

Walt Disney Company

NYSE: DIS

(All values as of market close on March 22nd 2019)

Recommendation

BUY at Market (\$108.23)

Target Price: \$121.00

12% Upside Potential



The WALT DISNEY Company

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Background

Founded in 1923, the Walt Disney Company is the worlds second largest media company with an annual revenue of \$59.43 billion in 2018.

Media Networks

Disney Channel, abc, ESPN

Parks and Resorts

Walt Disney World, Disney Cruise Line

Studio Entertainment

Walt Disney Studios, Pixar, MARVEL Studios

Consumer Products & Interactive Media

Disney+, ESPN+, Hulu

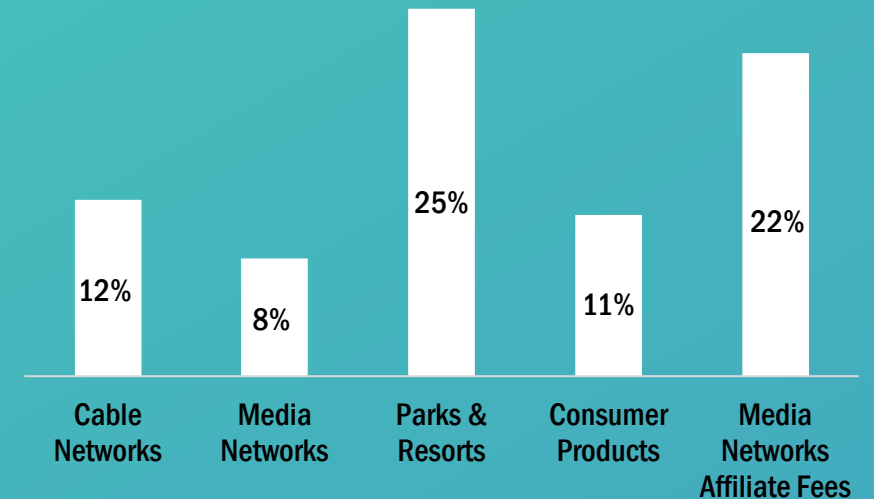


201,000+ Employees

12 Parks & 51 Resorts

200+ Subsidiaries

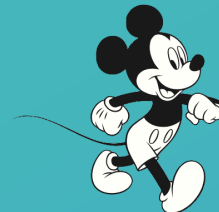
Market Share



Background

Outlook

Investment
Thesis



Risks &
Catalysts

Valuation

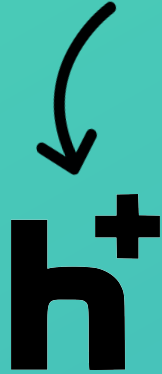
Summary

Outlook



Streaming Initiatives

Launched ESPN+ in April 2018, and already amassed more than 2 million users. Disney+ to release in 2019. Fox Deal provides additional content and gives Disney 60% stake in Hulu.



Over 25 million users in the USA, with potential to expand internationally. Ranked as third largest video streaming service for subscriber number and reach.



Acquired 21st Century Fox for \$71 Billion.
\$2 billion in expected cost saving synergies.



New Park Attractions

Opening two revolutionary Star Wars parks in 2019 that will be the largest and most technologically advanced to date.



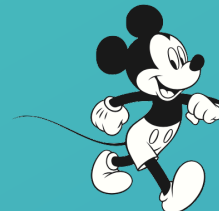
Strong Revenue Trends

Revenue, Net Income, and Earnings per Share at all-time highs in Fiscal 2018, carrying a strong trend into the future.

