2017

Undergraduate SMF Full Analyst Report

Disney©

Thomas Delaney &
Tami Stawicki

Purchase Price	Target Price	52 Week High	52 Week Low	P/E	Market Cap	Dividend Yield	Beta
$90.96	$115.16	$120.65	$86.25	15.73	$148.64	1.55%	1.08

EXECUTIVE SUMMARY

We recommend a BUY rating for The Walt Disney Company based on a target price of $115.16 which offers a 26.6% margin of safety over the trading price of $90.96 on October 17, 2016. Our investment thesis is based on three primary competitive advantages:

1. *Consistent Ability to Monetize on its Intellectual Property*
2. *Unmatched Consumer Loyalty*
3. *Strategic Investments to Expand its Business*

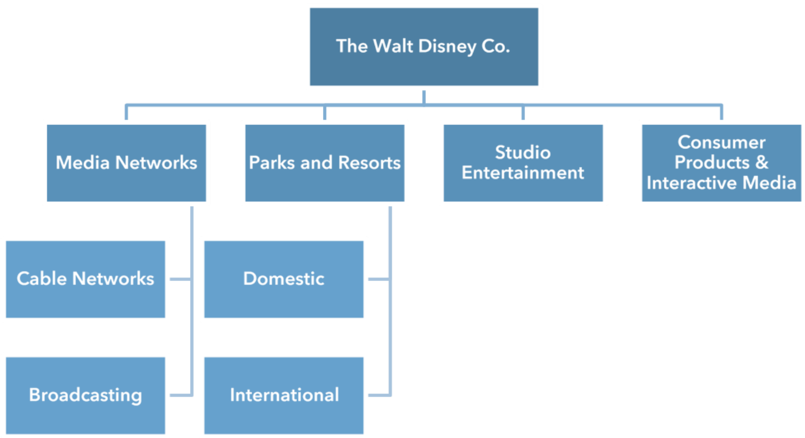


Figure 1: Business Segments

BUSINESS DESCRIPTION

Figure 2: Revenue by Segment

Segment	Revenue	% Total
Media Networks	$23.69B	42.60%
Parks and Resorts	$16.97B	30.50%
Studio Entertainment	$9.44B	17.00%
Consumer Products & Interactive Media	$5.53B	9.90%
Total	**$55.63B**	**100%**

The Walt Disney Company is a diversified global entertainment business with operations in four major segments: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products & Interactive. The company was founded in 1923 and has since made it its mission to be one of the world's leading producers and providers of entertainment and information.

Figure 3: Media Networks

Media Networks

Media Networks is Disney's largest segment making up almost 43% of the company's 2016 revenue. The segment is made up of the company's cable and broadcast television networks as well as its television production and distribution and radio networks. Disney's cable networks are comprised of ESPN, the Disney Channels, and Freeform (formerly ABC Family) and the company's broadcast network is ABC. The company additionally has equity investments with a 50% joint venture in A+E Television Networks, a 15% interest in BAMTech, 30% interest in CTV Specialty Television, 30% ownership of HULU, and 20% common share ownership in Seven TV. The segment generates revenues from affiliate and provider fees and advertising and program sales. Programming and production costs, participations and residuals expense, technical support costs, and operating labor and distribution costs make up the majority of operating expenses for the segment.

Parks and Resorts

The Parks and Resorts segment is the next largest segment, making up over 30% of Disney's revenue in 2016. Parks and Resorts consists of the domestic and international theme parks and resorts the company owns or has effective ownership in. These parks include Walt Disney World Resort in Florida, Disneyland Resort in California, Aulani, a Disney Resort & Spa in Hawaii, the Disney Vacation Club, the Disney Cruise Line, and Adventures by Disney. Disney additionally manages and has effective ownership interests of 81% in Disneyland Paris, 47% in Hong Kong Disneyland Resort, and 43% in Shanghai Disney Resort and licenses its intellectual property to a third party who operates the Tokyo Disney Resort. The resorts generate the majority of revenue from the sale of admission and the food and retail purchases made within the parks as well as charges for hotel night stays and cruise and vacation packages. Labor, infrastructure (information systems, repairs and maintenance, utilities and fuel, property taxes, insurance) costs, depreciation, and costs of merchandise make up most of the segment's expenses.

Figure 4: Parks and Resorts

Studio Entertainment

The Studio Entertainment segment makes up approximately 17% of revenue and 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 segment's main expenses include film cost amortization and distribution expenses. In fiscal 2016, Disney ended its seven year agreement with DreamWorks Studios distributing live-action motion pictures. In ending this agreement, Disney acquired all rights, titles, and interests in thirteen previously released DreamWorks films in exchange for forgiving loans and terminated financing previously available to DreamWorks. The Company also continues to pay certain licensing costs associated with its 2009 Marvel and 2012 Lucasfilm acquisitions.

Figure 5: Studio Entertainment

Consumer Products & Interactive Media

The Consumer Products & Interactive Media segment is Disney's smallest segment contributing about 10% of the company's 2016 revenue. The segments were combined into one segment starting in 2016. Consumer Products & Interactive Media designs and develops a wide array of products by using and licensing its extensive intellectual property to manufacturers, game developers, and publishers globally to create games, merchandise, and books. The segment's significant costs include costs of goods sold, distribution expenses, labor and retail occupancy, and product development and marketing.

Figure 6: Consumer Products & Interactive Media

INDUSTRY TRENDS AND POSITIONING

The entertainment media industry consists of companies that own and license their content and 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.

