Walt Disney Company (NYSE: DIS)

Sector: Consumer Discretionary

Industry: Mass Media

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
$74.83	$69.01	$69.87	$46.53	1.23	20.77	$123.3B (Large Cap)	1.10%

Industry Trends

The mass media sector continues to be dominated by large media conglomerates such as Disney and its peers (i.e. Time Warner, Viacom). In an entertainment environment that continues to be flooded with new choices, largely fueled by advances in technology, consumers gravitate towards trusted names, which is why media conglomerates such as Disney are expanding their brands through acquisitions. With internet usage increasing every year, mass media continues its shift toward online entertainment (i.e. Disney is expanding its Interactive segment).

Investment Thesis

Disney is the major player in its industry. Having just gone through a major capital cycle over the past few years, in which it acquired Marvel Entertainment in 2009 and Lucasfilm in 2012, Disney is in position to capitalize on these acquisitions through its proven capability of nurturing strong brands. With the construction of the Disney Shanghai Resort, which is scheduled to open by the end of 2015, and the continued strength of its Media Networks segment, led primarily by ESPN, Disney is positioned for strong results going into the future.

Business Summary

Disney is the world's largest media conglomerate. As a media conglomerate, Disney is a diversified company that spreads its business across five different segments. These segments are Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products, and Interactive (Games and Media). Disney's business model is principally based on the interconnectedness of its segments. In other words, creative content from its films and television programs are incorporated into its other business segments and used as leverage for profitability (namely Parks and Resorts, Consumer Products, and Interactive). Its largest and most profitable segment, Media Networks, is somewhat independent of this model as its success is driven by operations unrelated to Disney's creative content, such as the operations at ESPN.

DIS 5-year stock performance vs. S&P 500:

(Yahoo Finance)

Corporate Social Responsibility:

ESG Disclosure Rating	37.60 (Ind. Avg.: 15.12)
Environmental Disclosure Score	26.36 (Ind. Avg.: 15.89)
Carbon Disclosure Score	53.00 (Ind. Avg.: 34.00)
Social Disclosure Score	38.60(Ind. Avg.: 10.53)
Governance Disclosure Score	62.50 (Ind. Avg.: 48.45)
Equal Opportunity Policy	1 (Ind. Avg.: 0)
Community Spending	$292.2 million (2012)
Total Energy Consumption	N/A (Electricity Used: 1,810 MWh)

Sources: Bloomberg Terminal, Value Line Investment Survey, Google Finance

Competition:

- Disney's major competitors are other large media conglomerates, such as Time Warner ($63 B Market Cap) and Viacom ($39.9 B Market Cap).

Pros:

- Buying back stock consistently over past 10 years (approximately 245 million total shares) and have announced they will buy back $6-$8 billion in stock during fiscal 2014.
- Dividends declared per share have gone from $0.21 to $0.75 over the past 10 years and it is probable that they will increase or at least remain steady in the near future.
- Have claims on the future cash flows of some of the most valuable film franchises in entertainment (i.e. Star Wars, Marvel franchises).
- 2015 opening of Disney Shanghai Resort represents significant breakthrough in Chinese market.

Cons:

- Tendency of advertising revenues and general consumer discretionary spending to move with economic conditions.
- Leading profitability of ESPN dependent on the level of cable affiliate fees, with ESPN's fee approximately 20 times higher than any other channel.
- Success is dependent on the management capabilities of the next CEO, as current CEO Bob Iger has announced he will step down in 2016 and has led Disney's most recent run of success.

Value Estimate:

$98 - $120

(2016-2018)

Overall Rating:	**Three Stars**
Expected inflation	3%
Current EPS	3.30
Forecasted EPS Growth	11.4%
Credit Quality	A2
ROE	14.3%
ROA	7.7%
Price/Book	2.84
Debt/Equity	0.36
Debt/Capital	0.25
Current Ratio	1.07
Price/Cash Flow	14.96
10 yr. Risk Free Rate	2.6%
WACC	9.5%

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Student Managed Fund