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The Walt Disney Co. : The Force is strong with this one

Summary:

In 2012, The Walt Disney Company (Disney) paid $4.0bn for George Lucas' LucasFilm which owns some of the most successful (and iconic) characters in movie history with the Star Wars and Indiana Jones franchises. By some estimates Star Wars has generated in excess of $30bn in box office sales, DVDs, video games, toys and books (other estimates put it at around $40bn). This total is before the next trilogy of movies have been released and Disney's marketing machine goes into overdrive to promote the new movies, toys, games etc. Disney's signature parks are also on board, with Disneyland already promoting Star Wars weekends and Star Wars-themed marathons, while the Disney Cruise Lines are offering eight day- Star Wars-themed cruises in 2016. Disney CEO, Bob Iger has promised a far greater presence of Star Wars at its parks, including an expansion which is expected to start in 2017 at the company's Orlando and Anaheim parks.

Following the LucasFilm acquisition, Disney quickly announced plans to make a string of new *Star Wars* movies, with the first of a new trilogy (*Star Wars – Episode VII: The Force Awakens)* set to open in the US this week. Commentators saw the deal as a perfect fit for Disney which already had Marvel and Pixar among its properties. In this note we give an overview of the box office takings and sales related to the Star Wars franchise and its huge merchandising machine. We look at the opportunities available to Disney in the form of gaming, books, action figures, clothes etc. and the impact the franchise could have on the company's future earnings. We also give a brief history on what Star Wars has achieved over the past 38 years and briefly discuss a few other companies that are likely to benefit from Star Wars fever.

A brief history of the Star Wars merchandising machine:

The first Star Wars movie released in 1977 became a cultural phenomenon with toy companies selling an unprecedented (at that time) 24mn Star Wars action figures p.a. While it is difficult to believe now when merchandising seems to accompany nearly every movie release, prior to the first Star Wars movie, movie merchandising basically did not exist – at least not in the same way we know it today. While Disney animated movies had a few figures here and there and you could buy James Bond cars it was only when George Lucas agreed to a pittance in payment for making the movie, opting instead to retain merchandise rights and profits (once the movie was released), that everything changed. Star Wars not only captured the imagination of young and old but sales of Star Wars toys soared. Between 1977 and 1978, Star Wars toys brought in $100mn and by 2014 the total was close to $12bn.

According to analysis done by *Forbes* and *24/7 Wall Street* none of the other big entertainment franchises (even James Bond and Harry Potter combined) have reached the estimated total of $42bn which Star Wars has over the past c. 38 years. Harry Potter's total revenue from books, movies and toys has been estimated at c. $25bn, with James Bond's at c. $8bn.

While Forbes/ 24/7 Wall Street put Star Wars takings at $42bn, data from *statisticbrain.com* indicates that, up to 2014, total Star Wars revenues exceeded $35bn, with the majority of revenue coming from box office returns, DVDs, and toy sales (*see table overleaf*).

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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 watchlist, which is continually reviewed and updated.

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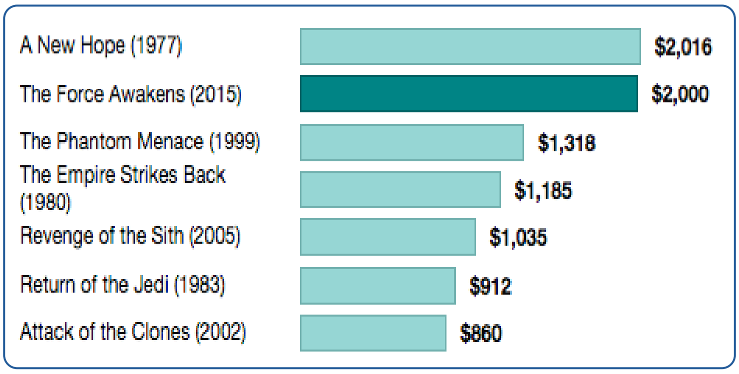
Total Star Wars franchise revenue – brief overview: (1977 to October 2014)

Random House sales from the first book release of Star Wars	$200mn
Digital sales	$643mn
DVD sales	$2.9bn
DVD rentals	$875mn
VHS sales	$873mn
Kenner (1978-1985) figures/ 300mn sold	$3.9bn
Hasbro (1995-2011) 15 collections	$5.5bn
Other collectables	$2.7bn
Books - 358 published titles	$1.8bn
138 video games released	$3.4bn
Licensing revenue	$825mn
Television revenue (4 seasons of The Clone Wars)	$4.5bn
Merchandise	$975mn