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 its competitors. This past year, Disney reported $52.465B in revenue which is 31.82% of the combined total revenue generated by its ten closest competitors. Disney's media networks have among the strongest pricing power in the industry, with their ability to garner high affiliate fees from ESPN programming. These profits are reinvested into long-term contracts with the NFL, NBA, and college sports programs, further bolstering Disney's long term competitiveness and top position in the sports entertainment industry. The Disney Channel allows the company to further monetize on its large library of intellectual property, as well as introduce new beloved characters. ABC also provides strong viewership and profits to the company as one of the four main broadcast networks. With over 116 million household subscribers in the United States, Disney continues to outpace cable ratings and capture high levels of advertising revenue. Disney's acquisitions of Marvel brands, Pixar, and Lucasfilm have also put the company in a strong position to attract people of all ages and genders.

Figure 7: Competitor Comparison

Walt Disney Co. Competitors	Ticker	Market Cap (USD)	Current P/E	Diluted EPS	12M Yield
Average		51.90B	13.79	3.71	1.97%
Walt Disney Co	DIS	148.82B	15.91	5.22	1.54%
Viacom Inc	VIAB	14.66B	15.96	4.89	1.96%
Time Warner Inc	TWX	61.45B	14.3	4.66	1.34%
21st Century Fox	FOXA	45.55B	8	2.27	3.86%
Discovery Comm.	DISCA	16.24B	14.85	1.66	1.13%
CBS Corp	CBS	24.61B	13.72	3.55	-

The strength and exclusive nature of Disney's intellectual property and content library allows the company to generate profit above that of its competitors, through the aforementioned 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. None of its competitors are able to compete with Disney across all of its business segments which gives the company a distinct advantage in capturing audiences. Disney's brand recognition is one of its strongest assets and continues to be a household name across the globe.

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 consistent ability to monetize on its intellectual property, unmatched consumer loyalty, and its continued strategic investments to expand its business.

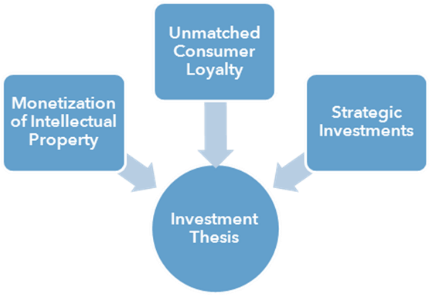


Figure 8: Investment Thesis

Consistent Ability to Monetize on its Intellectual Property

Disney has demonstrated its ability to monetize its characters and franchises across multiple platforms for decades. The company has taken its characters and content and created movies, television shows, merchandise, and theme parks for consumers to enjoy with each distribution avenue driving sales for the others. For example, when a consumer enjoys a Disney movie, they will purchase a digital copy of the movie, buy merchandise with the movie's characters, watch the spin-off television show, and visit one of the theme parks where they can meet the characters. This ability to monetize over the same content across multiple business segments gives Disney a distinct advantage over its competitors. With its acquisitions of Marvel and Lucasfilm in the past decade, the company now has even more intellectual property to position itself even higher in the market. Additionally, Disney's ESPN dominates sports programming with 24-hour programming and exclusive rights for sporting events. Disney is able to monetize on these exclusive rights to charge the highest affiliate fees per subscriber of any cable channel. The ESPN channels also attract the 18-49 age male demographic which is a highly sought demographic that Disney is able to generate revenue from advertisers for.

Unmatched Consumer Loyalty

Through movies, television shows, merchandise, and theme parks, Disney has been able to create a connection with its consumers that has created a consumer loyalty that is rarely seen with companies of its size. Consumers know what to expect from Disney and its products and content are not only sought after by children but trusted by parents. As well, the high consumer loyalty with its 24-hour programming and exclusive rights to sports events allows ESPN to charge the highest affiliate fees per subscriber of any cable channel.

Strategic Investments to Expand its Business

Over its history, Disney has made strategic investments that have allowed the company to both expand its current businesses as well as grow into new ones. From its acquisition of ABC in 1995, one of the largest corporate takeovers at the time, to more recent acquisitions of Marvel in 2009 and Lucasfilm in 2012 Disney has made the right acquisitions for the company. The acquisition of ABC created the world's most powerful media and entertainment company and allowed the company to grow its Media Networks segment to what is now its largest segment. The investments in Marvel and Lucasfilm have allowed Disney to expand its intellectual property and generate even greater revenues from all new lines of profitable movies with the Star Wars franchise and lines of Marvel characters. Currently, Disney is addressing the evolving media landscape with strategic investments in OTT services. With investments in DirecTV Now, PlayStation Vue, Sling TV, and Hulu Disney has been increasing its presence in streaming services. Disney is also improving and growing ESPN's presence on mobile devices with new downloadable apps. The company also recently acquired a 33% stake in BAMTech, an industry leader in video streaming and owner of MLB's Advanced Media streaming unit. With this investment, Disney plans to release a direct-to-consumer ESPN-branded multiport subscription streaming service by the end of the year as a complimentary service to what ESPN already provides. This strategic expansion into content distribution will help Disney remain an industry leader. Additionally, international expansion in Europe and Asia, especially for the parks and resorts business, will benefit the company through exposure to other high growth economies.

