Walt Disney Company

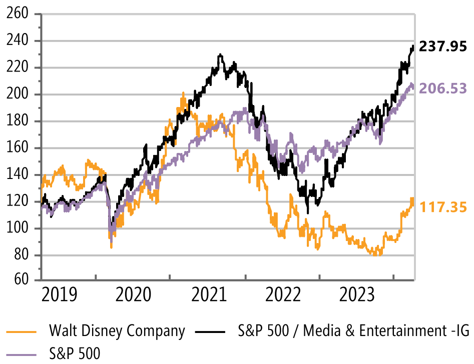
US CORE HOLDING* Recommended since 13.02.20 **09.04.2024**

Country	US	Market capitalization (bn)	USD	157,0	Perf. since reco. (%)	
Sector	Media	Free float	99,9%		Walt Disney Company	-16,7
Factset	DIS-US	Closing price	USD	117,35	Sector	72,1
ISIN	US2546871060	ESG Risk score*	15,7	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 (63% of sales at the end of Q3-FY2023); Disney Parks, Experiences and Products (37%). The US market represents the lion's share of the group's business, accounting for over 80% of sales.



Source: Factset

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.

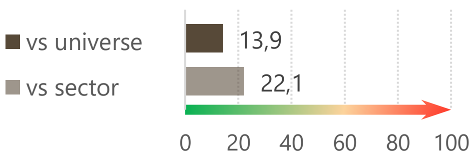
Investment case

- Following the launch of its OTT (Over-the-top) platforms, streaming via the Internet, Disney has reorganised itself around 3 divisions: Entertainment (DTC, Content Sales, Linear Networks) with 45.7% of sales in 2023, Parks & Resorts/Consumer Products with 36.6% of sales and Disney Sport (ESPN + Star) with 17.7% of sales.
- The streaming market has become particularly crowded. Growth in the medium term will come mainly from the DTC segment, with EBIT expected to be profitable in 2024 and over $3 billion in EBIT in 2026, giving margins of over 10%. This growth will be underpinned by a 20%+ increase in CAGR over 3 years in DTC revenues, thanks to an increase in the number of subscribers (notably via the fight against password-sharing starting in phases), price rises, and increased advertising. The other platforms, Hulu (general entertainment, adult series) and ESPN+ (leading sports channel in the USA), are not to be outdone. The various platforms are expected to move to "bundled" offerings and reduce churn.
- The theme park segment (which includes hotels and holiday clubs, as well as cruises) is on a positive trend (increased visitor numbers and spending), thanks to the extension of parks to the new Marvel or Star Wars heroes. More than 170 million people visited these parks worldwide in 2019. Merchandising is also riding the wave of the studios' successes (e.g. Frozen 2 and its many derivative products). Recently, the group announced that 70% of the $60 billion in Capex planned for the coming decade will be invested in expansion ($30 billion for Parks & Resorts and $12 billion for cruises), favouring high EBIT growth for several years.
- 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, 10 Star Wars, 15 films and animated one, season 3 of The Mandalorian, and several animated films.

ESG - risks and key points

- Weak advertising activity on traditional TV.
- 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
117	**138**

Our scenario assumes US 10-year yields of 3.50%. We expect a "high single digit" growth in FY2024-2027 and margin expansion in 2024-2026 (reduction of streaming losses and discipline in cost management).

***) 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.*

Research Department - **Mendon Qestaj**

Walt Disney Company - US CORE HOLDING*

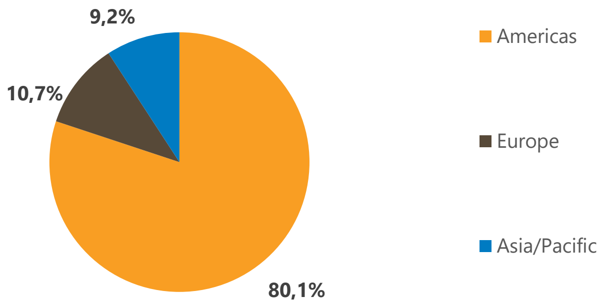
09.04.2024

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	**82 722**	**88 898**	**94 232**	**99 886**	**106 878**
Sales growth %	**22,7%**	**7,5%**	**6,0%**	**6,0%**	**7,0%**
o/w organic	*24,2%*	*9,0%*	*6,0%*	*6,0%*	*7,0%*
EBIT adjusted	**5 866**	**12 884**	**10 725**	**12 180**	**13 898**
% of sales	**7,1%**	**14,5%**	**11,4%**	**12,2%**	**13,0%**
Net income	**3 553**	**3 390**	**8 246**	**9 250**	**10 704**
Adjusted EPS	**1,78**	**1,29**	**3,95**	**4,50**	**5,30**
Adjusted EPS growth	27,1%	-27,3%	206,3%	13,9%	17,7%
Capex/Sales	**5,3%**	**5,1%**	**6,4%**	**5,5%**	**4,6%**
Free cash-flow	3 855	5 355	6 023	7 627	9 721
FCF/Sales	**4,7%**	**6,0%**	**6,4%**	**7,6%**	**9,1%**
Dividend per share	1,78	0,00	1,82	1,82	1,82
Dividend yield	**2,0%**	**0,0%**	**1,6%**	**1,6%**	**1,6%**
ROCE - WACC	**-5,4%**	**-0,6%**	**-2,0%**	**-1,1%**	**-0,1%**
ROE (%)	**3,4%**	**6,3%**	**6,8%**	**7,2%**	**7,8%**
Net debt/Ebitda	**333,2%**	**223,2%**	**164,7%**	**106,4%**	**46,2%**

Source: Factset, Bordier estimates

Sales breakdown - 09/2023



Ratios

	Walt Disney Company	S&P 500 Sector	S&P 500 Market
PE (x)***)		Media & Entertainment	S&P 500
2023	70,0	25,8	23,4
2024e	29,7	22,5	21,5
2025e	26,1	19,5	18,9
P/B (x)***)			
2023	1,7	5,0	4,7
2024e	2,0	4,6	4,4
2025e	1,9	3,9	3,9
		Beta (2Y, daily) vs market:	1,33

****) 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 premi-ums representing the quality of the company's business model.*

Governance and ownership structure

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

Agenda

08.05.2024: Earnings Q2-2024 - 06.08.2024: Earnings Q3-2024
07.11.2024: Earnings Q4-2024

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

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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.