

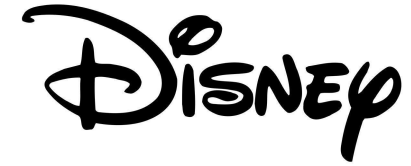
Senior Analyst: Max Callan
Junior Analysts: Matt Penta & George Ladd

November 2023

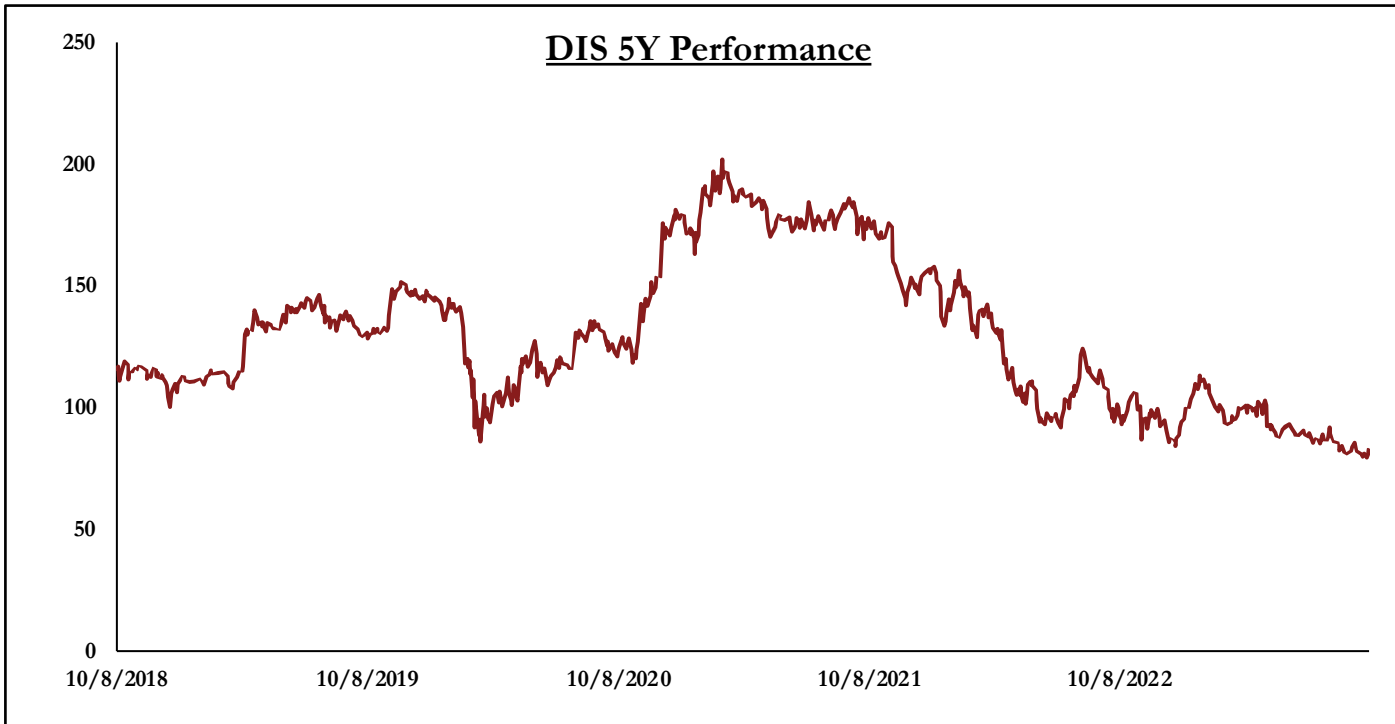


We recommend a long position in Disney with a ~30% upside based on a \$104 price target with a timeframe of ~1 year. The bull case has an upside of 42% and the bear case has a downside of 5%

Company Background



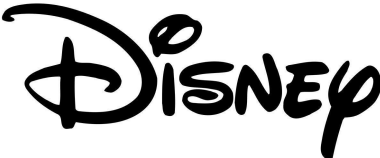
The **Walt Disney Company** is an international family entertainment and media enterprise that includes business segments of **Disney Media and Entertainment (DMED)**, **ESPN**, and **Disney Parks, Experiences and Products (DPEP)**. Disney portfolio includes offerings of The Walt Disney Studios, Marvel Studios, Pixar, Lucasfilm, Hulu, ESPN+, Disneyland resort, Walt Disney World, and Disney Cruise Line



Stock Price	\$79.33
Market Cap*	\$145,160
LTM Revenue*	\$87,807
EBITDA*	\$11,933
Diluted EPS	\$1.23
Shares Outstanding*	1,829

*All numbers are represented with TTM Data and are in millions (\$) except for EPS

