profitability of our combined streaming businesses to improve" in the fourth quarter.

'Higher costs'

But the company's theme parks business came under stress in the quarter, with lower operating income domestically in parks and experiences.

Disney was squeezed by "higher costs driven by inflation, increased technology spending and new guest offerings."

It expects that the third-quarter demand slowdown in US businesses—under the experiences segment—could impact the next few quarters.

And operating income in the upcoming fourth quarter could slip too.

Disney said it expects its fourth quarter experiences segment operating income to "decline by mid single digits versus the prior year."

This would partly reflect a reduction in consumer travel at Disneyland Paris due to the Olympics, alongside "softening" demand in China.

"We expect to see a flattish revenue number" in the fourth quarter for the experiences segment, Disney chief financial officer Hugh Johnston told an earnings call.

But he described the situation as a "slowdown that's being more than offset by the entertainment business."

"While investors cheered Disney's progress on the streaming side, the worrisome news about the parks unit sent the stock downward," said Paul Verna of Emarketer in a note.

Third Bridge analyst Jamie Lumley said the weakness "raises alarm bells as guidance indicates the rest of the summer will likely be soft as well, usually the busy season for Disney's parks."

"The recovery of its studio segment and content engine is crucial for Disney," added Lumley.

Film boost

Disney's financial results were given a boost from "Inside Out 2," which became the highest-grossing animated film of all time.

This drove strength in areas like content sales and licensing, and in Disney+ sign-ups.

The company expects core Disney+ subscribers to "grow modestly" in the upcoming quarter.

Disney's results came a day after it announced streaming price hikes.

Iger told the conference call that the company has "pricing leverage" given its consumption growth and the popularity of Disney's offerings.

"Every time we've taken a price increase, we've had only modest churn," he said.

The company is among media giants shifting towards streaming from more traditional avenues like broadcast.

Competitors like Netflix and Warner Bros Discovery's Max also previously unveiled plans to lift costs.