GLOBAL IDEAS

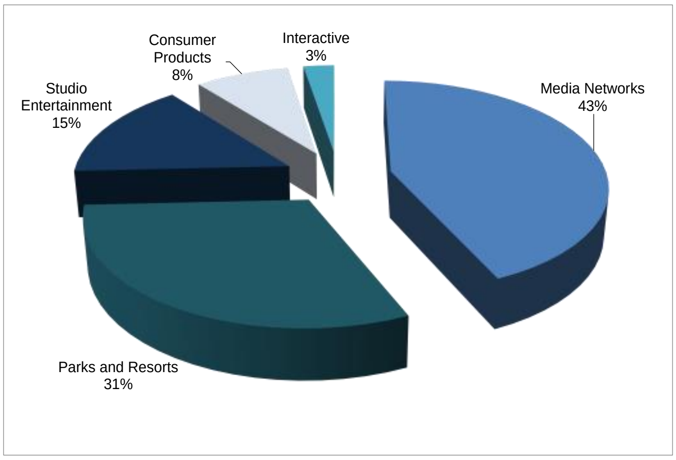
7 November 2014

WWW.ANCHORCAPITAL.CO.ZA
WWW.INVESTORCAMPUS.COM

4Q14/FY14 results: The Walt Disney Company

The Walt Disney Company (Disney) released 4Q14 and FY14 results on 6 November after the market closed that were largely in line of Wall Street expectations, although revenue generated by its media networks (ESPN, ABC network etc.) segment trailed estimates. Media Networks accounted for c. 56% (63% in FY13) of operating income and 43% (45% in FY13) of revenue in FY14.

FY14 revenue contribution by segment:



Source: Company data, Anchor Capital

Net income was up 22% YoY to $7.5bn, while EPS increased 26% YoY to $4.26 compared to $3.38 in FY13. Diluted EPS increased 26% to $4.26 from $3.38 in the same prior-year period. FY14 revenue increased 8% YoY to a record $48.8bn. The Group said that its FY14 results were the "highest in the Company's history" adding that it marked Disney's "fourth consecutive year of record performance,…". For the full year, the increase in diluted EPS was due to improved performances at all its operating segments and a decrease in the weighted average shares outstanding as a result of its share repurchase programme and higher investment gains. Results were also driven by the company's Studio Entertainment division as the success of movies such as *Frozen, Maleficant, Captain America: The Winter Soldier* and *Guardians of the Galaxy* buoyed revenue. Disney Studios has had a string of box office hits that is likely to continue with the first of its planned annual *Star Wars* movies (titled *The Force Awakens*) launching next year December. The company also said on Thursday that *Toy Story 4* will hit theatres in 2017.

Disney operating income FY14 vs FY13, mn

In terms of quarterly results its diluted 4Q14 EPS rose 12%

	FY14	FY13	% Change
Media Networks	$7 321	$6 818	7
Parks and Resorts	$2 663	$2 220	20
Studio Entertainment	$1 549	$661	134
Consumer Products	$1 356	$1 112	22
Interactive	$116	-$87	na
	$13 005	$10 724	21

Source: Company data, Anchor Capital

YoY to $0.86 vs $0.77 in 4Q13. Excluding certain items affecting comparability, EPS increased 16% YoY to $0.89 (in line with consensus) from $0.77 in 4Q13. Revenue rose to $12.39bn (slightly ahead of consensus expectations of $12.37bn in revenue) from $11.57bn, driven by record park attendance and strong studio sales.

/continued...

Global Ideas is a newsletter published three times a week (Monday, Wednesday and Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watch-list, which is continually reviewed and updated.

Contacts

Anchor Capital reception	**011 591 0677**	**Trading Desk**	**012 665 3461**
Investment/ Sales	mnyoung@anchorcapital.co.za	General Enquiries	info@anchorcapital.co.za
Brokerage/ Trading	fswart@anchorcapital.co.za	Newsletter Enquiries	newsletters@anchorcapital.co.za

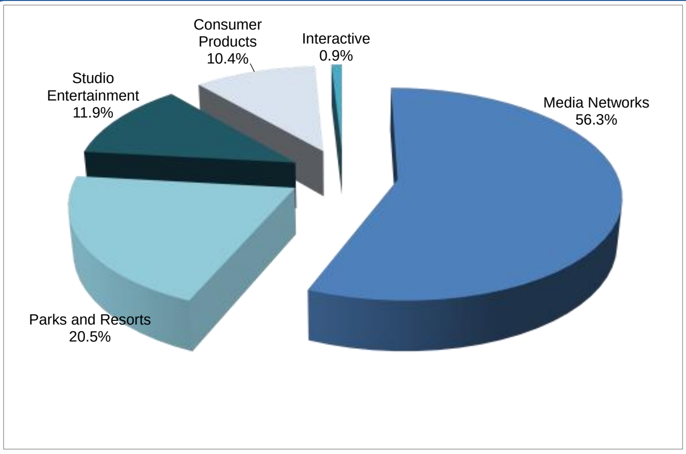
Disney revenue 4Q14 vs 4Q13, mn

	4Q14	4Q13	% Change
Media Networks	$5 217	$4 946	5
Parks and Resorts	$3 960	$3 716	7
Studio Entertainment	$1 778	$1 506	18
Consumer Products	$1 072	$1 004	7
Interactive	$362	$396	-9
	$12 389	$11 568	7

Source: Company data, Anchor Capital

Walt Disney pays an annualised dividend, which it normally raises at the end of November or the beginning of December. Currently the dividend is around $0.80/share.

