INTUITION

22 NOVEMBER 2024

Walt Disney – "Even miracles take a little time."

The mission of The Walt Disney Company is "to entertain, inform and inspire people around the globe through the power of unparalleled storytelling." Its life began in 1923 when Walt Disney set up the Disney Brothers Cartoon Studio in California and signed with New York distributer, M.J. Winkler. A few years later, Walt learnt a very big lesson, "Always read the contract!" He discovered that his distributer had gone behind his back and signed up all his animators. He thus had no rights to any of his successful cartoons. Failures do not define you but rather one's reaction to failure and possibly a bit of luck. It was fortuitous that the TV was invented in 1927, but it was Walt's vison and talent which led the launch of his short film, Steamboat Willie, featuring Mickey Mouse, in 1928. This period established Disney as a leader in the animation industry. Fast-forward to 2020 which saw every theme park, cruise liner and movie theatre close due to Covid-19. Streaming accelerated as the world moved online and Disney's share price has remained volatile given the investment required to compete with the likes of Netflix and the impact of high inflation on global consumers wallets. This article will investigate why the most recent results have been taken positively by investors and whether the investment story remains intact.

Nick Rogers

Disney is one of the most recognised brands in the world. Brand equity is an intangible asset which is ultimately determined by consumers' perception of the brand, and this contributes to the overall valuation of a company. It follows that a well-known brand will generate far more revenue simply from brand recognition than a lesser-known alternative. Disney's ability to cross-sell its products and services is self-fulfilling. Take "The Lion King" as an example. I was as excited watching it with my kids in 2014 as I was when it launched in 1994. Many of us have had the privilege of watching the play in the West End, most families have the DVDs, T-shirts and know the words to "Hakuna Matata." Disney's humour is pitched at adults and kids alike, think Pumbaa and the hysterical laughter he creates, globally, with his flatulence! Investors recognise Disney's brand strength as an extremely defensive characteristic that has and will be an underpin for decades to come, provided it manages to continually adapt to remain relevant without losing any of its 'magic' and storytelling ability.

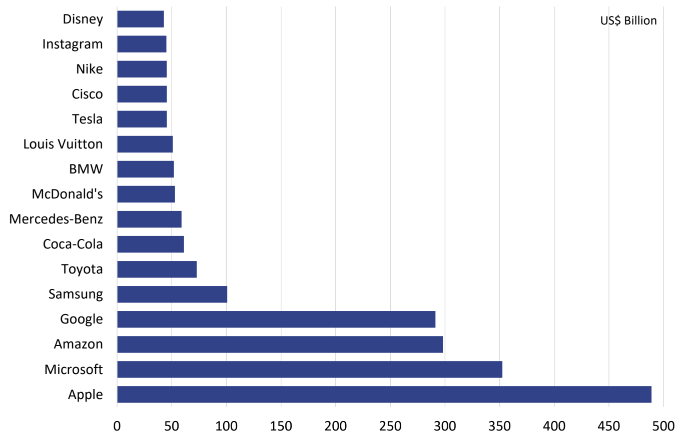
Disney has just released its 4th quarter results. Highlights include:

1. Double-digit EPS guidance. The main surprise and driver of the share price movement on the day was the quietly confident veteran CEO, Bob Iger's, announcement that

SPEED READ

- **Management guided for double-digit earnings per share (EPS) growth in 2026 & 2027 which was unexpected and well received by investors.**
- **Eight of the top ten most visited amusement and theme parks worldwide belonged to Disney (Statista).**
- **A $1.5 billion operating loss in FY22 was turned into a $321 million for their 2024 financial year.**
- **41% of US TV time is now watched online. Youtube leads streaming with 10.6% market share in Sept'24, followed by Netflix (7.9%), Disney+ incl. Hulu (4.9%) and Amazon Prime (3.6%).**
- **Disney made history with a record-breaking 60th Emmy award in September whilst Marvel's "Deadpool & Wolverine", and Pixar's "Inside Out 2" broke records, grossing $1 billion in 2023 & 2019 respectively. Disney was the first studio to reach $4 billion at the global box office in 2024.**
- **Fun-fact: Mickey Mouse was originally called Mortimer Mouse until Walt's wife, Lillian, convinced him to change it. Walt did voice the iconic character for two decades.**

