

# Walt Disney Company

US CORE HOLDING\*

Recommended since 13.02.20

04.07.2022



Country	US	Market capitalization (bn)	USD	177,3	Perf. since reco. (%)	
Sector	Media	Free float		99,8%	Walt Disney Company	-31,8
Factset	DIS-US	Closing price	USD	96,14	Sector	1,6
ISIN	US2546871060	ESG Risk score*	14,1	Low risk		

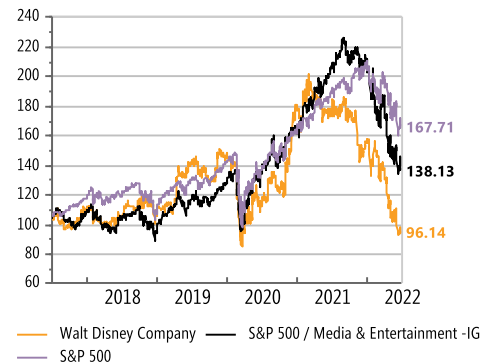
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

The Walt Disney Company is an international media giant. The group operates in two distinct segments, albeit with numerous synergies between them: Disney Media and Entertainment Distribution (75% of sales in FY2021); Disney Parks, Experiences and Products (25%). The US market represents the lion's share of the group's business, accounting for over 80% of sales.

## Market - competition - positions - barriers to entry

The group's competitive advantages and pricing power are undeniable: its content catalogue is extremely well stocked, notably following its acquisition of the Pixar, Marvel and Star Wars franchises and 21st Century Fox. Meanwhile, Disney's theme parks are virtually impossible to replicate and the launch of quality streaming platforms places the group in the foreground against the competition.



Source: Factset

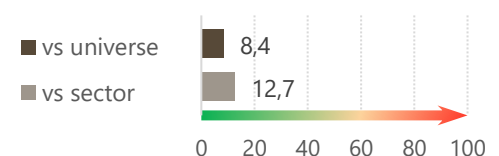
## Investment case

- After launching its online over-the-top (OTT) platforms, Disney has reorganised itself into four business units: Direct-to-Consumer (DTC) & International; Parks, Experiences and Products; Media Networks; and Studio Entertainment. The streaming market has become particularly overcrowded. While Netflix and Amazon Prime Video have dominated the market for several years, the competition is getting organised. The launch of Disney+ (November 2019) marked a turning point. In one year, the platform recorded 90 million subscribers. The family-friendly programmes, the breadth and depth of its catalogue and its attractive pricing explain this success. The group has recently established itself in Europe, India and also in other regions of the world. Disney+ reaches 129.8m subscribers by 1 January 2022 and its growth is unlikely to weaken (the group is banking on 230-260m subscribers by 2024, and this looks a conservative estimate). Disney's other platforms – Hulu (general entertainment; adult series) and ESPN+ (the leading US sports channel) – are no slouches either. ESPN+ has 21.3m US subscribers and Hulu 45.3m, with the latter set to go international from 2022, under the brand Disney Star.
- The theme parks segment (which includes hotels, vacation clubs and cruises) was on a positive trend (with both visitor numbers and visitor spend on the rise) thanks to extending into new universes like Marvel and Star Wars. The group's parks attracted more than 170m visitors worldwide in 2019. Merchandising is also riding on the wave of success of the group's studios (e.g. Frozen 2 and its numerous derivatives). However, the impact of the covid-19 is expected to last for several more months in 2022 before returning to normal.
- The Media Networks business unit, which encompasses cable pay TV networks and broadcasting, is battling streaming platforms, with subscriber numbers declining each year. The group has been able to slow the trend through pricing policy (ESPN is the only pay TV channel that can raise its prices) and bundling. Thanks to the acquisition of 21st Century Fox (without Fox News), advertising revenue is more or less steady and SVoD is perking up.
- The movie (and TV show) production business scored many box office successes in 2019 (seven films with revenue of over \$1bn each). For example, Avengers: Endgame, with a budget of \$360m, brought in \$2.8bn of revenue – the biggest box office success in the history of cinema. Lastly, the content for the next 4 years will cover 10 Marvel series, 10 Star Wars series, 15 feature films, season 3 of The Mandalorian, and several animated films.

## ESG - risks and key points

- The reopening of the economy will breathe new life into the parks: revenues are up +100% y/y and the Ebit margin should normalize around 25% by 2023 for this segment.
- In fiscal year 2021, streaming revenues (DTC) reach \$16.32 billion but this segment still shows a loss of \$1.68 billion and should be profitable (in Ebit) by 2024.
- Although the company has a high level of controversies, its favourable risk assessment is primarily due to its low exposure to ESG issues.