Business Breakdown



Media, Entertainment & Distribution



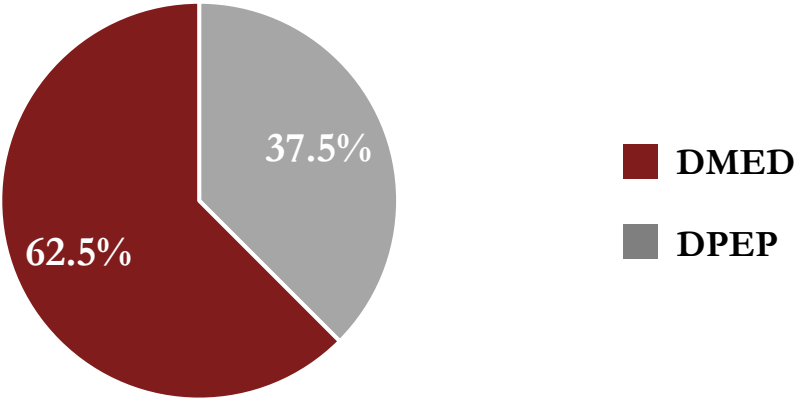
- Disney+
- Hulu
- ESPN+
- ABC Networks

Media, Entertainment & Distribution

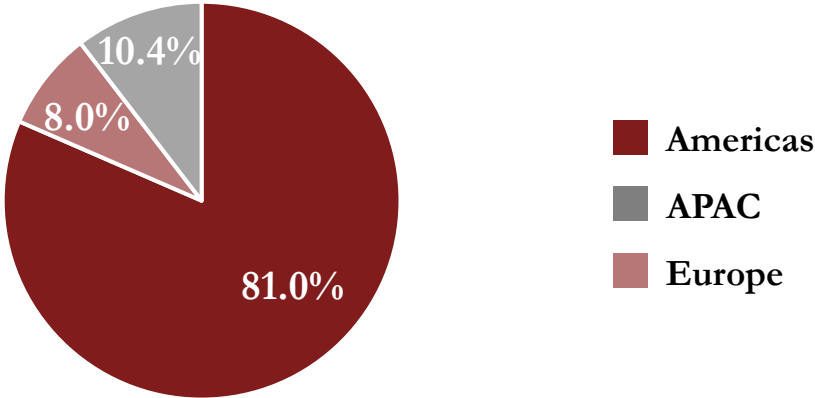


- Disney+
- Hulu
- ESPN+
- ABC Networks

FY22 Net Revenue



FY22 Geography

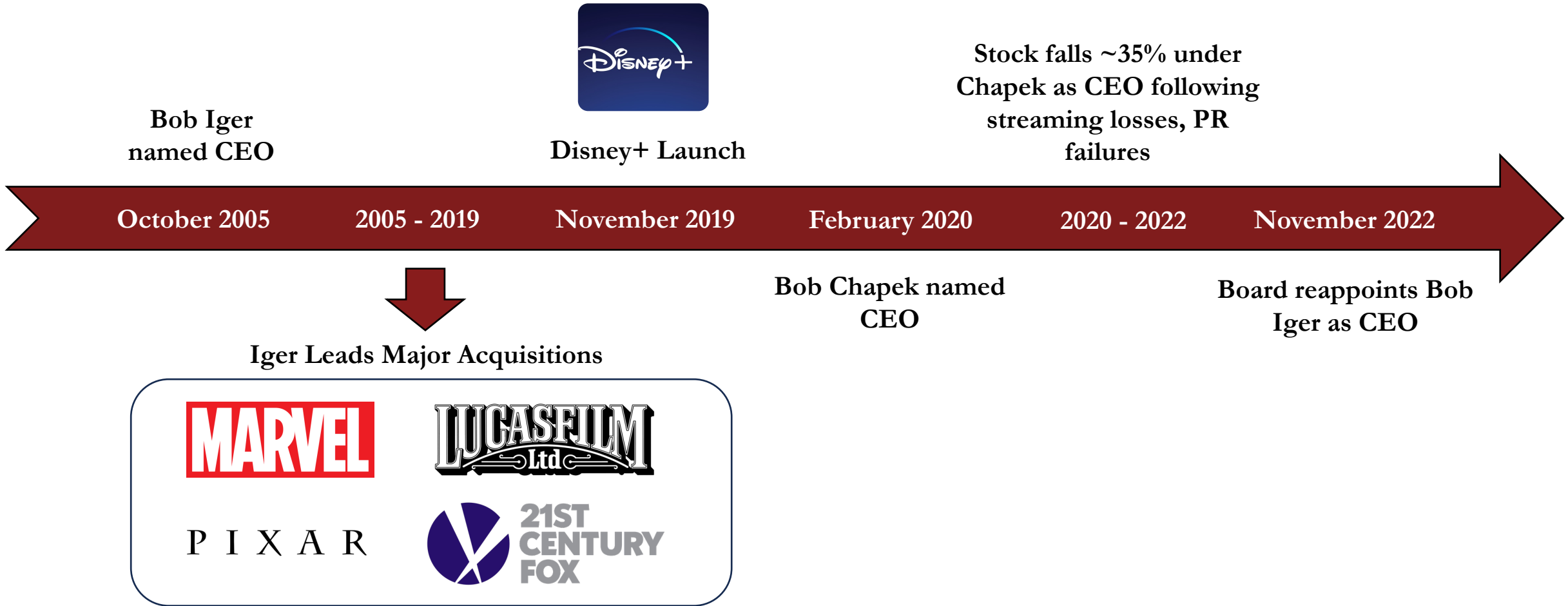
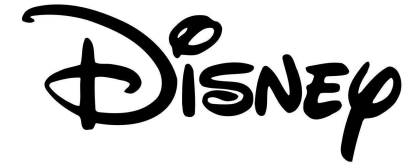


Comps

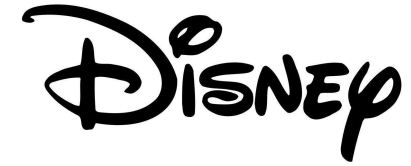


All numbers displayed in \$M (except per share data)											
Basic Information		LTM Data							Valuation		
Ticker	Market Cap	Cash	Net Debt	EV	Revenue	Gross Margin (%)	EBITDA	Leverage	FCF	P/E	EV/EBITDA
DIS	149,438.03	11,458.00	40,644.00	208,070.68	87,807.00	33%	9,818.00	4.14x	2,845.00	22.53x	21.19x
<i>Basket 1: Media/Streaming Comps</i>											
NFLX	168,542.00	7,662.79	10,873.11	203,618.41	32,126.45	39%	5,982.72	1.82x	4,260.10	31.37x	34.03x
SONY	102,967.33	1,532.10	25,935.60	118,070.00	12,192.00	26%	2,141.36	1.21x	94.87	0.10x	55.14x
PARA	8,315.83	1,714.00	14,681.00	26,286.41	29,928.00	33%	(308.00)	-47.67x	(1,120.00)	-5.80x	-
WBD	25,616.91	3,027.00	48,871.00	76,142.98	41,889.00	38%	3,061.00	15.97x	3,082.00	-9.37x	24.88x
<i>Basket 2: Entertainment Comps</i>											
SIX	1,955.20	51.58	2,476.90	5,189.60	1,370.60	92%	443.39	5.59x	165.04	15.33x	11.70x
SEAS	2,933.73	146.75	2,153.10	5,661.55	1,745.10	92%	637.39	3.38x	254.61	11.13x	8.88x
Average	51,721.83	2,355.70	17,498.45	72,494.83	19,875.19	53%	1,992.98	-3.28x	1,122.77	7.13x	26.93x
Median	25,616.91	1,714.00	14,681.00	76,142.98	29,928.00	38%	2,141.36	3.38x	254.61	11.13x	23.03x