Source: Disney, statisticsbrain.com, LucasFilm, Kenner, Hasbro

**note above data exclude the box-office takings of the Star Wars movies released to date.*

Star Wars movies worldwide gross box office sales, $mn:



Source: Rentrak, Morgan Stanley

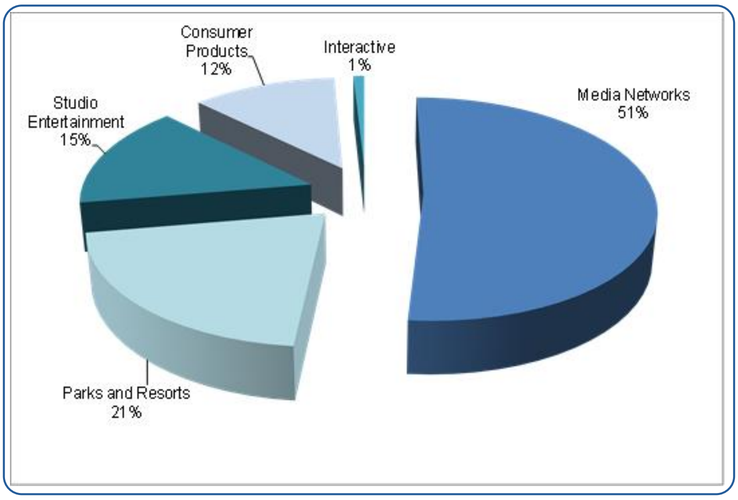
Note that the numbers have been adjusted for inflation to 2015 dollars.

Disney operating segments: Where does Star Wars fit in?

While ESPN in Disney's Media Networks division (51% of operating profit, 43% of revenue in 4Q15) is the company's main cash cow, Star Wars could be just the injection the Disney needs to balance the contribution better from its various divisions and to minimise dependence on ESPN and its other cable channels. According to a November *CNN Money* report, Disney has been losing millions of subscribers for its cable channels with ESPN being especially hard hit (having lost 7mn subscribers in the past two years). The source of the report, a Disney Securities and Exchange Commission (SEC) filing, showed that ESPN now has 92mn subscribers vs the 99mn reported in 2013. It also shows that Disney's ABC Family channel lost 5mn subscribers and the Disney Channel is down by 4mn subscribers in the US over the same period. Disney's other cable channels (Lifetime and A&E) lost 6mn subscribers each, while the History Channel was down by 5mn (here we note that not all Disney's channels lost subscribers, as Disney outside the US, Disney XD in the US and internationally, and Disney Junior in the US all saw subscriber growth). These losses are of increasing concern to investors with comments made in August by Disney's CEO around the sustainability of ESPN profits, putting major pressure on the company's share price.

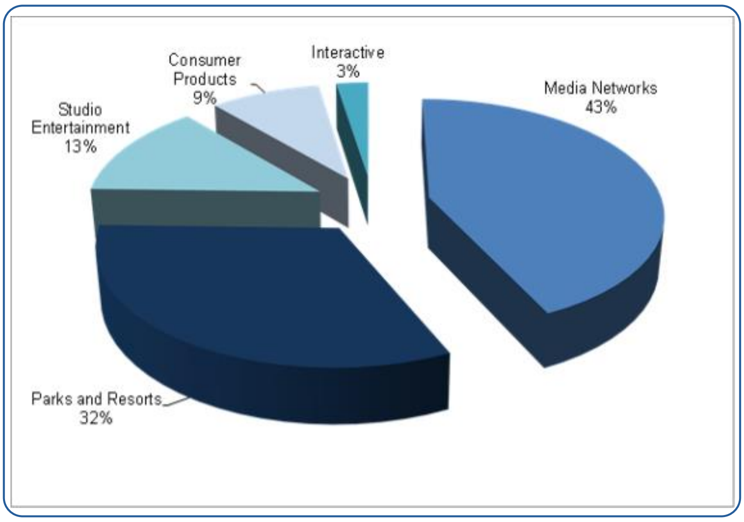
However, with Disney having extremely lucrative entertainment franchises (Pixar, Marvel, Star Wars and of course Disney Pictures itself) at its disposal, we would argue that these franchises and especially Star Wars could be just what the company needs to lower its dependence on the Cable networks segment (especially ESPN). The beauty of having a franchise like Star Wars is that it does not only benefit the company's Studio Entertainment segment but also (even more so) Consumer Products, Parks and Resorts, Interactive and even Media Networks (through broadcasting and streaming advertising - as more avenues are available for distributing content, media companies can earn more from content licensing).