TOP 15 GLOBAL BRANDS



Leading brands worldwide as of October 2024, by brand value, as published by Interbrand. Ten of the top fifteen are based in the US.

the company expects high-single digit EPS growth in 2025 and double-digit EPS growth in 2026 and 2027. The longer-term outlook is what really matters, given the volatile results since Covid-19. After a very successful career as CEO between 2005-2020, he has returned

SHARE PRICE

Disney's share price is extremely sensitive to the strength of the global consumer, global travel and the interest rate cycle, all of which has seen the share price remain volatile since Covid-19."

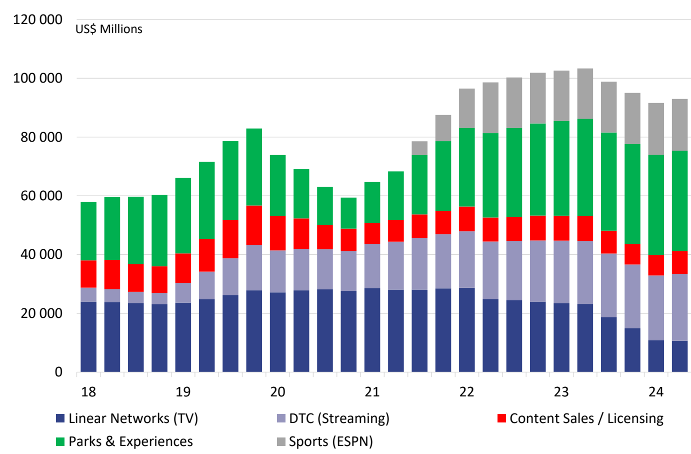
to the top job and is highly regarded by investors.

2. Streaming. Direct-to-Consumer or DTC, which includes online streaming via Disney+, Hulu & ESPN+ broke even in the last quarter of the 2024 financial year, exceeding analyst expectations. To compete with rival Netflix, Disney+ was launched in late 2019. The main differentiator between the two is Disney's vast content library where it owns the rights versus Netflix, which needs to burn through its cash pile to purchase or create new content continually. Disney has grown organically since the days of Mickey Mouse as well as via acquisition, including Pixar (2006), Marvel (2009), Lucasfilm (2012) and 21st Century Fox (2019). Investors have placed huge importance on reaching breakeven and cheered September's $321 million operating profit after posting a $1.5 billion operating loss just two years earlier. Nonetheless, since launching Disney+ in 2019, the business has lost a cumulative $11 billion, and the operating margin in streaming is not expected to reach 10% until the end of 2026. Disney+ subscribers were up c10% YoY. Why is this focus on streaming so important to investors? Given the popularity of mobile devices, 41% of US TV time is now watched online. Youtube leads with market share of 10.6% (in Sept '24), followed by Netflix (7.9%), Disney+ incl. Hulu (4.9%) and Amazon Prime (3.6%). Consequently, traditional TV (or linear TV), once a large portion of revenue, is in structural decline.

"Regarding linear, we modelled that it would continue to decline. The beauty of the position we find ourselves in right now with roughly 175 million streaming consumers is we have a bit of a natural hedge. To the degree that people leave linear and choose to go the streaming route, generally speaking, they're going to be coming our way. And we have obviously terrific ways to monetize those." (CEO) Linear's revenue fell 6% YoY versus a 15% rise in DTC. However, it remains a strategic division, contributing meaningfully to free cash flow with a possible opportunity to be sold in time.