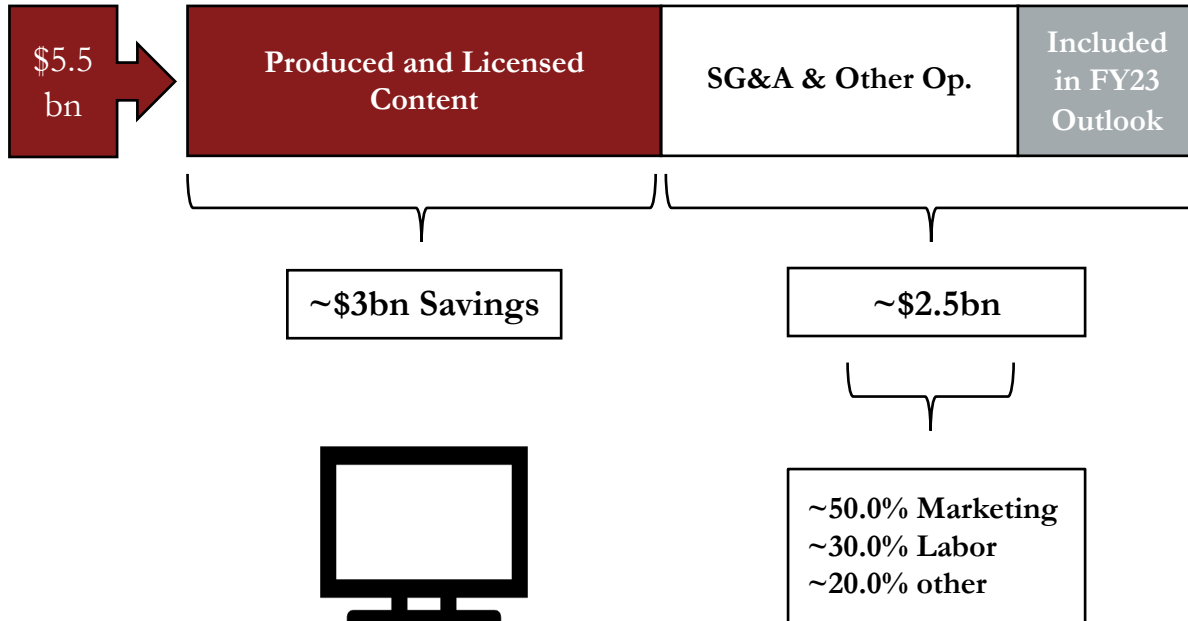
Disney Timeline



Grown-Ups Back in Charge



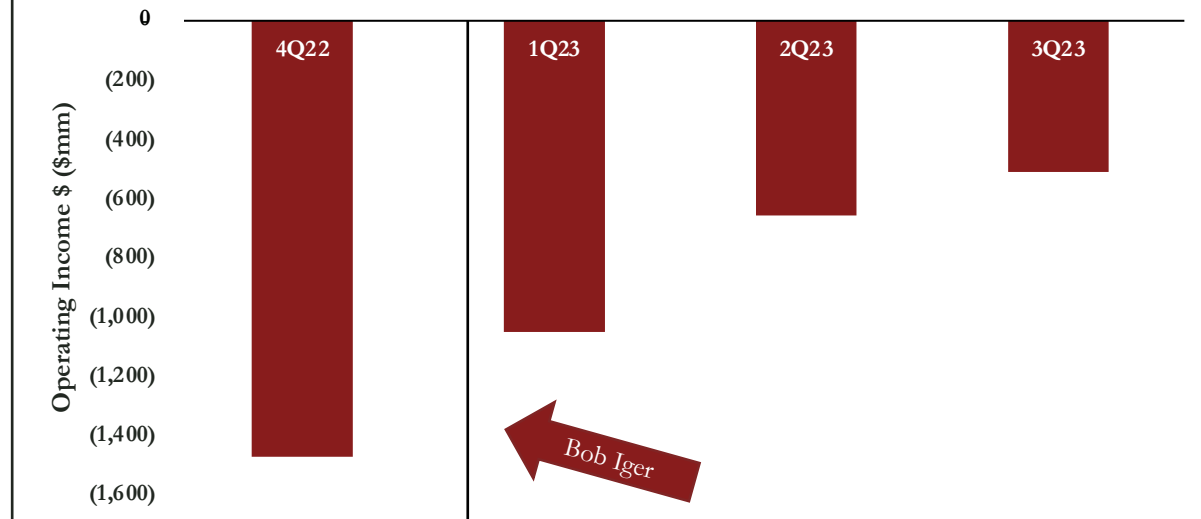
\$5.5bn Cost Cutting Program



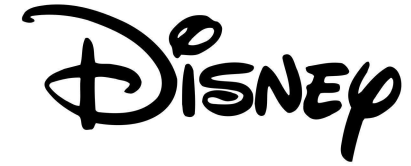
Current Progress

- \$1bn savings realized since Iger's return, **on track to exceed \$5.5bn target**
- Will be 12 months into delivery at the end of '23
 - Content savings → **delayed realization due to production & development**
- Increased operating leverage into FY24

