A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

VALUATION OF THE WALT DISNEY COMPANY AND THE INFLUENCE OF DISNEY PLUS' PERCEPTION IN SOCIAL MEDIA ON ITS FUTURE SUBSCRIBER GROWTH

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A Project carried out on the Master in Management Program, under the supervision of:

PROFESSOR FRANCISCO MARTINS

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Abstract

The Walt Disney Company has repositioned its conglomerate with the realignment of its business units, the composition of the new business segment “Direct-to-Consumer & International”, and the acquisition of 21st Century Fox. In the following report, the impact of these drastic changes on The Walt Disney Company are analyzed for valuation purposes. The DCF valuation is based on a sum-of-the-parts approach to determine the company’s fair value. According to the following analysis, the company is undervalued compared to its stock price as of 31 December 2019. The total expected return to shareholders is 17.6% including 1.3% dividend yield.

Keywords

The World Disney Company, Company Report, Discounted Cashflow Valuation

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THE WORLD DISNEY COMPANY

COMPANY REPORT

ENTERTAINMENT

6 JANUARY 2020

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Crafting Disney's future

Disney's realignment pressures the P&L in the short run to pursue further prospective prosperity

- **21st Century Fox** acquisition increased the level of **Net Debt** from 19.0 bn USD (2018) to 52.0 bn USD (2019). The **A2 credit rating** (Moody's) is **not** expected to be **jeopardized**.

- Investment in **Disney+**, **Hulu** and **ESPN+** pays off after 2024. Direct-to-Consumer & International segment **contributes 8.1% to** Disney's levered **Enterprise Value**.

- Disney invests heavily in its **parks** as well as in another three **cruise ships**. Gross Capex are expected to be 25.0 bn USD as of today.

- US-based **Media Networks slow** down Disney's **growth** (revenue $CAGR_{2019\text{-}2024}$ of 1.8%), but the cash generation is highly appreciated to **finance the streaming expansion**.

- **M&A strategy** of acquiring and levering Pixar, Lucasfilm, Marvel and 20th Century Fox (subsidiary of 21st Century Fox) extended the US market share to 35.1% in 2018. Thus, as the market leader, the **studios create sheer synergies across segments with its Intellectual Property portfolio**. Therefore, Studio Entertainment is **Disney's centrepiece** and the **fundamental growth** driver **of all segments**.

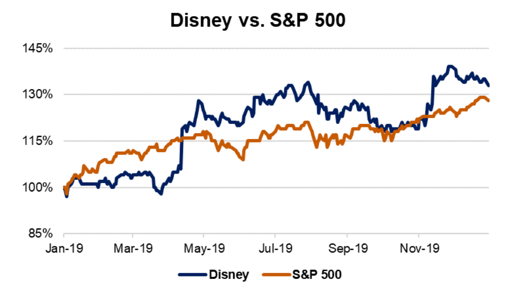
- The **increase in global middle** class of 1.7 mn people is positively affecting the **long-term growth** of Disney (2.9%), whereby the predominant geography is **Asia Pacific**.

Recommendation:	BUY
Price Target FY20:	167.09 USD
Price as of 31 Dec '19	145.75 USD

Bloomberg: DIS:US

52-week range (USD)	105.94-153.41
Market cap (mn USD)	215,511
Outstanding shares (mn)	1,656
Expected shareholder return	17.6%

Source: Bloomberg (2019), Disney (2019a), Analysts estimates



Source: Bloomberg (2019)

(Values in mn USD)	2019A	2020F	2021F
Revenues	71,528	80,340	82,198
Revenue growth	19.0%	12.3%	2.2%
EBITDA	15,198	16,489	18,482
EBITDA margin	21.2%	20.5%	22.5%
EPS	5.30	4.63	5.60
DPS	1.76	1.94	2.12
P/E	25.3x	36.1x	31.3x
EV/Revenue	3.8x	4.3x	4.5x
EV/EBITDA	18.0x	21.1x	20.1x
ROIC (incl. Goodwill)	11.7%	6.8%	7.2%
ROIC (excl. Goodwill)	20.7%	14.8%	15.1%

Source: Bloomberg (2019), Disney (2019a), Analysts estimates

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Company Description

Established in 1929 and headquartered in Burbank, California, The Walt Disney Company (for simplicity: Disney) has the mission "to entertain, inform and inspire people around the globe [to be the] world's premier entertainment company" (Disney, 2019a, p.1). Disney's track record is remarkable under the current Chairman and CEO Robert Allen Iger, who is in office since 2005 and announced to resign in the end of 2021. On the one hand, Disney has internationalized (Shanghai Disneyland in 2016) and has increased its foreign activities among segments. On the other hand, Disney acquired several studios: Pixar (2006), Marvel (2009), Lucasfilm (2012) and 21st Century Fox (for simplicity: 21CF, 2019). Consequently, in Igar's tenure, the market cap multiplied by 5.4x to 215.5 bn USD ($CAGR_{2005\text{-}2019}$ 15.1%) (Yahoo Finance, 2019). Therefore, Disney is the leading international media and entertainment conglomerate in terms of market cap. In addition, ranked among the top 10 of most valuable brands worldwide, Disney with its subsidiaries (selected companies see figure 1) is the leading media and entertainment company with a brand value of 44.4 bn USD (Interbrand, 2019).

Trigged by the increasing subscription in streaming services for entertaining purposes (main rational) in combination with strengthening the market share of Disney's studios, getting additional IP rights for Disney's Parks/Consumer Products and consolidating the US TV market, Disney acquired 21CF. The transaction was completed in March 2019. As a preparatory action, Disney had re-organized the segment structure previously as stated in figure 1 by merging its Consumer Products & Interactive Media and Parks & Resorts as well as by shifting the non-US Media Networks to the Direct-to-Consumer & International segment.

According to figure 2, Media Networks' relative revenue contribution is continuously decreasing, while the Direct-to-Consumer & International segment was strategically strengthened by the additional 30.0% stake of 21CF in Hulu. Hence, Disney is nowadays consolidating Hulu (60.0% ownership). However, Media Networks are well-performing in terms of ROIC and generate cash to invest in the streaming services (see figure 3), which are expected to be loss-making until 2023/2024. In geographic terms (see figure 4), Asia Pacific is getting more important on the group level and contributed relatively more to the Disney revenue growth in 2019. Figure 4 highlights further that every geography has boosted the overall revenue of Disney. Through the 21CF acquisition, the North American business was enhanced. Overall, Disney's revenues increased organically from 2018 to 2019 by 2.9% (vs. inorganic: 7.7%). In turn, see figure 5,

Figure 1: Disney's segments, selected brands & acquired 21CF assets
Source: Disney (2019a)

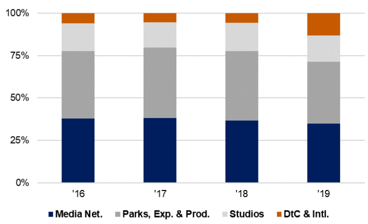

Figure 2: Rel. revenue split per segment
Source: Disney (2019b), Analysts estimates

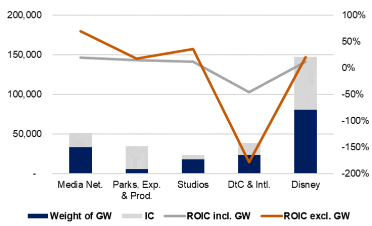

Figure 3: ROIC, Goodwill & Operating Invested Capital (2019, in mn USD, segment/group)
Source: Disney (2019b), Analysts estimastes

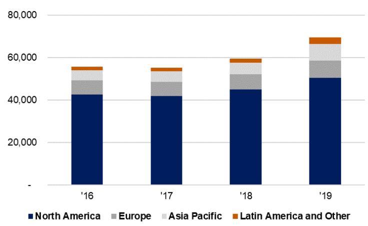

Figure 4: Revenues per geography
Source: Disney (2019b), Analysts estimates

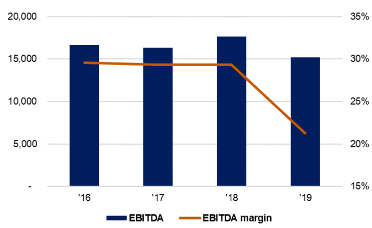

Figure 5: EBITDA & EBTIDA margin
Source: Disney (2019b), Analysts estimates

Disney's EBITDA margin lied constantly close to the 30.0% threshold but deteriorated to 21.2% because of the 21CF assets and its integration.

Macroeconomic Perspective

From the macroeconomic perspective, geographies where Disney is operating are expected to grow in real terms. While North America, the EU and Latin America have real growth expectations below 2.0%, Asia Pacific and especially China protrude (see table 1). Comparing these results with PWC's résumé (2017), the industry remains in the short-term on a stable level in terms of contribution to the global GDP (2.4%). Hence, customers continue to keep spending their disposable income for leisure on a constant level. Matching the $CAGR_{2019\text{-}2030}$ growth (for simplicity: nominal, if not stated elsewise in this report) of disposable income in countries where Disney operates (IMF, 2019) and the fact that people increase consumption with higher disposable income (Investopedia, 2018), people are expected to increase demand for entertainment in the medium- and long-run. By how much the Disney participates is subject to settings within the geography (see table 1). The entertainment industry in developed countries, as the US or France, are in a mature stage, whereas emerging and developing countries (i.e. China and India) have significant potential and have been already, mainly through parks (Shanghai, Hong Kong, Tokyo) and broadcasting/cable network channels (India), targeted by Disney for further growth.

As a proxy, the beta of Disney and its competitors can reveal insights about further growth. Defined as a measure for the systematic risk, the beta is interpreted as the underlying's expected change in excess return given a 1.0% market portfolio excess return change. Disney's (unlevered) beta is 0.73. Hence, if the market portfolio has a 1.0% return, Disney's return equals 0.73%. In a broader framework, the beta reveals the sensitiveness of the underlying's revenues to the general macroeconomic environment (Berk and DeMarzo, 2014). Disney participates therefore by 0.73% in a 1.0% real GDP growth. Applying this concept with the growth expectations of the different geographies, Disney increases its revenues by a $CAGR_{2019\text{-}2024}$ of 3.7% in Asia Pacific, 1.4% in Latin America and 1.2% in the Europe.

Disney seems ready for the prospective growth in Asia Pacific, on the one hand through its brand value/awareness and on the other hand through its regional exposure: Disneyland in Hong Kong, China and Shanghai, China, the Disneyland in Tokyo, Japan (owned by third parties; compensated by royalties) and the movie releases of its Hollywood studios. This can be substantiated even more as

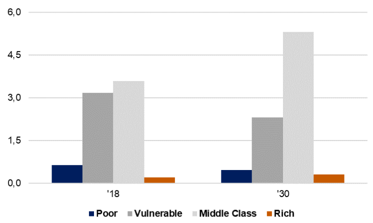

Figure 6: Change in global society in bn from 2018 to 2030
Source: Brookings (2018)

Disney is facing a great market opportunity through social advancement (see figure 6; difference in middle class: +1.7 bn), which is mostly driven by Asians. Social advancement impacts Disney as its goods and services are determined - in microeconomic terms - as luxury goods: With increasing income, the demand is increasing even higher.