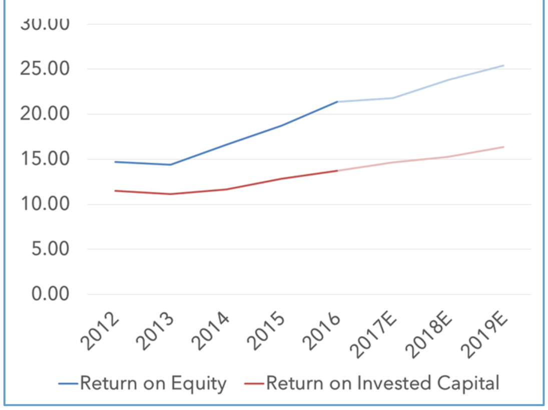
Figure 9: Recent Strategic Investments

FINANCIALS

Record Revenue and Profitability Exhibit Strength in Financials

Revenues for fiscal year 2016 increased 6% over the previous year to a record $55.6 billion. This growth was driven by higher theatrical distribution, consumer merchandising, and game licensing. These segments were positively affected by the performance of *Star Wars: The Force Awakens* and *Frozen*. Average guest spending and attendance growth at domestic parks and resorts also increased over the year. For the media networks segment, higher affiliate and advertising fees helped fuel growth. Additionally, the rapidly expanding subscriptions for video on demand (SVOD) are starting to make a positive impact on top-line growth. Net income increased by 12% to an all-time high of $9.4 billion. This strong financial performance resulted from growth in operating income, led by the Studio Entertainment, Parks and Resorts, and Consumer Products & Interactive Media segments. Studio entertainment operating income increased 37% due to growth in theatrical and home entertainment, as well as higher TV/SVOD distribution revenue. Parks and Resorts operating income increased 9% due to growth in domestic operations, largely through consumer spending. Additional box office hits, increased consumer spending, and increased affiliate and advertising fees will continue to create strong fiscal growth for Disney.

Figure 10: ROE and ROIC



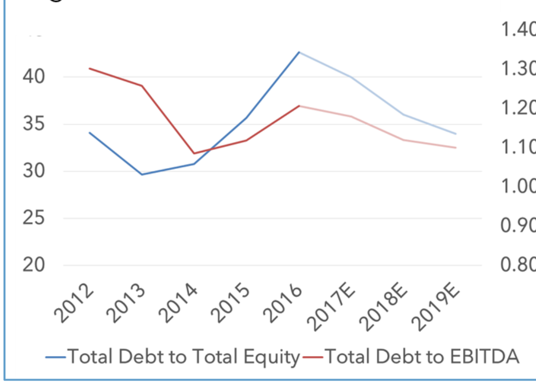
Management's Shareholder Focus Drives Returns

In fiscal year 2016, Disney's share repurchase program decreased the number of shares outstanding, growing shareholder return for the seventh consecutive year. This contributed to an increase in earnings per share of 17% to $5.73. Additionally, Disney has already repurchased 22.2 million shares for fiscal 2017 and plans to repurchase between 7 and 8 billion dollars in shares by the end of the fiscal year. Over the past decade, shareholder return was over 350%, outperforming the 123% return of the S&P over the same period. Return on equity over the year was 21.4% and return on invested capital reached 15.3%, both detailing the importance management places on bringing value to shareholders.

Debt and Coverage Metrics Indicate Strong Credit Profile

Disney has maintained a Debt to Equity ratio well below the industry average for over a decade – averaging 0.32 versus the industry's 1.04. Free Cash Flow to Total Debt was most recently reported at 0.38 versus the industry average of 0.09. As well, Debt to EBITD A was 1.19 versus the industry's 2.45. Although the company has continued to increase financial leverage, Disney has also meaningfully bolstered interest coverage. From 13 times in 2009, interest coverage has most recently hit 43 times, providing adequate cushion for debt repayment. We expect these debt metrics to improve materially over the next several years as appetite for debt decreases with the tightening of interest rates. Additionally, large debt-financed projects such as the park and resort in Shanghai, China are beginning to generate profits now, assisting in debt repayment. As Disney continues to grow its business segments over the next several years, leverage and liquidity metrics should improve.

Figure 11: Debt Metrics



VALUATION

Figure 12: Valuation Summary

Model	Price	Weight
DCF	$ 107.52	50%
DDM	$ 122.79	50%
Weighted Stock Price	$ 115.16	
Trading Price	$ 90.96	
Margin of Safety	26.60%	

Figure 13: DCF Assumptions

Long Term Growth Rate	3.50%
Discount Rate (WACC)	8.84%
Total Enterprise Value	$ 200,760,201.29
Less: Net Debt & Pensions	$ 17,007,000.00
Total Equity Value	$ 183,753,201.29
Shares Outstanding	$ 1,709,000.00
Stock Value	**$ 107.52**

Figure 14: DDM Assumptions

Long Term Growth Rate	3.50%
Discount Rate (WACC)	8.84%
Terminal Value	$ 197.90
PV of Terminal Value	$ 84.83
PV of Dividends	$ 37.96
Stock Value	$ 122.79

Discounted Cash Flow Model (50% Weight)

Using a discounted cash flow analysis, we arrived at a fair value of $107.52 per share. For the first five projected years, we used Bloomberg analyst estimates for revenue growth. For the following five years, we used the ten year historical average revenue growth rate of 5.1%. The assumed 3.5% terminal growth rate is slightly higher than the U.S. long-term GDP growth rate because Disney has a presence in emerging markets and has had an average ten year growth rate of over 5%, providing a basis for higher rates of growth in the long term. Our WACC of 8.8% was found by adjusting Bloomberg's WACC at the purchase date up several basis points to reflect conservatism in anticipation of rate hikes by the Federal Reserve. We arrived at a value of $107.52, which we weighted at 50% for our final target price. Our full DCF model, including a sensitivity analysis, can be found in Appendix A.

Dividend Discount Model (50% Weight)

We arrived at a share price of $122.79 using a dividend discount model. Our assumptions include a 3.5% terminal free cash flow growth rate and a WACC of 8.8% for the same reasons described above for our discounted cash flow. We assumed that the share buyback program would continue at 5% for several years before falling incrementally to 0% within 6 projected years. These estimates are conservative, falling below current buyback rates and expectations for the program's future. We also assumed a dividend payment increase of 24.8%, the ten year average growth rate, which gradually tapers down to 10% over ten projected years. This estimate falls below the current dividend growth rate and is in line with its average historical growth. Disney has shown its strong commitment to shareholders and we believe dividends will continue to increase at potentially higher rates going forward. We weighted the $122.79 share value at 50% for our final target price. Our full DDM model can be found in Appendix B.