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Investment Thesis



Streaming Expansion

- ESPN+, Disney+, Hulu
- Fox Acquisition
- Impacts on competitors



Dominance in Parks & Resorts

- Average of 8% price increase on tickets, parking, etc.
- No demand reduction
- New park expansion



Established Industry Presence

- Household name
- Diversity in four industries
- Consistent performance
- Low probability stock will dip in price without recovery

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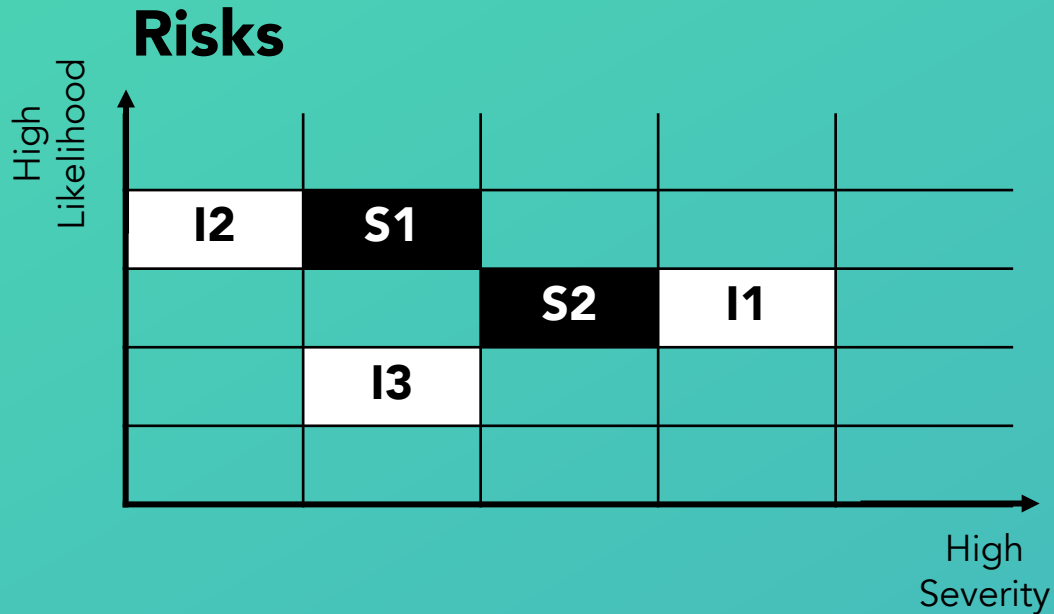


Risks &
Catalysts

Valuation

Summary

Risks & Catalysts



Idiosyncratic

- I1: Low return from high investment in streaming services
- I2: Original Mickey Mouse Copyright expires in 2023
- I3: Internal issues in the aftermath of Fox acquisition

Systematic

- S1: Loss of consumer confidence in China
- S2: General economic downturn

Catalysts

Disneyland Star Wars Land Launch

- A new Star Wars addition to Disneyland opens soon

Increased Guest Spending at Parks and Resorts

- Increased room rates and guest spending increasing profitability

21st Century Fox absorbed by Disney

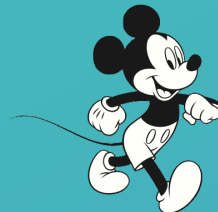
- Disney purchased 21st Century Fox, expanding their content list