In turn, Disney has a high revenue exposure of 72.7% in North America (2019) and is expected to grow by 1.3%. More precise, the North America business (excl. Direct-to-consumer & International) is a great base for inner strength to expand. In addition, with Hulu, Disney+ and ESPN+, Disney has three scalable business opportunities in its portfolio to outperform this proxy and expand worldwide: a likely path to further prosperity.

Geography	Real GDP $CAGR_{2019-2024}$	Median Disp. Inc. $CAGR_{2019-2030}$	Macro outlook	Disney exposure	Relevance for Disney	Growth potential $CAGR_{2019-2024}$
Asia Pacific	5.1%	4.0%	4/4	all excl. Media Net.	high	3.7%
China	5.8%	6.9%	4/4	Parks, Studios	high	4.2%
Europe	1.6%	3.7%	2/4	all excl. Media Net.	medium	1.2%
North America	1.8%	3.4%	3/4	all segments	high	1.3%
USA	1.8%	2.9%	3/4	all segments	high	1.3%
Latin America	1.9%	3.9%	2/4	Studios, Consumer Prod.	low	1.4%

Table 1: Summary of Macroeconomic perspective
Source: Euromonitor International (2019b), Disney (2019b), IMF (2019), Analysts estimates

Media Networks

Industry Overview

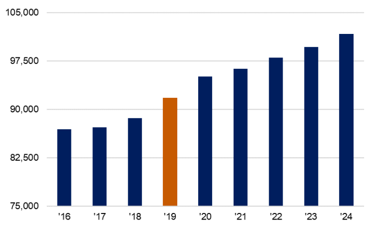

Figure 7: US Cable Networks Market (2016-2024 in mn USD)
Source: IBIS (2019b)

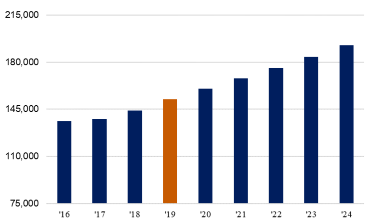

Figure 8: US Broadcasting Market (2016-2024 in mn USD)
Source: Euromonitor International (2019a)

Year	Average time spent on TV
'15	5h 07min
'16	5h 04min
'17	4h 55min
'18	4h 46min
'19	4h 27min

Table 2: Avg. Time spent on TV per US adult 18+ per day
Source: Nielsen (2017, 2019)

The US market for cable networks has grown with a $CAGR_{2016-2019}$ of 1.8% and will result in a 91.8 bn US market (see figure 7). The industry is expected to grow further with a $CAGR_{2019-2024}$ of 2.1% to 101.8 bn USD in 2024. On the other hand, see figure 8, the US market for broadcasting has grown with a $CAGR_{2016-2019}$ of 3.8% to a 152.5 bn USD market. Euromonitor International (2019a) expects the industry to grow further with a $CAGR_{2019-2024}$ of 4.8% to 192.7 bn USD in 2024. While the cable networks estimate is realistic, the prosepective growth in broadcasting seems exaggerated and should be closer set to cable networks growth. The average time spent on TV each day (see table 2) in addition to a declining subscriber base for cable networks reveals a negatively impacting trend which is expected to continue. Contrary, Media Networks are still able to translate these effects into a higher advertising revenue to let the market grow until 2024. After 2024, both markets are expected to decline, but remain on a constant level in the long run. Thus, broadcasting and cable networks are not on the brink of extinction, both will coexist with streaming services. However, Media Networks feel the pinch of an increasing competiton within and outside the industry.

Competition

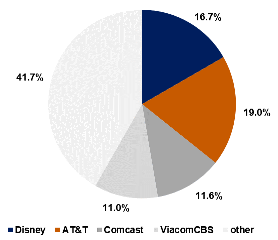

Figure 9: US Cable Networks Market Share (in terms of revenues in 2018)
Source: IBISWorld (2019b)

Company	# of local TV stations	TV households	% of US
Disney	8	23.8 mn	21.2%
Comcast	39	29.6 mn	27.3%
ViacomCBS	29	42.1 mn	37.4%
Fox Corp.	28	35.0 mn	32.6%

Table 3: US Broadcasting Market Share (in terms of DMA in 2020)
Source: Mediatracks Communications (2019)

As the second-largest US cable network, Disney (incl. 21CF) has a market share of 16.7%. Together with the other three major companies, they account for 58.3% of the US cable network market in 2018. The remaining 41.7% market share belongs to 386 businesses (IBISWorld, 2019b).

The footprint in broadcasting is measured typically by Nielsen's DMA Ranking (Designated Market Area; see table 3). Althought Disney's has less local broadcasting TV stations in comparison to its competitors, Disney reaches proportional more US TV households due to its targeted areas and the avoidance of overlapping local stations. Within US broadcasting, 2,224 businesses compete for local audience (IBISWorld, 2019c). Nonetheless, the degree of US coverage might be confusing, as the major companies (incl. Disney) have affiliation agreements with third local TV stations/channels across the US and thus reach (indirectly) approx. 100.0% of US TV households.

Overall, the market is medium-concentrated but the competition should not be neglected. In other words, cable networks and broadcasting companies compete for audience, but US Americans prefer to watch solely 17 channels on average (Nielsen, 2014).

Comparables

Cable Networks

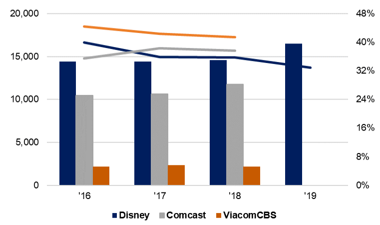

Figure 10: Cable networks - Peers' revenues (in mn USD) & EBITDA margin (2016-2019)
Source: Disney (2019b), Viacom (2018), Comcast (2018)

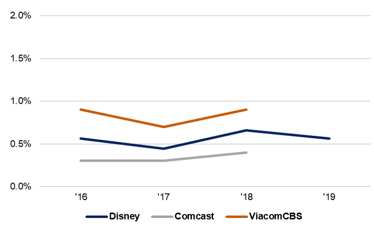

Figure 11: Cable networks - Peers' Gross Capex-to-sales ratio (2016-2019)
Source: Disney (2019b), Viacom (2018), Comcast (2018)

The targeted audience does not significantly differ among Disney and its peers: sports, news and entertainment for every age group. Through higher revenues (see figure 10) is Comcast able to reduce its Capex-to-sales ratio, however, is lagging slightly behind ViacomCBS' profitability. Interesting are the facts that EBITDA margin and Capex-to-sales ratio are close, but the difference in sales development between Comcast and ViacomCBS was the opposite within the last three years (see figure 11). Comcast has grown in 2018 due to 2018 PyeongChang Olympic Games and 2018 Super Bowl (Comcast, 2018).

Disney's organic growth is relatively modest and boosted its revenues in 2019 through the 21CF acquisition. Capex-to-sales ratio and EBITDA margin is decreasing but are in line with the peer. However, the 21CF integration put pressure onto EBITDA margin (40.0% in 2016 vs. 32.9% in 2019).

Broadcasting networks

Disney, Comcast and ViacomCBS have a similar business model in broadcasting. With its local TV stations, the companies try to reach as many US

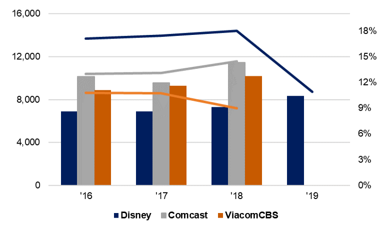

Figure 12: Broadcasting - Peers' revenues (in mn USD) & EBITDA margin (2016-2019)
Source: Disney (2019b), CBS (2018), Comcast (2018)

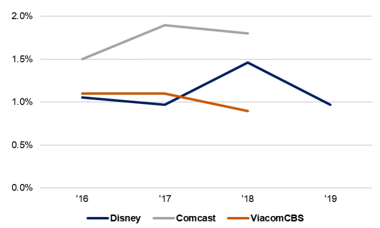

Figure 13: Broadcasting - Peers' Gross Capex-to-sales ratio (2016-2019)
Source: Disney (2019b), CBS (2018), Comcast (2018)

households as possible in the most attractive areas. Combining table 3 with figure 12, Comcast has more local broadcasting TV stations, less US coverage but overall similar revenues in comparison with ViacomCBS. The difference is Telemundo, a subsidiary of Comcast, which targets the Spanish-speaking US population mainly in overlapping areas of Comcast's NBC Local Broadcast TV Stations (Comcast, 2018). Therefore, Comcast must invest on average more (see figure 13) but is awarded by higher EBITDA margin.

Disney's broadcasting revenues highlight its competitive advantage of ABC Network and the right targeted DMA. The sales growth of 14.1% in 2019 is solely driven by organic growth as the 21CF's broadcasting network was immediately spun-off to Fox Corporation. The competitive advantage of Disney's broadcasting is revealed in the EBITDA margin. However, according to Disney (2019b), broadcasting's EBITDA deteriorated in 2019 as a one-off event by 887.0 mn USD as production and programming costs increased due to the consolidation of 21CF and subsequent spin-off. Capex-to-sales ratio is close to ViacomCBS.

Value Driver & Forecast

Performing the forecast based on cable and broadcasting networks is too superficial and might yield in improper results. Media network, however, are driven more specifically by affiliate fees, advertising and TV/SVOD distribution.

Affiliate Fees

Cable Network	'19	'24	Change
Disney Channels	73.3 mn	56.8 mn	- 16.5 mn
ESPN	68.8 mn	53.3 mn	- 15.5 mn
FX	75.7 mn	58.7 mn	- 17.0 mn
Freeform	85.0 mn	65.8 mn	- 19.2 mn
National Geographic	72.5 mn	56.2 mn	- 16.3 mn

Table 4: Expected changes in Disney's cable network subscription (2019 vs. 2024)
Source: Disney (2019b), Analysts estimates

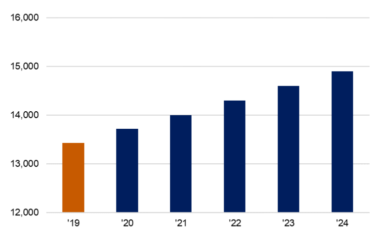

Figure 14: Forecasted revenues for Affiliate fees (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

Affiliate fees are the most relevant driver of cable networks charged to so-called MVPDs (Multi-channel Video Programming Distributors) and in minor terms for affiliated third TV stations of Disney's broadcasting network. According to the trends identified by IBISWorld (2019b, 2019c), on the one hand, Disney continues to charge higher contractual rates to MVPDs with a $CAGR_{2019\text{-}2024}$ of approx. 7.4% until 2024. On the other hand, Disney continues to suffer from less subscriptions with a $CAGR_{2019\text{-}2024}$ of -5.0% (in detail: see table 4). ESPN is expected to have 53.3 mn subscribers in 2024: an effective loss of 15.5 mn based on 2019 figures. Similarly, 58.7 mn are expected to subscribe to FX, which are 17.0 mn less than in 2019. Therefore, affiliate fees will slightly increase by a $CAGR_{2019\text{-}2024}$ of 2.1% to 14.9 bn USD (see figure 14).