RISKS

Existence and Maintenance of Intellectual Property

A key risk of Disney is its heavy reliance on the existence and maintenance of its intellectual property rights. If laws or contracts prevent or limit the amount of time Disney has exclusive ownership over its titles or characters, the company's ability to generate revenue could decrease. As well, there is the risk of the unauthorized use of Disney's intellectual property which could dilute the brand value. In the increasing technological world where digital copying and transmission makes unauthorized use easier, the company must spend greater resources on protecting its intellectual property. However, as a global content licensor and producer with considerable control over its intellectual property, the risk of the existence and maintenance is not seen as a wide concern.

Decline in Economic Conditions

Disney operates in the consumer discretionary industry where its revenues and sales can be hurt with a decline in the economic environment in the US or other regions in which it performs business. Previous economic downturns reduced spending at parks and resorts, the purchases and prices for advertising for its cable and broadcast networks, and reduced purchases of consumer products and home entertainment releases. However, the company rebounded significantly after the last recession and continues to monetize on its vast intellectual property.

Adapting to Changes in Public and Consumer Tastes

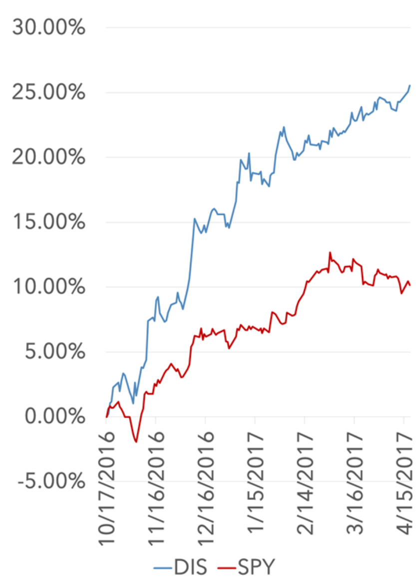
The entertainment industry is heavily dependent on consumer tastes and preferences. Disney must continue to provide content to adapt to changing consumer tastes and varying competition. The company faces decreased demand and lower revenues if it is not able to adapt as well as competitors. Disney has done very well with its characters and franchises and is well positioned to continue to adapt to preferences in the future.

Declining Subscribership

The primary concern for Disney is its loss of subscribership for its ESPN networks with consumers who no longer wish to pay the high cable fees are instead moving toward streaming services. ESPN is already available on a growing number of mobile apps and Disney is working on releasing a direct-to-consumer ESPN branded multisport subscription streaming service through a partnership with BAMTech and Major League Baseball to be released by the end of 2017. 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 the growing streaming distribution.

CONCLUSION

Figure 15: DIS Return vs. SPY



In conclusion, we reiterate our BUY rating of Disney with a price target of $115.16 per share, which provided a 26.6% margin of safety over its trading price of $90.96 on October 17, 2016. Disney is poised to provide a strong return for investors over the next 10 years due to its consistent ability to monetize on its intellectual property, unmatched consumer loyalty, and strategic investments to expand its business. As of April 18, 2017, Disney has returned 25.5% since our purchase date. The company has earned over 1500 basis points above the S&P 500 ETF which has returned 10.1%.

Discounted Cash Flow Model

	Historical Period					Future Projections									
(in Thousands)	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	40,893,000	42,278,000	45,041,000	48,813,000	52,465,000	56,190,015	58,549,996	61,653,145	64,427,537	67,777,769	71,228,859	74,855,671	78,667,152	82,672,706	85,566,250
Growth (YoY)	*7.4%*	*3.4%*	*6.5%*	*8.4%*	*7.5%*	*7.1%*	*4.2%*	*5.3%*	*4.5%*	*5.2%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*3.5%*
Cost of Goods Sold	33,112,000	23,468,000	25,034,000	26,420,000	28,364,000	30,802,928	32,096,651	33,797,774	35,318,673	37,155,244	39,047,105	41,035,295	43,124,720	45,320,532	46,906,751
Growth (YoY)	*5.7%*	*-29.1%*	*6.7%*	*5.5%*	*7.4%*	*8.6%*	*4.2%*	*5.3%*	*4.5%*	*5.2%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*3.5%*
Gross Margin	7,781,000	18,810,000	20,007,000	22,393,000	24,101,000	25,387,087	26,453,345	27,855,372	29,108,864	30,622,525	32,181,754	33,820,376	35,542,433	37,352,173	38,659,499
% Margin	*19.0%*	*44.5%*	*44.4%*	*45.9%*	*45.9%*	*45.2%*	*45.2%*	*45.2%*	*45.2%*	*45.2%*	*45.2%*	*45.2%*	*45.2%*	*45.2%*	*45.2%*
SG&A Expense	-	7,960,000	8,365,000	8,565,000	8,523,000	10,000,614	10,420,640	10,972,934	11,466,716	12,062,985	12,677,205	13,322,700	14,001,061	14,713,964	15,228,952
% of Revenue	*0.0%*	*18.8%*	*18.6%*	*17.5%*	*16.2%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*
EBIT	7,801,000	9,002,000	9,167,000	11,369,000	13,171,000	15,386,473	16,032,705	16,882,438	17,642,148	18,559,539	19,504,549	20,497,676	21,541,372	22,638,209	23,430,547
% Margin	*19.1%*	*21.3%*	*20.4%*	*23.3%*	*25.1%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*	*27.4%*
Taxes	2,701,204	3,000,991	2,843,485	3,938,208	4,763,898	5,365,930	5,591,299	5,887,638	6,152,582	6,472,516	6,802,082	7,148,428	7,512,410	7,894,925	8,171,248
Effective Tax Rate	*34.6%*	*33.3%*	*31.0%*	*34.6%*	*36.2%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*	*34.9%*
NOPAT	5,099,796	6,001,009	6,323,515	7,430,792	8,407,102	10,020,543	10,441,405	10,994,800	11,489,566	12,087,023	12,702,467	13,349,248	14,028,961	14,743,284	15,259,299
% Margin	*12.5%*	*14.2%*	*14.0%*	*15.2%*	*16.0%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*	*17.8%*
Depreciation & Amort	1,841,000	1,987,000	2,192,000	2,288,000	2,354,000	2,522,499	2,628,444	2,767,752	2,892,301	3,042,701	3,197,628	3,360,444	3,531,550	3,711,369	3,841,267
% of Revenue	*4.5%*	*4.7%*	*4.9%*	*4.7%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*
Capital Expenditures	3,559,000	3,784,000	2,796,000	3,311,000	4,265,000	4,898,768	4,161,859	3,930,148	4,003,166	4,633,401	3,378,165	3,088,261	3,007,434	2,908,169	2,747,109
% of Revenue	*8.7%*	*9.0%*	*6.2%*	*6.8%*	*8.1%*	*8.7%*	*7.1%*	*6.4%*	*6.2%*	*6.8%*	*4.7%*	*4.1%*	*3.8%*	*3.5%*	*3.2%*
Change in NOWC	686,000	(416,000)	(1,137,000)	667,000	92,000	144,950	192,659	202,870	211,999	223,023	234,379	246,313	258,855	272,035	281,556
% of Revenue	*1.7%*	*-1.0%*	*-2.5%*	*1.4%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
Free Cash Flow	**2,695,796**	**4,620,009**	**6,856,515**	**5,740,792**	**6,404,102**	**7,499,324**	**8,715,332**	**9,629,534**	**10,166,702**	**10,273,300**	**12,287,552**	**13,375,118**	**14,294,223**	**15,274,448**	**16,071,901**