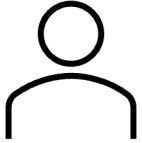
DTC Operating Income



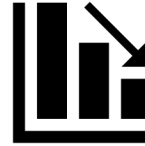
Disney+ Progression



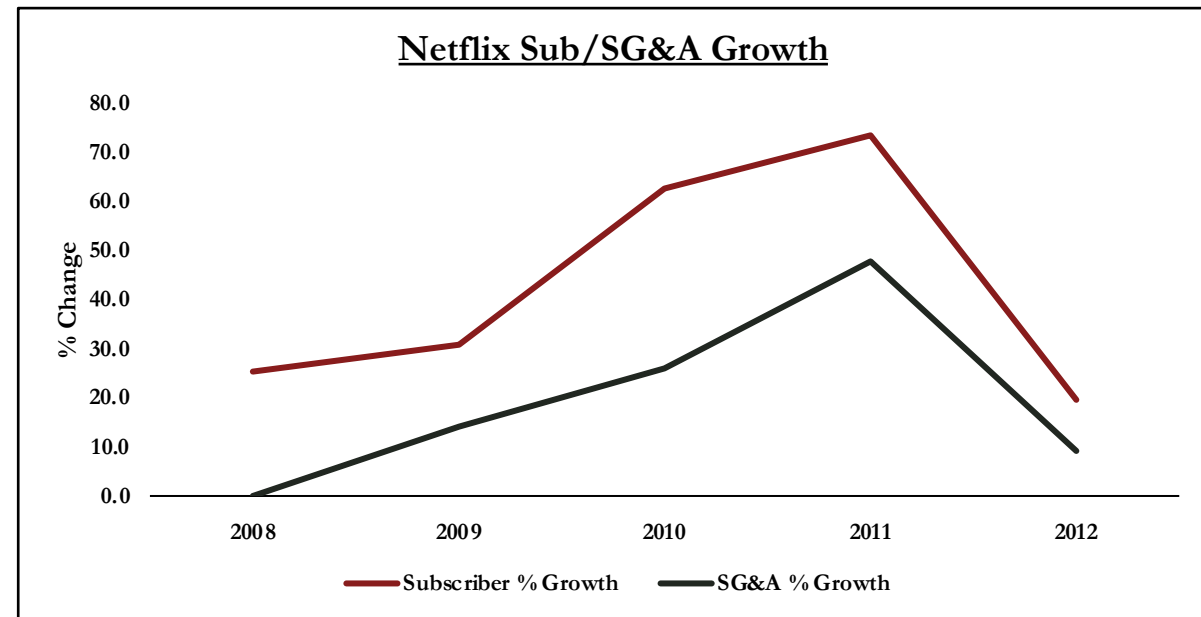
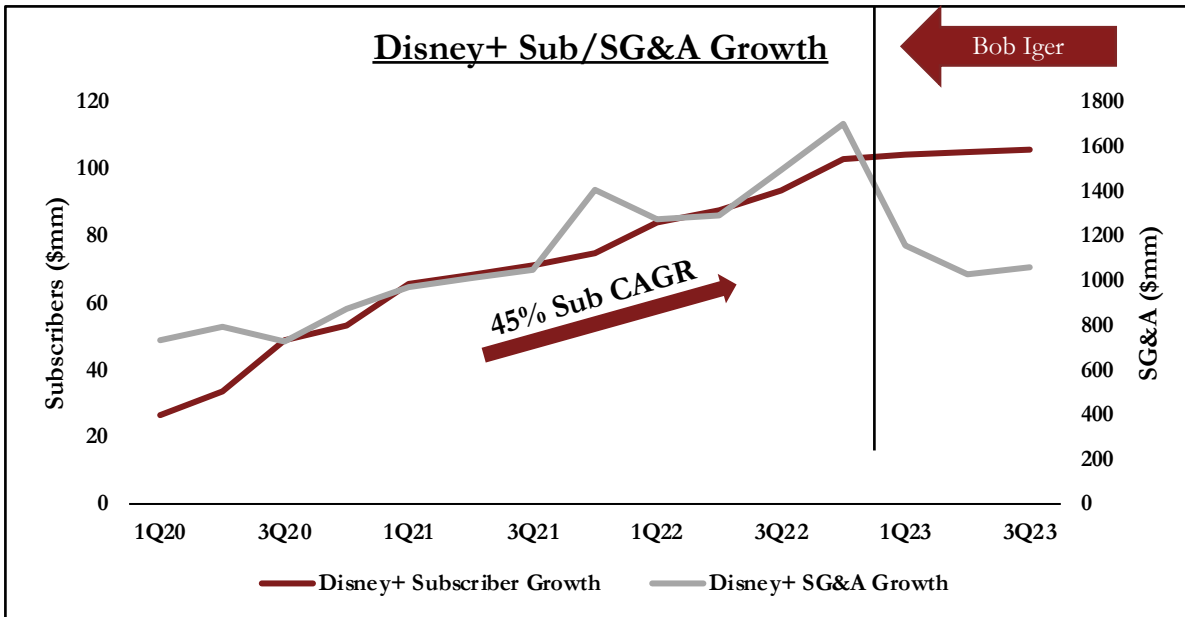
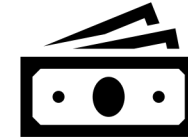
Scaled Subscriber Base



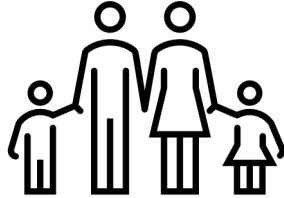
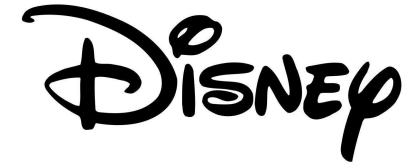
New Focus On Cost Cutting



Fast Track To DTC Profitability

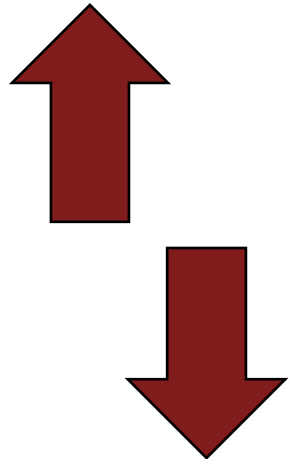


Subscriber Demographic



66% of Disney+ subscribers are families, providing a sticky consumer base with **low price elasticity**

