

Walt Disney Company

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DIS

Recommendation

- ❑ We recommend a long position in the multimedia and entertainment enterprise DIS at its current price of **\$112.97**. We expect it to hit a price point of **\$129.95** due to our multiple catalysts.



Company Background: Brief Timeline

- ❑ The Walt Disney Company was founded by Walt and Roy in 1923 in a small office in Los Angeles
- ❑ In 1937, Disney released their first full length animated film: *Snow White and The Seven Dwarfs*
- ❑ After being unable to secure a large enough bank loan, Walt Disney borrowed against the cash value from his life insurance policy to help finance his theme park, Disneyland in 1955
- ❑ In 1971, The Walt Disney World Resort officially opened up
- ❑ Today, Disney has resorts all around the world. Aside from resorts and amusement parks, they also have developed their own television channel and are looking into the streaming sector

Company Background

DIS: *Entertainment and Media*

- ❑ **\$112.97** *as of 10/10/2018
- ❑ Industry: Entertainment
- ❑ Strategy: Long
- ❑ Geographic Focus: Global
- ❑ Market Cap: *\$173.84 Billion USD*
- ❑ Shares Issued: 1.48 Billion shares outstanding

Investment Thesis

- ❑ The price does not represent DIS true value because it does not reflect their recent investment
- ❑ Their investment in Parks which consist of roughly 28% of its operating income will pay off significantly in the future
- ❑ They invested heavily in streaming services which will grow their profits in the near future
- ❑ They own exclusive licensing rights to their movies. This could increase their subscribers to their future steaming services, especially with the recent pull-out of their movies from Netflix

Catalysts

- ❑ Closure of Disney and Fox merger closing January 1st
- ❑ New Disney streaming service
 - ❑ Disney is cutting ties with Netflix and releasing their own streaming service with a large portion of their movies and shows, soft release in DisneyNOW
- ❑ ESPN +
 - ❑ Number of subscribers has grown past 1 million in 5 months
- ❑ Addition of Star Wars themed parks
 - ❑ Addition of newly themed rides will create new attraction to Disney Parks which are already up in attendance 6% last quarter, 13% in the last year, and 8% in revenue in the last year
- ❑ Recreation and expansion of top films
 - ❑ Live action recreations of Lilo and Stitch and Dumbo along with new movies, Frozen 2, Lion King, Captain Marvel, etc.
 - ❑ Disney has a history of releasing high revenue TV shows and movies. For example Frozen has a worldwide gross revenue of 1.276 billion dollars

Valuation

- ❑ We believe that Walt Disney will be worth \$129.95 in the near future
- ❑ We are very confident with the current leadership and believe they will be able to continue to grow revenues
- ❑ Expansion and introduction of new park attractions will continue to draw both new and repeat customers
- ❑ We are impressed with their ability to stay current with trends and adapt to consumer demands
- ❑ We believe the streaming service will directly benefit from current business ventures
- ❑ Despite 2 subpar years for Disney's films in 2016 and 2017 we expect performance to improve in upcoming year
- ❑ Continuation of share repurchase program will benefit investors

Valuation Continued

Select Operating Data

				Proje	
	2015A	2016A	2017A	2018TTM	2019 P
Revenue	\$52,465.0	\$55,632.0	\$55,137.0	\$57,942.0	\$60,839.1
Revenue Growth Rate (%)					5.0%
EBITDA	\$15,578.0	\$16,885.0	\$16,655.0	\$17,219.0	\$18,251.7
EBITDA Margin (%)					30.0%
EBIT	13,224.0	14,358.0	13,873.0	\$14,419.0	\$15,307.7
EBIT Margin (%)					25.2%
Depreciation & Amortization	\$2,354.0	\$2,527.0	\$2,782.0	\$2,800.0	\$3,069.7
D&A as a % of revenue					5.0%

Enterprise Value to Equity Value

Enterprise Value	\$216,209.7
Less: Net debt	21,545.0
Equity Value	\$194,664.7
Diluted Shares Outstanding	1,498.0
Equity Value Per Share	\$129.95

WACC

Share Price	\$113.00
Diluted Shares Outstanding	1,498.0
Cost of Debt	3.5%
Tax Rate	21.0%
After-tax Cost of Debt	2.8%
Cost of Equity	9.0%
Total Debt (\$)	\$25,562.0
Total Equity (\$)	169,274.0
Total Capital	\$194,836.0
Debt Weighting	13.1%
Equity Weighting	86.9%
WACC =	8.2%

Segment Operating Income	2015	2016	2017
Media Networks	7793	7755	6902
Parks and Resorts	3031	3298	3774
Studio Entertainment	1973	2703	2355
Consumer products interactive media	1884	1965	1744

Investment Risks

- ❑ Change in the way consumers watch programming
 - ❑ Consumers changing from typical content platforms such as cable to streaming services. In 2017 alone 21.3 million people in the US have cut cable and by the end of 2019 another 19 million people will do the same
- ❑ Failure to create significant revenue from streaming service
 - ❑ The introduction of a brand new streaming service may not bring a lot of subscribers with its initial lineup of movies and shows
- ❑ Consumer based trends in entertainment
 - ❑ In the past year they lost revenue with some of their blockbuster films such as a Wrinkle In Time and Solo: A Star Wars Story these losses offset the box office success of Black Panther that became the fifth Marvel movie to make 1 billion dollars in the box office