|  |  |  |  |
| --- | --- | --- | --- |
| **Company: Walt Disney Co.** | Ticker: DIS Current Price: $94.98 | Sector: Consumer Discretionary | Industry: Media & Entertainment |
| Target Price: $123  Stop Loss: $76  52 Week High/ Low: $90.00-$122.08 | TTM P/E: 18.40  Forward P/E: 16.74  EPS: $5.16 | Beta: 1.05  Credit Rating: A  Rating Outlook: Stable | Market Cap: $155(B)  Avg Vol (12 Month): 10.346 mil  Dividend Yield: 1.49% |

|  |
| --- |
| **Company Background:** |
| Disney is a leading media conglomerate with key operations in theme parks, television, film, and merchandise licensing. Theme parks and Resort segment includes parks in the U.S., Europe, and Hong Kong as well as a cruise line. Another park is scheduled to open in China in 2016. Their media networks include ABC, ESPN, The Disney Channel, and ABC Family. Studio films are made under the Disney, Pixar, Marvel, and LucasFilm brands. Consumer products include merchandise licensing, books, video games, and retail stores. |
| **Industry Outlook:** |
| Revenues have been on an upward trajectory since the Great Recession. This is due to organic growth from strengthening macroeconomic factors as well as a wave of M&A activity. TV programming costs have been rising. Subscriber bases have been declining due to the secular trend of ‘cord-cutting’ and a-la-carte media consumption. |
| **Investment Thesis:** |
| Disney is the premier brand in entertainment. Their strategy as a content creator rather than content delivery should help them withstand changes to media delivery over the next few years. ESPN stands to be hit the hardest by switch to a-la-carte media consumption and Disney has already begun cost-cutting measures to prepare for possible lower revenues. Acquisitions of Marvel and the Star Wars franchise has created a strong pipeline of films for the next five years, with benefits also to the theme parks, television content, and consumer products segments. As consumer confidence continues to increase, there should be growing demand for the Disney’s content. Strong pipeline has been developed with first new Star Wars movies in ten years. Disney is well positioned to remain leader in industry and trade at premium multiples. |
| **Investment Risks:** |
| * Capital intensive theme park business * Abrupt shift to a-la-carte cable television structure * Downturn in consumer spending hurts all aspects of business |
| **3-5 take away from last quarter investor call transcript:** |
| * Launching a direct to consumer (over the top) service in the UK, delivering movies, TV episodes, music, books, etc as a test market * $6.1 billion in share repurchases last year * Would not directly say that ESPN layoffs are linked to subscriber losses, but hinted that more may be coming * Remarked that ESPN will eventually be sold direct to consumer but did not announce any specific plans. |

|  |  |
| --- | --- |
| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | 2015 | Q3-2015 | Q4-2015 | | Revenue | 42278 | 45041 | 48813 | 52465 | 13101 | 13512 | | Operating Profit | 9002 | 9167 | 11369 | 13171 | 3762 | 3095 | | Net Income | 5682 | 6136 | 7501 | 8382 | 2483 | 1609 | | Revenue Growth % | 3.39 | 6.54 | 8.37 | 7.48 | 5.09 | 9.06 | | EBITDA% | 25.99 | 25.22 | 27.98 | 29.59 | 33.10 | 27.37 | | Operating Profit % | 21.29 | 20.35 | 23.29 | 25.10 | 28.72 | 22.91 | | Net Income Margin | 13.44 | 13.62 | 15.37 | 15.98 |  |  | | D/E | 34.11 | 29.67 | 30.78 | 35.69 | 30.24 | 35.69 | | Interest Coverage | 15.96 | 21.52 | 30.98 | 35.12 | 40.45 | 30.95 | | EPS | 3.17 | 3.42 | 4.31 | 4.95 | 1.46 | 0.96 | | PE Ratio | 16.95 | 19.37 | 20.52 | 19.99 | 23.77 | 19.98 | | Current Ratio | 1.07 | 1.21 | 1.14 | 1.03 | 1.11 | 1.03 | | ROE | 14.73 | 14.41 | 16.60 | 18.73 | 17.97 | 18.73 | | ROA | 7.73 | 7.86 | 9.07 | 9.73 | 9.67 | 9.73 | | Dividend Per share | 0.60 | 0.75 | 0.86 | 1.81 | 0.66 | 0 | | |  |  |  | | --- | --- | --- | |  | 2011-15 | 2016-20 | | Avg Revenue growth | 7% | 6% | | Avg EBITDA Margin | 27% | 31% | | Avg Net Income Margin |  |  | | Avg Debt/Equity |  |  | | Avg Interest / EBITDA |  |  | | Cost of Debt | | 1.3% | | Tax Rate | | 36.17% | | Cost of Equity | | 10.4% | | WACC | | 9.6% | | Perpetuity Growth Rate | | 4.4% |   Analyst Opinion   |  |  |  | | --- | --- | --- | | Buy: 17 | Hold: 15 | Sell: 2 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P Net Advantage | 4 Star | $122 | | Morning Star | 4 star | $134 | | Value Line | Timeliness2 | $105-$130 | |

|  |  |
| --- | --- |
| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | FY2015 | VIACOM | T-WARNER | FOX | DISCOVERY | INDUSTRY | DISNEY | | P/E | 8.29 | 15.14 | 15.21 | 15.74 | 14.66 | 18.41 | | P/B | 5.06 | 2.43 | 3.36 | 2.1 | 3.37 | 3.41 | | Dividend Yield | 3.25 | 1.91 | 1.73 | - | 1.67 | 1.91 | | PEG Ratio | 0.77 | 1.18 | 0.94 | 1.03 | 1.12 | 1.83 | | EPS | 5.47 | 4.81 | 1.71 | 1.82 | 1.12 | 5.20 | | Rev Growth (3 Yr) | -1.50 | -1.78 | 5.53 | 14.73 | 4.15 | 7.46 | | NI Growth (1 Yrs) | -19.62 | 3.68 | 84.01 | 5.95 | 23.88 | 11.75 | | Operating Margin | 27.85 | 27.94 | 22.82 | 32.43 | 26.18 | 22.91 | | Debt / Equity | 321.77 | 97.07 | 112.68 | 119.89 | 139.46 | 35.69 | | Market Cap | 17.91B | 57.05B | 51.34B | 17.78B | 53.73B | 155.43B | | |  |  |  |  | | --- | --- | --- | --- | |  | DIS | Sector | S&P 500 | | YTD | -9.76 | -7.86 | -6.53 | | Last 3 Years | 82.52 | 50.74 | 35.31 | | Last 5 Years | 149.46 | 103.10 | 61.01 |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | Company | Industry | | ESG Disclosure Score | 35.54 | 19.90 | | Governance Disclosure Score | 60.71 | 53.57 | | Social Disclosure Score | 38.60 | 18.71 | | Environmental Disclosure Score | 23.26 | 12.79 | |