

Disney

Media & Telecom

The Walt Disney Company (NYSE: DIS)

Media & Telecom Sector - Arul Gupta & Chris Eckart



Georgia Tech
Student Foundation

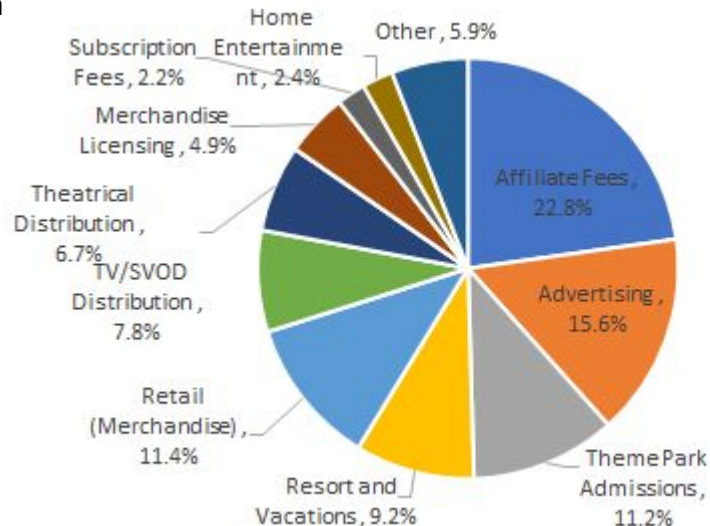
Investments Committee

Company Overview

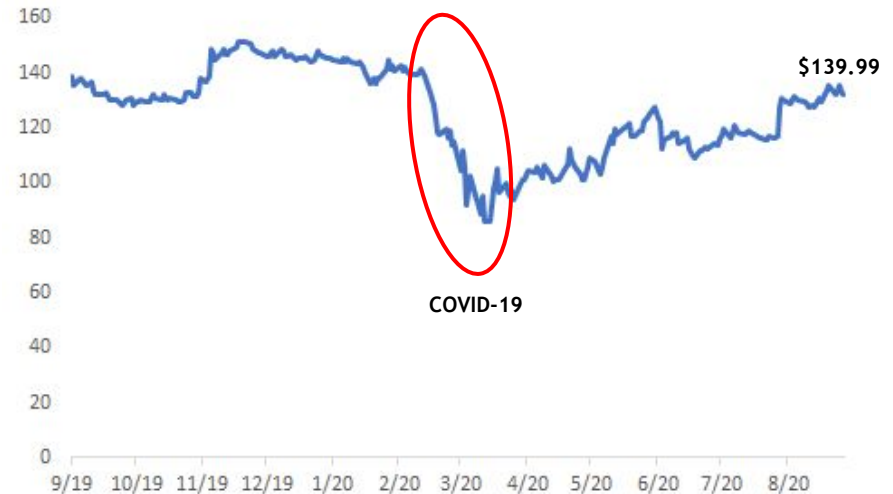
Summary

Purchase Date	3/11/2013
Business Description	The Walt Disney Company is a multinational mass media and entertainment conglomerate.
Geographic Revenue Mix	US and Canada (76.2%), Europe (11.0%), Asia Pacific (9.3%), Latin America (3.5%)
Purchase Price	\$57.62
BTD Return	129.07%
52 Week High/Low	\$153.41 / \$79.07

Segment Revenue Breakdown



TTM Annotated Stock Performance



Last Earnings Call Summary

- Q3 '20 ending June 27, 2020
- EPS decreased 53% to \$2.22 from \$4.74 in the prior-year
- Adversely impacted by COVID-19, most significantly at the Parks, Experiences, and Products segments as theme parks, resorts, and cruise ships were all closed
- Growing direct-to-consumer business, Disney+ subscribers at 60.5 million, full portfolio of DTCI services at 100 million paid subscriptions