Advertising

Advertising revenues (selling time on air or networks) are for Media Networks important, but foremost for broadcasting. PWC (2019a) estimates a slight increase in TV advertising revenues by a $CAGR_{2019\text{-}2022}$ of 0.5%. In addition, IBISWorld (2019b, 2019c) expects an industrywide decline in TV advertising

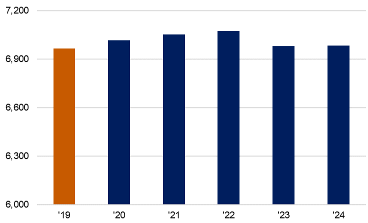

Figure 15: Forecasted revenues for Advertising (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

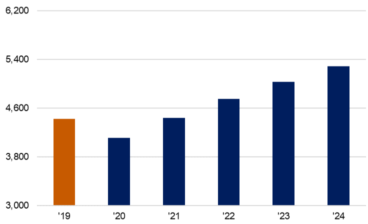

Figure 16: Forecasted revenues for TV/ SVOD distribution (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

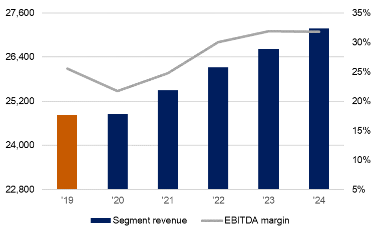

Figure 17: Total forecasted revenues for Media Networks & EBITDA margin (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

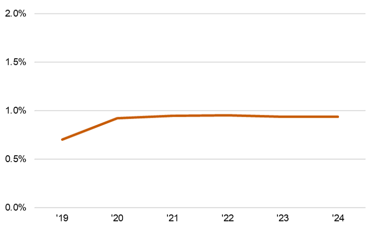

Figure 18: Gross Capex-to-sales ratio for Media Networks (2016-2019)
Source: Disney (2019b), Analysts estimates

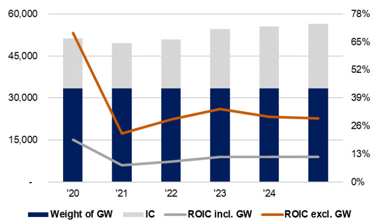

Figure 19: ROIC, Goodwill & Operating Invested Capital (2019, in mn USD, Media Networks)
Source: Disney (2019b), Analysts estimates

revenues, as the US population tends to spend less time in front of the TV (see table 2, page 5) and companies try to advertise more efficiently by short clips over short time periods (Adweek, 2019). This is incorporated as advertising rates will continue to increase solely until the turning point in 2024 (CAGR$_{2019\text{-}2024}$: 4.6% broadcasting, 4.1% cable networks) and impressions decrease (CAGR$_{2019\text{-}2024}$: -5.0% cable networks, -2.1% at Disney's owned TV stations, -4.4% at affiliated third TV stations). These changes in impressions are in line with IBISWorld (2019b, 2019c), as cable networks are worse off than broadcasting. However, within broadcasting, Disney is better off through its competitive advantage in attracting people to watch the ABC Network. Overall, advertising revenues are expected to increase by a CAGR$_{2019\text{-}2024}$ of 0.1% to 7.0 bn USD (see figure 15).

TV/SVOD Distribution

TV/SVOD distribution is expected to become more important over time. For 2020, however, Disney announced to discontinue the partnership with Netflix. Together with Disney's Studio Entertainment, Media Networks is negatively impacted by 150.0 mn USD operating income loss. This implies a revenue reduction of 7.2% in 2020. In the long run, a full participation is expected according to Digital TV Research (2019b) of the percentage change of worldwide subscription of SVOD's (CAGR$_{2019\text{-}2024}$ of 3.6%). This results in a revenue of 5.3 bn USD in 2024 meaning that the Netflix discontinuation will be offset (see figure 16).

Financial Projection

Media Networks segment revenue is thus expected to increase by a CAGR$_{2019\text{-}2024}$ of 1.8% to 27.2 bn USD in 2024 (see figure 17).

With an EBITDA margin of 21.7% in 2020, Media Networks is facing a setback due to the integration of 21CF's cable networks. Disney's management announced recently that the restructuring will be completed by 2021 with a group-wide cost of approx. 300.0 mn USD. This takes predominately part in this segment with 90.0 mn USD in Media Networks.

Capex is used for both businesses. With a Capex-to-sales ratio of 0.9% for the next years (see figure 18), Disney is lying in-between the broadcasting and cable networks industry. Thus, low Capex-to-sales revealing that Media Networks is nowadays in a mature stage.

The ROIC trend is similar to EBITDA margin development (see figure 19). After the 21CF integration of cable networks is accomplished, ROIC incl. Goodwill is relatively constant at approx. 11.7% to 11.8%.

Studio Entertainment

Industry Overview

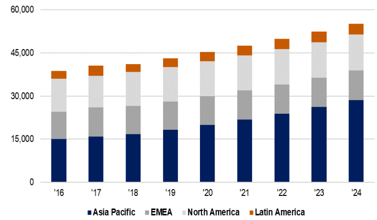

Figure 20: Global box office market per geography (2016-2024 in mn USD)
Source: Motion Pictures (2018), PWC (2019a, 2019b), Business Wire (2019)

Global box office, nowadays a 43.2 bn USD market which respresents cinema ticket sales, have increased by a $CAGR_{2016\text{-}2019}$ of 3.6%. The development differed however among geographies. North America faced moderate growth, while Asia Pacific is the geography most responsible for growth (see figure 20). This trend continues as the largest market, the US, is expected to increase modestly by a $CAGR_{2019\text{-}2023}$ of 0.8%, while the second-largest market China faces further growth of 9.4% ($CAGR_{2019\text{-}2023}$). The global market is expected to grow overall at a $CAGR_{2019\text{-}2024}$ of 5.0%.

Chinese market

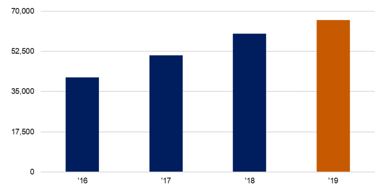

Figure 21: Number of cinema screens in China
Source: Statista (2019a)

As a result of the aforementioned CAGR's, China supersedes the US as the largest box office market in 2022. To satisfy the Chinese cinema demand, the number of cinema screens have grown rapidly by a $CAGR_{2016\text{-}2019}$ of 17.0% (see figure 21). This implies that 16.3 new cinema screens were installed on average per day in 2019.

However, the Chinese government puts obstacles in the way of Hollywood studios to participate. Firstly, the promotion of the Western lifestyle, values and society is prohibited to avoid negative impact on the Chinese culture and is strictly monitored through censorship regulations. Hollywood studios have already adapted the conception of blockbusters into so-called transnational movies where cultural differences are simplified. Secondly, the Chinese film industry is subject to protectionism by imposing import quotas, short advertising windows, blackout periods and a capped compensation of 25.0% of Chinese box office for foreign studios. The latter was in negotiation but is currently on hold as the US-Chinese trade tension is ongoing. The import quotas are heavily limiting the market potential, too, as solely 34 non-Chinese movies are allowed to be released annually. These 34 movies must be revenue-shared (the Chinese partner is responsible for distribution and advertising): thereof 14 formatted as 3D or IMAX (Song, 2018).

US Competition

Market share of Big 5 in North America	'08	'18	Change
Disney (incl. Lucasfilms, Marvel, 21CF)	19.1%	35.1%	16.0%
thereof 20th Century Fox	*9.7%*	*9.1%*	*- 0.6%*
Warner Bros (AT&T)	16.4%	16.3%	- 0.1%
Universal (Comcast)	10.7%	14.9%	+ 4.2%
Columbia/Sony (Sony)	11.0%	11.0%	+/- 0.0%
Paramount (ViacomCBS)	9.5%	6.4%	- 3.1%

Table 5: Market share of the Big 5 in North America (2008 vs. 2018)
Source: Motion Pictures (2011), IMDbPro (2019a)

The so-called Big Five have a market-dominating position in the concentrated US market with a market share of 83.7% in 2018 (see table 5). As economies of scale matter in this industry, their market share increased by 17.0% based on a share of 66.7% in 2008. The remaining share is allocated to the so-called Minimajors like Lionsgate and MGM Holdings which are characterized by a market share of below 5.0% each.

Beside Disney, every film studio has kept each market share relatively constant in the 10 years comparison and has not undertaken significant M&A activities. Disney, in turn, had grown inorganically through acquisitions of Pixar (2006), Marvel (2009), Lucasfilm (2015) and 20th Century Fox (2019). Remarkable is the fact that Disney strengthened the performance of each studio, which resulted in a 16.0% increase in market share in 2018.

#	Movie	Box Office in mn USD	Year	Company
1	Avengers: Endgame	2,797.8	2019	Disney
2	Avatar	2,790.0	2009	21CF, pre-acquisition
3	Titanic	2,187.5	1997	21CF, pre-acquisition
4	Star Wars: The Force Awakens	2,068.2	2015	Disney
5	Avengers: Infinity War	2,048.4	2018	Disney
6	Jurassic World	1,670.4	2015	Universal
7	The Lion King (2019)	1,656.7	2019	Disney
8	Marvel's The Avengers	1,518.8	2012	Disney
9	Furious 7	1,515.0	2015	Universal
10	Avengers : Age of Ultron	1,402.8	2015	Disney
11	Black Panther	1,346.9	2018	Disney
12	Harry Potter & the Deathly Hallows (II)	1,341.9	2011	Warner Bros.
13	Star Wars: The Last Jedi	1,332.5	2017	Disney
14	Jurassic World: Fallen Kingdom	1,308.5	2018	Universal
15	Frozen	1,274.2	2013	Disney
16	Beauty and the Beast	1,263.5	2017	Disney
17	Incredibles 2	1,242.8	2018	Disney
18	The Fate of the Furious	1,236.0	2017	Universal
19	Iron Man 3	1,214.8	2013	Disney
20	Minions	1,159.4	2015	Universal

Table 6: Global box office revenue of the top 20 of most successful movies of all time
Source: Box Office Mojo (2019)

Disney's superior performance is directly observable in table 6, as Disney leveraged its studios to produce and distribute 12 movies which are listed in the top 20 of most successful movies of all time. In addition, the two movies Avatar and Titanic belong to 20th Century Fox and were released before the 21CF acquisition.

The importance of an investment in the right plot, the right production techniques and the utilization of previous well-performing blockbusters is shown by the fact that the 2018's top 10 blockbuster are responsible for 42.1% of global box office (Box Office Mojo, 2019).

Comparables

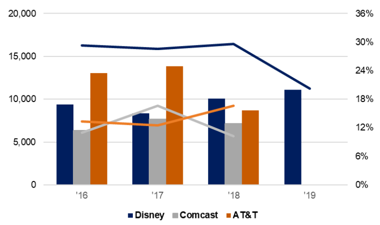

Figure 22: Peers' revenues (in mn USD) & EBITDA margin (2016-2019)
Source: Disney (2019b), Comcast (2018), AT&T (2018)

Comparing the revenues among the three major US film studios (see figure 22) does not reflect Disney's superior performance in terms of market shares. On the one hand, the 21CF acquisition was undertaken in mid-FY2019 so that the Disney's market share lied closer to Universal's (subsidiary of Comcast) and Warner Bros' (subsidiary of AT&T). On the other hand, box offices cannot be set equal to the revenue of film studios. In turn, the incumbent has a highly profitable EBITDA margin which lies between 28.6% (2017) and 29.7% (2018). Due to integration and restructuring of the 21CF assets, the EBITDA margin deteriorated to 20.2%. Disney's superior performance is a result of its Capex and budgets for movies, too. In 2019, Disney's average budget per movie (150.8 mn USD) was the threefold of Universal (51.4 mn USD) and Warner Bros (50.5 mn USD), which is observable in the past as well (IMDbPro, 2019b). The Gross Capex-to-sales development is observable in figure 23.

