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We don't talk about Bruno

For the better part of the last two years, we have largely divided stocks into two categories: those stocks which have benefited from the pandemic, the "Stay-at-Home" stocks and those stocks which were severely negatively impacted during the pandemic and would benefit from economies "Opening-Up". And, as we have battled through the pandemic, through Alpha, Delta and Omicron, with vaccine rollouts and restrictions being lifted and then re-imposed, companies' results have largely been dependent on the category in which they fall.

For many of the already fast-growing Stay-at-Home stocks, such as Netflix, Peloton, and Amazon, growth rates accelerated significantly over the period, moving far above the trend rate. In response, the shares re-rated substantially, all contributing to the vast out-performance of Growth stocks over Value stocks. However, in recent months, a number of these companies have reported lower than expected growth rates. Whilst this may not have been entirely unforeseen, it has contributed to a series of dramatic falls in several of these stocks. In January, Netflix disappointed investors with the addition of "only" 8.3 million subscribers, fewer than investors had expected. But the shock really came in the outlook for the first quarter of 2022, as the company expects to add just 2.5 million new customers.

Ultimately, the growth of many of these companies comes from the addition of subscribers. Absent a package upgrade, revenue growth from a subscriber can only be "won" once. When you have added significantly more subscribers than expected in the prior year, those subscribers are not there to be "won" in subsequent years and so a slowdown in growth is to be expected as the company eventually reverts to its normal rate of growth.

Just as investors were worrying that growth in the streaming market had plateaued, Disney announced its most recent set of earnings. After a quieter period for new subscribers in the previous quarter and having benefited from the pandemic in its streaming business, investors were clearly worried that Disney would fall victim to some of the same factors.

However, Disney+ added 11.8 million subscribers to its streaming service in the fourth quarter of the calendar year, higher than analysts expected. It ended the year with 130 million subscribers, second globally only to Netflix with its 222 million subscribers. In addition, management re-iterated its target, to reach between 230 and 260 million subscribers to Disney+ by the end of fiscal year 2024. CEO Bob Chapek put the success down to new content alongside international launches and the decision to bundle Disney+ with all Hulu Live subscriptions.

Additionally, the Parks, Entertainment and Products division posted its second-best quarter of all time. The division had been hard hit by park closures as a result of the pandemic but rebounded substantially as restrictions have been removed. Margins improved with the introduction of new apps, allowing visitors to better plan their days and make reservations at restaurants etc. Evidence also suggests that there is significant pent-up demand for visitation to the Parks and Hotels in the coming months. Although widely predicted by analysts, this aspect of Disney's business differentiates it from the other "Stay-at-Home" stocks.

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In addition, we are reminded of the power of Disney's content creation machine. Over its 100 years of history, the company has time and time again been able to create content which draws in audiences across the globe. Although subscribers to the legacy media channels are declining, these channels remain a powerhouse of creation for the company. Content can be leveraged across platforms and story-telling formats through traditional linear media networks throughout the Parks, on Disney cruises and though digital subscription services. Ultimately, it is this content which the company is in the business of selling.

Although its growth may not be linear, Disney is able to march to the beat of its own drum in terms of releasing content. For example, recent Disney animation Encanto was released on Disney+ on Christmas Eve. It became the fastest title to reach 200 million hours viewed, the soundtrack reached number one shortly after debuting and the song, We Don't Talk About Bruno, became the first Disney song to reach number one since Aladdin's A Whole New World in 1993. On social media, the Encanto hashtag has been used over 11 billion times.

The attraction of these stories carries over into the Parks, Entertainment and Products division. Encanto merchandise sales defied the traditional post-Christmas slowdown and actually increased following the film's release on Disney+. Furthermore, guests to Disney California Adventure have been able to meet the characters.

Despite a difficult year for the shares, we continue to believe in Disney's long-term trajectory. We believe that the investments the company is currently making should allow it to future proof its business. Not only this, it will also allow the company more control over the monetization of its content, clearly a positive development. And perhaps the strongest argument in favour of the company's future is the fact that we are actually talking about Bruno now. ■

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