Disney+ Streaming Service

- Disney plans to launch a streaming service with original content

Big Budget Disney Studio Projects in next 18 months

- Toy Story 4, Avengers 4, Frozen 2, Star Wars Episode: IX



Background

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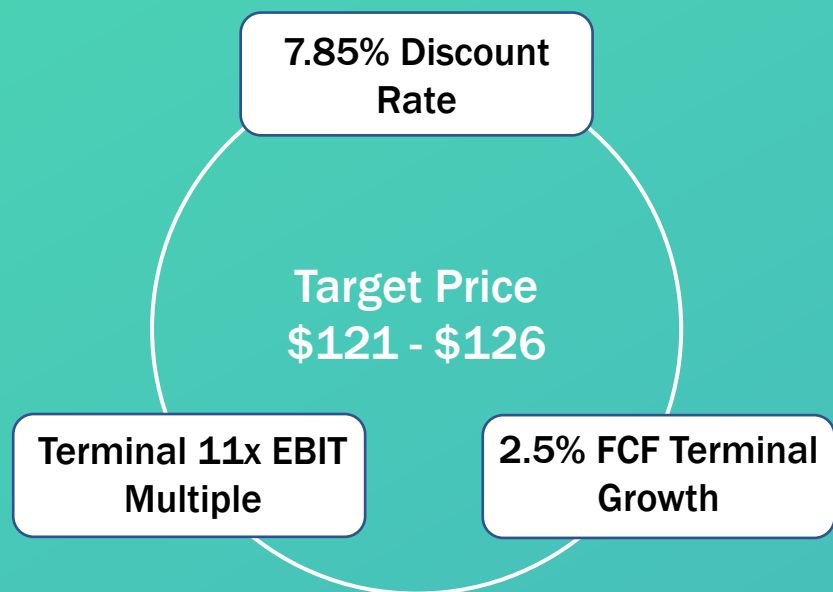
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Valuation



	DIS	Industry	Sector
Beta	0.93	0.65	1.35
P/E (TTM)	14.96	50.32	19.41
P/B (MRQ)	3.23	5.07	2.25
P/Sales (TTM)	3.28	7.18	135.02
Dividend Yield	1.63	0.54	2.49
Payout Ratio (TTM)	23.56	28.23	27.68

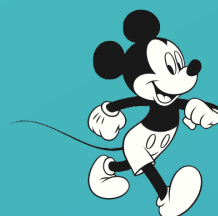
Current Share Price \$108.23 - ~ 12% Discount

- Limited downside risk, with the possibility of large upside from new acquisition and future growth plans
- Disney trading at a relative discount based on P/E, P/B, and P/Sales, while having a relatively strong dividend yield and average payout ratio

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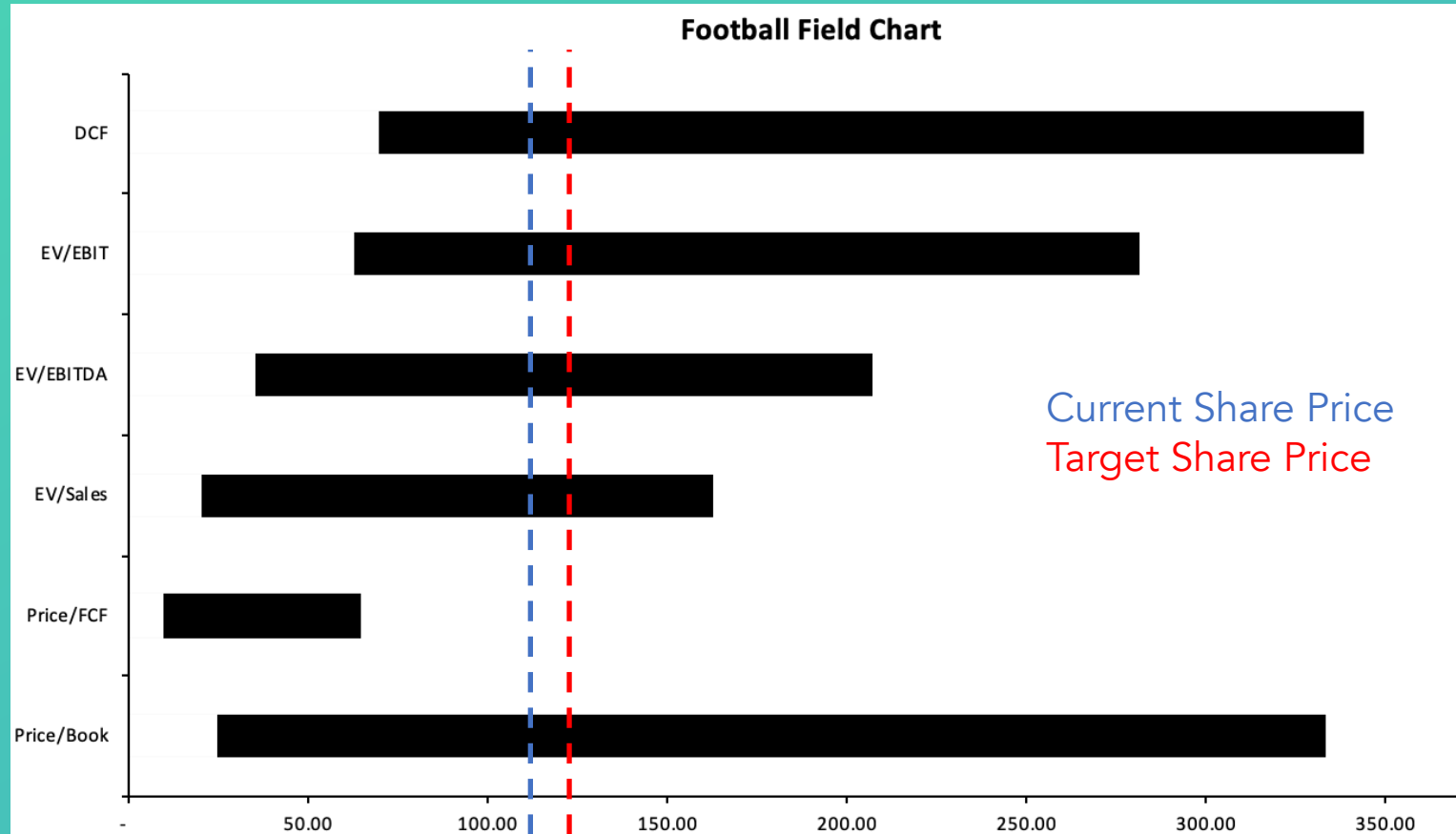
Risks &
Catalysts