Disney 4Q15 operating income contribution by segment:



Source: Company data, Anchor Capital

Disney 4Q15 revenue contribution by segment:



Source: Company data, Anchor Capital

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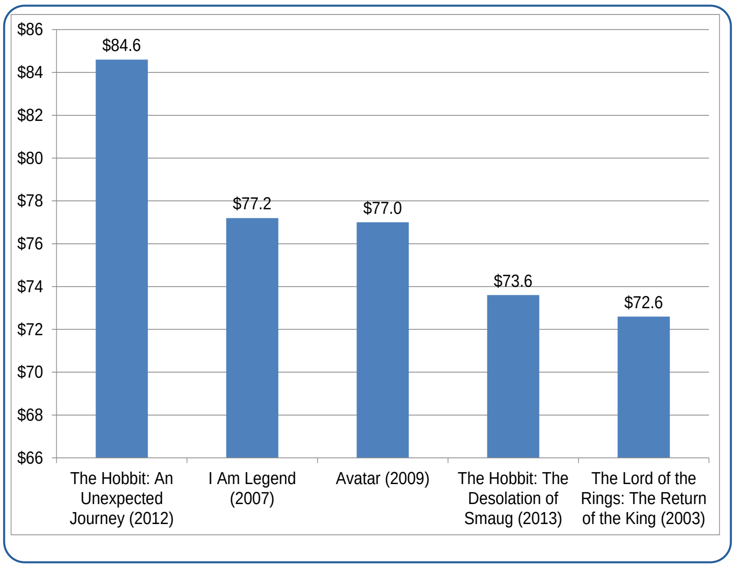
Expectations for *Star Wars VII: The Force Awakens*' box office takings:

The original Star Wars movie was released in 1977 and instantly became a box-office phenomenon. As explained earlier, the movie did more than just win at the box-office - it also invented modern movie licensing and merchandising. Since its release it has seen retailers benefitting from sales associated with Star Wars merchandise to the tune of c. $32bn, according to data released by both *LucasFilm* and the *NDP Analysis Group*. A report on the *Deadline* website has box-office tracking services projecting a US opening in December for *The Force Awakens* of between $185mn and $210mn. Others are more optimistic, with forecasts even approaching a $300mn US box office take. Disney's own expectations are more muted with a projected tally of c. $170mn (the company says it expects the movie to be a "four quadrant" hit, which means it is "tracking well across all four test quadrants [males and females, over and under 25 years of age]").

What makes these forecasts more impressive is that if we take into account the past performances of movies released during December, then the biggest December US movie opening ever was for *The Hobbit: An Unexpected Journey* with $85mn (which is less than 50% of even the most conservative estimate for *The Force Awakens)*. We highlight that over a month before it is scheduled to open, *The Force Awakens* had already sold over $50mn in ticket pre-sales (the initial rush for advance tickets was so strong that several ticketing sites crashed under the volume, while US pre-sales were twice as much as that for the previous record holder - *The Dark Knight Rises)*. IMAX, a company which will also profit from the movie (see our comments under *Other companies that will benefit* below), told *Associated Press (AP)* last month that it had pre-sold $18mn in US IMAX tickets - double its previous record.

Top-5 December movie openings, $mn:



Source: Fortune, Anchor Capital

Disney theatrical revenue as % of overall revenue, FY10-FY15:

	Theatrical distribution revenue ($mn)	Total revenue ($mn)	% of total revenue	Theatrical distribution revenue growth
2010	2 050	38 063	5.4%	
2011	1 733	40 893	4.2%	-15.5%
2012	1 470	42 278	3.5%	-15.2%
2013	1 870	45 041	4.2%	27.2%
2014	2 431	48 813	5.0%	30.0%
2015	2 321	52 465	4.4%	-4.5%*

Source: Fortune, Anchor Capital

Note 2015 above excludes Star Wars as its release falls under Disney's 1Q16 quarter.

