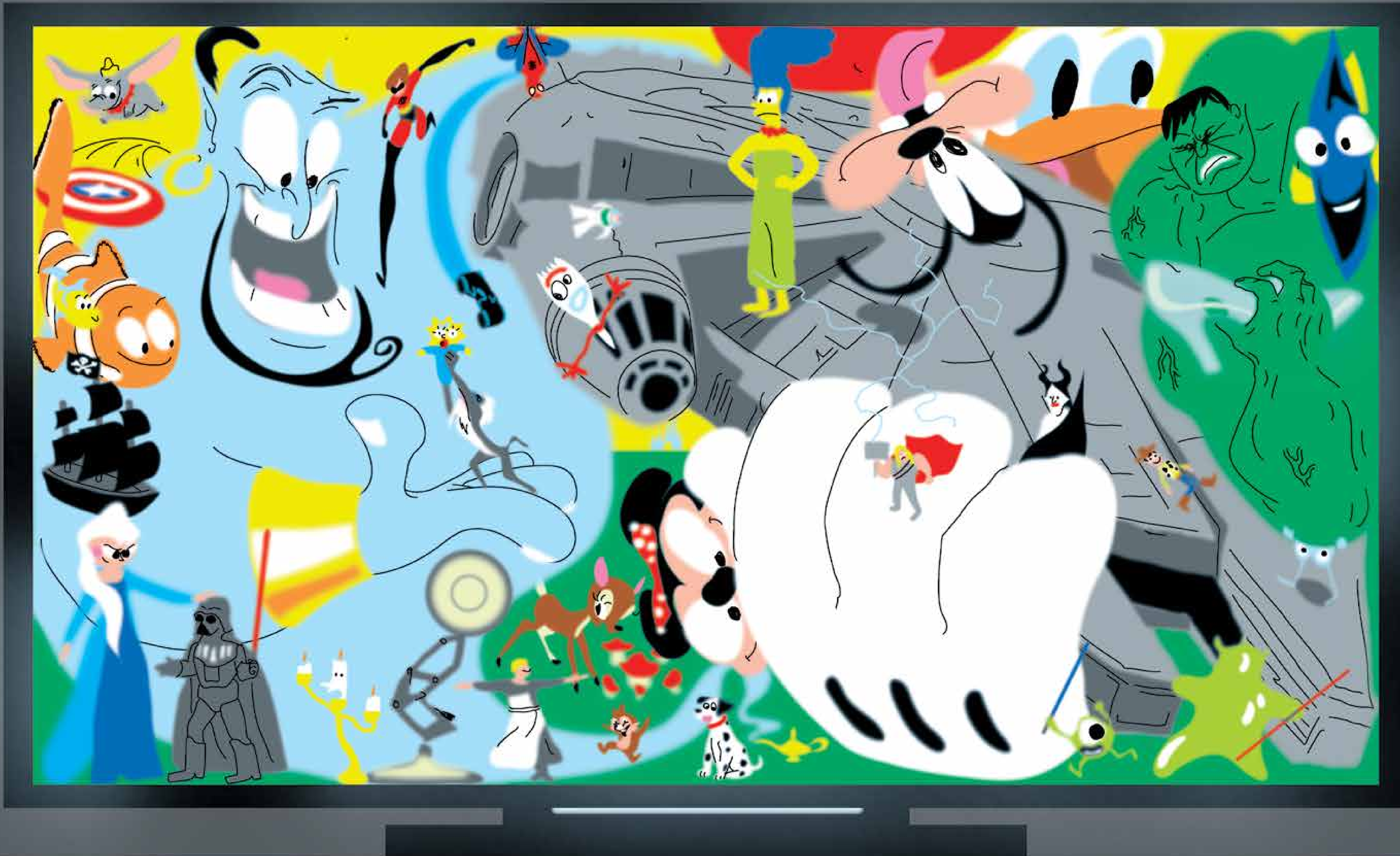
Where Streams Come True



Disney CEO Bob Iger is going out on one last huge bet. By Devin Leonard

Long before he became chief executive officer of Walt Disney Co. in 2005, Robert Iger developed a habit of waking up on weekdays at 4:15 a.m. and working out. Lately he's been getting up around that hour on weekends, too, to exercise and watch early versions of his studios' movies and television shows. He's been obsessing over the first season of *The Mandalorian*, a space western from the *Star Wars* universe created by actor-director Jon Favreau. The show is about a bounty hunter whose armor bears a distinct resemblance to that of Boba Fett, who captured Han Solo in *The Empire Strikes Back*.