Segment 1: Media Networks

Overview

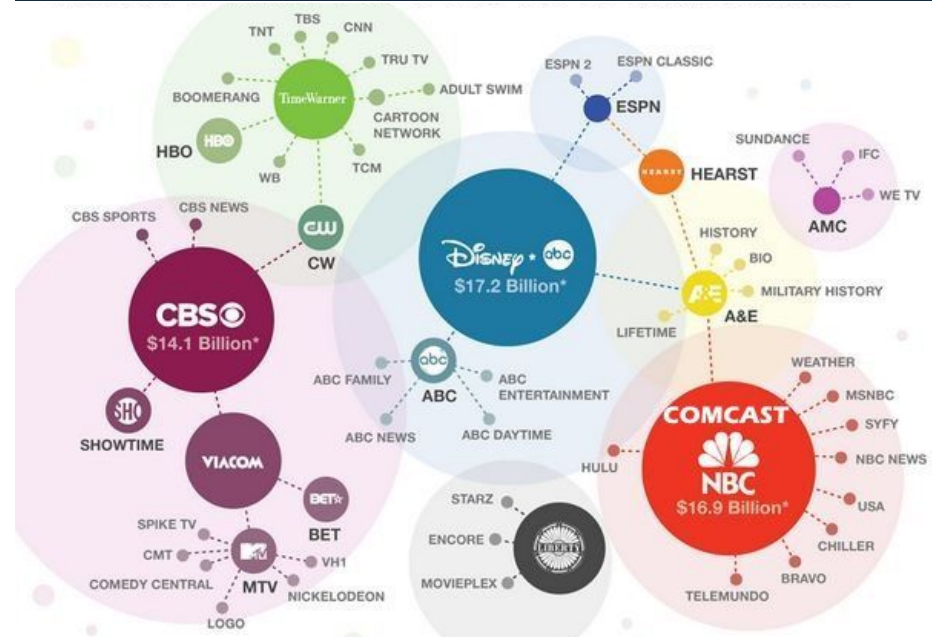
- Three segments: Domestic Cable Networks, Broadcasting, Equity Investments
- Domestic Cable Networks: ESPN, Disney, Freeform Cable, FX, National Geographic
- Broadcasting: ABC Network, 240+ local stations, Fox21, Jimmy Kimmel Live
- Equity Investments: A&E TV Networks, CTV TV
- **Driver: Affiliate Fees (54%)**

Financial Summary

FY 9/28	2016	2017	2018	2019	2020E
Revenue	\$23,689	\$23,510	\$21,922	\$24,827	\$27,951
Gross Profit	\$10,118	\$9,442	\$8,725	\$9,328	
Gross Margin	43%	40%	40%	38%	
EBITDA	\$7,992	\$7,127	\$7,537	\$7,670	\$8,561
EBITDA Margin	34%	30%	34%	31%	31%
% EBITDA Contribution	45%	41%	41%	43%	85%

- 2019 Revenue: \$24.8B (13% growth)
- Cable Networks OI grew 50% to \$2.46B, with profit growth driven by lower programming and production costs, and higher affiliated revenue
- Broadcasting OI grew 55% to \$477m

Peer Comparison



Competitive Advantage / Recent News

- DIS owns rights to several sports networks and channels, including the new ACC network. all which will pick up as sports restart - affiliate fees and advertising are drivers of revenue
- ESPN ratings have improved owing to the resumption of the NBA and MLS seasons within Disney World bubble in Orlando
- Media Networks affiliate revenue grew 2% YoY owing to 700 basis points of growth from higher rates and launch of ESPN's new ACC network

