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SUSTAINABLE INVESTING

Forget Netflix. Here's the ESG Thesis for Disney.

By Leslie P. Norton May 22, 2020 8:30 am ET


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Courtesy of NETFLIX

For Walt Disney investors agog at Netflix's meteoric rise to a $200 billion market value, take heart from Disney's superior sustainability metrics, which should help lift the theme-park giant's shares, says Confluence Analytics' CEO Conor Platt.

Confluence sells ESG (environmental, social and governance) analytics tools. Among other things, it can analyze how much ESG contributes to performance, and can also forecast future ESG. Previously, Platt cofounded a sustainable investment manager, and was an investment banker at Brown Brothers Harriman.

Companies with high ESG tend to outperform; companies with rising ESG do even better, says Platt. ESG "allows you to focus your capital on the less risky companies, and if you do this process over and over again, you should outperform."

This year, Netflix (ticker: NFLX) shares are up 35%, while Disney (DIS) shares are down 18.5%, battered by the extended closure of its global theme parks, including Disney World. Netflix has benefited from widespread stay-at-home orders.

Still, Netflix has a weak ESG rating, largely based on its corporate governance. Platt ticks off a list of shareholder-unfriendly measures. In the past few years, shareholder majorities have voted to elect directors annually, and require that any directors who were elected received a majority vote. That didn't happen. Shareholders have voted against Richard Barton, the venture capitalist who has served on Netflix's board since 2002; governance experts say longstanding directors aren't very independent. Still, Barton continues to serve, and is up for reelection at the company's June 4 annual meeting, according to Platt.

Shareholders have voted in favor of proxy access, which would allow long-term shareholders to nominate directors. "To our knowledge, none of those proposals were implemented by the Board," he says. "The Netflix approach to governance appears to ignore proxy votes whenever legally possible."

Ultimately, fundamental reasons will drive Disney shares higher, says Platt. He's impressed by Disney's entrance into the streaming market, which "could be an interesting catalyst in regards to Netflix's longstanding record of poor governance." Disney says it now has 54.5 million Disney+ subscribers. Growing competition for Netflix should intensify, from Fox (FOXA), Facebook (FB), Amazon (AMZN), and Apple (AAPL). And a reopening of the theme parks could boost results.

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Meanwhile, Disney fetches just 2.3 times sales, while Netflix is priced at nine times.

Platt's forecast: "Netflix should underperform the market and sector by over 1% while we expect Disney to decline marginally. An investor can short Netflix, use the proceeds to buy Disney, and get a free ticket to all of the other Disney properties outside of streaming."

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