## ESG risk vs. universe & sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in USD

Current price	Value Bordier Scenario
96	153

Our scenario assumes US 10-year yields of 3.50%. We expect a stronger rebound in FY2022 and margin expansion in 2022-2023. On the liquidity side, Disney enjoys a high level of cash (USD17.9bn at the end of FY2020, but with a total debt of USD54.4bn).

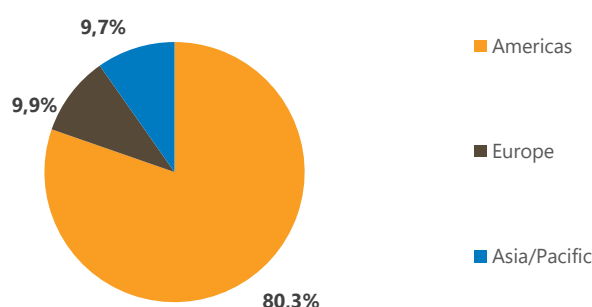
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

### "Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
<b>Sales revenue</b>	<b>65 388</b>	<b>67 418</b>	<b>82 924</b>	<b>92 046</b>	<b>99 409</b>
<b>Sales growth %</b>	<b>-6,1%</b>	<b>3,1%</b>	<b>23,0%</b>	<b>11,0%</b>	<b>8,0%</b>
<i>o/w organic</i>	-6,1%	3,1%	23,0%	11,0%	8,0%
<b>EBIT adjusted</b>	<b>-903</b>	<b>3 765</b>	<b>8 766</b>	<b>11 575</b>	<b>13 420</b>
<b>% of sales</b>	<b>-1,4%</b>	<b>5,6%</b>	<b>10,6%</b>	<b>12,6%</b>	<b>13,5%</b>
<b>Net income</b>	<b>-2 474</b>	<b>3 095</b>	<b>8 657</b>	<b>10 152</b>	<b>11 776</b>
<b>Adjusted EPS</b>	<b>-1,57</b>	<b>1,40</b>	<b>4,74</b>	<b>5,55</b>	<b>6,44</b>
Adjusted EPS growth	-161,2%	-188,8%	239,0%	17,3%	16,0%
<b>Capex/Sales</b>	<b>6,2%</b>	<b>5,3%</b>	<b>5,3%</b>	<b>4,8%</b>	<b>4,6%</b>
Free cash-flow	3 594	1 988	9 435	10 485	10 268
<b>FCF/Sales</b>	<b>5,5%</b>	<b>2,9%</b>	<b>11,4%</b>	<b>11,4%</b>	<b>10,3%</b>
Dividend per share	1,76	1,75	1,78	1,82	1,82
<b>Dividend yield</b>	<b>1,4%</b>	<b>1,0%</b>	<b>1,9%</b>	<b>1,9%</b>	<b>1,9%</b>
<b>ROCE - WACC</b>	<b>-7,9%</b>	<b>-4,4%</b>	<b>-0,5%</b>	<b>0,7%</b>	<b>1,9%</b>
<b>ROE (%)</b>	<b>-3,4%</b>	<b>2,9%</b>	<b>8,9%</b>	<b>9,5%</b>	<b>9,9%</b>
<b>Net debt/Ebitda</b>	<b>400,1%</b>	<b>433,2%</b>	<b>205,8%</b>	<b>115,0%</b>	<b>48,9%</b>

Source: Factset, Bordier estimates

### Sales breakdown - 09/2021



### Governance and ownership structure

Since February 2020, CEO Bob Chapek (previously head of Parks).

### Key shareholders (if any):

The Vanguard Group, Inc. 7.6% / BlackRock, Inc. 6.3% / State Street Corp. 4.1% / Rober A. Iger (ex-CEO) 0.06%.

### Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

-

### Ratios

	Walt Disney Company	S&P 500	Market
<b>PE (x)***</b>			
Media & Entertainment			
2021	119,7	22,5	21,2
2022e	20,3	17,4	16,8
2023e	17,3	14,7	15,4
<b>P/B (x)***</b>			
2021	8,9	5,0	4,5
2022e	4,1	3,4	3,6
2023e	3,4	3,0	3,3
<b>Beta (2Y, daily) vs market:</b>			1,02

\*\*\*) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premiums representing the quality of the company's business model.

### Agenda

09.08.2022: Earnings Q3-2022 - 10.11.2022: Earnings Q4-2022

07.02.2023: Earnings Q1-2023

## Glossary

### ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

### b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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