Valuation

Summary

Summary

Valuation Summary – Football Field



Investment Thesis Summary

Strong initial entertainment platform for Disney+ especially after Fox acquisition

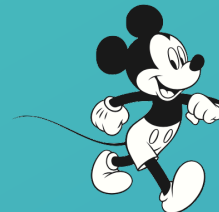
Increase in park fees has no affect on current demand

Diversity allows for temporary slack in certain industries due to vast diversification and growth in others

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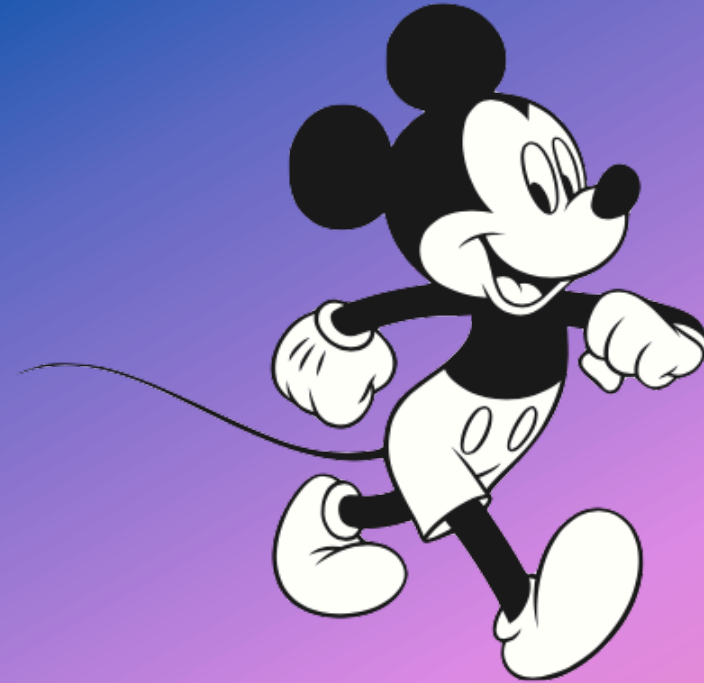
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Appendices