Disney+ Price Hike



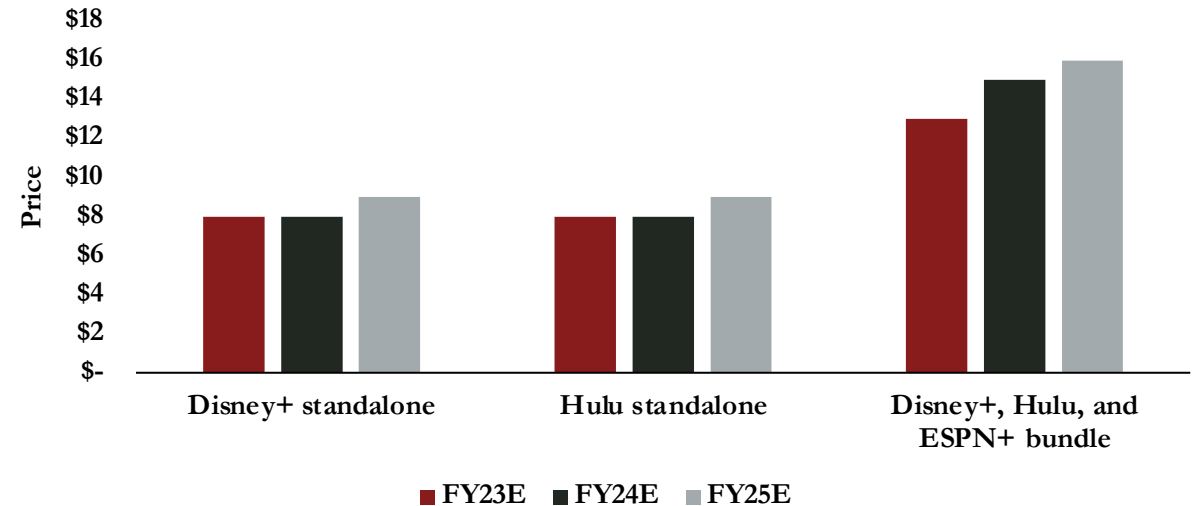
Disney+ domestic revenue projected **~17% y/y growth**

~600k loss of Disney+ subs



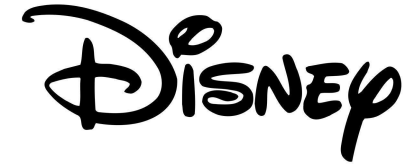
Disney is #1 in kids/family genres, 100+ year old catalog IP & Library will **hold consumers regardless of price hikes**

Consensus Future Price Hikes*



*All data reflects ad-supported packages

DTC Path Moving Forward



Profitability Expectations

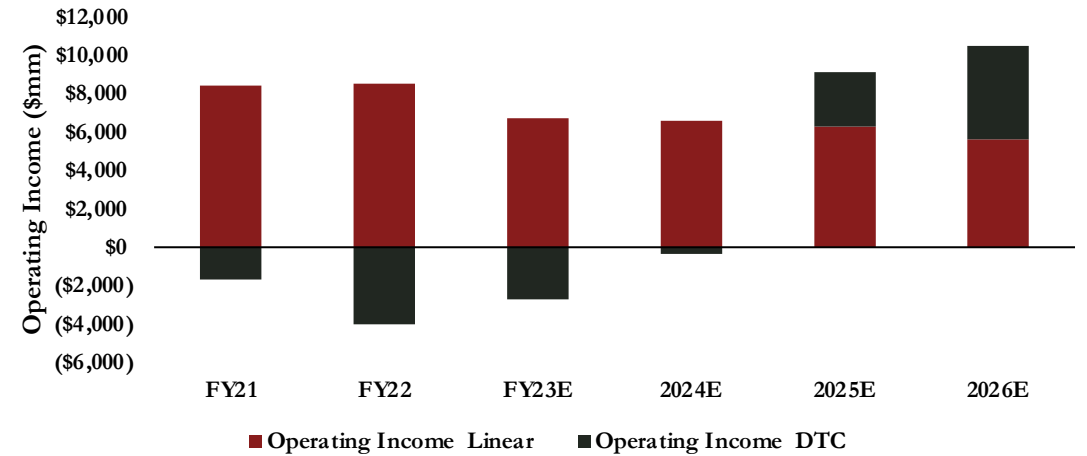
- The risk for investors is the fact that **DTC has not been profitable**, the Street expectation is DTC profitability by FYE24
- Bob Iger has prioritized DTC overhead with **\$2.5bn** nonconstant cost cuts mostly aimed at DTC
- Price hikes in DTC will improve margins without significant churn risk
- **Operating leverage** in the near term, with subs now at scale



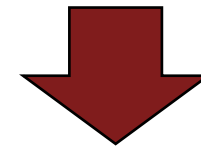
Impact and Upside

- Profitability **before** expectations → **Multiple expansion**
- **Linear pressures less material** once profitability is reached
- Increased investor confidence and **higher valuations**

DIS Linear Networks & DTC OI



Price Hikes, Low Churn, Overhead Cost Cutting



DTC Profitability by 3Q23

Hulu Situation



Original Deal

- **Disney owns 66% of Hulu, Comcast owns 33%**
- Under the 2019 agreement, either company can trigger a sale or purchase of Comcast's 33% stake to Disney as early as January 2019
- This agreement places a **minimum equity value to Hulu of \$27.5 bn (~\$9 bn for the 33% stake)**