Segment 2: Parks and Experiences

Overview



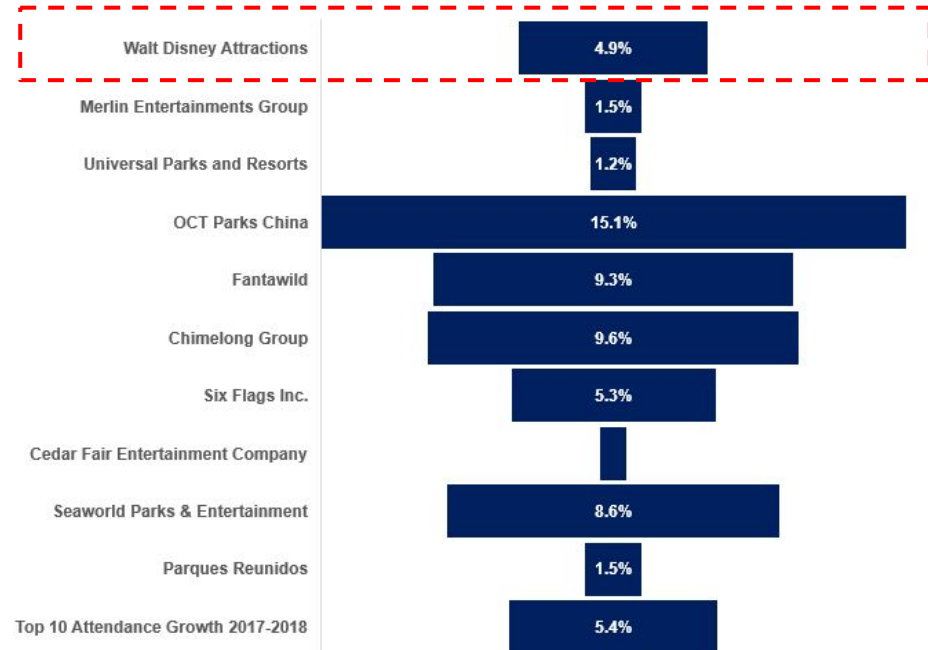
Financial Summary

FY 9/28	2016	2017	2018	2019	2020E
Revenue	\$16,974	\$18,415	\$24,701	\$26,225	\$16,680
Gross Profit	\$6,935	\$7,748	\$11,375	\$12,210	
Gross Margin	41%	42%	46%	47%	
EBITDA	\$5,016	\$5,770	\$8,312	\$8,956	\$1,013
EBITDA Margin	30%	31%	34%	34%	6%
% EBITDA Contribution	28%	33%	45%	50%	10%

- 2019 Revenue: \$26.2B (6% growth)
- YoY increase in gross margin and EBITDA margin
- Covid-19 significantly hurt 2020E

Peer Comparison — % Attendance growth

- Market leader in attendance for parks & experience



Competitive Advantage / Recent News

- **Parks safety concerns may lead to lasting impact**
- Parks shutdown totaled \$3.5b OI hit
- DIS has begun phased reopening of its theme parks in Shanghai, Paris, Tokyo, and Orlando
 - Total revenues were down 85% and operating loss was -\$1.96b due to park closures, limited consumer product sales and licensing revenue

Segment 3: Studio Entertainment

Overview



- Driver: Theatrical Distribution (42%)

Financial Summary

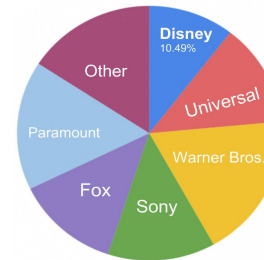
FY 9/28	2016	2017	2018	2019	2020E
Revenue	\$9,441	\$8,379	\$10,065	\$11,127	\$9,903
Gross Profit	\$5,450	\$4,712	\$5,616	\$5,940	
Gross Margin	58%	56%	56%	53%	
EBITDA	\$2,754	\$2,405	\$3,059	\$2,760	\$2,501
EBITDA Margin	29%	29%	30%	25%	25%
% EBITDA Contribution	15%	14%	17%	15%	25%

- 2019 Revenue: \$11.1B
- Stagnant margins due to high investment and production costs
 - 2019 costs include acquisition of 21st Century Fox

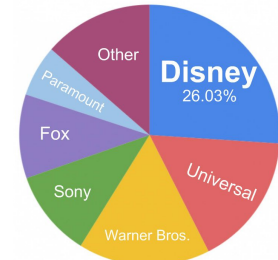
Peer Comparison

- Top Competitors: Time Warner, Paramount, CBS, Comcast, Sony, AMC Network, Lionsgate, Viacom, Weinstein Company