"I've probably seen each episode of *The Mandalorian* three times," Iger says. "First, to give some notes. Second, to see the rough cut and the impact of the notes. And now, just recently, I watched all the final cuts so that I could be blown away by how it looks." Disney is spending more than $100 million on the show, so it had better be visually stunning and then some.

If you want to see *The Mandalorian*, you'll have to sign up for Disney+, which launches on Nov. 12. Disney has promised the family-focused streaming service will feature at least 25 new TV shows and 10 new movies in its first year, along with a huge archive encompassing everything from Mickey Mouse's first appearance, in 1928's *Steamboat Willie*, to the contemporary adventures of *The Avengers* to the interstellar *Star Wars* canon. It's the most important product launch in Iger's 15 years as CEO.

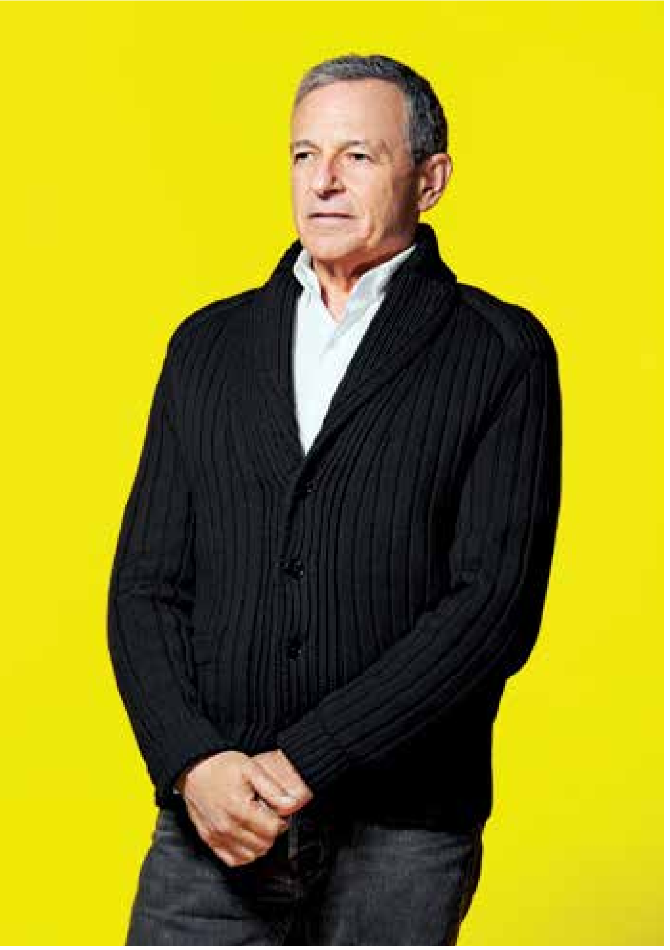
It's also the riskiest. Iger built his reputation with 10-figure purchases that turned Disney into Hollywood's most successful movie company: Pixar in 2006, Marvel in 2009, Lucasfilm in 2012. This year, he cemented Disney's hegemony by spending $71 billion to buy much of 21st Century Fox. But for all its production might, Disney doesn't have a deep technology background like its primary streaming competitors Amazon, Netflix, and Apple, which introduced its own service on Nov. 1. And unlike these companies, it has little experience selling productions directly to consumers. Until recently, if you wanted to watch the Disney Channel or ESPN, you had to buy a cable subscription. If you wanted to see a first-run *Avengers* film, you had to go to a movie theater. And if you wanted to catch it online, you subscribed to Netflix.