**Nomura attributes the 4.5% decrease in theatrical distribution to adverse foreign currency swings (strong US dollar) and the lack of DreamWorks titles this year vs 4 in 2014 (we note that over the past few days reports surfaced that Dreamworks' distribution deal will move to Universal).*

Although four of Disney's movies: *The Avengers, Avengers: Age of Ultron, Froz*en, and *Iron Man 3* have each grossed $1bn-plus globally, Disney's theatrical revenue has been between $1.5bn-$2.5bn for the past five years.

Star Wars' wider impact on Disney:

At first glance, the impact of Star Wars is expected to be seen more in the Group's Studio Entertainment division (currently accounting for 15% of operating income and 13% of revenue). However, in our view some market commentators underestimate the wider influence Star Wars will have across Disney's various platforms and divisions. This also means that any boost to Disney's bottom line will not only be driven by movie ticket sales but even more so by the positive impact on basically every Disney segment. We see Studio Entertainment, Parks and Resorts, and the Consumer Products segments (which together account for 50%-plus of the company's total revenues, and 48% of operating income) as likely being the biggest winners. How many companies can boast such a wide monetary influence for a single property? Below we highlight the reasons we see the franchise as being an enormous profit opportunity for Disney as a whole:

- **Consumer Products:** Financially it's not only box-office receipts and theme park revenues that could see Disney profit. In the case of Star Wars, merchandising might even play a bigger role and is worth billions. *J.P. Morgan* estimates that Disney will see a 200% increase in merchandise sales because of *Star Wars* (through licensees and at its own retail stores) that would result in $500mn more in revenue. Estimates are for merchandising sales alone to increase by at least $1.5bn p.a.

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According to *Morgan Stanley's* Benjamin Swinburne, Disney could see an additional $5bn in branded toys, video games and other products in 2016 alone. On 4 September, the inaugural *Force Friday*, a global event developed to "drum up buzz for merchandise related to the upcoming film", saw sales estimated at close to $1bn (in 24 hours!).

Macquarie Securities analyst, Tim Nollen notes that following the movie's release, those sales are projected to grow to a potential $5bn in its "first year of release," adding that this could translate to $500mn in licensing and retail revenue for Disney. The $5bn Nollen mentions tops the current record of *Cars 2*'s $3bn. The Cars movie franchise (toys from both movies as well as DVD sales and other assorted paraphernalia) has surpassed most of Disney's movies (including Frozen) with an unbelievable $10bn in sales to date. After the revenue for retail and merchandise partners, *Macquarie* estimates that "this would easily net Disney about $500mn in licensing and retail revenue." Disney's Consumer Product division ended FY15 with revenue of $4.5bn, which means that if the above projection by Nollen is correct, then Star Wars consumer products could accelerate growth in this segment by as much as 50%, which would be more than enough to offset weakness in the cable division. *Macquarie's* assumptions also expect a higher-than-usual licensing fee for Star Wars toys and products. Disney does not disclose its licensed revenue share per product or brand but in his report, Nollen highlights that in FY14, Disney earned $2.54bn in licensing and publishing revenue vs the $45.2bn total retail sales of Disney's licensed products. This would represent a licensing fee of c. 6% although the report adds that "… given the *Star Wars* brand, we estimate that Disney may be able to earn a higher licensing fee, perhaps closer to 10%."

Last year, entertainment-based licensing generated total global retail sales of c. $107bn – a number which *Star Wars* sales are expected to significantly contribute more to over the next few years. We have to also take into account that, thus far, retail sales of *Star Wars* merchandise have been enormous and that's not only ahead of the new movie's release, but also before taking the busy Christmas holiday shopping period into account, which is sure to add even more profits to Disney's (and Hasbro's) pockets.

The holiday release date of this movie is an event which has not preceded any previous Star Wars movie release. At the same time, Star Wars merchandise will now also be sold in markets that are largely new to the Star Wars universe, including Brazil and, more importantly, China. Consumers in these developing countries have considerably more purchasing power over the past 15 years or so than they had before. In China the opening of Shanghai Disneyland together with the Chinese government's crackdown on the sale of counterfeit Disney products (the first such high-profile example of regulators taking action against the rampant misuse of global brands in China) bodes well for the sale of *Star Wars* (and other Disney) merchandise in that country.

China has also seen a multiplex boon which could result in it overtaking the US as the world's largest movie market by screens and box office revenues (according to IMAX CEO Rich Gelfond). Investment firm, *Stifel Nicolaus* says that from 2009-2014, the Chinese box office grew its revenue by 427%.