2008



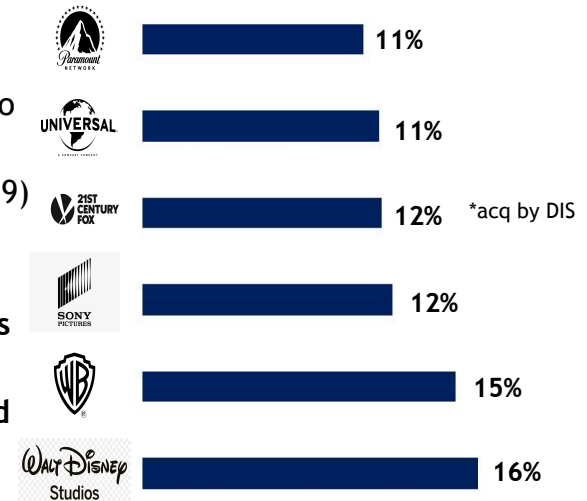
2018



Competitive Advantage / Recent News

- Theater closures reduced DIS Studio revenue by 55% in FQ3, may be slow to recover
- Acquired TFCF (2019)
- PVOD and SVOD market growth along with Disney's infrastructure supports continued movie production and release

Domestic market share 1995-2018



Segment 4: Direct-to-Consumer and International

Overview

- International TV Channels, **Disney+**, **ESPN+**, **Hotstar**, **Hulu**, Equity Investments (Tata Sky, Vice, etc.), Disney Digital Network (content developed for YouTube), Disney Movie Club, Branded Apps and Websites, Streaming Technology Services (BAMTech LLC)
- Requires significant investment / content-spend to fuel subscription growth
- **Driver: Ads (38%)**

Financial Summary

FY 9/28	2016	2017	2018	2019	2020E
Revenue	\$5,528	\$4,833	\$3,414	\$9,349	\$16,289
Gross Profit	\$3,265	\$2,929	\$1,030	\$852	
Gross Margin	59%	61%	30%	9%	
EBITDA	\$2,141	\$1,922	(\$553)	(\$1,496)	(\$1,974)
EBITDA Margin	39%	40%	-16%	-16%	-12%
% EBITDA Contribution	12%	11%	-3%	-8%	-20%

- 2019 Revenue: \$9.3B (>100% growth)
- Significant growth in 2020E boosted by stay-at-home market growth, Disney+ growth, decline in sports, etc.
- Margin much lower due to marketing and R&D costs

Peer Comparison



*Disney has majority ownership stake in Hulu (100% by 2024)

Competitive Advantage / Recent News

- **Disney+ growth since inception: 60.5m subscribers in under a year (as much as NFLX did in 8 years)**
- Disney to launch international DTC offering under the Star brand in 2021
- **Bundle of Disney+, Hulu, and ESPN+ now exceed 100m paid subscriptions**
- Innovation: Disney+ has been innovative, driving adoption by purchasing items like Hamilton
- Estimated CAGR of 34% (up from 16.7% estimate in Nov 2019) through 2025, supporting conclusion that DIS is biggest beneficiary of accelerating streaming adoption

Illustrative SOTP Valuation

Segment	Enterprise Value	Firm Value	
Walt Disney Co. (Media Networks)	78,269.3	310,131.8	
Walt Disney Co. (Parks)	113,587.1	Add: Cash	\$ 23,110
Walt Disney Co. (Studio Entertainment)	35,053.2	Less: Debt	\$ 68,310
Walt Disney Co. (DCTI)	83,222.3	Equity Value	264,931.8
Total	310,131.8	Shares Outstanding	1,810
		Implied Share Price	\$ 146.37

Current Share Price	\$ 131.99
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Implied Return	10.9%
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Assessing the value of DIS



- Exit multiples and betas were calculated using comparable companies analysis
- Valuation range was calculated using EBITDA margins and 2021 revenue growth as drivers



Investment Thesis

Limit sell current DIS allocation, price target of \$146 (implied upside: 10.9%)

- Growth of Disney+, advantage of streaming bundle (ESPN, Hulu, Disney+), international expansion of Star brand, and continued benefit from sports networks should drive stock price up near-term
- Parks and Studio Entertainment segments will be slow to recover, limiting upside
- Reinforces last reval's target price, suggesting profits should be taken as soon as possible

Questions?

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Appendix

Risk 1: Over 50% of DIS's FY20E revenue pre-COVID is negatively impacted (theme parks, cruise ships, ESPN, film releases, TV production, etc) and about 15% is positively impacted (DTC).

Risk 2: Parks may open notably later than expected and continue to operate at a lower capacity for a longer period of time.

