The 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
$115.16	$91.41	$120.65	$86.25	15.73	$148.64B	1.55%	1.08

Business Description

The Walt Disney Company is a diversified global entertainment business with operations in five major segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products, and Interactive. Media Networks is Disney's largest segment which is made up of the company's cable and broadcast television networks which include ESPN, the Disney Channels, and ABC Family. The segment generates revenues from affiliate and provider fees. The Parks and Resorts segment consists of the domestic and international theme parks and resorts the company owns or has effective ownership in. The resorts generate the majority of revenue from the sale of admission and the food and retail purchases made within the parks. The Studio Entertainment segment produces live-action and animated films, direct-to-video content, musical recordings, and live theater performances. Disney distributes this media under the Walt Disney Pictures, Pixar, Marvel, Lucasfilm, and Touchstone banners with revenues stemming from the distribution of the content. The Consumer Products segment designs and develops a wide array of products based on its extensive intellectual property which produce revenue through licensing, publishing, and the company's retail stores. The interactive segment develops console, mobile, and virtual games sold globally and licenses content to publishers for mobile devices.

Industry Trends

The entertainment media industry consists of companies that own content and license intellectual property, as well as distribute media through television and film. To remain competitive in this industry, companies must continually adapt to consumers' taste in both content and distribution. The industry has observed a shift over the past few years where consumers are switching from cable programming to over-the-top (OTT) streaming services. To adjust for this change and the loss of subscribers throughout the industry, companies have been seeking innovative solutions to expand their distribution channels. Companies that grow popular content, expand internationally, and innovate for future online trends are best positioned for long-term success.

Investment Thesis

The Walt Disney Company has been a leader in the media entertainment industry throughout its history with its strong brand recognition and consumer loyalty. The company will continue to provide long run value due to its unique media network content, domination in its world-renowned parks and resorts, and its consistent ability to monetize on its intellectual property. The company has seen consistent and strong growth since inception and is continuing to innovate across all segments. Disney's minority stake in BAMTech and other OTT streaming services will help the company expand distribution and thus remain an industry leader. International investment in Europe and Asia for the parks and resorts business will benefit the company through exposure to other high growth economies.

Valuation Assumptions

WACC: 8.84%
Terminal FCF Growth Rate: 3.5%
DCF Stock Price: $107.52
DDM Stock Price: $122.79
Weighted 50/50

Key Financials

ROA: 10.23% (Industry 6.80%)
ROE: 19.70% (Industry 20.79%)
D/E: 35.69% (Industry 105.97%)
Net Margin: 16.80% (Industry 13.77%)

5-Year Stock Performance

Competitive Analysis

Disney competes with many different media conglomerates across its various business lines. The company's largest competitors are Comcast, Time Warner, 21st Century Fox, CBS Corp., and Discovery Communications. Disney has proven to be the market leader in the media industry, with the largest market-share by revenue of all competitors. This past year, Disney reported $52.465B in revenue which is equivalent to 31.82% of the total revenue generated by its ten closest competitors combined.

Competitive Advantages

Disney is an innovator and leader in its primary business segments. ESPN, ABC, and the Disney Channels offer unique content that cannot be licensed or distributed by other media networks. The strength and exclusive nature of this content allows Disney to generate profit above their competitors through advertising and affiliate fees. The company also ties many of its business units together where consumers are able to engage with the same characters through television, film, consumer products, parks, and video games. Disney's brand recognition is one of its strongest assets and continues to be a household name across the globe.

Risks

Disney faces a number of industry based risks. The primary concern in Disney is its loss of subscribership for its ESPN networks with consumers who no longer wish to pay the high cable fees and instead are moving toward streaming services. However, Disney has made investments and partnerships with BAMTech, AT&T/DirecTV, Hulu, PlayStation Vue, and Sling TV which are actively addressing these concerns and moving the company toward streaming distribution. Other risks include decline in economic conditions, maintenance of intellectual property rights, and increased competition. As the top global content licensor with incredible control over its unique and innovative intellectual property, this risk is not a concern and barriers to entry remain high in all segments.

Corporate Social Responsibility

Environmental Disclosure Score: 27.91 (Industry average: 16.83)
Social Disclosure Score: 24.56 (Industry average: 19.14)
Percent of Women on Board: 30.00 % (Industry average: 20.57%)
Community Spending: 333.30M (Industry average: 151.89M)
Energy Efficiency and Climate Change Policies: Yes

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Sources: Bloomberg, Yahoo! Finance, Reuters, 2015 Disney Annual Report