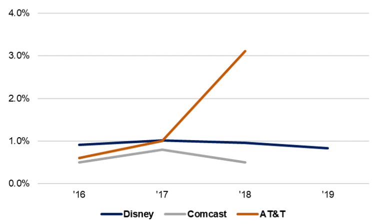

Figure 23: Peers' Gross Capex-to-sales ratio (2016-2019)
Source: Disney (2019b), Comcast (2018), AT&T (2018)

Value Driver & Forecast

Theatrical Distribution

Disney announced a detailed schedule to release movies including the expected date. In 2020 and 2021, 24 respectively 14 movies are expected to be released. In the short-term, the number of movies is rigid as the period between first

Release	Movie
5 Dec '20	Shang Chi And The Legend Of The Ten Rings
27 Mar '20	Mulan
24 Jul '20	Jungle Cruise
18 Sep '20	The King's Man
7 May '21	Doctor Strange In The Multiverse of Madness
28 May '21	Cruella
9 Sep '21	Untiteld Indiana Jones
5 Nov '21	Thor: Love And Thunder
17 Dec '21	Avatar 2
18 Feb '22	Untiteld Marvel
6 May '22	Black Panther 2
7 Oct '22	Untiteled Marvel
16 Dec '22	Untiteled Star Wars
22 Dec '23	Avatar 3
20 Dec '24	Untitled Star Wars
19 Dec '25	Avatar 4
18 'Dec '26	Untitled Star Wars
17 Dec '27	Avatar 5

Table 7: Selection of upcoming movie highlights until 2027
Source: Disney Studios (2019)

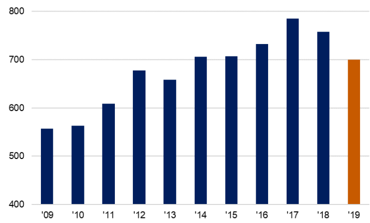

Figure 24: Movie releases per year in the US (2009-2019)
Source: Motion Pictures (2014, 2018)

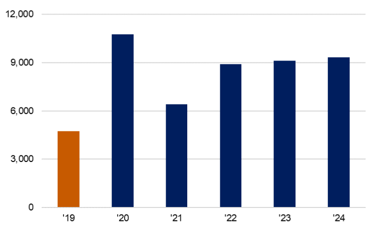

Figure 25: Forecasted revenues for Theatrical distribution (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

Year	Average time spend for DVD/Blue-Ray Device
'15	09min
'16	08min
'17	07min
'18	06min
'19	05min

Table 8: Avg. Time spent for DVD/Blue Ray Device per US adult 18+ per day
Source: Nielsen (2017, 2019)

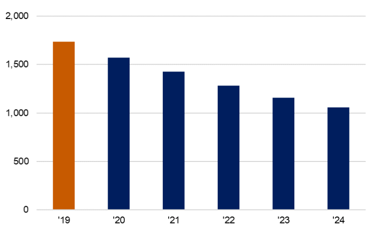

Figure 26: Forecasted revenues for Home entertainment (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

announcement and the theatrical release takes on average 871 days (Stephen Follows, 2018).

The schedule until 2027 comprises unknown movies with the potential hit box-office but especially the continuation of previous successful movies (see table 7).

However, as time goes by, the schedule is added by further movies. After 2021, an average of 19 released movies is expected, based on the production and distribution of Disney's studio incl. 20th Century Fox between 2017 and 2021. The 19 released movies can be verified by looking beyond Disney. Until 2017, the last decade was characterized by a steady increase in movies, released in the US market, where every Disney production is rolled out. For three years, the number of released movies is consolidating on a high level between 700 and 800 movies per year (see figure 24). Especially as the Big Five have an incentive in a consolidated market, there must be natural upper bound of movie production to attract customers and to avoid diluting their success to invest in further film budgets.

Therefore, the number of expected movie releases is expected to remain constant and thus, the global box office ($CAGR_{2019\text{-}2024}$ of 5.0%) is driven by the average revenue per film. However, the limited growth potential of Disney in the US (0.8% $CAGR_{2019\text{-}2023}$) as well as the import quota and revenue sharing in China are obstacles. Therefore, Disney is expected to increase the average revenue per movie (438.0 mn USD in 2019) by a $CAGR_{2019\text{-}2024}$ of 2.3% and thus below market. Overall, theatrical is expected to generate revenues in 2024 of 9.3 bn USD (see figure 25).

Home Entertainment

After releasing the movie in the cinema (first window), Disney sells its motion pictures in physical and electronic formats to distributors and retailers (second window). Mainly because of the emergence of streaming services have DVDs and Blue-Rays become less popular in the US to spend time for (see table 8). In addition, with the (new) product offering of Disney+ and Hulu, customers have access to the entire Disney library and do not have to buy physical or electronic formats. Disney (2019c) decided strategically to shorten the second window to release blockbusters sooner on Disney's streaming platforms (third window). Thus, Disney's home entertainment revenues will decline further by a $CAGR_{2019\text{-}2024}$ of 9.4% to 1.0 bn USD (see figure 26).

TV/SVOD Distribution

Similar to Media Networks, TV/SVOD distribution is increasingly important. The discontinuation of the partnership with Netflix burdens Studio entertainment

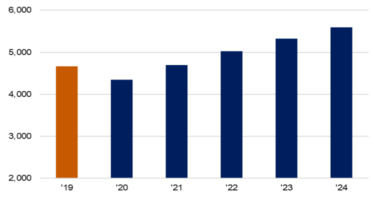

Figure 27: Forecasted revenues for TV/ SVOD distribution (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

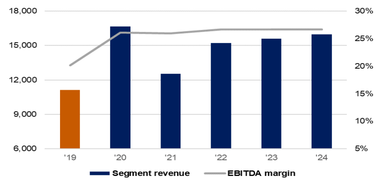

Figure 28: Total forecasted revenues for Studio Entertainment & EBITDA margin (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

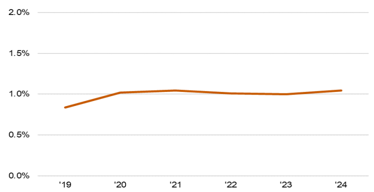

Figure 29: Gross Capex-to-sales ratio for Studio Entertainment (2016-2019)
Source: Disney (2019b), Analysts estimates

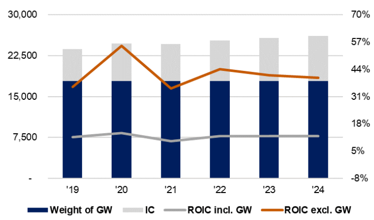

Figure 30: ROIC, Goodwill & Operating Invested Capital (2019, in mn USD, Studio Entertainment)
Source: Disney (2019b), Analysts estimates

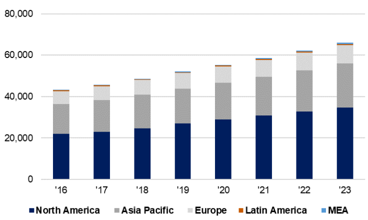

Figure 31: Theme and Amusement Park Market per geography (2016-2023 in mn USD
Source: IAAPA (2019)

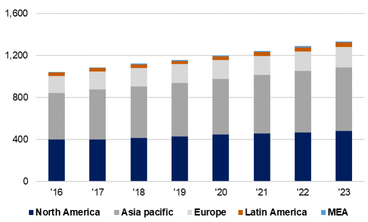

Figure 32: Theme and Amusement Park Attendance (2016-2023 in mn)
Source: IAAPA (2019)

(6.8% revenue reduction in 2020), too. In the long run, a full participation is expected according to Digital TV Research (2019b) of the percentage change of worldwide subscription of SVOD's ($CAGR_{2019\text{-}2024}$ of 3.7%). This results in a revenue of 5.6 bn USD in 2024 (see figure 27) meaning that the Netflix discontinuation will be offset.

Financial Projection

By a $CAGR_{2019\text{-}2024}$ of 7.5%, the segment is expected to increase the revenues to 16.0 bn USD in 2024 (see figure 28). The EBITDA margin is expected to improve over time. Similar to Media Networks, restructuring costs due to the integration of 21CF continues to burden the profitability in 2020 and 2021 with 90.0 and 80.0 mn USD. Having said that Disney's film budgets are the threefold of competitors, Disney is committed to invest heavily in the future. The announced movies according to the schedule require a stable Capex which are equivalent to a Capex-to-sales ratio of 1.0% (see figure 29). The difference in ROIC between 2020 and 2021 is driven by the number of released movies (2020: 24; 2021: 14), but partially offset by losses due to discontinuation of supplying Netflix. After 2021, the ROIC incl. Goodwill is relatively stable (see figure 30).

Parks, Experiences & Products

Industry Overview

The global market for amusement and theme parks has grown by a $CAGR_{2016\text{-}2019}$ of 6.5% and will result in 2019 in a 52.1 bn USD market (see figure 31). The industry is expected to grow further by a $CAGR_{2019\text{-}2023}$ of 6.1% to 66.0 bn USD. North America is currently the most important market for the industry (51.9%). However, Asia Pacific has caught up in the previous years and represents 32.2% of the worldwide market size in 2019. Europe has faced a slower growth and has become therefore less important on a global perspective (see figure 31).

Global park attendance was the main driver of industry revenues in the past reaching 1.2 bn people in 2019 (see figure 32). Similar to the revenue allocation in the industry, North America and Asia Pacific predominate the market in terms of attendance. However, visitor numbers in Asia Pacific have already outperformed North America. The lower market size in Asia Pacific in terms of revenue can be explained by a lower per capita guest spending in comparison to North America (see figure 33, see page 13). North America leads the global market regarding per capita spending with an average per capita guest spending in 2019 of approx. 63.1 USD (figure 33, see page 13).

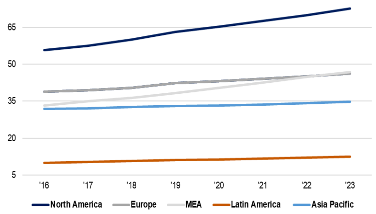

Figure 33: Per capita guest spending in parks per geography (2016-2023 in USD)
Source: IAAPA (2019)

The strong market growth can be justified and is mainly supported by different trends and pillars. People getting worldwide more interested in traveling which supports potential park visitors fundamentally. According to UNWTO (2019) the international number of tourists' arrivals increased by a $CAGR_{2010\text{-}2018}$ of 5.0% resulting in 1.4 bn arrivals worldwide in 2018. International tourism is expected to grow further by a $CAGR_{2018\text{-}2030}$ of 2.2% resulting in 1.8 bn arrivals globally in 2030 according to UNWTO (2019) from which theme and amusement parks attendance will benefit. Secondly, the positive macroeconomic environment and especially increasing disposable income across geographies support attendance, average guest spending and consequently overall industry growth fundamentally in the corresponding markets. Particularly, an increasing middle class in Asia Pacific (see Macroeconomic perspective) leads to an increased demand and continues to support attendance growth and per capita guest spending in the further future.