Now Disney has the pipes, too, thanks to its $2.6 billion purchase of a controlling stake in New York-based streaming-technology company BAMTech. And it's made a big bet that not only can its technology match its competitors', it can overwhelm them on price, with a monthly fee of $6.99, well below Netflix's standard $12.99. Disney will also spend $1 billion on new shows and films next year—a figure that will soon double. Marvel's offerings will include one based on Loki, the adopted brother and sometime nemesis of *The Avengers*' Thor. Pixar's will include *Monsters at Work*, featuring *Monsters, Inc.*'s Mike and Sulley, voiced by Billy Crystal and John Goodman, respectively.

Before Disney revealed the first details of its productions to Wall Street analysts in April, investors had reason to be skeptical of the company's streaming ambitions. Its year-old sports service, ESPN+, had 2 million subscribers but no profits, while Hulu, which Disney took control of in its Fox deal, had more than 25 million U.S. subscribers but was hemorrhaging cash. When it rolled out its new fare, complete with footage, though, "there were two audible gasps," says Jessica Reif Ehrlich, a media analyst with Bank of America Merrill Lynch. "One was when they announced the price, which is way lower than anyone expected, but also when Jon Favreau showed the clip from *The Mandalorian*. Every guy in the room went crazy." The next day, Disney's share price leapt more than 13%.

The consensus now is that Disney+ will easily meet its hopes for 90 million subscribers globally by 2024, and that ESPN+ and Hulu will add to their totals, bringing the company to as many as 160 million streaming customers. That's not quite in the realm of Netflix, which is expected to have up to 300 million by then, but a very good start. Iger often proclaims that Disney isn't competing with Netflix Inc. Others aren't so sure. "I actually do think he's gunning for Netflix," says Michael Pachter, an analyst at Wedbush Securities. "I think he wants to be bigger than that."

Disney's surging stock price can be read as an endorsement of Iger himself. Some of his spending initially raised eyebrows, but the strategy—basically, Disney is cornering the market on the most valuable entertainment character universes—has worked so far. The consummate corporate diplomat, Iger also made peace early on with such notoriously difficult personalities as Apple's Steve Jobs, who'd feuded with Iger's predecessor, Michael Eisner. Iger was even able to mull a run for president several years ago without incurring the sort of mockery that accompanied Howard Schultz's consideration of the same. (His next political challenge might be winning over Martin Scorsese, who recently likened Marvel movies to theme park rides. "That's not cinema," the Oscar-winning director said. Iger's response? "I'd like to have a glass of wine with him," he told the BBC.)



PHOTOGRAPH BY JUCO FOR BLOOMBERG BUSINESSWEEK; PREVIOUS SPREAD: ILLUSTRATION BY CHRIS NOSENZO

Disney+ could define Iger's legacy. Now 68, he'd been scheduled to retire this year. Instead, as part of the Fox deal, he agreed to stay on until 2021. He professes certainty that Disney+ is the right step. "It feels absolutely vital for us to do this," he says. "This is, no question about it, the future of media."

In addition to Netflix, Amazon, and Apple, AT&T will deploy its own streaming service next spring, HBO Max, with popular shows from the prestige cable network, plus fare such as *Friends* and new work from actor-writer-producer Mindy Kaling and director Ridley Scott. In April, Comcast Corp. will serve up Peacock, a streaming service with NBCUniversal offerings such as *The Office* and *Jaws*.

The streaming wars, in short, are on—and Disney is bringing shock and awe. Some see brutal things to come, as the company and its adversaries battle for customers and talent. "I can't tell you where it ends," says Naveen Sarma, a senior director of S&P Global Ratings, "but I'm figuring it can't be good."

Iger's office in Disney's Burbank, Calif., headquarters is decorated in signifiers of the 96-year-old company's past and present. On a shelf beneath the window, the Seven Dwarfs hunker beside C-3PO and the *Cars* cars. There's a weighty Marvel tome on the coffee table. Three Darth Vader heads—one red, one white, one black—guard a corner of the desk.

