

Hello Everyone,

ESPN and Disney command our attention on this week.

We all know technology is changing the entertainment industry faster than anyone dreamed possible. And, evidently, ESPN is not keeping up.

Thus, today's missive looks at what happens when companies make both tactical & strategic blunders that can haunt them for years.

I hope you find this report interesting and thought provoking---especially when you see a Disney or ESPN promotion.

Signed, Your Likes-Sports-But Hasn't-Watched-A-Monday-Night-Football-Or-NBA-Game-In-Years Financial Advisor,

Greg

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Bob: So, today we are going to talk about Disney stock, right? I don't follow stocks the way you do, but I would think Disney has done pretty well over the last several years.

Greg: You're right...and wrong. In the spring of 2009, it was trading around \$23/share. Today it is trading around \$117...so, you're right. Making five times your money in nine years is great.

With that said, Disney made its big move from 2009 until 2015 and has been stuck in neutral ever since. So, the question is, why didn't Disney keep going up with the rest of the market?

Bob: I don't know. I always thought entertainment stock were safe. I mean, even during the Great Depression, people went to the movies. People always seem to find money for entertainment.

Greg: That's true, and Disney has had some big movie hits over the past three years. So, that's not the issue. No, the anchor on Disney stock is... ESPN. You see, Disney has controlling interest in the cable sports network and this year ESPN will lose another two million subscribers. That takes them down to 86 million from over 100 million just a few years ago.

Bob: But isn't that mostly due to people cutting cable and going to streaming? I know cord cutting is gaining momentum.

Greg: Great point...and you're right, that's part of it. So, if you're CNN or Fox, you can adjust by cutting programming costs. ESPN, however, has billions in long-term contractual commitments to the NFL, NBA, Major League Baseball, and so on. Every year, ESPN must pay those leagues. Meanwhile, ad revenues are falling fast as viewers go elsewhere for sports content.

Oh, and another major blunder was turning ESPN into a pseudo-left-wing political network. People don't watch sports to hear about politics. And, it wasn't just the anthem issue.

Look, here's a typical Internet comment about ESPN. *"Tell the talking 'Big Heads' to shut their cakeholes about politics and social justice. We're sick of hearing that (insert bad word) out here. I hope this Left-wing network finally fails."*

Bob, comments like that are all over the web.

Anyway, ESPN has apparently gotten the message, because they recently cut Kate Fagan's show that explored *"the intersection of LGBT issues and sports."* So, they are making a hard-right turn trying to get their base audience back.

Bob: Plus, this would explain why they are constantly self-promoting Monday Night Football, the NBA, and hockey. They need the hard sell. It's as if all I ever see are LeBron ads...or, why this Monday Night's game is must-see TV.

Greg: Good insight. The problems are these. By Monday night, fans are footballled out. And regarding basketball...fans don't follow teams as much as they follow players. I mean who watches the Timberwolves play the Raptors? You might, however, tune in to watch LeBron. But, outside LeBron---and maybe Steph Curry (who can't stay healthy)--- the NBA doesn't generate much interest. Sadly, Michael Jordan, Larry Bird and Magic Johnson are now 15-20 years in the rearview mirror.

Bob: You're right....and, I get all that. So, what are Disney's' options? I mean they're stuck with ESPN, right?

Greg: Great question.

- They could try to spin it off as a stand-alone company, but those multibillion-dollar league contracts make that tough.
- They could hope the cord cutting stops, but that's a Kodak or Sears kind of strategy.
- They could try to sell to Amazon or Apple knowing those companies would try to make ESPN solely a streaming company.
- Or, they could try to stream ESPN themselves, but then all those cable bundles that currently come with embedded ESPN would drop them like a hot potato----so, the subscriber list would drop even faster.

So, there aren't really any good options right now. Therefore, Disney must make up for the ESPN deadweight somewhere else. That makes buying Disney stock complicated...which is why they're stuck in neutral.

Bob: A real interesting report....thanks...but time's up...and there's no overtime on KKOB. How do people reach you?

Greg: (Laughing) My number is 508-5550, 508-triple-5 zero. Or, go to my website zanettifinancial.com.

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