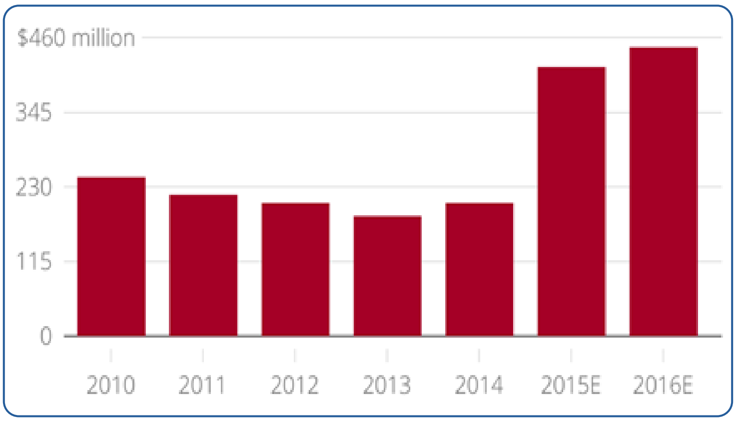
As can be seen from the table below the contribution of Disney's Consumer Products division has been on an upward trend and even saw double-digit increases over the past 2 years (from Frozen , Marvel and Cars merchandising). The 13% growth in FY15 consumer products revenue is even more impressive because it's compared with a year that included merchandise sales growth based, for the most part, on *Frozen* (Disney's FY14 was when the movie was initially released). We think this was made possible by continued *Frozen* merchandise sales as well as sales from *Avengers* and classic *Star Wars* products. We expect this trend to continue and *Star Wars* merchandise to add at least 3% to the FY14-FY15 growth number at the end of FY16.

Revenue growth by division FY11-FY15, %:

	YoY growth FY11-FY12	YoY growth FY12-FY13	YoY growth FY13-FY14	YoY growth FY14-FY15
Media Networks	4%	5%	4%	10%
Parks and Resorts	10%	9%	7%	7%
Studio Entertainment	-8%	3%	22%	1%
Consumer Products	7%	9%	12%	13%
Interactive	-14%	26%	22%	-10%

Source: Disney, Anchor Capital

Star Wars toy sales expected to surge:



Source: BMO Capital Markets, Forbes

Parks and Resorts: Disney has new *Star Wars* theme park attractions in the pipeline which will no doubt spur further *Star Wars*-related profit for the company. It is adding 14 acres (c. 5.67 hectare) to build these attractions at its Anaheim and Orlando theme parks (construction for the *Star Wars lands* is set to start in 2017 but no opening dates for the attractions have been set yet). This represents the largest expansion in Disney's history, with Iger referring to it as "Disney's largest, single-themed land expansion ever, …".

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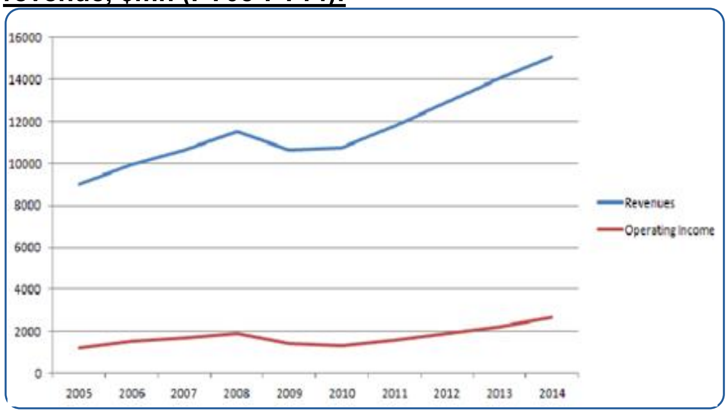
Revenue from the Parks and Resorts segment has been growing and could potentially overtake the combined Media Networks (not just ESPN) revenue within the next few years by getting a boost from the company's *Star Wars* and Marvel properties. In the short term the current *Star Wars* experience at Disney's parks will no doubt see a resurgence on the back of the renewed interest in *Star Wars* from the public. Added to this, Nollen sees next year's opening of the Shanghai Disneyland theme park as a good opportunity, calculating that the park could add $300mn in FY16 revenue and break even within two years. More importantly he notes that "Shanghai could also open doors to establish a TV licensing or network deal with [Chinese state broadcaster] CCTV."