Prospective industry growth is expected from North America and Asia Pacific especially, which is in line with the recent trend of the big American entertainment companies to renew/expand their domestic parks and strengthen their exposure in Asia Pacific.

Competition

Company	Attendance in mn	Market share in %
Disney	157.3	14.0%
Merlin	67.0	6.0%
Universal	50.1	4.5%
OCT Parks	49.4	4.4%
Fantawild	42.1	3.8%
Chimelong	34.0	3.0%
Six Flags	32.0	2.9%
Cedar Fair	25.9	2.3%
Seaworld	22.6	2.0%
Parques Reunidos	20.9	1.9%
other	620.4	55.3%
Total Market	**1,121.6**	**100.0%**

Table 9: Peers' Parks Attendence and market share in 2018

On a global perspective, Disney is by far the biggest theme park group in the industry, attracting 157.3 mn people worldwide in 2018, which represents 14.0% of the total market attendance in 2018 (see table 9). The industry is characterized as concentrated, since 44.7% of global attendees are attracted by the top 10 theme park groups.

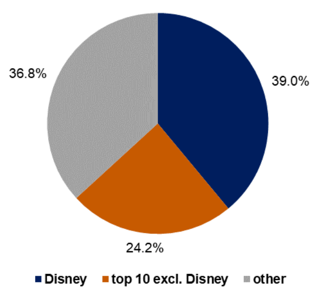

Figure 34: Amusement Parks Market Share (in terms of revenues in 2018)
Source: Bloomberg (2019)

According to industry revenues, the market concentration is even higher. Hereby, Disney holds 39.0% of the market and the top 10 amusement parks account for 63.2% of the global industry. Industry concentration is mainly driven by high investments to establish, renew and expand the parks and to license internationally well-known intellectual property (IP) of characters from movies and series.

According to Christie & Co (2017), the IPs in parks support their awareness and popularity since entertainment companies are perfect marketing professionals to encourage visitors to re-visit the parks. Since well-known IP increases the demand for the corresponding amusement parks, these players are more expensive (IbisWorld, 2019a). Furthermore, through a strong IP-base, revenues from parks become less dependent on ticket sales and encourage cross selling in parks, i.e. through food & beverages, merchandise articles and hotels (Christie

& Co, 2017). Consequently, IP is the most important factor in the industry to differentiate and create memorable experiences for visitors.

In general, consumers have become more selective regarding their travel destinations, which increase the competition for leisure time and the discretionary funds of travellers (IbisWorld, 2019a). Consequently, the players in the market compete intensively to attract for audience, thus keeping the industry constantly investing into their parks.

Comparables

Operational Comparison

In the US, Disney's two main competitors are Universal, which is the amusement park subsidiary of Comcast, and Six Flags. Similar to Disney, Universal also operates three mega parks in the US theme park hotspots Orlando and California attracting annually on average 9.9 mn people per park (TEA, 2018). Six Flags operates significantly smaller sites. In turn, there are more theme parks throughout the US. The biggest Six Flag park attracted 3.6 mn people in 2018. In international terms, Merlin is Disney's largest non-US competitor, with a strong exposure in Europe (TEA, 2018). Merlin operates - next to its theme parks - midway attractions[1], such as Madame Tussauds, which have lower attendees and geographical magnitude compared to amusement parks (Merlin, 2018a).

While Six Flags and Merlin are dependent on licensing or buying IP to increase visitor attraction, Disney as well as Universal have the corporate advantage to integrate successful IP from their film studios. From that point of view, Universal and Disney follow a similar strategy to integrate their movie IP in their park facilities, rides and merchandise articles.

Disney has by far the strongest and biggest portfolio of IP rights, which is constantly increasing due to its multiple movie success stories and its strategic acquisitions of film studios (Pixar, Marvel, Lucasfilm, 21CF). As stated in the theatrical distribution section, just six out of the 20 most successful movies are not from Disney or 21CF. However, Universal has next to Disney the strongest portfolio of licensed and own IPs. Harry Potter and Jurassic Park are one of the most relevant IP. Jurassic World at Universal was opened in 2019 (IAAPA, 2019). Jurassic World movies generated the 6th and 14th highest global box office revenue of the most successful movies of all time (Box Office Mojo, 2019). Also, the Harry Potter IP, which has an own area in the Universal Orlando Resort in Florida boosted attendance in the past (Orlando Rising, 2019). In addition, all 8

[1]Midway attractions are defined as branded (and mostly) indoor attractions, which have an average dwell time between one and two hours and are located in cities, resorts and shopping centres (Merlin, 2018a).

Harry Potter movies together are ranked among the top 90, especially Harry Potter & the Deathly Hallows (II) is ranked 12th, of global box office revenue of the most successful movies of all time with a total global box office of 7.7 bn USD (Box Office Mojo, 2019). Thus, this reveals the power to attract people worldwide to visit Universal parks and the threat for Disney to lose park visitors. Consequently, Universal is identified as the strongest competitor for Disney's parks, driven by its IP portfolio and its close geographical location to Disney attractions in the US.

The following table summarizes the most important facts about Disney's main park competitors:

Company	Walt Disney	Universal	Merlin	Six Flags
Number of Theme Parks	6	4	8 (Legoland) (additionally owns 6 independent parks)	12 (Six Flags) also owns one independent park
Locations	USA (Orlando, California), France (Paris), China (Hong Kong, Shanghai) & Japan (Tokyo)	USA (Orlando, Hollywood), Japan (Osaka) & Singapore	USA (Florida, California), UK (4x), Denmark (Billund), Germany (Günzburg & Soltau), Italy (Largo di Garda), Malaysia (Johor Bahru), Japan (Nogoya), UAE (Dubai)	Predominately represented in the various states within USA & Mexico (Mexico City)
Parks Pipline	n/a	China (Beijing) & Russia (Moscow)	USA (New York), China (Shanghai + Chuncheon	China (Zhejiang, Chongqing) & UAE (Dubai)
Degree of competition with Disney	High Medium Low	USA Europe n/a Asia	USA Europe Asia	USA Europe n/a Asia
Major IP	Disney Characters, Pirates of the Caribbean, Pixar, Star Wars, Marvel & Avatar	Jurassic Park, Minions (Despicable Me), Harry Potter	Peppa Pig, Cbeebies (BBC channel for Children) Lego incl. its animated movies	Garfield, Looney Tunes & DC Heroes
Operating Model	Completely owned: 3 Joint Ventures: 2 Franchising: 1	Completely owned: 2 Lease Contract: 1 Franchising: 1	Completely owned: 5 Management contract: 2 Lease Contract: 1	Completely owned: 11 Lease contract: 1
Global Attendance in 2018	157,311,000	50,068,000	67,000,000	32,024,000

Table 10: Operational comparison between Disney and its peer
Source: Christie & Co (2017), Disney (2019b), Comcast (2018), Merlin (2018a, 2018b), TEA (2018), Six Flags (2018)

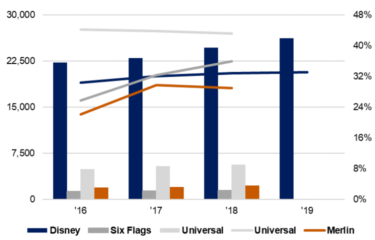

Figure 35: Peers' revenues (in mn USD) & EBITDA margin (2016-2019)
Source: Disney (2019b), Six Flags (2018), Comcast (2018), Merlin (2018a)

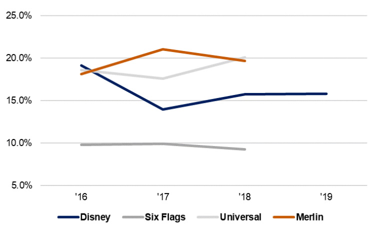

Figure 36: Peers' Gross Capex-to-sales ratio (2016-2019)
Source: Disney (2019b), Six Flags (2018), Comcast (2018), Merlin (2018a)

Financial Comparison

Disney and Universal dominate the industry in terms of revenues driven by their strong IP incorporated in their parks and attractions, which allows to charge price premiums compared to its park competitors. Interestingly, Merlin exhibits lower revenues compared to Disney and Universal (see figure 35), while attracting the second-largest attendees worldwide (TEA, 2018). This is driven by lower average guest spending in Merlin's midway attractions (Merlin, 2018). Universal shows a strong EBITDA margin which has slightly decreased since 2016, while Disney was able to increase its margin constantly during the same time. Especially the industry leaders in terms of attendance, Disney, Merlin and Universal, show high Gross Capex in absolute terms, which is necessary to attract attendants to visit and revisit the parks. Nonetheless, Disney is slightly lagging with the ratio compared to its competitors (see figure 36).

Park	Sub-park	Attraction	Launch
Walt Disney World	Magic Kingdom	TRON Lightcycle Power Run	'21
	Hollywood Studios	Star Wars Galaxy's Edge	'19
	Hollywood Studios	Star Wars: Galactic Starcruiser Star Wars Ressort	N/A
	Hollywood Studios	Mickey & Minnie's Runaway Railway	'20
	Epcot	"Guardians of the Galaxy: Cosmic Rewind" roller coaster	'21
	Epcot	Space Restaurant	'19
	Epcot	Space pavilion Expansion	N/A
	Epcot	New Pavilion at World Celebration	'22
	Epcot	Skyway gondola station	'19
	Epcot	Remy's Ratatouille Adventure	'20
	Epcot	La Creperie de Paris	'20
	Epcot	Mary Poppins in Cherry Tree Lane	N/A
Disneyland Ressort	California Adventure	Star Wars: Galaxy's Edge	'19
	California Adventure	Marvel superhero land	'20
Disneyland Paris	Disney Studios Park	Frozen "land"	'21+
	Disney Studios Park	Star Wars: Galaxy's Edge	'21+
	Disney Studios Park	Marvel superhero land	'21+
	Disney Studios Park	"Iron Man" roller coaster	'20
	Disney Studios Park	Disney's Hotel New York (The Art of Marvel)	'20
Disneyland Hong Kong	N/A	Avengers Ride	N/A
	N/A	Ant Man attraction	'19
	N/A	"Frozen" land	'20
	N/A	Marvel superhero land	N/A
	N/A	Castle and ampitheater (overhauled)	N/A
Shanghai	N/A	Zootopia-themed land	N/A
Tokyo	N/A	New Fantasyland	'20
	N/A	Eight themend port	'22

Table 11: Disney's Parks Expansion Plan
Source: D23 (2019), Disney Parks Blog (2019)

Attendance Parks in mn	'19	'20	'21	'22	'23	'24
Domestic Park Attendance	**88.1**	**90.7**	**95.8**	**96.8**	**99.3**	**101.7**
Walt Disney World Ressort	***59.1***	***60.8***	***64.7***	***64.7***	***66.3***	***67.8***
Magic Kingdom	20.9	21.4	22.9	22.6	23.0	23.5
Animal Kingdom	14.1	14.4	15.1	15.0	15.2	15.6
Epcot	12.5	13.0	13.8	14.0	14.4	14.7
Hollywood Studios	11.6	12.1	12.9	13.2	13.6	14.0
Disneyland Ressort	***28.9***	***29.9***	***31.1***	***32.1***	***33.0***	***33.9***
Disney Land	18.8	19.3	19.9	20.4	20.8	21.2
Disney California Adventure	10.2	10.6	11.2	11.8	12.2	12.7
International Park Attendance	**34.1**	**34.7**	**35.7**	**36.8**	**28.8**	**40.4**
Hong Kong	6.4	6.0	5.9	5.9	6.8	7.4
Shanghai	12.3	12.8	13.4	14.1	14.6	15.3
Disneyland Paris	***15.4***	***15.9***	***16.3***	***16.9***	***17.3***	***17.8***
Disneyland Park	10.0	10.2	10.4	10.7	10.9	11.1
Walt Disney Studio Parks	5.4	5.6	5.9	6.2	6.5	6.7

Table 12: Forecasted Park Attendance (2019-2024 in mn)
Source: Disney (2019b), Analysts estimates

Value Driver & Forecast

Park & Ressort Hotels

Forcasted park revenues were decomposed in park attendance and per capita guest spending. Disney's park attendance will be mainly driven by the company's plans for renewing and expanding its parks. Disney's parks will see tremendous changes during the upcoming years, which are summarized in the table 11.