Iger's hair is gray and his face lined, but he's still slim. On this late-October morning, he lounges on the beige sofa in a dark blue cardigan, his right arm draped over the back and his left elbow on an armrest. If he's anxious that Disney+ premieres in only 13 days, he isn't showing it. "I'm excited," he says. "This is gigantic for the company."

It wasn't easy for Disney to shift its focus to streaming, he says. For many years its cable networks, led by ESPN, generated 40% of profits. A big move to the internet was almost certain to cannibalize that business, to say nothing of Disney's lucrative home-video operation. By the same token, standing pat as consumers fled to Netflix wasn't an option, either.

Iger says the wake-up call came one day in August 2015, when he revealed that Disney was feeling the effects of cord cutting—people canceling their cable memberships and signing up for streaming services—and that ESPN had suffered modest cable subscription losses. Disney's shares tumbled 9%. He'd known the stock would take a hit, but not that it would fall that far. "I try not to predict what Wall Street's going to do, because I'm usually not right," he says.

One idea he and his executives discussed for competing with the streamers was to buy Twitter Inc. Iger struck a deal to do so in October 2016, only to call it off at the last minute on a Sunday morning, he says. In recent weeks, he's watched members of Congress excoriate Twitter co-founder Jack Dorsey and Facebook Inc. CEO Mark Zuckerberg for their services' dissemination of politically motivated lies and misinformation. Asked if he ever feels relieved that he pulled out of the deal, Iger says, "Every day." (Twitter declined to comment.)

Fortunately, Disney had other options. A few months before the Twitter deal, it had paid $1 billion for a 33% interest in BAMTech, a pioneer in livestreaming. At the time, BAMTech was owned primarily by Major League Baseball and was highly regarded in Silicon Valley. "I had talked to Steve Jobs before he died," Iger says. "He was very impressed with Major League Baseball's app."

Originally, Disney bought into BAMTech so it could build a streaming incarnation of ESPN, but with Twitter off the table, Iger and his executives decided to pay an additional $1.6 billion for outright control. Instead, BAMTech would also build the foundation of a major streaming service. Iger announced the acquisition and the overarching plan in August 2017, the first public step toward the future Disney+. In the process, Disney sent a shot across Netflix's bow, saying it would pull its movies and shows from its future competitor, sacrificing hundreds of millions in easy money.

