Walt Disney Company (NYSE: DIS)
Sector: Consumer Discretionary

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
$112-146	$90.13	$122.08	$90.00	19.60	$156.19B	1.53%	1.56

Business Description
The Walt Disney Company, together with its subsidiaries, is a diversified media enterprise that starting in 2016, operates in four business segments: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products. Media Networks includes cable television and broadcasting operations, deriving the majority of revenue through advertising fees and fees for the right to deliver Disney programs. Parks and Resorts consists of the theme parks and resorts that Disney operates and/or maintains an interest in. The majority of revenue in this business segment comes from the sale of admissions, the sale of food, beverage, and merchandise, as well as vacation packages. Studio Entertainment produces and acquires live-action and animated motion pictures, direct-to-video content, music, and live plays. Revenue from this segment primarily comes from the revenue from the distribution of this content. The Consumer Products operating segment generates revenue from the sale and licensing of merchandise, intellectual properties, and multi-platform games.

Industry Trends
The diversified media industry remains very competitive. Success in this industry is contingent upon the creation of entertainment, travel, and consumer products that continually draw the ever-changing interests of consumers. Current themes dominating this segment include the shift in the manner by which consumers interact with media content. The industry is seeing a shift towards the streaming of content, primarily due to the millennial generation. Technological advancements and increased globalization further characterize the industry as the tools by which to produce content improve and the growth of emerging economies provides a larger market.

Investment Thesis
The Walt Disney Company has a long history of being a leader in the diversified media industry. Disney maintains a media ecosystem with some of the strongest brands in the industry, leading to a loyal customer base. Disney benefits from the ability to cross-sell to consumers as the company offers a variety of entertainment content from film to merchandising to travel. With the recent acquisition of production studios such as Marvel Studios and Lucasfilm, Disney owns some of the largest IP properties in the media industry, as evident by the top box office hits in the last year, having two films break domestic box office records. These acquisitions will allow Disney to continue to produce valuable content consumers want while the company capitalizes on merchandising from these same properties. Disney continues to expand its international operations such as with the planned opening of a theme park in Shanghai, China. This park will be within a three-hour drive of over 330 million people, providing a tremendous opportunity. As Disney continues to build up its brand in these new markets, consumers will enter the media ecosystem that provides all forms of entertainment.

Valuation Assumptions
WACC: 10%
Terminal FCF Growth Rate: 3.5%
Calculated CAGR of FCF: 9.8%

Key Financials
ROA: 9.64%
ROE: 18.28%
Profit Margin: 15.98%
5-Year Rev. CAGR: 6.6%

5-Year Stock Performance


Competitive Analysis
Disney's competitors vary across its different business segments:
Media Networks: Comcast Corporation, Time Warner Inc, 21st Century Fox
Parks and Resorts: Comcast Corporation, Six Flags Entertainment Corporation
Studio Entertainment: Comcast Corporation, Sony, Viacom, Time Warner
Consumer Products: Other licensors, publishers and retailers of character, brand and celebrity names; Activision Blizzard Inc., Electronic Arts Inc., Take-Two Interactive Software Inc.

Competitive Advantages
One of Disney's greatest advantages is their brand recognition. Disney is a household name associated with family values and childhood. With a focus on this, Disney has created a media ecosystem for their consumers. Consumers engage with DIS through their characters, theme parks, films, TV shows and networks. In addition, Disney has significant amounts of cash on its balance sheet, allowing them to continue to make strategic acquisitions into the foreseeable future.

Risks
While we view Disney's expansion into China as a great opportunity, it also comes with additional risk. As we all know, the current economic situation in China is not favorable. However, the Disney executives are confident that this is a short-term situation and are optimistic about China's long term potential. We agree with this view. Another major area of hesitation for investors in DIS is the loss of cable subscriptions that has subsequently hurt the revenue generation of ESPN. We do not see this as a major threat. Instead, we think that DIS is well hedged in the movement to streaming over cable services with their stake in Hulu. We also believe that ESPN will always be a source of revenue whether through streaming services or cable subscriptions because of its now established following.

Corporate Social Responsibility
ESG Disclosure Score: 35.54 (Industry average: 19.9)
Environmental Disclosure Score: 23.26 (Industry average: 12.79)
Climate Change Performance Score: 3 (Industry average: 2.5)
Social Disclosure Score: 38.6 (Industry average: 18.71)
Governance Disclosure Score: 60.71 (Industry average: 53.57)
Equal Opportunity Policy: 1 (Industry average: 1)
Community Spending: $315.7M (Industry average: $287.35M)
Energy Efficiency Policy: 1 (Industry average: 0)

Report Prepared By:
Brittany Martens, Michael Morabito, and Jacquelyn Isola on 11/18/2015
Sources: Bloomberg, Yahoo! Finance