- I. Company Overview
- II. Recent News and Future Outlook
- III. Investment Risks
- IV. Key Financials
- V. DCF Analysis
- VI. Public Comparable



The **WALT DISNEY** Company

I. Company Overview

Background

Media Networks

Disney Channel, abc, ESPN

Parks and Resorts

Walt Disney World, Disney Cruise Line

Studio Entertainment

Walt Disney Studios, Pixar, MARVEL Studios

Consumer Products & Interactive Media

Disney+, ESPN+, Hulu

Management Team



Robert A. Iger
Chairman and Chief Executive Officer



Bob Chapek
Chairman of Parks, Experiences and Products



Alan F. Horn
Chairman, Walt Disney Studios



Kevin Mayer
Chairman of Direct-to-Consumer and International



Alan F. Horn
President of ESPN and Co-Chair, Disney Media Networks



Ben Sherwood
Co-Chair, Disney Media Networks and President of Disney ABC Television Group

2 Year Share Price Review

The Walt Disney Company (DIS)

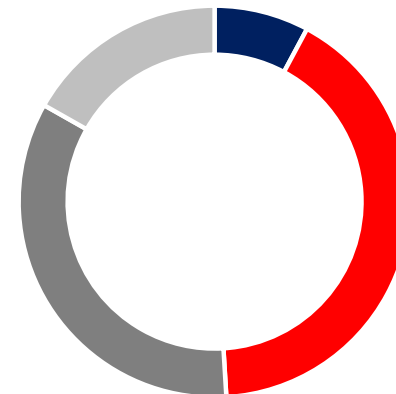
NYSE - NYSE Delayed Price. Currency in USD

108.23 -0.43 (-0.40%)

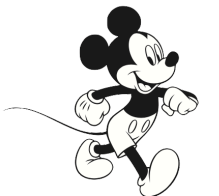
At close: March 22 4:00PM EDT



Fiscal 2018 Revenues by Segment



- Consumer Products & Interactive Media
- Media Networks
- Parks & Resorts
- Studio Entertainment



II. Recent News and Future Outlook

Company News

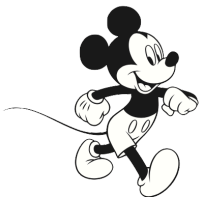
- Effective March 20th 2019, Disney acquired 21st Century Fox and their collection of businesses and franchises for \$71 Billion
- In September 2017, Disney announced plans to create its own streaming video service, a platform created to challenge Netflix, Hulu, and similar high-end-streamers. Service was named Disney Plus (Disney+) which will include Disney's Marvel, Star Wars, Pixar, Nat Geo, and Disney-Specific content
- Recent Fox acquisition makes Disney have ownership of the Simpsons, X-Men etc.
- Raised ticket prices again in 2018 ahead of anticipated release of "Star Wars: Galaxy's Edge," by on average 8%
- Trailer debuts for "Toy Story 4", "Avengers: Endgame", "Aladdin", "Frozen 2", "The Lion King"

Company Outlook

- Launched ESPN+ in April 2018, and already amassed over 2 million users. Disney+ to release in 2019. Fox Deal provides additional content and gives Disney 60% stake in Hulu.
- Over 25 million users in the USA, with potential to expand internationally. Ranked as third video streaming service for subscriber number and reach
- Opening two revolutionary Star Wars parks in 2019 that will be the largest and most technologically advanced to date.
- Revenue, Net Income, and Earnings per Share were all-time highs in Fiscal 2018, carrying a strong trend into the future.