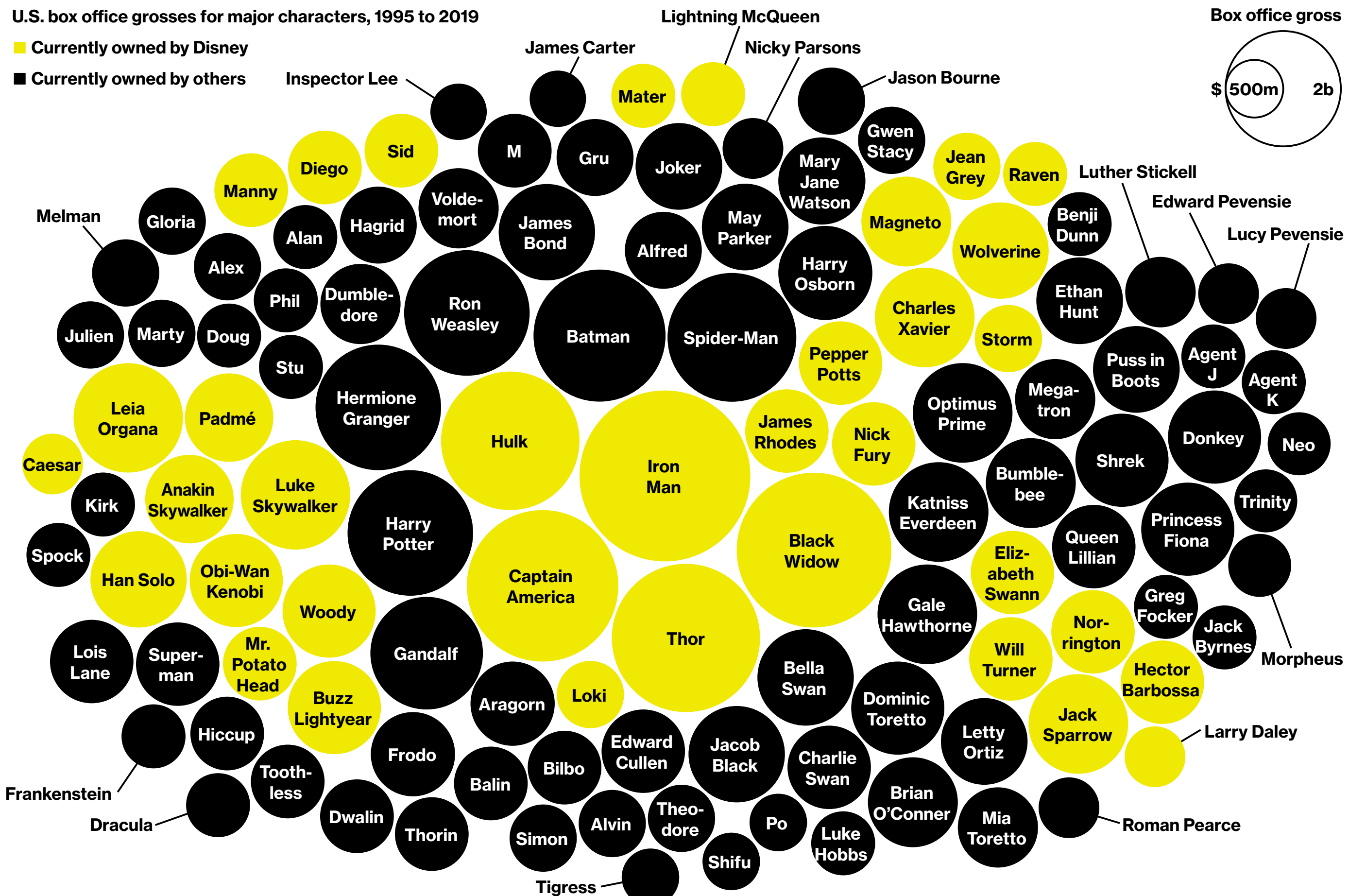
The headquarters of Disney Streaming Services, as BAMTech has been renamed, is in a former biscuit factory on the edge of Manhattan's Meatpacking District. It's a quintessential post-industrial tech space, staffed by dozens of screen jockeys in hoodies and trucker caps, surrounded by exposed brick walls and heating ducts. Kevin Mayer, chairman of Disney's entire streaming operation and a trusted Iger lieutenant (and potential successor, in the view of many), has come along for the tour. Mayer is 6 feet 3, with close-cropped brown hair and a jaw as square as Mr. Incredible's. Next to his employees, he appears overdressed in a crisp white button-down, gray slacks, and shiny black shoes. "I was on CNBC this morning," he says. "I'd be in jeans otherwise."

BAMTech specialized in compressing video to a size that can stream efficiently without sacrificing quality. Doing this with live sports, Mayer points out, is much harder than with movies and TV dramas. "With movies, you can run them through a compression algorithm over time until it looks good," he says. "With sports, you don't have that luxury." Compress the signal too much, and you might blur a crucial play. "It's real. It's live."

We enter a high-ceilinged room whose walls are covered with hundreds of postcard-size screens showing satellite feeds of sports events for ESPN+. Down the hall, in a smaller room where, in the building's former life, cookies were baked, six people peer at desktop screens, controlling how the streams reach subscribers. "The internet was never made for distributing video," says Thomas Carpenter, director of operations management for Disney Streaming. "It's like inhabiting ▶

Who Owns the Most Popular Movie Characters?

U.S. box office grosses for major characters, 1995 to 2019



MAJOR CHARACTERS (TOP-FIVE BILLED) WITH AT LEAST THREE APPEARANCES AND $500 MILLION OF TOTAL GROSS, DRAWN FROM 50 HIGHEST-GROSSING FILMS IN EACH YEAR. DATA: BOX OFFICE MOJO, IMDB

◀ Mars. It's a hostile environment. It's constantly trying to kill these streams."