	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Free Cash Flow	6,404,102	7,499,324	8,715,332	9,629,534	10,166,702	10,273,300	12,287,552	13,375,118	14,294,223	15,274,448	16,071,901
Discounted FCF	6,404,102	6,890,228	7,357,103	7,468,608	7,244,793	6,726,162	7,391,527	7,392,271	7,258,590	7,126,376	6,889,408

Long Term Growth Rate	3.50%
Discount Rate	8.84%
Terminal Value	$ 129,015,135
Sum of Present Value of FCF	$ 71,745,067
Total Enterprise Value	$ 200,760,201
Less: Net Debt & Pensions	$ 17,007,000
Total Equity Value	**$ 183,753,201**
Shares Outstanding	1,709,000
Per Share Value	**$ 107.52**

Sensitivity Analysis

		WACC				
		6.8%	7.8%	8.8%	9.8%	10.8%
Growth Rate	2.5%	$ 108.57	$ 101.76	$ 95.61	$ 90.06	$ 85.03
	3.0%	$ 115.12	$ 107.73	$ 101.06	$ 95.02	$ 89.57
	3.5%	$ 122.90	$ 114.82	$ 107.52	$ 100.92	$ 94.95
	4.0%	$ 132.29	$ 123.37	$ 115.32	$ 108.04	$ 101.45
	4.5%	$ 143.84	$ 133.90	$ 124.92	$ 116.80	$ 109.45

APPENDIX B: DIVIDEND DISCOUNT MODEL (50%)

Dividend Discount Model

	Historical Period					Projection Period									
	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Dividends Paid	$ (756.00)	$(1,076.00)	$(1,324.00)	$(1,508.00)	$(3,063.00)	$(3,823.65)	$ (4,773.19)	$ (5,727.82)	$ (6,873.39)	$ (8,110.60)	$ (9,408.29)	$(10,725.46)	$(12,012.51)	$(13,213.76)	$(13,676.24)
Basic shares outstanding	1762.2	1800	1800	1700	1600	1520	1444	1404.78231	1366.62974	1352.96344	1339.4338	1339.4338	1339.4338	1339.4338	1339.4338
Dividends Per Share	$ 0.43	$ 0.60	$ 0.74	$ 0.89	$ 1.91	$ 2.52	$ 3.31	$ 4.08	$ 5.03	$ 5.99	$ 7.02	$ 8.01	$ 8.97	$ 9.87	$ 10.21
Dividends Paid Growth	15.8%	42.3%	23.0%	13.9%	103.1%	24.8%	24.8%	20.0%	20.0%	18.0%	16.0%	14.0%	12.0%	10.0%	3.5%
Shares Outstanding Growth	-7.1%	2.1%	0.0%	-5.6%	-5.9%	-5.0%	-5.0%	-2.7%	-2.7%	-1.0%	-1.0%	0.0%	0.0%	0.0%	0.0%

	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
PV of Future Dividends	$ 2.31	$ 2.79	$ 3.16	$ 3.58	$ 3.92	$ 4.23	$ 4.43	$ 4.55	$ 4.60	$ 4.38

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Last Price	$ 30.50	$ 34.39	$ 32.75	$ 27.21	$ 33.34	$ 30.16	$ 52.28	$ 65.19	$ 88.74	$ 103.00
Dividend Yield	0.8%	0.9%	1.1%	1.3%	1.0%	1.4%	1.1%	1.1%	1.0%	1.9%

DDM Assumptions

Long Term Growth Rate		3.50%
Discount Rate (WACC)		8.84%
Terminal Value	$	197.90
PV of Terminal Value	$	84.83
PV of Dividends	$	37.96
Stock Value	$	**122.79**

Sensitivity Analysis

WACC

Growth Rate	6.8%	7.8%	8.8%	9.8%	10.8%
2.5%	$ 165.69	$ 131.35	$ 107.99	$ 91.13	$ 78.41
3.0%	$ 183.13	$ 141.78	$ 114.76	$ 95.77	$ 81.73
3.5%	$ 205.78	$ 154.62	$ 122.79	$ 101.13	$ 85.49
4.0%	$ 236.41	$ 170.80	$ 132.48	$ 107.42	$ 89.80
4.5%	$ 280.13	$ 191.83	$ 144.40	$ 114.89	$ 94.79