Consumer spending accounts for c. 70% of economic activity in the US and is a key growth driver. In October, consumer spending rose 3.9% YoY (and 0.10% MoM) and remains resilient as the US economy seems to be on a strong growth footing. Since leisure activities (such as amusement park visits) are closely linked to the health of the economy, Disney should be able to reap the benefit from this to its fullest through its Parks and Resorts segment. An article on *Seeking Alpha* highlights the strong relationship between the revenue from Disney's Parks and Resorts segment and US consumer spending between 2005 and 2014 (*see charts below*).

US Consumer spending, $bn (FY05-FY14):

Source: Seeking Alpha

Disney annual Parks and Resorts operating income and revenue, $mn (FY05-FY14):



Source: Seeking Alpha

We believe Disney's c. $4.5bn (excluding the proposed *Star Wars* lands) investments in the Parks & Resorts division is already starting to pay off as total revenue from Parks and Resorts grew c. 7% YoY (in FY14 and FY15 – with domestic parks revenue up 8% YoY in FY15). The segment accounts for c. 30% of Disney's revenue and while it is the most cyclical of the company's diverse businesses with the above-mentioned US economy upswing, it should be seeing single-to-double-digit growth for the next few years.

- **Studio Entertainment**: In terms of its slate of movie releases, between *Star Wars*, its Marvel properties and Pixar, Disney is locked into (at the very least) a $1bn-plus movie p.a. for the next six or more years. This is the very low-end of expectations if we take into account that this year alone Marvel movies recorded $2.4bn in global box-office takings. So, barring any inexplicable fluke, *Star Wars: The Force Awakens* will be a massive US and worldwide hit that will earn back many times its $200mn production budget. The *Star Wars* movie franchise has already made over $7.3bn (inflation-adjusted dollars) collectively, but the latest episode has the potential to be the biggest hit yet.

  Forecasts for the new movie's total box office takings have varied between $1bn and $3bn, with *Citigroup* recently predicting an overall global take of $1.75bn and *Entertainment Weekly* expecting $3bn in earnings globally given Star Wars' popularity and the increasing size of its audience in Asia (especially China). *Morgan Stanley's* Benjamin Swinburne forecasts that the new movie will bring in $650mn in the US, and a total of $2bn globally. Swinburne predicts that Disney could see an additional $5bn in branded toys, video games and other products in 2016. A *RBC Capital Markets* report gives similar projections and points to Disney's "strong marketing and promotion across all of its divisions" as a "harbinger of the movie's impending success. "…There is no question on whether or not the film will be profitable, but rather how big it could end up being," says the report.

  To put the above numbers in perspective, the highest-grossing movies of all time include *Avatar* (2009) with $2.7bn in global box office revenues and *Titanic* (1997), which made $2.2bn. The $3bn estimate would then make *The Force Awakens* the new record holder. We also don't believe that investors have as yet factored into Disney' share price the potential box office of over $2bn for the new *Star Wars* movie. What is also important to keep in mind is that, unlike when previous Star Wars movies were released, the overseas movie market, especially China's, has exploded (over the past decade) and thus the potential is there for a blockbuster December.

- **Interactive:** In addition to the toys, T-shirts and lightsabres, there are also video games (note Disney has also licensed Electronic Arts [EA] to sell Star Wars games) and here Disney Interactive, which has been riding high on the back of the success of its mobile apps and the Disney Infinity video game series, is also expected to benefit. Disney Infinity is already embracing the Star Wars universe of characters.

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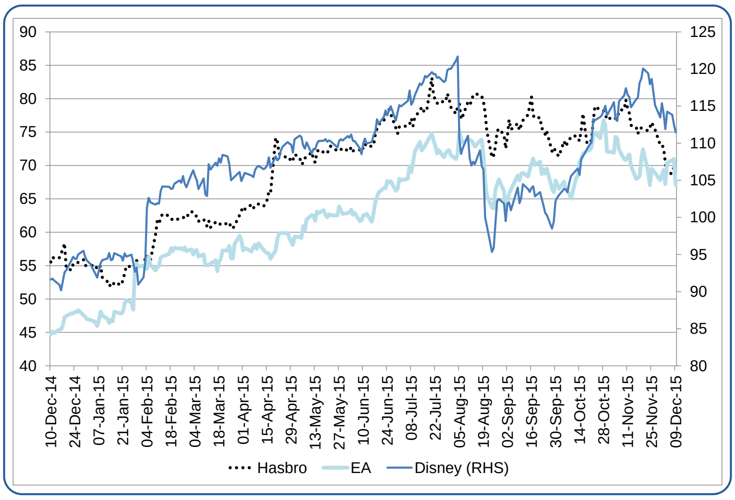
In 1Q14, revenue for this division soared 38% YoY on the back of the *Disney Infinity* launch. If any property is ripe for use in this segment its Star Wars so it is highly likely that the franchise will spur significant growth for this division as well.

