

Disney Ticker: DIS Sector: Consumer Discretionary Industry: Media & Entertainment	Intrinsic Value: \$ 119 Current Price: \$88.35 (10/6) Stop Loss: \$ 70 Upside Review: \$ 106	TTM P/E: 22.2 Forward P/E: 19.6 Beta: 1.05	Market Cap: \$ 151.8B Dividend Yield: \$.86 (.99%) 52 Week Range: \$ 63.10– \$91.29
--	---	--	---

Business Summary: Disney is a worldwide entertainment company which consists of Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products, and Interactive segments. Media networks include ABC, A&E (JV), ESPN, and the Disney Channel. Studio Entertainment includes Pixar, Marvel, and LucasFilms. Consumer products includes merchandise, publishing, and retail. Interactive includes web properties.

Industry Trends: General trends in the industry include technological advances, regulatory reforms, and increased globalization according to S&P. Dish and cable are competing for market share. M&A in broadcasting is active. Advertising spend has increased four years in a row with over \$140B spent in 2013.

Investment Thesis:

As the economic expansion continues main street is beginning to feel the benefits with higher employment rates and consumer confidence. These macro factors are tailwinds for DIS. Also, the stock is undervalued by 23%-25% based on dividends and free cash flow respectively.

Competitive Analysis:

Disney has a name that is synonymous with quality family friendly entertainment. Each segment complements each other. As a movie does well it sells more related merchandise, provokes more travels to the parks, and encourages more interaction with the brand. In 2014 they have eight billion dollar brands. The studio segment has a strong portfolio of intellectual property, including Marvel, and Lucas films, which gives them a solid pipeline for the foreseeable future.

Pros:

- Economic expansion benefitting middle America.
- Recent success at the box office will flow into other segments.
- Unique blend of complementary properties with trusted household brand name.

Risk Factors:

- Rising dollar could hurt profitability of international sales.
- Potential volatility in studio entertainment segment
- An economic downturn would hurt park visitation

5 Year Stock Performance:



(Yahoo!)

Competitor Comparison:

Direct Competitor Comparison					
	DIS	PVT1	TWX	FOXA	Industry
Market Cap:	151.66B	N/A	63.13B	74.64B	691.14M
Employees:	175,000	N/A	34,000	27,000	762.00
Qtrly Rev Growth (yoy):	0.08	N/A	0.03	0.17	0.13
Revenue (ttm):	47.99B	N/A	30.57B	31.87B	338.49M
Gross Margin (ttm):	0.24	N/A	0.46	0.34	0.36
EBITDA (ttm):	13.66B	N/A	8.26B	6.63B	10.56M
Operating Margin (ttm):	0.24	N/A	0.24	0.17	0.05
Net Income (ttm):	7.40B	N/A	4.28B	3.78B	N/A
EPS (ttm):	4.16	N/A	4.70	1.99	0.01
P/E (ttm):	21.22	N/A	15.70	17.12	24.52
PEG (5 yr expected):	1.27	N/A	1.46	1.21	1.21
P/S (ttm):	3.16	N/A	2.09	2.34	2.07

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

Total Return Estimates

3 Yr FV Reversion: 10%

5 Yr FV Reversion: 6%

Key Valuation Assumptions

Est Revenue Growth: 9.50%

WACC: 8.02%

Expected Inflation: 1.7%

Terminal Growth Rate: 4%

10 Yr Risk Free Rate: 2.58%

Equity Risk Premium: 5.42%

Tax Rate: 31.00%

Key Financial Data

Est 2014 EPS: \$4.20

Est 2015 EPS: \$4.50

3-5 Yr Est EPS Growth: 9.50%

PEG (TTM): 2.453

Credit Quality: A2 (Moody's)

ROE: 16.6%

ROA: 9.0%

Price/Book: 3.34

Price/Cash Flow: 16.7

Debt/Equity: 31.5%

Current Ratio: 1.2

Quick Ratio: .9

CSR Characteristics (Disney/Industry)

Human Rights: 1/0

Business Ethics Policy: 1/1

ESG Disclosure: 37.6/16.0

Equal Opportunity: 1/1

Emission Reduction: 1/1

Environment Disclosure: 28.68/13.54

Prepared by Jeff Makray (October 6, 2014)