Chief Technology Officer Joe Inzerillo uses a more earthly metaphor. "When you start doing a couple of big events at the same time, you can feel the internet creaking," he says. "There's all this traffic and parts that are troublesome."

"You can bypass, though, right?" Mayer asks.

"Yeah," Inzerillo says. "Sometimes you take a surreptitious route because it's less congested, sort of like getting off the highway and taking the local."

"This is something," Mayer says. "It's art and science."

Around the corner, there's another room where employees are encoding *The Mandalorian* and other Disney+ shows. But it's off-limits, because Disney, mindful of how rabid *Star Wars* fans can be, doesn't want any details leaking in advance. "That's under lock and key. We're not allowed in," says Jessica Casano-Antonellis, vice president for communications. "I asked. I asked."

"We can't go in?" Mayer asks.

"None of us even have keys," Casano-Antonellis says. "I mean, you can probably get a key, but…"

"All right," Mayer says, a tinge of disappointment in his voice.

Disney's announcement that it was acquiring BAMTech and moving to challenge Netflix caused an immediate sensation. Its stock soon began to rise. "If ever there was a validation of a strategy, it was that day," Iger says in his office. "Then we had to move fast." Serendipitously, Rupert Murdoch approached him two weeks later to see if Disney would be interested in the bulk of 21st Century Fox's entertainment properties. To demonstrate why he bought in, Iger gets up from the couch, fetches his iPad, and launches the unreleased Disney+ app. "There are 30 seasons of *The Simpsons* there," he says with evident pride. He scrolls through the movie section until he finds Fox's *The Sound of Music*, another inoffensive gem. Edgier Fox fare, such as TV's *Family Guy* and the exuberantly R-rated *Deadpool* films, will remain on Hulu.

As Disney prepared for the launch, Iger also went to the heads of Pixar, Lucasfilm, and Marvel, told them about the company's plans to spend billions on content, and asked what they might want to contribute. It was the kind of moment studio executives fantasize about. Pixar responded with ideas for more Mike and Sulley and for new shorts, including some featuring Forky, the inquisitive spork from *Toy Story 4*. Lucasfilm proposed *The Mandalorian*, as well as a series featuring Cassian Andor from *Rogue One: A Star Wars Story* and another about Obi-Wan Kenobi, with Ewan McGregor returning to the role.

Marvel's chief creative officer, Kevin Feige, also had a few thoughts. His corner of the Disney realm was deep into the golden age of superhero films, with a market that seemed to grow larger with each release. As far as superfans were concerned, Marvel's output was still lacking. "Every few years, we announce 9 or 10 new projects," Feige says, sitting in his office at Disney headquarters, his hands in the pockets of a black *Avengers* fleece and his high-tops on the coffee table beside an epically sized replica of Thor's hammer. "The first question I get asked is, 'Yes, great, but what about this character and this character and this character?'"

Disney+ would be Marvel's chance to tell more of those stories. In April 2018, when the cast of *Avengers: Infinity War* was in town for the film's premiere, Feige convened a meeting to talk up his ideas. His audience included Tom Hiddleston, who plays Loki, and Elizabeth Olsen and Paul Bettany, who portray Wanda Maximoff (aka the Scarlet Witch) and the Vision. Among other ideas, Feige laid out his plans for the Loki series and another called *WandaVision*, focused on the other two characters, who are romantically entwined. Everyone, he says, was stoked.

Feige was more nervous about his pitch to Jeremy Renner, who plays *The Avengers*' Hawkeye. Marvel had a deal for Renner to star in a movie based on the character, but Feige wanted to turn the project into a Disney+ series. Renner turned out to be fine with the change. "He totally got it and said, 'Let's do it,'" Feige recalls. (Renner didn't respond to a request for comment.)