A brief look at other companies that will benefit from Star Wars:

Due to the "full-circle" promotional efforts that accompanies a major movie release other companies are also expected to benefit enormously from a movie like *Star Wars* with Hasbro and EA, especially, in prime positions to grab a piece of the *Star Wars* pie. Disney, Hasbro and EA shares have all performed well this year, returning 18.4%, 24.4% and 42.7% YTD to shareholders, respectively.

Disney, Hasbro and EA share price performance, 10 December 2014 to date ($/share):



Source: IRESS, Anchor Capital

Below we look at these companies as well as a number of other likely beneficiaries of the Star Wars revival:

- **Hasbro**. Hasbro's share price has performed exceptionally well YTD - up c. 25%. The company has also benefited from YoY revenue growth for five straight quarters. It secured the major merchandise licensing rights for *Star Wars* movies through 2020 and is licensed to create and sell *Star Wars*-branded games, action figures, electronic toys, puzzles etc. A few months ago the company signed a revised contract with Disney which guarantees at least $225mn in payments (related to merchandise tied to new *Star Wars* films, with $75mn already paid). A related provision also guaranteed $80mn for merchandise related to the release of any new Marvel movies. According to a *BMO Capital Markets* report: "*Star Wars* will be a global phenomenon and will likely accelerate the pace of profitability (for Hasbro) in emerging markets (EMs)," ... The report notes that Hasbro has a much larger distribution scale in EMs now and the company could quite possibly see a monumental two-thirds of its *Star Wars* revenues coming from outside North America in 2015 and 2016 (vs one-third in FY14).
- **EA:** In 2013, EA signed a 10-year exclusive licensing deal with Disney to make Star Wars games. Company management said it expects the *Star War: Battlefront* game (released at the end of November) to sell 13mn copies (on Microsoft's Xbox One, Sony's PlayStation 4 and on personal computers) during the company's current fiscal year. *Gabelli Multimedia Trust* estimates that, at a royalty rate of 10%, the relationship with EA would see Disney net $65mn in revenues (note this estimate does not take into account other, ancillary sources of revenue such as associated Star Wars gaming paraphernalia). The video game publisher, commented in July that "extremely strong" pre-orders for *Star Wars: Battlefront* were behind its decision to raise its full-year revenue forecast - according to *Jefferies* this was the first time in 15 years that the company has raised its 1Q revenue forecast.
- **IMAX Corporation:** IMAX renewed its distribution agreement (which will carry it through to 2017) with Disney in April this year. The agreement allows IMAX to show *Star Wars: The Force Awakens* on its screens and, more importantly for Disney, reserves most of the IMAX screens worldwide (including all its North American large-format screens) to show the movie for one month from its 18 December release. According to *The Hollywood Reporter* this means that any other movie opening at that time won't be able to compete with the Disney release, at least not on IMAX. IMAX currently has c. 400 IMAX screens in the US and 400 overseas. According to press reports, IMAX accounts for around one-third of the c. $50mn in advance US ticket sales for the new *Star Wars* movie. If *Star Wars* is as big a hit as many expect, it will be a huge benefit to IMAX's bottom line. According to data from *Morningstar* IMAX will take a 10%-15% cut of the movie's gross box-office sales.
- **JAKKS Pacific:** JAKKS is licensed to make toys based on *Star Wars*, Batman, Nintendo and *Frozen* as well as a few other popular characters. The company is small (with a market cap of only $233mn but some market commentators are suggesting that the new *Star Wars* movie could be just the catalyst the stock needs to move. While concerns have emerged this year over its strong *Frozen* sales slowing, and weighing on the share price, the *Star Wars* franchise could be just what the share price needs to bump it higher.