Industry Outlook

- The online streaming industry has become increasingly popular where a total of 61% of young adults in the US are using this service
- The number of digital video users in the US is expected to increase to 232 million by 2020



III. Investment Risks

Idiosyncratic Risks

High Investment in Streaming Services

Disney has been investing in video streaming services over the last two years. Specifically, they created ESPN+, purchased a controlling share in Hulu, and are now looking to launch Disney+. Disney has invested significant capital into these services and has lost over \$1B in this pursuit over the last two years. If these projects remain unprofitable, stock prices will drop.

Expiry of Original Mickey Mouse Copyright in 2021

Despite previous extensions, the copyright of the original Mickey Mouse will expire in 2023. This does not pose an immediate risk, although Disney will soon start hemorrhaging Intellectual Property through expiry of copyrights. Disney has copyrighted each change to each of its characters, so only the Mickey Mouse in the 1928 release of "Steamboat Willie" will enter public domain.

Systematic Risks

Loss of Consumer Confidence in China

Due to recent U.S. – China tensions, Chinese consumers are losing confidence in U.S. companies and products. Disney owns a resort and theme park in Shanghai, China. It is expected that these locations will receive less patronage and customer purchases.

General Economic Downturn

Disney is an entertainment business. If we slide into recession, households will prioritize necessities (rent, food, etc.) over luxuries, including entertainment. An economic downturn would see less consumers spending money on Disney products.



IV. Key Financials

Valuation Ratios and Dividends

Metric	DIS	Industry	Sector
P/E (TTM)	14.96	50.32	19.41
Beta	0.93	0.65	1.35
P/Sales (TTM)	3.28	7.18	135.02
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Growth Rates

Metric	DIS	Industry	Sector
Sales vs. 1 Yr. Ago (TTM)	6.61	8.64	13.96
CapEx – 5 Yr. Growth Rate	9.81	19.00	6.91
EPS – 5 Yr. Growth Rate	16.40	7.80	1.55

Profitability Ratios

Metric	DIS	Industry	Sector
Gross Margin (TTM)	44.45	40.08	25.14
Operating Margin (TTM)	24.32	20.58	-12.51
Pre-tax Margin (TTM)	24.27	20.56	12.56
Net Profit Margin (TTM)	18.99	14.40	12.82
Effective Tax Rate (TTM)	21.76	31.65	25.34

Financial Strength

Metric	DIS	Industry	Sector
Current Ratio	1.00	2.88	1.69
Total Debt to Equity	41.07	34.86	64.69
Interest Coverage (TTM)	82.58	4.76	5.45

V. DCF Analysis

Free Cash Flow Projections

2018 (A)	2019 (E)	2020 (E)	2021 (E)	2022 (E)	2023 (E)
9,544	8,933	10,171	11,141	11,955	12,585

WACC Calculation

	DIS
Risk-free rate	2.55%
Beta	0.93
Market rate	9.80%
Cost of Equity	9.15%
Tax Rate	22%
Debt Rate	4%
WACC	7.85%

DCF Valuation Results

Gordon Growth Method

Assumptions: FCF growth = 2.50%, Discount rate = 7.85%

Implied Share Price: \$121.66

Implied EV: \$208,657

TV% of EV: 79.21%

Current Discount: 12.4%

Terminal Multiple Method

Assumptions: 2023 EBIT Multiple = 10x, 11x, 12x, Discount rate = 7.85%

Implied Share Price: \$107.71, \$117.02, \$126.33

Implied EV: \$187,035, \$201,402, \$215,768

TV% of EV: 76.81%, 78.47%, 79.90%

Current Discount (Premium): (0.48%), 8.12%, 16.72%



V. DCF Analysis *continued*

Growth Rate	Discount Rate									
		5%	6%	7%	8%	9%	10%	11%		
2.00%	\$	231.85	\$	170.01	\$	133.23	\$	108.97	\$	91.85
2.25%	\$	252.18	\$	180.77	\$	139.78	\$	113.32	\$	94.91
2.50%	\$	276.57	\$	193.07	\$	147.05	\$	118.05	\$	98.20
2.75%	\$	306.39	\$	207.27	\$	155.19	\$	123.24	\$	101.76
3.00%	\$	343.65	\$	223.83	\$	164.33	\$	128.95	\$	105.61