New Deal

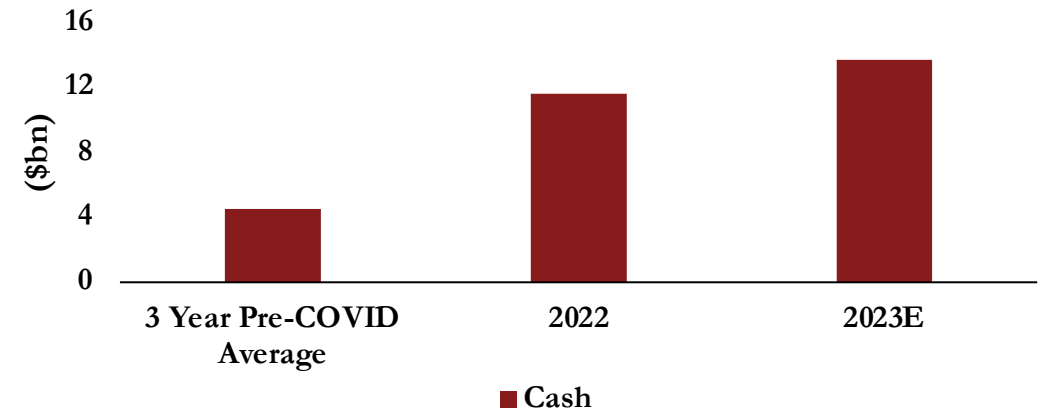
- **Comcast has moved up the date for the put/call agreement to September 30th**
- Both parties have hired banks to value Hulu - **if the values are >10% apart, a third bank will value the company and the price will be an average of the two closest valuations**
- A third bank is likely to be needed since Comcast is eager to get the highest valuation possible



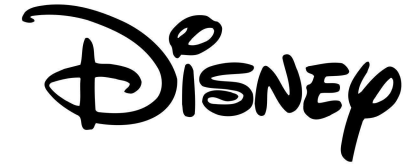
Deal Funding

- We estimate **1Q24 cash balance of \$13.7bn**, which compares to a 3-year Pre-COVID average of ~\$4.5bn
- This implies **~\$9.8bn in excess cash to fund the put**
- If Hulu's valuation falls below ~\$29bn, Disney will be able to fund the put with cash on hand. If the valuation exceeds ~\$29bn, Disney would utilize their \$10.5bn revolver

Cash Reserve Comparison



Modeling the Impact



Model Assumptions:

- \$9.8bn cash used in funding
- Revolver interest: SOFR + 99bps

After modeling the impact on FCF based on different Hulu valuation assumptions, we can see a reasonable worst-case-scenario would be a **~\$347mm increase in interest payments**

33% Stake Valuation

Bear

Base

Bull

\$15bn

\$12bn

\$10.5bn

Revolver Usage

\$5.5bn

\$2.5bn

\$1bn

Annual Interest Payment

\$347mm

\$158mm

\$63mm

2024 FCF

\$3.4bn

\$5.9bn

\$7.4bn

Hulu Synergies



Streamline Overhead Costs

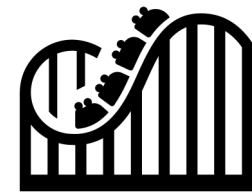
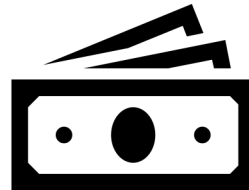
Hulu Monetization

DPEP Integration

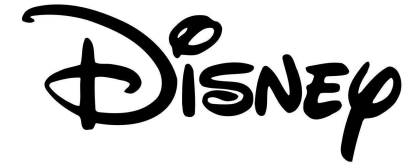
- Non-programming costs were **69% of sales in FY22**
- Overhead cost reductions would make put more expensive
- After the deal, **immediate cost cuts will boost top-line profitability**

- **Hulu under-monetized** due to put
- Full ownership would allow for integration with Disney+
- One centralized app → cast synergies
- **Pricing power** (from IP and Hulu)

- A key aspect of the business model is **exploiting IP past movie screen**
- Characters and themes from **DMED will be integrated into DPEP**
- New themed attractions, merchandise, rides, shows, etc.



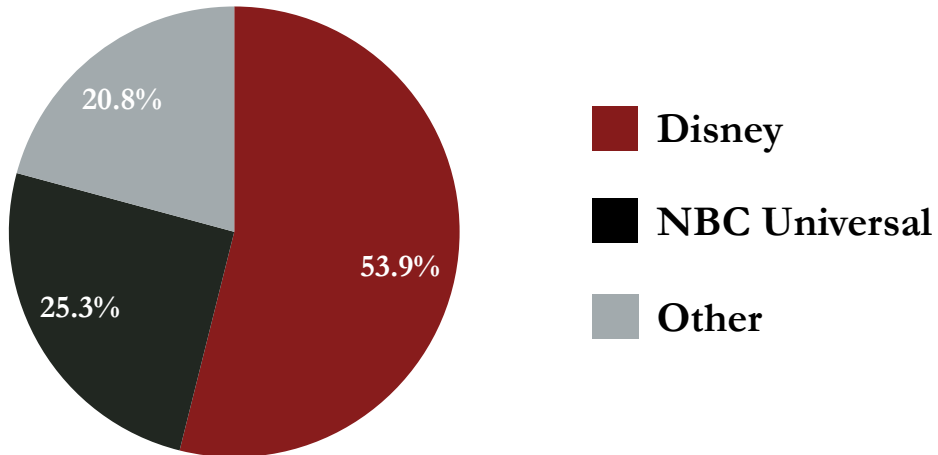
History of DPEP



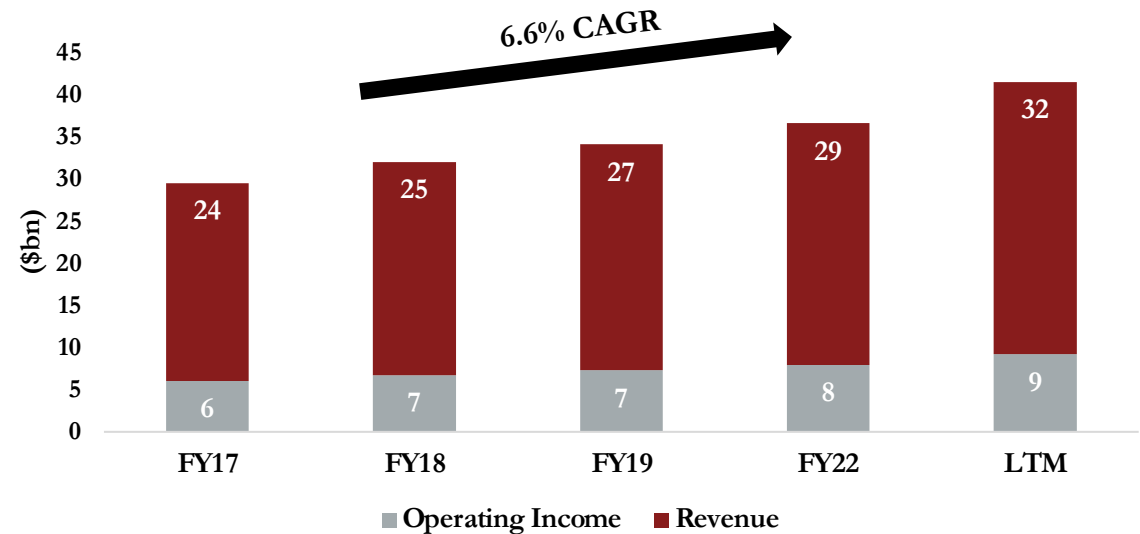
With over 50 years of operating experience, Disney has established themselves as an **unrivaled leader in the Amusement Park industry**