APPENDIX C: INCOME STATEMENT

Income Statement - Adjusted

In Millions of USD except Per Share 12 Months Ending	FY 2011 10/01/2011	FY 2012 09/29/2012	FY 2013 09/28/2013	FY 2014 09/27/2014	FY 2015 10/03/2015	FY 2016 10/01/2016
Revenue	**40,893.0**	**42,278.0**	**45,041.0**	**48,813.0**	**52,465.0**	**55,632.0**
+ Sales & Services Revenue	40,893.0	42,278.0	45,041.0	48,813.0	52,465.0	55,632.0
- Cost of Revenue	33,112.0	23,468.0	25,034.0	26,420.0	28,364.0	29,864.0
+ Cost of Goods & Services	33,112.0	23,468.0	25,034.0	26,420.0	28,364.0	29,864.0
Gross Profit	**7,781.0**	**18,810.0**	**20,007.0**	**22,393.0**	**24,101.0**	**25,768.0**
- Operating Expenses	0.0	9,947.0	10,557.0	10,847.0	10,877.0	11,613.0
+ Selling, General & Admin	—	7,960.0	8,365.0	8,565.0	8,523.0	8,754.0
+ Research & Development	—	—	—	0.0	0.0	0.0
+ Depreciation & Amortization	—	1,987.0	2,192.0	2,288.0	2,354.0	2,527.0
+ Other Operating Expense	0.0	0.0	0.0	-6.0	0.0	332.0
Operating Income (Loss)	**7,781.0**	**8,863.0**	**9,450.0**	**11,546.0**	**13,224.0**	**14,155.0**
- Non-Operating (Income) Loss	-242.0	-258.0	-508.0	-877.0	-697.0	-666.0
+ Interest Expense, Net	343.0	369.0	235.0	-23.0	117.0	260.0
+ Interest Expense	*435.0*	*472.0*	*349.0*	*294.0*	*265.0*	*354.0*
- Interest Income	*92.0*	*103.0*	*114.0*	*317.0*	*148.0*	*94.0*
+ Foreign Exch (Gain) Loss	—	—	—	0.0	0.0	0.0
+ (Income) Loss from Affiliates	-585.0	-627.0	-743.0	-854.0	-814.0	-926.0
+ Other Non-Op (Income) Loss	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income (Loss), Adjusted	**8,023.0**	**9,121.0**	**9,958.0**	**12,423.0**	**13,921.0**	**14,821.0**
- Abnormal Losses (Gains)	-20.0	-139.0	338.0	177.0	53.0	-47.0
+ Merger/Acquisition Expense	—	—	—	—	—	-332.0
+ Disposal of Assets	—	—	—	-77.0	—	—
+ Early Extinguishment of Debt	—	24.0	—	—	—	—
+ Gain/Loss on Sale/Acquisition of Business	-75.0	-184.0	-252.0	—	—	—
+ Legal Settlement	—	-79.0	321.0	-29.0	—	—
+ Other Abnormal Items	55.0	100.0	269.0	283.0	53.0	285.0
Pretax Income (Loss), GAAP	**8,043.0**	**9,260.0**	**9,620.0**	**12,246.0**	**13,868.0**	**14,868.0**
- Income Tax Expense (Benefit)	2,785.0	3,087.0	2,984.0	4,242.0	5,016.0	5,078.0
+ Current Income Tax	2,644.0	2,624.0	2,926.0	3,738.0	5,040.0	3,833.0
+ Deferred Income Tax	141.0	463.0	58.0	504.0	-24.0	1,245.0
+ Tax Allowance/Credit	0.0	0.0	0.0	—	—	—
Income (Loss) from Cont Ops	**5,258.0**	**6,173.0**	**6,636.0**	**8,004.0**	**8,852.0**	**9,790.0**
- Net Extraordinary Losses (Gains)	0.0	0.0	0.0	0.0	0.0	0.0
+ Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
+ XO & Accounting Changes	0.0	0.0	0.0	0.0	0.0	0.0
Income (Loss) Incl. MI	**5,258.0**	**6,173.0**	**6,636.0**	**8,004.0**	**8,852.0**	**9,790.0**
- Minority Interest	451.0	491.0	500.0	503.0	470.0	399.0
Net Income, GAAP	**4,807.0**	**5,682.0**	**6,136.0**	**7,501.0**	**8,382.0**	**9,391.0**

