CREDO WEALTH

# The magic of storytelling

In a world where everything becomes increasingly transparent, perfectly replicable, and transaction costs plummet… the magic of storytelling becomes key. Waves of creative destruction have visited many industries as they adjust to new technologies touching old barriers to entry. It becomes increasingly difficult to just do what a business did before and feel secure if the only secret to your success is your walls.

What is more difficult to replace is creativity and live engagement. New stories from characters we already love. That is the world of magic that Disney has created. That is Disney's engine. Disney uses its creativity to drive a diverse range of income streams including its Film Studios business, Parks and Resorts and Consumer Products divisions.

But another vehicle of delivery for Disney has been challenged. 40% of revenue is generated through the Media Networks division, where Disney sells both advertising and the right to broadcast its TV channels to various distributors. Historically, the cable and satellite distributors, including AT&T, Comcast and Charter, have created large bundles of channels which were then sold to consumers at very high prices. However, consumer TV viewing habits are changing. People are choosing to pay for online services such as Netflix. These new channels enable on demand viewing over multiple platforms at a much cheaper price. This increase in choice for the consumer has resulted in fewer bundled subscribers.

To stem losses, the distributors have created new "skinny" bundles which include fewer channels at a lower price. Whilst these new offerings have seen some adoption, helping to stem the decline in subscribers for the distributors, they have typically not included Disney's most expensive channel (ESPN). This has resulted in ESPN continuing to lose subscribers, at a faster rate than the average channel. The problem isn't quality. The problem is how the content gets delivered.

Disney recently announced the launch of its own video on demand service in 2018/2019. This new service will have exclusive rights to show films after the theatrical release window, alongside content from Disney's historical library and new, exclusive films and TV shows developed specifically for the service. We believe that the development of these new distribution channels will enable the company to thrive in a changing media landscape capitalising on the trend of customers paying for more specialist content. We also believe that the popularity of Disney's film franchises and the strength of Disney's brand will mean that customers will be willing to pay for the characters and sports they love.

In December Disney announced an agreement with Twenty-First Century Fox. The deal would include the Film and Television Studio business and certain media networks. This will give Disney access to content assets that fit extremely well with the current Disney portfolio including Deadpool, Avatar and the original Star Wars films. In addition, Disney will gain a controlling stake in Hulu expanding Disney's online offering. Should Fox's bid for Sky be successful Disney will also gain Sky. With heightened competition for content and distribution in the media sector, this is a once in a lifetime opportunity to acquire prime assets. Between Hulu, Sky, and Tata Sky (all part of the Fox deal), Disney would gain access to 46 million subscribers in three major markets (U.S., Western Europe and India).

We believe that the changing tastes of consumers presents an opportunity for Disney to capitalise on their strong brands. The transition can be a challenge, but one that is an opportunity for a company with the financial strength of Disney, with strong cashflow and significant growth in other parts of the business.

Their engine runs on magic, and we believe that the Disney magic is here to stay. Even as it changes its shape and form.

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# Important notice