SOTP: Media Networks Segment

Assumptions		Historical				1	2	3	4	5	
		2016	2017	2018	2019	2020	2021	Projected 2022	2023	2024	
Tax Rate	21%										
Exit Multiple (EBITDA)	6.8x										
WACC Calculation											
Risk Free Rate	1.46%	Revenue	\$ 23,689	\$ 23,510	\$ 21,922	\$ 24,827	\$ 27,951	\$ 30,350	\$ 31,741	\$ 31,926	\$ 30,835
Beta	0.95	% YoY Growth	N/A	-0.76%	-6.75%	13.25%	12.58%	8.58%	4.58%	0.58%	-3.42%
Market Risk Premium	6.00%	Operating Expense	\$ 13,571	\$ 14,068	\$ 13,197	\$ 15,499	\$ 17,449	\$ 18,947	\$ 19,815	\$ 19,931	\$ 19,250
Cost of Equity	7.2%	Gross Profit	10,118	9,442	8,725	9,328	10,502	11,403	11,926	11,995	11,585
Pre-Tax Cost of Debt	1.92%	% Margin	42.71%	40.16%	39.80%	37.57%	37.57%	37.57%	37.57%	37.57%	37.57%
Equity-to-Value	77.7%	EBITDA	7,992	7,127	7,537	7,670	8,561	9,296	9,722	9,779	9,444
Debt-to-Value	22.3%	% Margin	33.74%	30.31%	34.38%	30.89%	30.63%	30.63%	30.63%	30.63%	30.63%
WACC	5.91%	Less: Depreciation	237	225	199	191	215	233	244	246	237
		EBIT	7,755	6,902	7,338	7,479	8,346	9,062	9,478	9,533	9,207
		Less: Taxes	1,629	1,449	1,541	1,571	1,753	1,903	1,990	2,002	1,934
		EBIT*(1-T)	6,126	5,453	5,797	5,908	6,593	7,159	7,487	7,531	7,274
		Add: Depreciation	237	225	199	191	215	233	244	246	237
		Less: Inc. in NWC	-	-	-	-	-	-	-	-	-
		Less: CapEx	166	139	203	174	196	213	222	224	216
		FCF to Firm	6,197	5,539	5,793	5,925	6,612	7,180	7,509	7,553	7,295
		PV Factor					0.94	0.89	0.84	0.79	0.75
		PV of FCF					6,243	6,401	6,320	6,002	5,473
		PV of Terminal Value									47,830.4
Firm Value			78,269.3								

EBITDA Trading Multiples		Capital Structure			Relevered Beta	
Company Name	Last Quarter EV/EBITDA	Company Name	Last 5Y (Monthly) Equity Beta	Last Q D/E	Inputs	Output
Walt Disney Co.	19.3 x	Walt Disney Co.	n/a	68.6%	Median Equity Beta	1.25
Fox Corp	7.4 x	Fox Corp	1.25	81.8%	Median D/E	129.5%
Discovery Inc.	5.9 x	Discovery Inc.	1.09	129.5%	DIS D/E	68.6%
ViacomCBS	6.8 x	ViacomCBS	1.55	150.4%	Tax Rate	21.0%
Maximum	7.4 x	Maximum	1.55	150.4%		
75th Percentile	7.1 x	75th Percentile	1.40	140.0%	Unlevered Beta	0.62
Median	6.8 x	Median	1.25	129.5%	DIS Media Beta	0.95
25th Percentile	6.3 x	25th Percentile	1.17	105.7%		
Minimum	5.9 x	Minimum	1.09	81.8%		