Source: Bloomberg

Balance Sheet- Standardized

In Millions of USD except Per Share 12 Months Ending	FY 2011 10/01/2011	FY 2012 09/29/2012	FY 2013 09/28/2013	FY 2014 09/27/2014	FY 2015 10/03/2015	FY 2016 10/01/2016
Total Assets						
+ Cash, Cash Equivalents & STI	3,185.0	3,387.0	3,931.0	3,421.0	4,269.0	4,610.0
+ Cash & Cash Equivalents	3,185.0	3,387.0	3,931.0	3,421.0	4,269.0	4,610.0
+ ST Investments	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receiv	6,182.0	6,540.0	6,967.0	7,428.0	7,613.0	8,458.0
+ Accounts Receivable, Net	6,182.0	6,540.0	6,967.0	7,428.0	7,613.0	8,458.0
+ Notes Receivable, Net	0.0	0.0	0.0	0.0	0.0	0.0
+ Inventories	1,595.0	1,537.0	1,487.0	1,574.0	1,571.0	1,390.0
+ Finished Goods	—	—	—	—	—	—
+ Other ST Assets	2,795.0	2,245.0	1,724.0	2,746.0	3,305.0	2,508.0
+ Prepaid Expenses	449.0	469.0	443.0	425.0	469.0	449.0
+ Derivative & Hedging Assets	126.0	226.0	24.0	198.0	178.0	88.0
+ Deferred Tax Assets	1,487.0	765.0	485.0	497.0	767.0	0.0
+ Misc ST Assets	733.0	785.0	772.0	1,626.0	1,891.0	1,971.0
Total Current Assets	**13,757.0**	**13,709.0**	**14,109.0**	**15,169.0**	**16,758.0**	**16,966.0**
+ Property, Plant & Equip, Net	19,695.0	21,512.0	22,380.0	23,332.0	25,179.0	27,349.0
+ Property, Plant & Equip	39,267.0	42,199.0	44,839.0	47,054.0	50,023.0	54,198.0
- Accumulated Depreciation	19,572.0	20,687.0	22,459.0	23,722.0	24,844.0	26,849.0
+ LT Investments & Receivables	383.0	285.0	442.0	220.0	160.0	198.0
+ LT Investments	383.0	285.0	442.0	220.0	160.0	198.0
+ Other LT Assets	38,289.0	39,392.0	44,310.0	45,420.0	46,085.0	47,520.0
+ Total Intangible Assets	29,266.0	30,125.0	34,694.0	35,315.0	34,998.0	34,759.0
+ Goodwill	*24,145.0*	*25,110.0*	*27,324.0*	*27,881.0*	*27,826.0*	*27,810.0*
+ Other Intangible Assets	*5,121.0*	*5,015.0*	*7,370.0*	*7,434.0*	*7,172.0*	*6,949.0*
+ Prepaid Expense	177.0	194.0	190.0	212.0	211.0	229.0
+ Derivative & Hedging Assets	419.0	250.0	242.0	179.0	212.0	85.0
+ Investments in Affiliates	2,052.0	2,438.0	2,407.0	2,476.0	2,483.0	4,082.0
+ Misc LT Assets	6,375.0	6,385.0	6,777.0	7,238.0	8,181.0	8,365.0
Total Noncurrent Assets	**58,367.0**	**61,189.0**	**67,132.0**	**68,972.0**	**71,424.0**	**75,067.0**
Total Assets	**72,124.0**	**74,898.0**	**81,241.0**	**84,141.0**	**88,182.0**	**92,033.0**
Liabilities & Shareholders' Equity						
+ Payables & Accruals	6,280.0	6,325.0	6,702.0	7,528.0	7,812.0	9,074.0
+ Accounts Payable	4,505.0	4,551.0	4,798.0	5,371.0	5,504.0	6,860.0
+ Other Payables & Accruals	1,775.0	1,774.0	1,904.0	2,157.0	2,308.0	2,214.0
+ ST Debt	3,055.0	3,614.0	1,512.0	2,197.0	4,590.0	3,707.0
+ ST Capital Leases	18.0	17.0	18.0	33.0	27.0	20.0
+ Current Portion of LT Debt	3,037.0	3,597.0	1,494.0	2,164.0	4,563.0	3,687.0
+ Other ST Liabilities	2,712.0	2,874.0	3,490.0	3,567.0	3,932.0	4,061.0
+ Deferred Revenue	2,671.0	2,806.0	3,389.0	3,533.0	3,927.0	4,025.0
+ Derivatives & Hedging	41.0	68.0	101.0	34.0	5.0	36.0
Total Current Liabilities	**12,088.0**	**12,813.0**	**11,704.0**	**13,292.0**	**16,334.0**	**16,842.0**
+ LT Debt	11,210.0	10,697.0	12,776.0	12,631.0	12,773.0	16,483.0
+ LT Borrowings	10,634.0	10,413.0	12,502.0	12,402.0	12,578.0	16,309.0
+ LT Capital Leases	576.0	284.0	274.0	229.0	195.0	174.0
+ Other LT Liabilities	9,373.0	9,430.0	8,611.0	10,040.0	10,420.0	11,385.0
+ Pension Liabilities	4,223.0	4,828.0	2,091.0	3,481.0	3,940.0	5,184.0
+ Pensions	*2,962.0*	*3,484.0*	*1,289.0*	*2,466.0*	*2,931.0*	*4,039.0*
+ Other Post-Ret Benefits	*1,261.0*	*1,344.0*	*802.0*	*1,015.0*	*1,009.0*	*1,145.0*
+ Deferred Revenue	233.0	220.0	298.0	0.0	0.0	0.0
+ Deferred Tax Liabilities	2,866.0	2,251.0	4,050.0	4,098.0	4,051.0	3,679.0
+ Derivatives & Hedging	73.0	14.0	23.0	0.0	19.0	44.0
+ Misc LT Liabilities	1,978.0	2,117.0	2,149.0	2,461.0	2,410.0	2,478.0
Total Noncurrent Liabilities	**20,583.0**	**20,127.0**	**21,387.0**	**22,671.0**	**23,193.0**	**27,868.0**
Total Liabilities	**32,671.0**	**32,940.0**	**33,091.0**	**35,963.0**	**39,527.0**	**44,710.0**
Total Equity	**39,453.0**	**41,958.0**	**48,150.0**	**48,178.0**	**48,655.0**	**47,323.0**
Total Liabilities & Equity	**72,124.0**	**74,898.0**	**81,241.0**	**84,141.0**	**88,182.0**	**92,033.0**