DPEP has been a consistent source of FCF used to fund DTC investments. **With DTC nearing profitability, FCF will be used to fund capex into new & existing parks/cruises**

U.S. Amusement Park Market Share



DPEP Growth

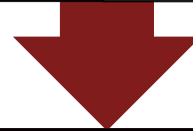




Finance	
<ul style="list-style-type: none"> Majority of investment going to parks/cruises ~\$17bn of investment in Florida park 	<ul style="list-style-type: none"> ~\$60bn in DPEP Capex over next 10 yrs Investments funded by DPEP cash flow

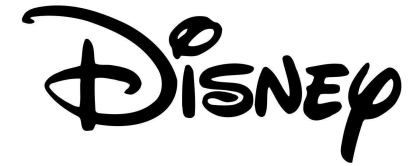


Action	
<ul style="list-style-type: none"> 6 new locations & launch of The Disney Wish Strategic investments into current parks 	<ul style="list-style-type: none"> Under-utilized IP leveraged into new parks Wakanda, Frozen, Coco, Zootopia



Impact	
<ul style="list-style-type: none"> Broadened consumer reach Capitalize on untapped DPEP markets 	<ul style="list-style-type: none"> Consistent FCF generation Decreased reliance on future price hikes

History of Success



Sustained IP Investments

FY12 – LTM



Domestic Park Performance

FY12 – LTM

3x ROIC Growth

4x Operating Income Growth

+15pt Operating Margin Increase

Linear Assets

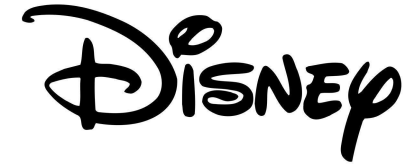


- Iger has been realistic with investors regarding the future of its linear business, specifically ESPN
- **ESPN transitioning to DTC is inevitable**, the company is currently looking for a strategic partner
- Disney has seen a “healthy level of interest”, waiting for a partner that brings **both distribution and content**

- **Disney wants ESPN to be a one-stop-shop** for sports fans, regardless of the service- which is why a strategic partner is needed (likely a tech firm such as amazon)
- Unlikely that Iger will sell linear assets at a low multiple just to reduce exposure since linear content fuels DTC

“While linear remains profitable for Disney today, **the trends being fueled by cord-cutting are unmistakable**” - Bob Iger

Activist Investors



Dan Loeb

Dan Loeb's fund, Third Point, disclosed a \$1bn stake in Disney in August 2022 and pushed the company to make a string of changes including spinning off ESPN and adding board members.

Loeb's stake (~0.4%) gave little leverage, and after meeting with management he retracted his push.

Loeb did push for an accelerated timeline for the Hulu/Comcast deal, which has since played out.

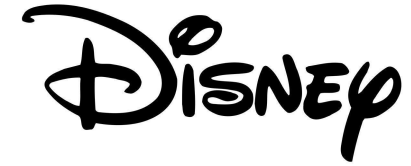


Nelson Peltz

Nelson Peltz first launched a campaign against Disney's management in January, but after newly-hired CEO Iger laid out a corporate restructuring plan, Peltz withdrew his bid for a board seat

Peltz's Trian Fund Management amassed a \$2.5bn stake in Disney and is **now pressuring the company to grant him multiple board seats**, citing issues with cost discipline and strategic thinking

Risks & Mitigants



Risks

Delayed DTC Profitability

Expensive Hulu Valuation

Churn Post-Price Hikes



Mitigants

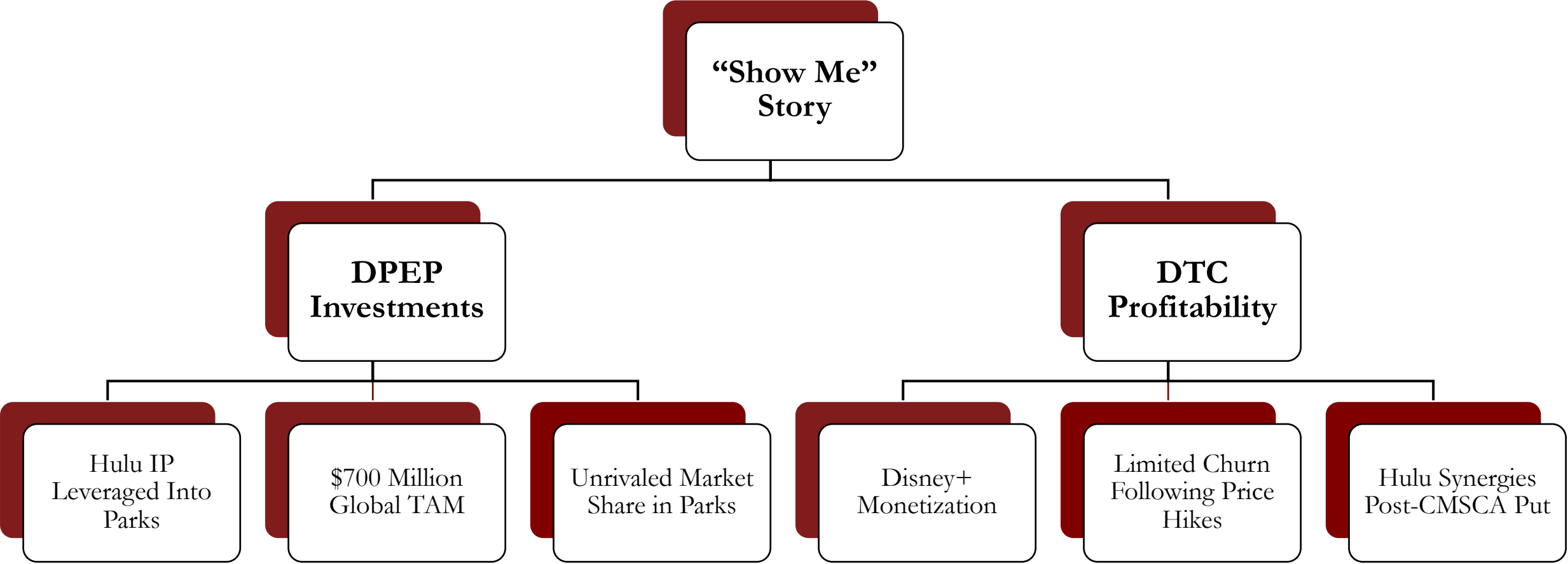
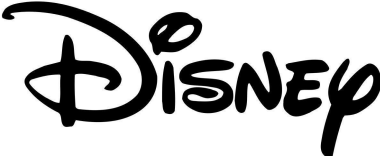
Cost Cutting + Price Hikes
Efficiency Improvements

