CREDO WEALTH

Changing the narrative

Technological innovation is disrupting many industries and the media industry is no exception. For several years Disney has been seen by investors as an established player, defending itself from the changes in consumer viewing habits that new, more innovative players were driving. We wrote in August last year of our excitement about the new way Disney was tackling the challenge of not only surviving, but thriving, in the creative destruction of the transition from packaged content to streaming.

Historically, the cable and satellite distributors (including AT&T, Comcast and Charter) created large bundles of channels which were then sold to consumers at very high prices. However, consumer TV viewing habits are changing, and customers are choosing to pay for online à la carte services such as Netflix. Disney was left with a Media Network business representing roughly 40% of revenue, which needed defending but without the means to mount the defence itself.

Last year, Disney announced plans to launch its own video on demand services and more recently, at the Capital Markets Day, management gave more details specifically about the Disney+ app. Disney+ will have exclusive rights to show films after the theatrical release window. It will also have content from Disney's historical library and new, exclusive films and specially developed TV shows.

Over the long-term, the subscription model could be transformative for Disney and the excitement around the launch of this product has been palpable. With it, Disney is changing the narrative, from a company at the mercy of innovators, to one going on the attack. This service represents an exciting growth opportunity, allowing a direct relationship with customers who watch their films and TV shows for the first time. In a world of big data, a better understanding of their customers can only be a benefit. The company can own the distribution channel and bring its innovative, creative talents to bear. Suddenly, Disney has become a competitor to Netflix instead of a victim.

Disney has an incredibly strong brand and a large portfolio of extremely popular film franchises. We believe that customers will be willing to pay to watch the films, TV shows and characters they love. The service will be priced very competitively ($6.99 per month) and it will offer proven content. Management's stated goal is to reach 60-90 million subscribers by 2024. With the hype around the success of the Avengers: Endgame film, it appears the launch could not have been better timed.

Disney also recently agreed a deal with Comcast which gives them control over Hulu. Hulu is one of the largest premium Over-The-Top services in the US, with around 25 million subscribers. Resolving the uncertainty around the holding structure of Hulu should allow Disney to more easily implement its strategy. The potential for the company to cross sell it's new streaming products to these subscribers also excites us.

Even good stories and well-loved characters need to remain relevant. We have been impressed with the way Disney has consolidated over the last few years, showing endurance and resilience. The change in perception of Disney to a company with attractive growth prospects has only just begun. We have had confidence for a while in Disney's ability to continue to be successful as the method of content delivery changes. With the recent share price performance, it appears that the market is beginning to believe the new narrative too.

Important notice

This document has been created for information purposes only and has been compiled from sources believed to be reliable. None of Credo, its directors, officers or employees accepts liability for any loss arising from the use hereof or reliance hereon or for any act or omission by any such person, or makes any representations as to its accuracy and completeness. This document does not constitute an offer or solicitation to invest or divest, it is not advice or a personal recommendation nor does it take into account the particular investment objectives, financial situation or needs of individual clients and if you are interested in any of the information contained herein, it is recommended that you seek advice concerning suitability from your investment advisor. Investors are warned that past performance is not necessarily a guide to future performance, income is not guaranteed, share prices may go up or down and you may not get back the original capital invested. The value of your investment may also rise or fall due to changes in tax rates and rates of exchange if different to the currency in which you measure your wealth. Credo Capital Limited is authorised and regulated by the Financial Conduct Authority, is a member of the London Stock Exchange, and is an Authorised Financial Services Provider in South Africa.