Source: Bloomberg

APPENDIX E: CASH FLOW STATEMENT

Statement of Cash Flows - Standardized

In Millions of USD except Per Share 12 Months Ending	FY 2011 10/01/2011	FY 2012 09/29/2012	FY 2013 09/28/2013	FY 2014 09/27/2014	FY 2015 10/03/2015	FY 2016 10/01/2016
Cash from Operating Activities						
+ Net Income	4,807.0	5,682.0	6,136.0	7,501.0	8,382.0	9,391.0
+ Depreciation & Amortization	1,841.0	1,987.0	2,192.0	2,288.0	2,354.0	2,527.0
+ Non-Cash Items	1,296.0	1,237.0	991.0	112.0	78.0	2,060.0
+ Stock-Based Compensation	423.0	408.0	402.0	408.0	410.0	393.0
+ Deferred Income Taxes	127.0	472.0	92.0	517.0	-102.0	1,214.0
+ Other Non-Cash Adj	746.0	357.0	497.0	-813.0	-230.0	453.0
+ Chg in Non-Cash Work Cap	-950.0	-940.0	133.0	-121.0	95.0	-765.0
+ (Inc) Dec in Accts Receiv	-518.0	-108.0	-374.0	-480.0	-211.0	-393.0
+ (Inc) Dec in Inventories	-199.0	18.0	51.0	-81.0	1.0	186.0
+ Inc (Dec) in Other	-233.0	-850.0	456.0	440.0	305.0	-558.0
Cash from Operating Activities	**6,994.0**	**7,966.0**	**9,452.0**	**9,780.0**	**10,909.0**	**13,213.0**
Cash from Investing Activities						
+ Change in Fixed & Intang	-3,559.0	-3,784.0	-2,796.0	-3,311.0	-4,265.0	-4,773.0
+ Disp in Fixed & Intang	0.0	0.0	0.0	0.0	0.0	0.0
+ Acq of Fixed & Intang	-3,559.0	-3,784.0	-2,796.0	-3,311.0	-4,265.0	-4,773.0
+ Acq of Fixed Prod Assets	*-3,559.0*	*-3,784.0*	*-2,796.0*	*-3,311.0*	*-4,265.0*	*-4,773.0*
+ Net Change in LT Investment	0.0	0.0	0.0	0.0	—	—
+ Net Cash From Acq & Div	-184.0	-1,088.0	-2,277.0	-402.0	0.0	-850.0
+ Cash from Divestitures	0.0	0.0	166.0	0.0	0.0	0.0
+ Cash for Acq of Subs	-184.0	-1,088.0	-2,443.0	-402.0	0.0	-850.0
+ Cash for JVs	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Investing Activities	457.0	113.0	397.0	368.0	20.0	-135.0
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Investing Activities	**-3,286.0**	**-4,759.0**	**-4,676.0**	**-3,345.0**	**-4,245.0**	**-5,758.0**
Cash from Financing Activities						
+ Dividends Paid	-756.0	-1,076.0	-1,324.0	-1,508.0	-3,063.0	-2,313.0
+ Cash From (Repayment) Debt	1,647.0	424.0	379.0	633.0	2,705.0	2,940.0
+ Cash (Repurchase) of Equity	-3,865.0	-2,007.0	-3,500.0	-6,123.0	-5,766.0	-7,240.0
+ Increase in Capital Stock	1,128.0	1,008.0	587.0	404.0	329.0	259.0
+ Decrease in Capital Stock	-4,993.0	-3,015.0	-4,087.0	-6,527.0	-6,095.0	-7,499.0
+ Other Financing Activities	-259.0	-326.0	231.0	288.0	610.0	-378.0
Cash from Financing Activities	**-3,233.0**	**-2,985.0**	**-4,214.0**	**-6,710.0**	**-5,514.0**	**-6,991.0**
Effect of Foreign Exchange Rates	-12.0	-20.0	-18.0	-235.0	-302.0	-123.0
Net Changes in Cash	**463.0**	**202.0**	**544.0**	**-510.0**	**848.0**	**341.0**

Source: Bloomberg

APPENDIX F: CORPORATE SOCIAL RESPONSIBILITY

In 2009 and 2013, Disney was named "Most Socially Responsible Company" by Reputation Institute for its philanthropic and environmental efforts. The company mainly focuses on the environment, community, and labor standards with an emphasis on volunteerism. The following are selected initiatives Disney has in place.

Environmental Impact

Disney is committed to using resources wisely and protecting the planet as it operates and grows the business. Disney seeks to achieve a long-term goal of "zero" net greenhouse gas emissions and waste, while conserving water resources. In 2016, Disney reduced net emissions by 37% and hopes to reduce them by 50% by 2020. In 2016, the company diverted 45% of waste from landfills and incineration and hope to divert 60% by 2020.

Disney Worldwide Conservation Fund

The Disney Worldwide Conservation Fund, established on Earth Day in 1995, supports efforts of local and global non-profits who protect wildlife, ecosystems, and make a positive impact on the community. Since its inception, the Disney Worldwide Conservation Fund has helped to support over $45 million in projects in over 115 countries.

VoluntEARS

Disney is committed to strengthening communities by dedicating time and talent to fill hospital rooms with comfort and laughter, serve meals to the hungry, and so much more. Volunteers have contributed 2.9 million hours of service since 2012, and Disney aims to contribute more than 5 million hours by 2020. Since 2012, Disney's citizenship efforts have positively impacted more than 16.3 million children and families through programs like the Disney Hospital Care Package program. The company dedicates millions of dollars each year to bring characters and entertainment to local hospitals across the United States and the globe. Over the past decade, the company has donated more than $40 million to children's hospitals globally to create a better environment for kids and their families. This capital is provided for additional resources and equipment, facilities, and specialized staff to serve these individuals.

Healthy Living Commitment

Disney engages kids and families in living healthier lifestyles through its Healthy Living commitment. This includes The Mickey Check, a quick and easy way for families to identify healthier food options in stores, on-line, on-air, at Disney theme parks, and other places where licensed Disney products are sold.

Heroes Work Here Initiative

Disney believes in employment assistance for America's military veterans, and have hired more than 8,000 veterans across the company. The program has also helped another 15,000 vets find jobs outside of Disney. In addition to employment assistance, Disney is dedicated to helping veterans start their own businesses and flourish. The company has contributed more than $3.3 million toward veteran owned companies each year.

APPENDIX G: SOURCES

Morningstar

Bloomberg

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