He declines to discuss the budget for the shows—including reports Disney is spending as much as $25 million per episode on some Marvel shows, more than HBO is believed to have spent during the final season of *Game of Thrones*. He does drop one little morsel, though. If you want to understand everything in future Marvel movies, he says, you'll probably need a Disney+ subscription, because events from the new shows will factor into forthcoming films such as *Doctor Strange in the Multiverse of Madness*. The Scarlet Witch will be a key character in that movie, and Feige points out that the Loki series will tie in, too. "I'm not sure we've actually acknowledged that before," he says. "But it does."

There is, of course, one other family-friendly plank Disney can offer that no other company can match: a huge archive of genre-defining, cross-generational animated and live-action films. In March, Iger said Disney+ would include classic movies—13 it turns out, including *Snow White and the Seven Dwarfs*. Previously, the company would release these kinds of films sporadically on home video, only to pull them from the market soon after. The decision has been received rapturously by D23, Disney's official fan club, as was the company's announcement that members would be getting a discount on subscriptions. "If you loved *The Apple Dumpling Gang*, it's there. Whatever you loved as a kid, it's finally coming back," says Yvette Nicole Brown, an actor in a live-action update of *Lady and the Tramp* that will stream on Disney+.

Even with an archive like Disney's, its streaming operations won't be immediately profitable after Disney+ launches. MoffettNathanson LLC, a media and technology investment firm, expects its three services to lose a combined $11 billion over the next four years, then finally turn a profit in 2024. And that's if all goes according to plan. As streaming services proliferate, Disney and its competitors might be forced to spend exorbitant sums on marketing to draw in subscribers. The company and its rivals also face soaring costs as the number of productions rises and studios compete to sign up star directors and actors. "On a very competitive show, there has probably been 30% price escalation since last year," Ted Sarandos, Netflix's chief content officer, told shareholders in an October conference call.

Iger acknowledges that production costs are rising but argues that Disney's in a better position than its competitors, because its existing properties are strong and it doesn't have to bid wildly for new ones. "We have the benefit of being able to say there's nothing we absolutely have to have," he says. "That doesn't mean we're not going to reach for quality and things we get really excited about."

The company's other opening salvos include bundled pricing with Hulu and ESPN+, as well as discounts for Disney theme park customers and a free year for Verizon Communications Inc.'s estimated 17 million households. To combat churn—the industry term for customers signing up and later canceling—Disney+ will release new TV episodes weekly rather than put out entire seasons at once, as Netflix typically does.

It's the franchises, though, that Iger says are Disney's true edge. Pixar's *Toy Story 4* has earned more than $1 billion globally this year. Marvel's *Avengers: Endgame* sold $2.8 billion worth of tickets, making it the highest-grossing movie ever. And *Star Wars* remains huge, even though ticket sales for last year's spinoff, *Solo*, were weaker than expected.

Iger concedes he may have misjudged the public's appetite for such spinoffs. "There didn't seem like there was that much demand for another standalone *Star Wars* movie," he says. But despite *Solo*—which still made $394 million at the box office—he's certain *The Mandalorian* will be huge. "It's cool," he says. "It's the first live-action *Star Wars* television that's ever been done." If nothing else, it may have won over one famously hard-to-please observer: creator George Lucas, who was unhappy with *The Force Awakens*, Disney's first depiction of his universe and its inhabitants. Lucas visited the *Mandalorian* set and hasn't complained, at least not publicly. "George has been fine," Iger says. (Lucas didn't reply to a request for comment.)

The Mandalorian will be front and center when Disney+ starts, along with a made-for-streaming show inspired by the 2006 TV film *High School Musical*, six other series, and two films. Hawkeye, Loki, and the Cassian Andor series will arrive in the service's second year. There will also be a new *Lizzie McGuire* series, with Hilary Duff reprising her lead role. And the titles will keep coming. By 2024, Disney expects to feature more than 50 new shows.

Iger says he wishes he could launch Disney+ with even more originals, but he feels good about the balance of old and new. Mainly, he says, "I'm anxious to share it with the world." Asked what the service means for his legacy, he smiles and says, "Too late to worry now." Ⓑ *—With Chris Palmeri and Lucas Shaw*