FY14 contribution to operating income by segment:



Source: Company data, Anchor Capital

By segment the **Studio Entertainment** division saw FY14 operating income increase by 135% YoY (also up 135% QoQ), reflecting the strong home entertainment and theatrical performance of *Frozen* and *Marvel's Guardians of the Galaxy*. CEO Bob Iger said the five Marvel movies that Disney had released since acquiring the brand in 2009 have averaged $1bn in global box office takings. Disney Studios recorded the strongest results among the company's divisions with quarterly revenue in that unit climbing 18% YoY to $1.78bn on the back of growth both in theatrical distribution (*Maleficent* and *Guardians of the Galaxy*) and home entertainment (the continuing popularity of *Frozen* and *Captain America*).

For FY14, **Media Networks** operating income was flat QoQ but up 7% YoY. The somewhat lacklustre performance was due to an increase in programming (at ESPN this increase was driven by contractual rate increases for Major League Baseball, NFL and college football rights, the airing of World Cup soccer and new college football rights) as well as production costs at ESPN (partially offset by higher affiliate and advertising revenue) and Disney's ABC network.

The **Parks and Resorts** segment operating income growth (+20% YoY and QoQ) was due to higher average guest spending, attendance and occupancy at the domestic resorts businesses, partially of offset by higher costs driven by the continued roll-out of its MyMagic+ at these resorts. The **Consumer Products** division's operating income growth (+9% QoQ and +22% YoY) was again due to the *Frozen* effect as higher merchandise licensing revenue, from *Frozen* and Disney Channel properties, and higher sales at Disney's retail business boosted profit (this division will likely get a further significant boost following the release of new *Star Wars* movies).

This year's turnaround at its **Interactive** segment continued and growth there (of 13% QoQ) was driven by the success of the Disney Infinity console games and the mobile games, *Tsum Tsum* and *Frozen Free Fall*.

Disney operating income 4Q14 vs 4Q13, mn:

Operating income	4Q14	4Q13	% Change
Media Networks	$1 437	$1 442	0
Parks and Resorts	$687	$571	20
Studio Entertainment	$254	$108	135
Consumer Products	$379	$347	9
Interactive	$18	$16	13
	$2 775	$2 484	12

Source: Company data, Anchor Capital

Looking ahead, the company said it expects total consolidated capex in 2015 to be c. $1.5bn higher than in FY14 primarily due to the ongoing investment in the Shanghai Disney Resort. Disney also said it expects cable programming cost to grow in the low-teen percentage points in FY15, primarily driven by the first year of both its new NFL and College Football Playoff contracts with the increase "heavily skewed towards the first half of the year…".The group also expects to continue to return capital to shareholders via share repurchase and dividends in FY15, although it declined to give exact numbers. So far this year, it has purchased 11.3mn shares for $970mn.

Walt Disney Bloomberg consensus forecasts:

Disney				
September y/e	**FY14**	**FY15E**	**FY16E**	**FY17E**
EPS ($)	4.3	4.7	5.5	6.1
% growth		*9%*	*16%*	*11%*
DPS ($)	0.8	0.9	1.0	1.1
P/E	21.3x	19.6x	16.8x	15.2x
DY	0.8%	1.0%	1.1%	1.2%
Share price ($)	**92.00**			
12-mnth fwd P/E	19.2x			

Source: Bloomberg consensus, Anchor Capital

The share price dipped just under 2% in after-hours trade, having closed at an all-time high of $92 before the report was released (+1.1% on the day). At yesterday's close the share price is up 20.4% YTD. We believe Disney is a quality company with excellent management (CEO Bob Iger's contract was also recently extended). While most media companies are fortunate to have one blockbuster franchise, Disney has an unparalleled stable of characters (Marvel, Star Wars, Pixar and Disney Animation etc.) and is able to monetise its movie franchises and characters across numerous platforms. Its investment in parks and resorts is paying off and the company has also seen a turnaround in its Interactive segment with the success of Disney Infinity and mobile games.

/continued….

Disney continued... While the Media Networks division may be a slight drag on earnings due to rising content costs, we believe that the Studio Entertainment and Parks and Resorts division will pick up any slack (and more) as these divisions rake in profit and account for a larger slice of the revenue pie. A number of macroeconomic circumstances in the US also bode well for Disney, including the strengthening US economy, low unemployment levels, robust corporate earnings growth and strong consumer spending which should see most of Disney's divisions flourish. As the turnaround in the US economy continues this will be positive for Disney (the last time Disney experienced a considerable decline in its EPS was during the global financial crisis [2008/2009]). Disney's share price momentum will also likely continue to build because of the company's healthy fundamentals and above-market growth potential.

Marco de Matos

The business of money: Global asset management and stockbroking

The business of knowledge: Financial education, information and valuation services

Disclaimer