SOTP: Parks Segment

Assumptions		Historical				1	2	3	4	5	
		2016	2017	2018	2019	2020	2021	2022	2023	2024	
Tax Rate	21%										
Exit Multiple (EBITDA)	16.2x										
WACC Calculation											
Risk Free Rate	1.46%	Revenue	\$ 16,974	\$ 18,415	\$ 24,701	\$ 26,225	\$ 16,680	\$ 18,348	\$ 22,935	\$ 27,522	\$ 31,650
Beta	1.85	% YoY Growth	N/A	8.49%	34.14%	6.17%	-36.40%	10.00%	25.00%	20.00%	15.00%
Market Risk Premium	6.00%	Operating Expense	\$ 10,039	\$ 10,667	\$ 13,326	\$ 14,015	\$ 13,594	\$ 13,119	\$ 12,257	\$ 14,708	\$ 16,914
Cost of Equity	12.6%	Gross Profit	6,935	7,748	11,375	12,210	3,086	5,229	10,678	12,814	14,736
Pre-Tax Cost of Debt	1.92%	% Margin	40.86%	42.07%	46.05%	46.56%	18.50%	28.50%	46.56%	46.56%	46.56%
Equity-to-Value	77.74%	EBITDA	5,016	5,770	8,312	8,956	1,013	2,936	7,832	9,399	10,809
Debt-to-Value	22.26%	% Margin	29.55%	31.33%	33.65%	34.15%	6.07%	16.00%	34.15%	34.15%	34.15%
WACC	10.10%	Less: Depreciation	1,718	1,996	2,217	2,198	1,398	1,538	1,922	2,307	2,653
		EBIT	3,298	3,774	6,095	6,758	(385)	1,398	5,910	7,092	8,156
		Less: Taxes	693	793	1,280	1,419	(81)	294	1,241	1,489	1,713
		EBIT*(1-T)	2,605	2,981	4,815	5,339	(304)	1,104	4,669	5,603	6,443
		Add: Depreciation	1,718	1,996	2,217	2,198	1,398	1,538	1,922	2,307	2,653
		Less: Inc. in NWC	-	-	-	-	-	-	-	-	-
		Less: CapEx	4,215	3,191	3,900	4,146	2,637	2,901	3,626	4,351	5,004
		FCF to Firm	108	1,786	3,132	3,391	(1,543)	(259)	2,965	3,559	4,092
		PV Factor					0.91	0.82	0.75	0.68	0.62
		PV of FCF					(1,402)	(213)	2,222	2,422	2,529
		PV of Terminal Value									108,029.0
Firm Value			113,587.1								

EBITDA Trading Multiples		Capital Structure	
Company Name	Current EV/EBITDA	Company Name	Last 5Y (Monthly) Equity Beta
Walt Disney Co.	n/a	Walt Disney Co.	n/a
SeaWorld Entertainment Inc.	14.1 x	SeaWorld Entertainment In	1.85
Cedar Fair, L.P.	16.7 x	Cedar Fair, L.P.	1.81
Six Flags Entertainment Corporation	16.2 x	Six Flags Entertainment Cor	1.99
Maximum	16.7 x	Maximum	1.99
75th Percentile	16.4 x	75th Percentile	1.92
Median	16.2 x	Median	1.85
25th Percentile	15.1 x	25th Percentile	1.83
Minimum	14.1 x	Minimum	1.81

(Comp D/E not usable)

SOTP: Studio Entertainment

Assumptions		Historical				1	2	3	4	5	
		2016	2017	2018	2019	2020	2021	2022	2023	2024	
						Projected					
Tax Rate	21%										
Exit Multiple (EBITDA)	10.4x										
WACC Calculation		Revenue	\$ 9,441	\$ 8,379	\$ 10,065	\$ 11,127	\$ 9,903	\$ 10,398	\$ 11,126	\$ 12,127	\$ 13,461
		% YoY Growth	N/A	-11.25%	20.12%	10.55%	-11.00%	5.00%	7.00%	9.00%	11.00%
		Operating Expense	\$ 3,991	\$ 3,667	\$ 4,449	\$ 5,187	\$ 4,616	\$ 4,847	\$ 5,187	\$ 5,653	\$ 6,275
Risk Free Rate	1.46%	Gross Profit	5,450	4,712	5,616	5,940	5,287	5,551	5,939	6,474	7,186
Beta	1.06	% Margin	57.73%	56.24%	55.80%	53.38%	53.38%	53.38%	53.38%	53.38%	53.38%
Market Risk Premium	6.00%	EBITDA	2,754	2,405	3,059	2,760	2,501	2,626	2,810	3,063	3,399
Cost of Equity	7.8%	% Margin	29.17%	28.70%	30.39%	24.80%	25.25%	25.25%	25.25%	25.25%	25.25%
Pre-Tax Cost of Debt	1.92%	Less: Depreciation	51	50	55	74	66	69	74	81	90
Equity-to-Value	77.74%	EBIT	2,703	2,355	3,004	2,686	2,435	2,557	2,736	2,982	3,310
Debt-to-Value	22.26%	Less: Taxes	568	495	631	564	511	537	575	626	695
WACC	6.42%	EBIT*(1-T)	2,135	1,860	2,373	2,122	1,924	2,020	2,161	2,356	2,615
		Add: Depreciation	51	50	55	74	66	69	74	81	90
		Less: Inc. in NWC	-	-	-	-	-	-	-	-	-
		Less: CapEx	86	85	96	88	78	82	88	96	106
		FCF to Firm	2,100	1,825	2,332	2,108	1,911	2,007	2,147	2,340	2,598
		PV Factor					0.94	0.88	0.83	0.78	0.73
		PV of FCF					1,796	1,772	1,782	1,825	1,903
		PV of Terminal Value									25,975.8

