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The Walt Disney Company : 2Q15 results beat expectations

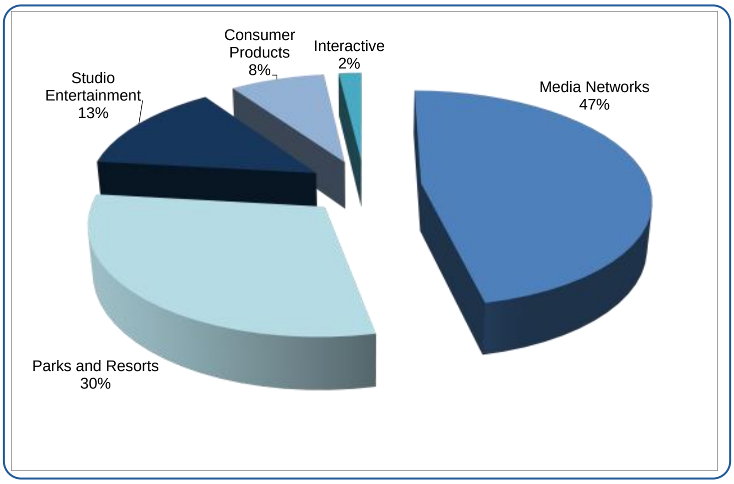
2Q15 results: The Walt Disney Company (6 May 2015) – The Walt Disney Company (Disney) released 2Q15 results yesterday which beat analyst expectations, with adjusted earnings coming in 11% higher YoY at $1.23/share vs $1.11/share in 2Q14 and revenue increasing to $12.46bn from $11.65bn a year ago. Consensus forecasts had expected Disney to earn $1.11/share on $12.25bn in revenue. We note that Disney's 2Q15 results faced tough comparisons vs last year's *Frozen* phenomenon resulting in the Studio Entertainment segment reporting a 6% YoY decline in sales and 10% lower operating profit. However, *Frozen* merchandise (together with *The Avengers*-related merchandise) managed to lift operating profit by 32% YoY in Disney's Consumer Products segment. As CEO Bob Iger indicated in the conference call the company's results once again "reflect the strength of our brands and the quality of our content."

Disney revenue and operating income contribution by segment, 2Q15 vs 2Q14, $mn:

	2Q15	2Q14	% Change
Media Networks	$5 810	$5 134	13
Parks and Resorts	$3 760	$3 562	6
Studio Entertainment	$1 685	$1 800	-6
Consumer Products	$971	$885	10
Interactive	$235	$268	-12
	$12 461	*$11 649*	*7*
Operating income	**2Q15**	**2Q14**	**% Change**
Media Networks	$2 101	$2 133	-2
Parks and Resorts	$566	$457	24
Studio Entertainment	$427	$475	-10
Consumer Products	$362	$274	32
Interactive	$26	$14	86
	$3 482	*$3 353*	*4*

Source: Company data, Anchor Capital

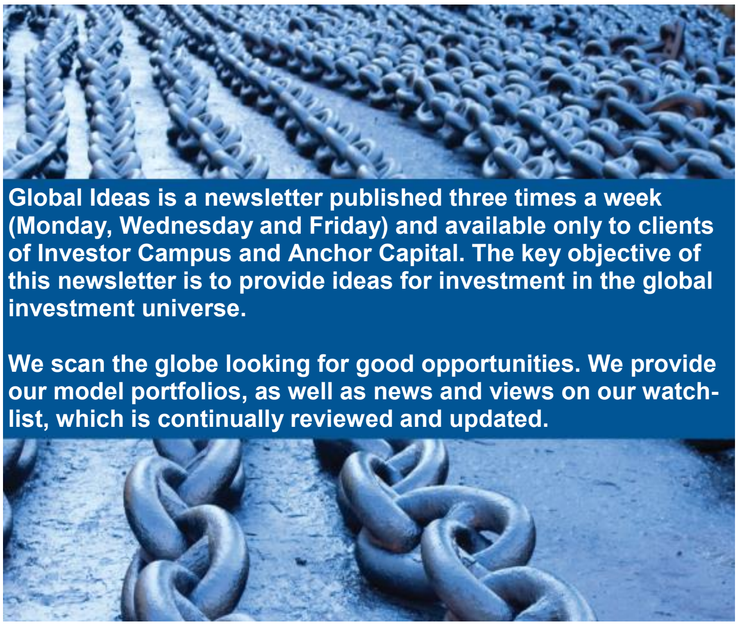
Revenue contribution by segment, 2Q15:



Source: Company data, Anchor Capital

By segment the contributions were as follows:

- **Media Networks'** revenue for the quarter increased 13% YoY to $5.8bn and operating income decreased 2% YoY to $2.1bn. Within media networks the contributions were as follows:



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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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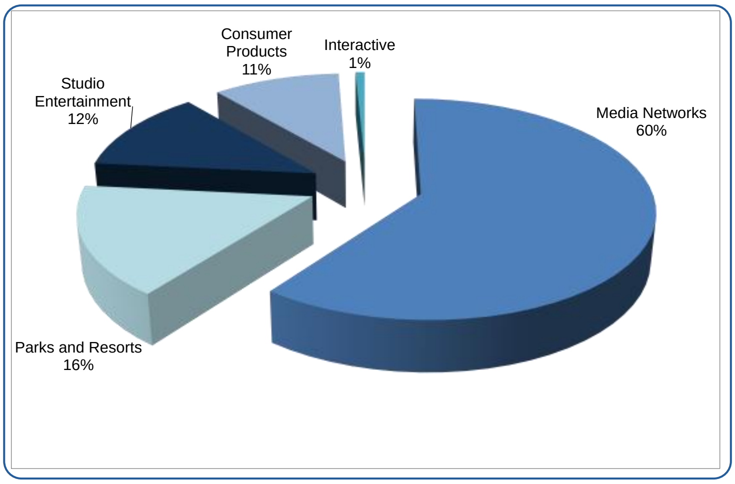
- Operating income at **Cable Networks** decreased 9% YoY to $1.8bn for the quarter due to a decrease at ESPN which was driven by higher programming and production costs due to the College Football Playoff and NFL wild-card games. However, ESPN's ad revenue was up 18% YoY in 2Q due to higher rates and increasing units sold.
- **Broadcasting** saw operating income increase 90% YoY to $302mn due to growth in affiliate fees, higher program sales and an increase in advertising revenues. Results at the Disney Channels and ABC Family segments were relatively flat due to higher contractual rates for affiliate fees in the current quarter being offset by the benefit in the prior-year quarter of a settlement of an affiliate contract dispute. However its ABC network recorded an excellent performance on the back of a strengthening in the ratings at the network (ABC has 7 of the top 20 series this season, including 3 of the top 5 dramas and also achieved greater growth in the key primetime audience of adults 18-49 than any other major network.) and an increase in programme sales driven by the sale of Marvel's Daredevil and higher sales of Lost and Once Upon A Time. However, these were also partially offset by higher marketing costs for the launch of new series.

- **Parks and Resorts** revenues were up 6% YoY to $3.8bn and operating income increased 24% YoY to $566mn. Operating income growth was on the back of an increase at the domestic (US) operations, partially offset by a decrease at Disney's international operations. The higher operating income at Disney's US parks and resorts was due to increases in guest spending (higher ticket costs at the theme parks and cruise lines, higher average room rates and increased food, beverage and merchandise spending) and volumes. Attendance grew at Walt Disney World Resort and sales of vacation club units at Disney's Polynesian Villas & Bungalows increased however lower attendance was recorded at Disneyland Resort. Internationally there was lower attendance at Hong Kong Disneyland Resort, higher operating costs at Disneyland Paris and Hong Kong Disneyland Resort, and, to a lesser extent, higher pre-opening expenses at Shanghai Disney Resort.
- **Studio entertainment** revenues for the quarter decreased 6% YoY to $1.7bn—partially offset by strong merchandise sales of products relating to the blockbuster *Frozen* movie. Operating income was down 10% YoY to $427mn. The decreases in domestic home entertainment and international theatrical distribution both reflected the performance of *Big Hero 6* in the current quarter vs *Frozen* in the prior-year quarter.
- **Consumer Products** revenues increased 10% YoY to $971mn and operating income rose 32% YoY to $362mn. This was on the back of an increase at the Merchandise Licensing business due to the performance of merchandise based on *Frozen* and, to a lesser extent *The Avengers.*
- The **Interactive** segment saw revenues decrease 12% YoY to $235mn, while operating income increased by $12mn to $26mn. The improved operating results were due to lower marketing and product development costs and the success of its mobile game *Tsum Tsum*, partially offset by lower *Disney Infinity* performance vs the previous year period and decreased sales of mobile game catalogue titles due to fewer titles in release.

Operating income by division, 2Q15:



Source: Company data, Anchor Capital

During 2Q, the company returned an aggregate $2.4bn in capital to shareholders, consisting of $485mn for share buyback and a dividend of c. $2bn. Fiscal year to date, Disney has returned c. $3.9bn to shareholders through dividends and buybacks, including around $2bn of share repurchases.

In our view, the movies from Marvel and Lucasfilm will play an important role in Disney's future results. Its latest Marvel movie *The Avengers: Age of Ultron*, has been released in about 70% of its international market so far, and opened at number one in every single market. In the process, it also broke a number of box office records and has surpassed $650mn in global box office taking. The movie opened in theatres across North America last weekend, grossing $185.1mn at the US box office alone. Altogether, the 11 movies that make up the Marvel Cinematic Universe so far have reaped $7.2bn (US) in revenue for the company—among the highest grossing in North America and globally.

Another 10 Marvel movies are due for release over the next four years. This, as well as big movie sequels and the release of the new Star Wars movie, *The Force Awakens (*in December) will bring in huge sums of money for Disney. *The Force Awakens* is also expected to accelerate growth of the Star Wars franchise for the company. All of these big revenue earners will not only see its studio division perform better, but also its consumer products division (toy revenue) and the Interactive segment (in November the company releases *Star Wars: Battlefront*, an action title from EA for core gamers and set in new landscapes featured in *The Force Awakens*). Added to that, Star Wars has a significant presence at Disney's theme parks and Marvel's presence in its parks will be increasing — which could flow through to increased attendance in the wake of the movie releases.

Following the results release, Disney's share price rose more than 2% in Tuesday's pre-market trading session but on the day the share price was up only 0.5%. YoY Disney stock is up 39%.

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