Cash Reserves & Revolver

Family Cohort → Price Inelastic



What's Not Priced In?



Estimates vs. Consensus



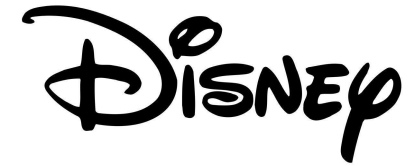
MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E
MAIF DPEP Revenue	33,302.50	34,588.18	36,317.59	37,770.29	39,469.96
<i>Consensus DPEP Revenue</i>	32,632.35	34,754.87	36,534.25	38,056.45	39,472.56
<i>Difference (%)</i>	2%	0%	-1%	-1%	0%
MAIF DMED Revenue	55,416.75	58,769.88	61,120.67	64,176.70	67,385.54
<i>Consensus DMED Revenue</i>	56,090.07	58,990.74	61,864.40	65,255.79	68,618.37
<i>Difference (%)</i>	-6%	-10%	-7%	-11%	-20%
MAIF EBITDA	14,344.27	16,534.80	19,000.46	20,389.40	20,836.82
<i>Consensus</i>	15,240.29	18,209.38	20,385.85	22,587.80	24,991.60
<i>Difference (%)</i>	-6%	-10%	-7%	-11%	-20%

MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E
MAIF Gross Margins	33%	35%	36%	36%	37%
<i>Consensus Gross Margins</i>	33%	36%	35%	36%	36%
<i>Difference (%)</i>	0%	-3%	0%	0%	0%

MAIF vs. Consensus (\$mm)	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E
MAIF EBITDA Margins	16.17%	17.71%	19.50%	20.00%	19.50%
<i>Consensus EBITDA Margins</i>	17.18%	19.42%	20.72%	21.86%	23.12%
<i>Difference (%)</i>	-6%	-10%	-6%	-9%	-19%

MAIF Commentary
<ul style="list-style-type: none"> Conservative assumptions below street in every metric, average PT is ~\$118/share Modeling in 3Q24 DTC profitability Consensus FY26, FY27 growth driven by Hulu synergies and rapid DTC profitability ~3.5% DPEP CAGR from FY24-FY27

Valuation



Discounted Cash Flow	Entry	2023	2024	2025	2026	2027	Exit
<i>Date</i>	10/24/23	1/29/24	1/29/25	1/29/26	1/29/27	1/29/28	1/29/28
<i>Year Fraction</i>		0.26	1.00	1.00	1.00	1.00	
EBIT	\$	8,704.14	\$ 11,366.88	\$ 13,961.26	\$ 16,061.57	\$ 16,502.42	
Less: Cash Taxes	\$	(1,570.04)	\$ (2,898.08)	\$ (3,217.82)	\$ (3,742.89)	\$ (3,837.69)	
Plus: D&A	\$	5,640.13	\$ 5,167.91	\$ 5,039.20	\$ 4,327.83	\$ 4,334.40	
Less: Capex	\$	4,960.96	\$ 5,711.43	\$ 6,299.00	\$ 5,343.00	\$ 5,418.00	
Less: NWC Investment	\$	203.25	\$ 1,950.38	\$ (1,722.41)	\$ 722.30	\$ 896.09	
Free Cash Flow	\$	7,610.02	\$ 5,974.90	\$ 11,206.06	\$ 10,581.20	\$ 10,685.04	\$ 282,488.73
<i>Transaction Cash Flow</i>	0 \$	2,008.20 \$	5,974.90 \$	11,206.06 \$	10,581.20 \$	10,685.04 \$	282,488.73

Intrinsic Value	
Enterprise Value	\$ 196,881.50
Plus: Cash	\$ 11,458.00
Less: Debt	\$ 17,904.00
Less: Preferred Equity	\$ -
Equity Value	\$ 190,435.50
Equity Value per Share	\$ 104.23

Terminal Value	
Perpetual Growth	\$ 116,410.68
EV/EBITDA	\$ 448,566.79
Average	\$ 282,488.73
Upside (Downside)	
Current Share Price	\$ 79.78
Intrinsic Value	\$ 104.23
Upside %	30.65%

Appendix



Kevin A. Lansberry
CFO

- Has been with the company for over 37 years
- Oversees the Company's worldwide finance organization including brand and franchise management, corporate alliances, real estate



Robert A. Iger
CEO

- Returned to the company in Nov. 2022 after serving CEO and Chairman from 2005-2020, and then as Executive Chairman through 2021



Diane Jurgens
CIO

- He has been with the company for 25 years, overseeing the strategy, operations and creative development of the company's travel and business