Conclusion:

Disney paid $7bn-plus for Pixar (the animation studio known for hit movies such as *Toy Story*, *Finding Nemo*, and *Cars*), c. $4bn for Marvel in 2009 and $4bn for LucasFilm. In April, *24/7 Wall St.* described Disney's $4bn purchase price for LucasFilm as "a steal" which would see the company benefit by over $30bn from that purchase alone. In a recent article, *The New York Times* said "stratospheric ticket sales" for *Avengers: Age of Ultron* (Marvel) and *Inside Out* (Pixar), together with what Disney receives as its portion of profits from movie-themed merchandise, were the primary drivers for Disney's 2H15 operating income of $1bn (+51% YoY). Here we also want to highlight that the importance of Disney CEO, Bob Iger's leadership in Disney's success (and the purchase of Pixar, Marvel and LucasFilm) should not be underestimated.

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Iger's tenure at Disney has been nothing short of visionary and since he took the helm in 2005, Disney's share price has risen from around $24/share to c. $111.47/share (up c. 365%). As mentioned, i is also Iger that spearheaded the purchase of comics giant Marvel, LucasFilm and Pixar. Last year it was announced that Iger's contract (he was initially expected to step down in April) had been extended for three years to 30 June 2018.

Since these purchases Disney has done incredible things, releasing hit movies and building lucrative franchises around its properties. The one thing all of these investments have in common is that they give Disney a bottomless pit of franchise-rich characters. While Disney has plenty of hit movies under its belt, what this company does better than any of its rivals is create lasting franchises that extend beyond only the movies and into lucrative theme-park rides, apparel, toys, award-winning Broadway shows (*The Lion King*), television series, books, video games etc.

We believe that Disney has a great opportunity with the merchandising for *Star Wars* on top of its potential box office takings and increased presence in Disney theme parks. We also note that there will be three *Star Wars* movies and multiple stand-alone *Star Wars*-related movies along the way as well as the aforementioned park attractions, merchandise, etc. So while the movie's release in and of itself may not send Disney's share price rocketing (or have a huge impact on EPS even if it grosses north of $2bn in which case it could bump EPS by c. 6% for FY16, according to *Morgan Stanley*), what will follow in terms of licensing, merchandising, etc. will be nothing short of unbelievable. In our view, Disney will be able to extract billions from the revival of the *Star Wars* franchise on the back of related merchandising, licensing, streaming rights, advertising, computer games etc.

Disney is a behemoth of a company with unprecedented global reach. Every day (and most probably even every hour) somewhere in the world someone is doing something which involves Disney – whether it be watching a movie, ESPN or any of their other channels, or buying their children toys, going to one of Disney's theme parks, reading a comic book, playing a video game etc. The overlap of Disney's properties is remarkable and, even more importantly, have endless franchising opportunities available. What is also important to take into account, from an investment perspective, is that Disney is an entertainment giant well enough diversified (in terms of revenue streams) to protect it from risk – its portfolio and related intellectual properties are cash cows that can be milked indefinitely, so to speak, and Disney should continue to reward investors for many years to come. Disney has also only begun to tap the potential of the vast *Star Wars* and Marvel universes. In our view, the company is poised for years of steady growth as it expands internationally, doubles down on classic franchises with *Star Wars* and Marvel, continues to develop its theme parks, etc.

We remind the reader that Disney is still seeing huge returns from the merchandising sales of its November 2013 hit movie *Frozen*, and we expect those takings to pale in comparison with what it will achieve with *Star Wars*. If Disney plays it cards right, the company should be able to leverage that success via home entertainment, product sales, video games, and attractions at its parks and resorts. For the company a strong start to the new franchise will be essential in gaining momentum for other upcoming movies. Added to that, Disney is a company that is uniquely equipped to profit from the success of a new *Star Wars* movie on its multiple platforms including consumer products, media networks (through streaming and ancillary characters), Parks and Resorts, Consumer Products and Interactive.

Since buying LucasFilm, Disney's share price has rocketed c. 123%, boosting its market cap by c. $108bn or around 27x that of the amount it paid for LucasFilm around three years ago. So, far it looks to have been an excellent investment for the company. With the movie opening relatively late in Disney's current quarter (18 December - 1Q16) a strong start would carry over into 2Q16 and FY16. In conclusion, we expect *Star Wars* to be one of the most profitable franchises in Disney's history (and its most valuable property), while its impact across segments could help bolster Disney for the foreseeable future and even offset the risk of shrinkage in Disney's Media Networks business which still accounts for c. half the company's profit.

Marco de Matos

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