Especially Disney's park expansions, regarding Marvel's superheroes and Star Wars, will boost attendance in the upcoming years sustainably. This is driven through its huge international success and fan base of the movie franchises. Looking at the 20th most successful movies worldwide of all time, six movies are from Marvel, while Star Wars released two (see table 6). This reveals their strong coverage, which will shape attraction for national and international park attendants. Consequently, the attendance in the domestic parks Hollywood Studios and California Adventure will grow most significantly of US parks by a $CAGR_{2019\text{-}2024}$ of 3.9% and 4.5% respectively (see table 12). The huge upcoming transformation in the Walt Disney World Florida reflect the preparations for the 50th anniversary of Disney's Magic Kingdom. This event is celebrated in all four Disney parks of Walt Disney World in 2021. Thus, the attendance in Walt Disney World is expected to grow at 6.3% yoy in 2021. Therefore, the attendance changes in domestic parks by a $CAGR_{2019\text{-}2024}$ of 2.9% to 101.7 mn in 2024. Also, park expansions regarding Frozen in international parks promise a positive outlook. The first Frozen movie also ranks in the top 20 (see table 6). The follow up of Frozen, released in November 2019 (Disney Studio, 2019), is a great advertisement for the upcoming park expansions. Extensive expansions in Disneyland Paris' Studio Park regarding Marvel, Star Wars and Frozen will lift attendance growth to the highest of international parks until 2024 resulting in a $CAGR_{2019\text{-}2024}$ of 4.5%. Political tensions in Hong Kong are expected to burden the attendance in the short run. However, in the medium run, attendance should recover strongly due to the upcoming park expansions. The attendance in Disney's international parks is shifting upwards by a $CAGR_{2019\text{-}2024}$ of 2.9% to 7.4 mn in 2024.

Since Disney had already optimized its pricing with a demand-based approach in 2016 and the fact that the attendance suffered in summer 2019 due to excessive price increases (Disney 2018, 2019b), the average guest spending in parks is solely able to increase in line with inflation in the future. Consequently, average guest spending in Disney's national parks is expected to grow in line with US inflation to 167.7 USD per person and international average guest spending will grow in line with inflation of the corresponding countries to 104.5 USD in 2024 (see figure 37).

Multiplying the two value drivers, park attendance and per capita guest spending, results in 17.1 bn USD domestic park revenues in 2024 ($CAGR_{2019\text{-}2024}$ of 5.3%). International park revenues are expected to grow by a $CAGR_{2019\text{-}2024}$ of 5.9% resulting in 4.2 bn USD. Royalties from Disneyland Japan are expected to grow until 2024 to 333.3 mn USD ($CAGR_{2019\text{-}2024}$ 4.1%) (see figure 38).

In 2019 Disney's occupancy rate in domestic park hotels improved to 90.0%, which is expected to remain constant as a result of aforementioned arguments. Consequently, revenues will grow by a $CAGR_{2019\text{-}2024}$ of 2.4% to 3.6 bn USD in 2024. International park hotels have higher scope for improving their occupancy rate along with an increasing park attendance. Occupancy rate is expected to improve slightly to 84.1% in 2024. Thus, revenues are expected to grow by a $CAGR_{2019\text{-}2024}$ of 3.2% to 913.9 mn USD (see table 13).

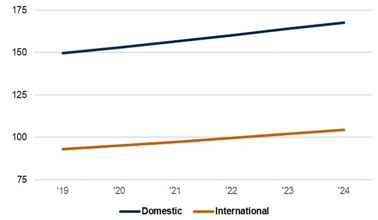

Figure 37: Forecasted average prices (2019-2024 in USD)
Source: Disney (2019b), Analysts estimates

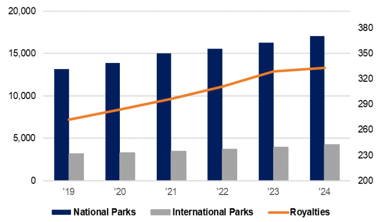

Figure 38: Forecasted revenues for Parks (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

Ressort Hotels	'19	'20	'21	'22	'23	'24
Domestic revenues	**3,186.5**	**3,262.4**	**3,343.4**	**3,423.0**	**3,504.6**	**3,588.0**
Occuoancy Rate	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Available room nights (mn)	10.03	10.04	10.05	10.05	10.06	10.07
Per room guest spending	353.0	361.1	369.8	378.3	387.0	395.9
International revenues	**781.3**	**804.7**	**830.4**	**857.0**	**884.8**	**913.9**
Occuoancy Rate	81.0%	81.6%	82.2%	82.8%	83.5%	84.1%
Available room nights (mn)	3.2	3.2	3.2	3.2	3.2	3.2
Per room guest spending	303.4	310.0	317.3	324.8	332.7	340.9

Table 13: Forecasted revenues for Hotels (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

Disney Cruise Line

Disney aims to increase its market share in the booming cruise ship market by adding one ship each in 2021, 2022 and 2023 (Disney, 2018). The capacity of available room nights is increasing accordingly to 2.9 mn in 2023. A combination of the raised environmental awareness in the society (i.e. through "Fridays for future movement") and the strong capacity growth of Disney Cruise Line will result in decreasing occupancy rates. However, Disney's strong customer satisfaction being the best-rated cruise ship line in the US (Condé Nast, 2019) and its differentiation with IP on-board will mitigate the decrease. Thus, we assume revenues to grow by a $CAGR_{2019\text{-}2024}$ of 14.5% until 2024 resulting in 2.0 bn USD (see table 14).

Disney Cruise Line	'19	'20	'21	'22	'23	'24
Revenues	**1,014**	**1,014**	**1,329**	**1,630**	**1,953**	**1,998**
Available room nights (mn)	1.55	1.55	2.01	2.46	2.92	2.92
Occupancy Rate	90.0%	88.0%	87.0%	85.0%	84.0%	84.0%
Per room guest spending	726.2	742.9	760.7	778.2	796.1	814.4

Table 14: Forecasted revenues for Disney cruise Line (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

Consumer Products

Consumer Products is expected to grow in line with theatrical distribution, since the retail and licensing business is strongly dependent on the success of upcoming movies with strong IPs. Hence, revenues will grow by a $CAGR_{2019\text{-}2024}$ of 14.6% until 2024 resulting in 9.2 bn USD (see figure 39).

Overall, Disney understands how to monetize their IP in the whole segment, which raised revenues in the past and will drive them in the future. Disney's strong IP-portfolio combined with new IPs from 21CF gives the company enough scope for further differentiation and leverages segment revenues.

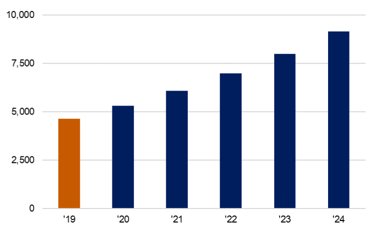

Figure 39: Forecasted revenues for Consumer Prodcts (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

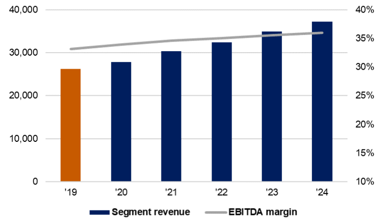

Figure 40: Total forecasted revenues for Parks, Exp. & Prod. & EBITDA margin (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

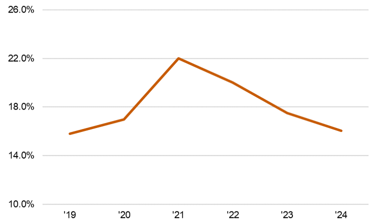

Figure 41: Gross Capex-to-sales ratio for Parks, Exp. & Prod. (2016-2019)
Source: Disney (2019b), Analysts estimates

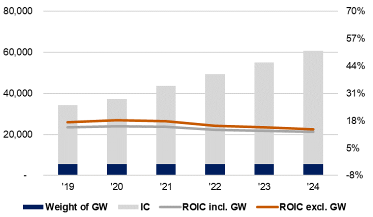

Figure 42: ROIC, Goodwill & Operating Invested Capital (2019, in mn USD, Parks, Exp. & Prod.)
Source: Disney (2019b), Analysts estimates

Financial Projection

Parks, Experiences and Products revenues are expected to increase by a $CAGR_{2019\text{-}2024}$ of 7.3% to 37.3 bn USD in 2024 (see figure 40). The segment's EBITDA margin will improve from 33.2% in 2019 to 36.0% in 2024 mainly driven by economies of scale and the strong revenue growth of the segment described above. As stated in the industry analysis, people getting more selective regarding their travel destinations, which increased the competiton for attracting park visitors. Hence, it is comprehensible that Disney is heavily investing in its parks business, as seen in its park expansion plan, and in the Cruise Line fleet. Consequently, Gross Capex-to-sales ratio is expected to grow until 2021 to 22.0% and decreasing afterwards to 16.0% in 2024 (see figure 41). The present value of Gross Capex until 2024 is equivalent to 25.0 bn USD. Thus, Capex-to-sales ratio is overall similar to Disney's competitors as the Disney's ratio was historically below Merlin and Universal.

ROIC incl. and excl. Goodwill are close and thus a sign of hardly M&A activities within the segment. The ROIC development is decreasing as Invested Capital is increasing by a higher rate than NOPLAT (see figure 42).

Direct-to-Consumer & International

Industry Overview

The Direct-to-Consumer market is splitted into SVOD (Subscription Video On Demand), AVOD (Advertising-based Video On Demand) and TVOD (Transactional Video On Demand). SVODs give unlimited access to a specific content library for a subscription fee. TVODs charge based on the watched content per series, movie, sport event, etc. where the content is rented for a limited time or bought for permanent access. AVODs do not charge for the usage of content, but generate revenues by users watching advertising. However, in the market are also players represented, who use mixed models such as Amazon Prime, Youtube, Hulu or ESPN+ (Imagen, 2019; Clipbicket, 2019).