3. Box-office success. Remaining relevant is core to success in the world of entertainment. Pixar's "Inside

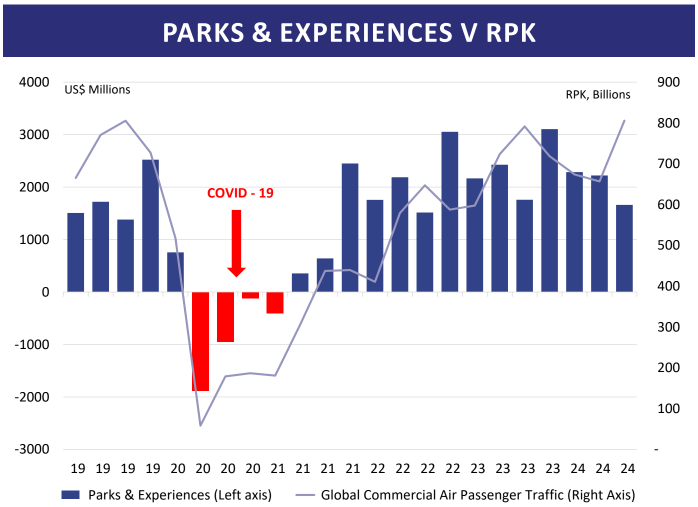
ROLLING 12M REVENUE BY SEGMENT



The structural decline in Linear revenues versus Direct-to-Consumer (DTC) is clear to see after COVID-19 accelerated the use of watching movies and shows on mobile devices.

Out 2" and Marvel's "Deadpool and Wolverine" broke numerous box office records. The former was the highest-grossing animated movie of all time, grossing $1 billion in 19 days while the latter was the highest-grossing R-rated movie of all time, grossing c$1 billion in just 23 days. This illustrates Disney's ability to keep up with the modern generation and its rivals whilst remaining true to its core storytelling ability.

4. Despite the above positive news, theme parks are Disney's crown jewels. The Parks & Experiences segment remains the largest driver of revenues and with a 20% operating margin, the main contributor to operating profits. In 2023, eight of the top ten most visited amusement and theme parks worldwide belonged to Disney, led by the Magic Kingdom in Florida (17.7 million visitors) and followed by Disneyland in California (Statista). Tourism is the obvious driver. Global air passenger travel, measured in "Revenue Passenger Kilometres" (RPK), surged over the 2024 summer vacation season. Why is this important? Looking at the chart, there is a clear correlation between RPK and Disney's Parks & Experiences operating profit. The impact of the Pandemic is clear, and the good news is that it is now (just) returning to pre-pandemic levels. Operating income increased but will be negatively impacted by the combination of hurricanes which hit the coast of Florida and the launch cost of the new "Disney Treasure" cruise liner. Disney is spending money on this segment to drive long-term profits and maintain its global dominance in live entertainment. Global lockdowns did change attitudes towards living life and there will be a tailwind for some time as the pent-up demand for experiences plays out. Disney is well placed to benefit.



Disney's Parks & Experiences segment has the highest revenues and operating profit. Operating profit has recovered post the dire 2020-21 period as air passenger traffic touches pre-pandemic levels.

In conclusion, it is very re-assuring to see the share price recover from $85 in August on the back of these solid results. Given the improved guidance on Disney's 3-year earnings growth, the $3 billion share buyback, the re-instatement of the dividend, rising free cash flow and the recent success of streaming and box-office records, our outlook remains positive. However, caution is required given the current state of geopolitics – the impact of which is highly uncertain, the pace of US and global interest rate cuts and Trump's inflationary tariff policy which has seen the dollar regain some strength. Post last week's share price rally, investor confidence is on the up, but patience is required, especially given that Trump only enters the Oval Office in late-Jan 2025. Ultimately, further upside rests on management delivering on its strategic initiatives whilst building on the momentum gained in FY2024. If they can achieve that, then the share price should resemble the fireworks display over the Magic Kingdom – spectacular.

Disney World in Florida is Disney's premier resort.

Topic:	**Outlook for 2025. Is that SA Story Intact?**

Natal Midlands

Date:	05 December 2024
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	04 December 2024
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	2 December 2024
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

By the end of November, it will have been six months since our election ushered in the GNU. This presentation will focus on the outlook for 2025, and delve specifically into whether the SA story is still intact.

Harvard House is on Facebook

Harvard House is on YouTube

CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

HARVARD HOUSE GROUP

3 Harvard Street, Howick, 3290, South Africa
P.O. Box 235, Howick, 3290, South Africa
+27 (0) 33 330 2164
+27 (0) 33 330 2617
@ admin@hhgroup.co.za
W www.hhgroup.co.za