Firm Value 35,053.2

EBITDA Trading Multiples		Capital Structure			Relevered Beta	
Company Name	Last Quarter EV/EBITDA	Company Name	Last 5Y (Monthly) Equity Beta	Last Q D/E	Inputs	Output
Walt Disney Co.	n/a	Walt Disney Co.	n/a	68.6%	Median Equity Beta	1.23
Lions Gate Entertainment Corp	10.4 x	Lions Gate Entertainment C	1.23	99.7%	Median D/E	99.7%
Maximum	10.4 x	Maximum	1.23	99.7%	DIS D/E	68.6%
75th Percentile	10.4 x	75th Percentile	1.23	99.7%	Tax Rate	21.0%
Median	10.4 x	Median	1.23	99.7%	Unlevered Beta	0.69
25th Percentile	10.4 x	25th Percentile	1.23	99.7%	DIS Studio Beta	1.06
Minimum	10.4 x	Minimum	1.23	99.7%		

SOTP: DTCI

Users	
Company Name	Most Recent Users
Walt Disney Co. (Q3)	101.5
Netflix (Q2)	190
Hulu (AT&T Sale)	22.8
Maximum	190
75th Percentile	149
Median	107
25th Percentile	65
Minimum	23

Enterprise Value	
Company Name	Most Recent EV
Netflix (Q2)	211,230
Hulu (AT&T Sale)	15,000
Maximum	211,230
75th Percentile	162,173
Median	\$ 113,115
25th Percentile	64,058
Minimum	15,000

User Multiples	
Company Name	TTM EV/Users
Netflix (Q2)	1,109.4 x
Hulu (AT&T Sale)	657.9 x
Maximum	1,109.4 x
75th Percentile	996.5 x
Median	883.6 x
25th Percentile	770.8 x
Minimum	657.9 x

Revenue Multiples	
Company Name	TTM EV/Revenue
Netflix (Q2)	9.9 x
Hulu (AT&T Sale)	7.7 x
Maximum	9.9 x
75th Percentile	9.3 x
Median	8.8 x
25th Percentile	8.3 x
Minimum	7.7 x

Revenue				
Company Name	2019 Revenue	FY '19 Revenue	2020 Revenue	TTM Revenue
Walt Disney Co. (Q3)	\$ 3,875	\$ 9,349	\$ 3,969	\$ 9,443
Netflix (Q2)	4,923	20,159	6,148	21,384
Hulu (AT&T Sale)	n/a	n/a	n/a	1,940
Maximum	4,923	20,159	6,148	21,384
75th Percentile	4,923	20,159	6,148	16,523
Median	4,923	20,159	6,148	11,662
25th Percentile	4,923	20,159	6,148	6,801
Minimum	4,923	20,159	6,148	1,940

Enterprise Value	
Multiples	Output
High EV/Users	1,109.4 x
Median EV/Users	883.6 x
Low EV/Users	657.9 x
High EV/Revenue	9.9 x
Median EV/Revenue	8.8 x
Low EV/Revenue	7.7 x
DIS DCTI Users	101.5
DIS DCTI Revenue	9,443.0
High EV from users	\$ 112,604.23
Median EV from users	\$ 89,690.27
Low EV from users	\$ 66,776.32
High EV from revenue	\$ 93,277.45
Median EV from revenue	\$ 83,145.17
Low EV from revenue	\$ 73,012.89
Average EV	\$ 83,222.30