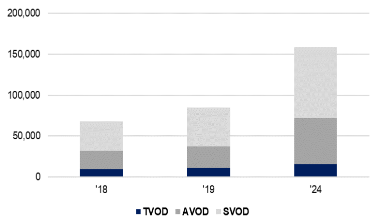

Figure 43: OTT Market splitted in TVOD, AVOD and SVOD (2018, 2019 & 2024 in mn USD)
Source: Digital TV Research (2019a)

Taking all three together, the so-call global OTT market is booming and is expected to grow by a $CAGR_{2019\text{-}2024}$ of 13.4% to 158.8 bn USD in 2024 (see figure 43). SVOD providers are responsible for the biggest revenue in the future accounting for 54.8% (87.1 bn USD) of the total market in 2024 followed by AVODs accounting for 35.5% (56.3 bn USD) of total market revenues. The US remains the most important market by generating 61.0 bn USD (38.4%) of the global OTT market in 2024. This impressive development is mainly driven by the following trends. Firstly, more households receive access to broadband internet,

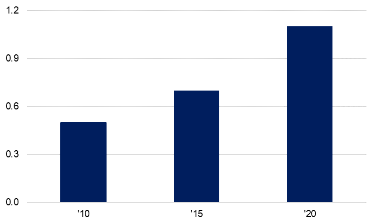

Figure 44: Global broadband connected housholds (wired/wireless, 2010, 2015 & 2020 in bn)
Source: Disney (2019c)

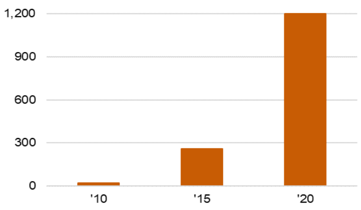

Figure 45: Global DTC paid video subscribers total hours per day in mn
Source: Disney (2019c)

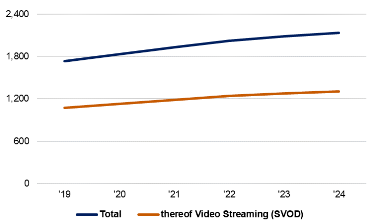

Figure 46: Global DTC paid video subscribers in mn
Source: Statista (2019c)

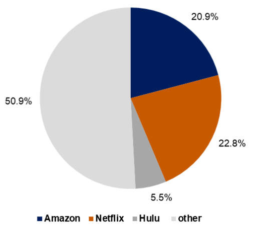

Figure 47: Global Streaming Services Market (in terms of revenues in 2018)
Source: Amazon (2018) Netflix (2018), Analysts estimates

Company	Content budget in bn USD
Amazon Video	8.5
Apple TV+	6.0
Comcast Peacock	1.5
Disney	1.1
HBO Max	2.0
Netflix	18.5

Table 15: Estimated content budget in 2020
Source: Bloomgerg (2019), Analysts estimates

which is necessary for a smooth streaming experience. Solely 0.5 bn households had access to broadband internet in 2010, which is expected to grow until 2020 by 9.0% ($CAGR_{2010\text{-}2020}$) to 1.1 bn househoulds (see figure 44). Accompanied by an increasing availablitly of 5G networks worldwide securing smooth streaming via mobile networks. Furthermore, the strong growth of SVODs and its leading position in the market becomes more comprehensible when looking at the total hours per day global paid subscripers consuming streaming content. 20.0 mn hours a day in 2010 are expected to increase by a $CAGR_{2010\_2020}$ of 50.0% to 1.2 bn hours per day in 2020 (see figure 45). The strong market growth in the past and the expected one in the future is also fundamentally driven by a strong user base of OTT service providers. The total market had 1.7 bn users in 2019, which is expected to grow by a $CAGR_{2019\text{-}2024}$ of 4.2% until 2024 to 2.1 bn. The SVOD market accounts for the highest amount of users in the total OTT market (1.1 bn users) in 2019, which will grow by a $CAGR_{2019\text{-}2024}$ of 4.0% until 2024 to 1.3 bn users (see figure 45).

On average, the US American household subscribs for three SVODs services according to emarketer (2019), which is not expected to increase in an increasing offering of streaming service. Consequently, with the launch of several new streaming services in 2020, the competition will increase significantly.

Competition

In 2018, the three main market SVOD market players, in terms of subscriptions, hold together 49.1% of global OTT revenues (see figure 47). The attractive market conditions described above has driven many US Tech and Media giants to enter the streaming market. In the late 2019, Apple with AppleTV+ (launched: 1 November 2019) and Disney's Disney+ (launched: 12 November 2019) entered the market as new SVOD offerings. Further important market entries have been announced by AT&T's WarnerMedia, who is launching HBO Max in May 2020, and Comcast's NBCUniversal in April 2020 respectively.

When entering this market, dissolving of licensing agreements is typically observed. Hence, providing IP and thus movies are more profitable for these entertainment companies on their own platform than receiving royalties from third parties. Disney, HBO Max and Peacock have already started to remove their content and IP from Netflix. HBO Max and Peacock followed by removing content from Hulu (CNN Business, 2019).

However, Netflix's own production was 2018 more than four times as high as in 2016 (Netflix, 2018). This implies that Netflix has become more independent on SVOD licensing agreements (see table 15). Furthermore, Netflix is also expected to lead the streaming market in terms of content budgets in 2020 (18.5 bn USD), followed by Amazon Prime (8.5 bn USD). Apple also invests heavily in new content, since the company is not able to rely on a strong content library. With the same rational, it is understandable that CBS Peacock, HBO Max and Disney are expected to invest less compared to its competitors.

Value Driver & Forecast

To perform the forecast for the segment Direct-to-Consumer & International, a scenario analysis was integrated regarding streaming service subscribers, as subscriber growth has been indentified as the most relevant subject to fluctuate.

Disney+

Company	Mth. Cost (Basic)
Netflix	8.99 USD
Hulu	5.99 US
Amazon Video	8.99 USD
AppleTV+	4.99 USD
Disney+	6.99 USD

Table 16: Current minimum price per streaming services
Source: Bloomberg (2019)

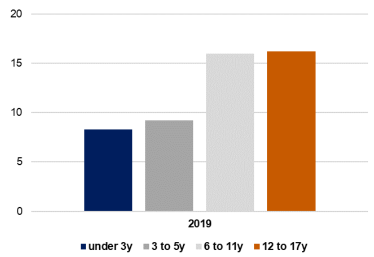

Figure 48: Number of US family households with children per age group in mn
Source: Statista (2019b)

Disney+	Probability	'19	'20	'21	'22	'23	'24
Best Case	40.0%	0.0	25.5	35.0	56.0	81.0	97.5
Base Case	50.0%	0.0	22.5	31.5	50.0	68.5	75.0
Worst Case	10.0%	0.0	16.0	23.3	38.0	55.5	60.0

Table 17: Disney+ scenario for subscribers (2019-2024 in mn USD)
Source: Disney (2019c), Analysts estimates

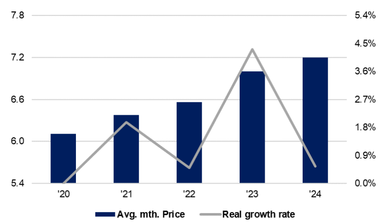

Figure 49: Forecasted avg. mth. price for Disney+ (2020-2024 in USD)
Source: Disney (2019c), Analysts estimates

Disney+ launched with a competitve price of 6.99 USD per month respectively 69.99 USD yearly (market overview see table 16). Furthermore, the new streaming service can be bundled with Hulu and ESPN+, generating access for all three streaming services for 12.99 USD. Since Disney's movie success stories will be available shortly after the first window (cinema) combined with a competitive pricing strategy in comparison to other market players, Disney+ will grow by a $CAGR_{2020\text{-}2024}$ of 35.1% to 75.0 mn subscribers in 2024. Afterwards, Disney+ is expected to grow further by 3.0% annually which is mainly driven by its international expansion plan. The US consists of 41.4 mn households with children between three and 17 years old (see figure 48): the main audience for Disney+ consumers. In our best case scenario, Disney+ is expected to penetrate 75.0% of US households with children until 2024 representing 30.8 subscribers just by families with children. Since Disney has already started to remove its licensing contracts, i.e. at Netflix, the trend will continue and Disney will rather offer its content exclusively on Disney+. According to Disney (2019c), in the upcoming four years, Disney's contracts with other SVODs are about to expire and are expected to come back for the marjority. Consequently, regarding the long run, most of Disney's content can just be consumed by subscribing to Disney+. This boosts international subscriber growth fundamentally to 97.5 subscribers in 2024. The Management's best case would be than outperformed by 7.5 mn subscribers and is growing afterwards further with 4.0% annually. This best case has a 40.0% probability. Disney's worst case is driven by the strong comptetiton resulting in 60.0 mn subscribers in 2024, which is in line with the management's expectation.

In terms of pricing, the average price, a customer is expetected to pay in 2020, is 6.11 USD. Disney+ promotes its product through a slightly lower price than Netflix. As the customer base is increasing, Disney+'s price setting behavior lets prices increase as Disney offers premium content. Similar to Netflix (Quartz,

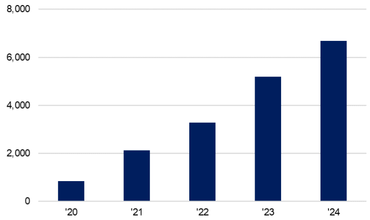

Figure 50: Forecasted revenues for Disney+ (2020-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

2019), Disney+ is expected to increase prices almost annually (see figure 49, page 20). Through Disney's coporate advantage and thus competitve advantage in offering streaming services, the prices are expected to grow in real terms. Overall, Disney is expected to have revenues of 6.7 bn USD in 2024 (see figure 50).

Hulu

In Hulu's base case, the streaming service will benefit also from the aforementioned bundle offering. Furthermore, given the fact Hulu wants to focus more on original contetent (Disney, 2019c), Hulu is differentiating in an increasing competitve market. Having both trends in mind, subscribers are expected to grow with a probability of 50.0% to 50.0 mn subscribers in 2024 and continues to grow by a 2.0% subscriber growth. Hulu is assumed to benefit from the 21CF acquisition, since the predominant content libary does not suit Disney+ with its focus on children. This might boost subscribers to 60.0 mn with a probabilty of 30.0% which is in line with the upper management guidance. Afterwards, Hulu is expected to grow 6.0% annualy driven by a possbile strategy on internationalization. Hereby, the Disney+ internationalization reveals best practices in how to expand at the right scale. Hulu's worst case scenario, a 20.0% probability, is also based on an increasing competiton in the market and that Disney is more keen on pushing Disney+ further. Hence, 40.0 mn subscribers are expected in 2024 followed by a constant growth of 1.0% annually.

Hulu	Probability	'19	'20	'21	'22	'23	'24
Best Case	30.0%	29.0	39.0	45.0	50.0	55.0	60.0
Base Case	50.0%	29.0	36.0	40.0	44.0	47.0	50.0
Worst Case	20.0%	29.0	34.5	35.5	36.5	37.5	40.0

Table 18: Hulu scenario for subscribers (2019-2024 in mn USD)
Source: Disney (2019c), Analysts estimates

Hulu's advertising revenues will benefit from an increase in advertisers to 10,000.0 in the upcoming years, which is targeted by the managagemt. Therefore, advertising will generate revenues of 5.4 bn USD in 2024 ($CAGR_{2019-2024}$ 24.0%).

