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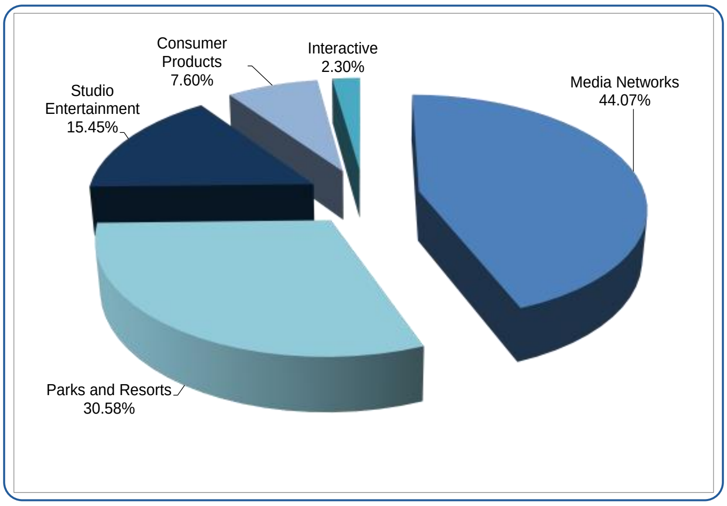
The Walt Disney Company 2Q14 results

Walt Disney released better-than-expected 2Q14 results on Tuesday (6 May 2014). The company saw revenue growth in each of its business segments with Studio Entertainment the standout. Disney said the results were buoyed by home video sales of its blockbuster movies "Frozen" and "Thor: The Dark World", with CEO Bob Iger stating that he expects the motion-picture business to grow, fuelled by international sales and bucking the industrywide decline in disc sales and a low-growth domestic theatrical market. He added that the company's strategy of making branded movies was "definitely working, and I think that we really are just seeing the beginnings of it in terms of their impact on the company,". Net income jumped 27% YoY to $1.92bn or $1.08/ share, vs $1.51bn or USc83/ share, in the same period a year ago. Excluding charges for foreign exchange losses and restructuring, adjusted earnings came to $1.11/share, above the consensus estimate of USc96/share. Revenue was up 10% YoY to $11.65bn (vs $10.6bn in 2Q13) also ahead of the consensus estimate of $11.25bn.

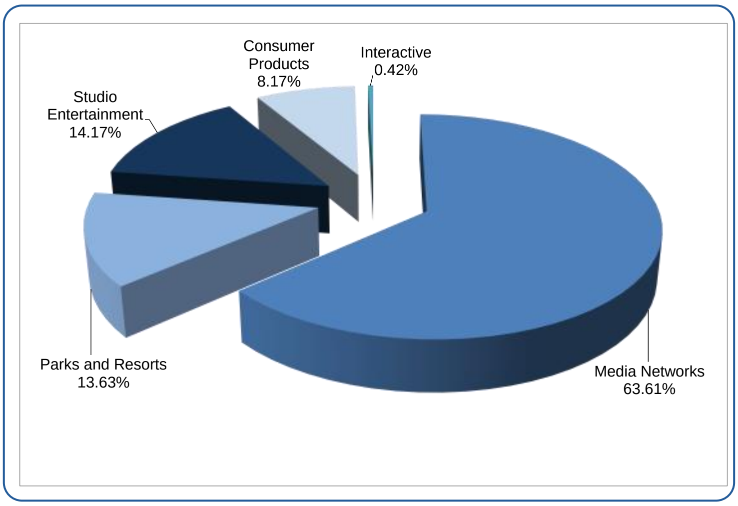
Disney revenue contribution by division 1Q14:



Source: Company data, Anchor Capital

Its media networks segment — which includes sales from its cable networks (the Disney Channel, A&E, ESPN) and broadcast networks (like ABC) — recorded $5.1bn in revenue, a 4% YoY increase while operating income rose 15% YoY to $2.13bn. Increased affiliate revenue and decreased production costs at ESPN were offset by lower ad revenue, while on the broadcast side Disney said that decreased network prime-time ad revenue offset higher affiliate revenue and lower marketing expenses.

Disney operating income contribution by division 1Q14:



Source: Company data, Anchor Capital

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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.

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The strength of the movie studio surprised on the upside as revenue rocketed 35% YoY to $1.8bn and operating income quadrupled to $475mn. The higher operating income was due to increases in domestic home entertainment, international theatrical and television and subscription video on demand (TV/SVOD) distribution results. The contribution to revenue of the Studio Entertainment division has increased from 12.7% in 2Q13 to 15.5% in 2Q14. We expect this to increase further over the next few years (Captain America: Winter Soldier has made over $680mn globally which should boost revenue from the movie studio side further in the next quarter, while Disney also has the release of the Avengers sequel (and several other Marvel properties) and the resurrection of the Star Wars franchise to look forward to). Parks and resorts revenue rose 8% YoY to $3.56bn on the back of increased guest spending at Walt Disney World (Florida) and higher attendance at Disneyland (California). Last week Disney said that it would boost spending on its newest park in Shanghai by $800mn to account for the higher expected demand when the park opens in late 2015.

Consumer products revenue grew 16% YoY to $885mn also lifted by Frozen merchandise and merchandise licensing for Disney Channel, Mickey and Minnie and *Planes* products. Frozen merchandise accounted for nine of the top-10 best-selling items in Disney Stores. Iger noted that Frozen had become one of Disney's best franchises, The company said it would now be increasing the movies' characters in its parks, develop a Broadway show and work on books and interactive products. According to Iger the impact of movie is expected to last for at least the next five years.

The interactive division managed a profit (for its third consecutive quarter) with revenue in 2Q14 increasing 38% YoY to $268mn and segment operating results improving from a loss of $54mn to income of $14mn. This division’s turnaround has been helped by the Disney Infinity video game and by growth in its Japan mobile business due to higher licensing fees from game sales, subscribers and sales of handsets. Disney shares rose 1.6% yesterday, closing at $81.60/share.

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