

Disney (DIS)

Attractive

Daniel Ives, Head of Technology Research | 917.210.3220 | [daniel.ives@gbhinsights.com](mailto:daniel.ives@gbhinsights.com)

---

## Disney 4Q First Look; Solid Earnings with All Eyes on the Fox Acquisition

After the bell Disney reported total revenues and pro forma EPS of \$15.35 billion and \$1.89 vs. the Street's estimates of \$15.48 billion and \$1.61. The composition of revenues was mixed bag in our opinion, although overall the quarter was "better than feared" with a stronger than expected bottom-line performance. This quarter fundamentals take a back seat as the major focus around Disney & Iger will be the Fox acquisition, streaming endeavors, and the launch of a streaming ESPN service announced along with earnings which the Street will loudly applaud. In terms of 4Q, Media and Networks revenue of \$6.24 billion was generally in line with the Street's \$6.35 billion, Cable of \$4.49 billion was in line with the Street's \$4.53 billion, with the stand out being Parks and Resorts revenue of \$5.15 billion coming in nicely ahead of the Street's \$4.86 billion. Studio revenue of \$2.50 billion and Consumer/Interactive of \$1.45 billion was slightly below the Street but somewhat expected. The biggest news of the night was the announced of ESPN Plus, Disney's first ever \$4.99 per month direct to consumer offering which is music to the ears of investors that have long awaited for this strategic move. This over the top service will roll out in the spring and we believe this was a "no brainer" move for Iger to launch this and further capitalize on its flagship ESPN franchise. With this service having massive amounts of sports content, it's the perfect foray into streaming in our opinion with Disney's standalone service coming down the pike slated for 2019, with the Fox acquisition and Hulu ownership making the company a legitimate streaming player.

This Fox deal puts Disney in the catbirds seat in terms of content king and with its streaming service set to launch in 2019 Iger has a clear runway to gain market and mind share from the likes of Netflix. We continue to view this as a "home run deal" for Disney and while its an aggressive acquisition with a high price tag, in our opinion this is the right move at the right time as the marriage of these assets

creates a much more formidable Disney on both the content and streaming front for the coming years with its primary goal to invade Netflix's "golden streaming sandbox" when it launches its competitive service in 2019. Watching the strategic direction that Disney takes this deal on the content and Hulu fronts, coupled by domestic box office synergies will be a key focal point of the industry and the Street heading into the rest of 2018. In addition, the regulatory hurdles for this deal remain front and center to see if Iger gets the Fox deal through with a green light. The acquisition of the Fox entertainment assets and a controlling stake of Hulu would make Disney a much more formidable and dangerous competitor down the road on streaming in our opinion as the cost of content continues to escalate with Iger & Co. being in a position of clear strength on this frontier once they consummate this deal. While the landscape for original content has become increasingly competitive with new entrants entering the market by the day (e.g. Disney, Comcast, potentially Verizon) and with HBO, Amazon, Facebook, and Apple currently planning to spend a combined \$10 billion+ in 2018 based on our forecasts, we believe Netflix still remains in a unique position of strength to grow its content and distribution tentacles over the next 12 to 18 months and thus further build out its massive content and streaming footprint. **We maintain our Attractive rating and \$120 price target on shares of Disney.**