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
$113.50	$98.32	$116.10	$90.32	14.53x	$151.588B	1.58%	1.31

Business Description

Disney is a diversified mass media and entertainment conglomerate founded in 1923. It operates as four components: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products & Interactive Media. Media Networks is the largest segment consisting of cable (ESPN, Disney Channel, Freeform, etc) and broadcasting (ABC and domestic stations). It generates revenue from cable and advertising fees. The next largest segment is Parks and Resorts, which consists of domestic and international theme parks and resorts. Here, revenue is generated from admission and in-park sales. The third largest segment is Studio operating as Walt Disney Pictures, Pixar, Marvel, Lucasfilm, and Touchstone, who have together produced over 1,600 movies as of 2016. Along with movies, it also produces direct-to-video content, musical recordings, and live stage plays. Its main revenue generators are distribution of films and ticket sales. Lastly, Consumer Products & Interactive media produces a wide array of toys, merchandise, interactive media, and various other products. Revenue is generated from licensing intellectual property and sales.

Industry Trends

The consumer discretionary sector has a relatively positive outlook, due to stable consumer spending as well as growing consumer confidence paired with higher wages. The entertainment and media industry is comprised of companies that produce and distribute television programs, motion pictures, and as of recently, also stream various types of content. This industry faces much competition and in order for a company to thrive in this environment, they need to constantly adapt to new technology as well as have a sense for innovation. Consumers no longer want a simple platform to watch their movies on; they want an interactive interface that is over the top but yet still easy to use. A company that is able to adapt their strategies and capabilities to align with today's new consumer behaviors and expectations will continue to flourish ahead of its competitors in the industry.

Investment Thesis

Disney will provide long-term value through its innovations in media, strong projected studio performance, and international growth. Disney is creating two direct-to-consumer TV streaming platforms to gain consumers share in the Media market. Additionally, successful Studio performance with 9 projected box-office hits has positioned Disney to grow in both Studio and Consumer Products & Interactive Media. Lastly, Disney has seen initial success in the new Shanghai Disney Park, and plans to expand the park in the coming year. This will boost international growth in a large market. Disney has consistently withstood market pressures, and has proven to be a strong company and brand with loyal customers and lasting growth opportunities.

Corporate Social Responsibility

- Donated more than $400 million to philanthropic organizations.
- 100% visibility into facilities in high-risk countries.
- 100% of food and drink advertising on children-orientated media meets Disney's Nutrition Guidelines.

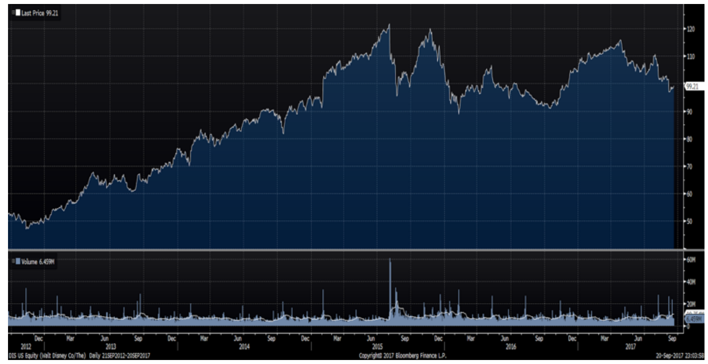
Valuation Assumptions

WACC: 8.8%
Terminal FCF Growth Rate: 3.5%
Upside: 13.99%

Key Financials

Current stock price: $98.32
Intrinsic Value: 113.50

5-Year Stock Performance



Competitive Analysis

Disney has competitors in all four of its business segments. However, Disney's main competitors include Viacom, 21st Century Fox, CBS, Comcast and Sony Corporation. Not one company competes with Disney as a whole due to its diversified nature. This distinguishes Disney in that it can engage with its customers throughout all of its business segments while creating a cohesive experience.

Competitive Advantages

Disney is a leader in its industry and has a brand influence unlike its competitors. Disney consistently provides a magical experience to its customers that instills itself in their mind for a lifetime. Customer loyalty is very strong due to Disney's high quality products and appreciation of its customers. Its international presence has also opened up many opportunities for Disney to grow. Within the first year of operation, Disney's Shanghai Resort has 11 million visitors, and plans to expand will come to fruition in 2018. Disney has plans to become even more diversified by breaking into the direct to consumer market. Disney will introduce a streaming capability through their ESPN app and Disney app in 2018 and 2019. These new business ventures will allow Disney to grow against its competitors.

Risks

Currently, changes in technology and consumer consumption, particularly regarding ESPN and cable streaming, are reducing a demand for certain products. However, Disney is adapting their business model to create alternative distribution channels to capture the market lost in this area. Secondly, is it difficult to protect against intellectual property and company data theft. IP is critical to Disney's success, so they are devoting "substantial resources" to protecting against theft and against unlicensed product use. Lastly, Disney's success is dependent on consumer tastes and current market conditions. However, Disney is investing resources to develop products tailored to current consumer preferences and is hedging against economic downturn, which they have historically overcome.

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Sources: Bloomberg, Annual reports