Key Model Assumptions

- Conservative growth estimates were used to account for the unknown effects of the Fox acquisition
- Increased debt rate from 2.75% to 4% to account for future interest rate increases (more conservative)



VI. Public Comparables

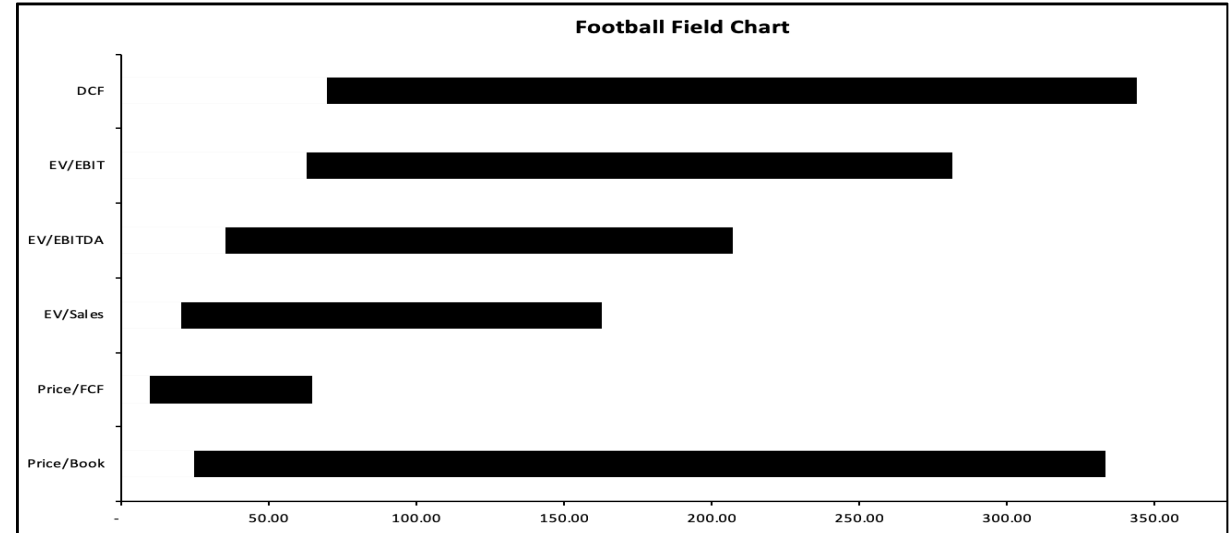
Competitor's Ratios

Metric	CBS	VIAB	NWSA	IAC	DISCA	NFLX	AMCX	CHTR
EV/EBIT (TTM)	9.81	8.19	NEG	22.44	17.50	104.50	7.92	30.67
EV/EBITDA (TTM)	9.08	7.52	21.82	19.05	4.88	18.50	7.08	10.41
EV/Sales (TTM)	1.86	1.50	0.88	4.58	3.01	10.90	2.07	3.73
P/FCF (TTM)	7.22	1.58	7.53	21.82	3.33	NEG	2.09	7.18
P/B (MRQ)	5.82	1.35	0.72	5.39	1.54	22.31	9.75	1.77
P/E (TTM)	9.22	7.18	NEG	34.52	31.16	144.22	7.43	70.13

Current DIS Statistics

Metric	DIS-US
EV/EBIT (TTM)	14.28
EV/EBITDA (TTM)	11.92
EV/Sales (TTM)	3.65
P/FCF (TTM)	10.50
P/B (MRQ)	3.20
P/E (TTM)	15.01

Football Field Chart



Implied Share Price

Average Implied price: **\$119.34** (~10.3% discount)

- Public comparables imply share prices ranging from \$10 to \$333, which is heavily skewed towards the upside.