Revenues Hulu	'19	'20	'21	'22	'23	'24
Total revenue	**4,375.3**	**5,470.3**	**6,629.9**	**8,010.3**	**9,328.1**	**10,729.0**
Revenue subscribers	***2,527.2***	***3,144.9***	***3,701.0***	***4,324.8***	***4,841.5***	***5,313.1***
Avg. mth. Price	***7.80***	***7.99***	***7.99***	***8.49***	***8.79***	***8.99***
Real growth rate	-14.8%	0.1%	-2.3%	3.9%	1.2%	0.0%
Revenue advertisment	***1,848.1***	***2,325.5***	***2,929.0***	***3,685.5***	***4,486.6***	***5,415.9***
Number of Advertiser	3,175.0	3,905.3	4,803.5	5,908.3	7,030.8	8,296.4
Revenue per Advertiser	0.58	0.60	0.61	0.62	0.64	0.65

Table 19: Forecasted revenues for Hulu (in mn USD) incl. avg. mth. Price (in USD)
Source: Disney (2019c), Analysts estimates

Similar to Disney+, despite strong competition in the market, Hulu's prices are expected increase in real terms. Overall, Hulu generates 5.3 bn USD subscriber revenues in 2024, which is a $CAGR_{2019-2024}$ of 19.6% (see table 19).

ESPN+

ESPN+	Probability	'19	'20	'21	'22	'23	'24
Best Case	25.0%	3.0	6.0	8.0	10.0	11.0	12.0
Base Case	65.0%	3.0	5.5	7.0	8.5	9.3	10.0
Worst Case	10.0%	3.0	5.0	6.0	7.0	7.6	8.0

Table 20: ESPN+ scenario for subscribers (2019-2024 in mn USD)
Source: Disney (2019c), Analysts estimates

According to McKinsey (2019) millenials use streaming for sport events almost twice as much as people from Generation X. Consequently, it is assumed that ESPN+ will enlarge its customer base by this customer group. This substantiates the base case scenario with a probability of 65.0% in 10.0 mn subscribers in 2024. ESPN+ subscriber base will be mainly driven by its licensed sport right portfolio. ESPN seems well positioned regarding sports content, being for example the exlusive licensee of UFC pay-per-view events (Disney, 2019c).

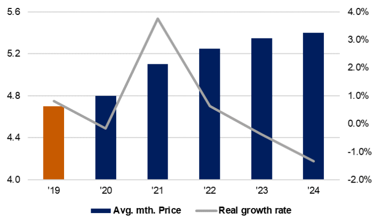

Figure 51: Forecasted avg. mth. price for ESPN+ (2019-2024 in USD)
Source: Disney (2019c), Analysts estimates

Further exclusive license agreements will drive the best case expectations in the future with a probability of 25.0% to 12.0 mn subscribers in 2024. This is in line with upper expectations of Dinsey's management. Afterwards, due to an expected expansion to Latin America, growth might remain high at an annual growth rate of 5.5%. Latin America is a market, which is currently considered for a ESPN+ expansion by Dinsey's management (Disney, 2019c). The worst case scenario of ESPN+ is driven by an increasing competition, i.e. through Amazon, DAZN and CBS, entering the market for sport streaming. This pressures ESPN+ to attract solely 8.0 mn subscriber in 2024, which is the lower managagement guideline (see figure 52).

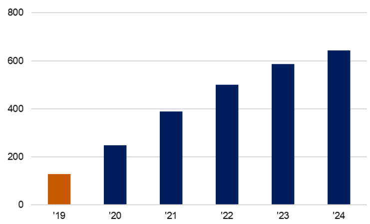

Figure 52: Forecasted revenues for ESPN+ (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

In terms of pricing, ESPN+ had an average monthly price of 4.70 USD in 2019. ESPN+ prices are less flexible to adjust as the competition is increasing. Thus, the real growth of prices is partially negative until 2024.

Consequently, ESPN+ has a revenue exposure of 643.3 mn USD at a $CAGR_{2019-2024}$ of 38.4% (see figure 52).

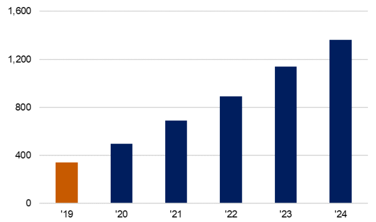

Figure 53: Forecasted revenues for Disney Streaming Services (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

Disney Streaming Services

Disney Streaming Services, previously named BAMTech, was acquired in 2016/2017 and offers streaming services for Disney and third parties. Disney's partners, Major League Baseball (MLB; 15% stake) and National Hocky League (NHL; 10% stake), have the right until 2027 to sell their stakes to Disney (put option). Thus, Disney accounts for reedamable noncontrolling interests. In terms of revenue, as a market proxy, the company increases its revenues with third parties in line with Disney's streaming business (see figure 53).

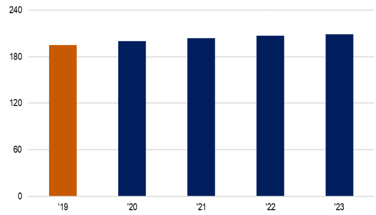

Figure 54: Number of TV households in India (2019-2023 in mn)
Source: KPMG (2018)

International Segment

The International segment represents the foreign activities of Media Networks as well as Disney's Indian broadcasting business under the banner of Star and the other Indian cable network channels branded Hungama, Bindass and UTV. The International exposure is thus the complementary segment to US-based Media Networks. As figure 54 is increasing by a $CAGR_{2019-2023}$ of 1.7% (underperforming vs. Indian GDP) and the trends identified in the US holds for India as well (MVPDs vs. OTT market), the International revenues (see figure 55) are linked to the US business.

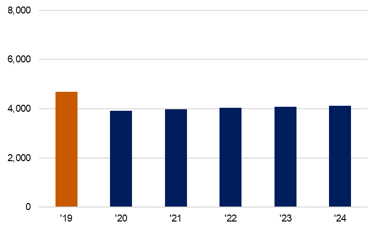

Figure 55: Forecasted revenues for International (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

Financial Projection

Direct-to-Consumer & International is overall increasing revenues by a $CAGR_{2019-2024}$ of 20.3% to 23.6 bn USD (see figure 56).

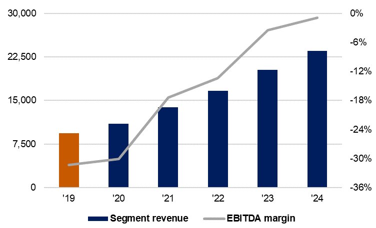

Figure 56: Total forecasted revenues for DtC & International & EBITDA margin (2019-2024 in mn USD)
Source: Disney (2019b), Analysts estimates

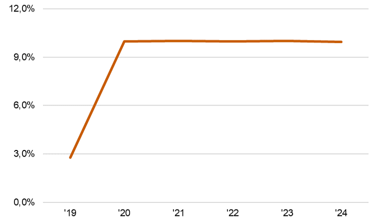

Figure 57: Gross Capex-to-sales ratio for DtC & International (2016-2019)
Source: Disney (2019b), Analysts estimates

Disney (2019c) guided the segment to be profitable in 2024. More specifically, Disney reaches profitability in 2024, while ESPN+ contributes profit to shareholders in 2023. Hulu is expected to break even in 2023 or 2024 latest. The EBITDA margin is improving steadily, as operating expenses and SG&A burdens the P&L especially in 2020 through the expansion. The EBITDA margin is 2023 for the first time non-negative, which is in line or at least a bit more optimistic than what Disney's management expects.

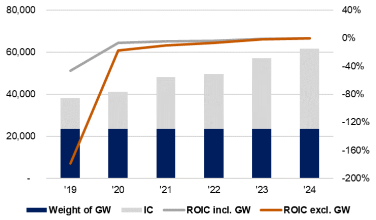

Figure 58: ROIC, Goodwill & Operating Invested Capital (2019, in mn USD, DtC & International)
Source: Disney (2019b), Analysts estimates

Gross Capex-to-sales ratio (see figure 57) is expected to remain constant for the next years, as the content is predominantly produced and constantly added to the library of the entire Disney universe, when the licensing contracts are expiring within the next four years (Disney, 2019c). Capex are predominantly used for formats as The Mandalorian. The competitive advantage is directly observable as Netflix's Gross Capex-to-sales ratio ranged from 98.0% in 2016 to 82.6% in 2018 (Netflix, 2018).

Because of the segment profitability, the ROIC is constantly negative until 2024 and expected to be positive afterwards (see figure 58).

Cost of Capital

Cost of capital	Data
Disney	
ISIN	XS1678630432
Coupon	2.1%
Maturity	13 Sep '22
Current price	100.0%
Credit rating (Moody's)	A2
Default probability (DP)	3.2%
Loss given default (LGD)	53.9%
Yield-to-maturity (YTM)	2.1%
Beta of debt	0.04
Cost of debt	2.0%
Risk-free rate (R_f)	1.7%
Market risk premium (MRP)	5.5%
Statutory tax rate	22.9%
$Beta_{levered}$ (Disney)	0.90
$Beta_{unlevered}$ (Disney)	0.73
Target Net Debt/Equity Ratio (D/E)	25.5%
Media Networks	
$Beta_{unlevered}$ (Industry)	0.62
$Beta_{relevered}$	0.74
Cost of equity	5.8%
WACC	4.9%
Studio Entertainment	
$Beta_{unlevered}$ (Industry)	0.88
$Beta_{relevered}$	1.07
Cost of equity	7.6%
WACC	6.4%
Parks, Experiences and Products	
$Beta_{unlevered}$ (Industry)	0.68
$Beta_{relevered}$	0.80
Cost of equity	6.1%
WACC	5.2%
Direct-to-Consumer & International	
$Beta_{unlevered}$ (Industry)	1.10
$Beta_{relevered}$	1.35
Cost of equity	9.2%
WACC	7.6%

Table 21: Inputs for Cost of capital per segment
Source: Bloomberg (2019), Disney (2019b), Analysts estimates

Disney's cost and beta of debt is derived from the coupon bond with the ISIN XS1678630432 and is adjusted by the DP and LGD (ResearchPool, 2019) for Disney's A2 rating (Bloomberg, 2019). In turn, the levered beta was obtained by regressing weekly excess returns of Disney on the S&P500 for the past three years (standard error of beta: 0.0998). Applying the CAPM with a 10y US treasury yield of 1.7% (US Department of the Treasury, 2019) and a recommended US market risk premium of 5.5% by Duff & Phelps (2019) for valuation purposes, the unlevered beta is 0.73.

Media Networks	
Peer	$Beta_{unlevered}$
Disney	0.73
AT&T	0.56
AMC Networks	0.71
CBS	0.60
Comcast	0.67
Discovery	0.56
Viacom	0.54
Industry	**0.62**

Studio Entertainment	
Peer	$Beta_{unlevered}$
Disney	0.73
Amazon	1.34
Apple	1.21
AT&T	0.56
AMC Networks	0.71
Comcast	0.67
Discovery	0.56
Netflix	1.62
Viacom	0.54
Industry	**0.88**

Parks, Experiences and Products	
Peer	$Beta_{unlevered}$
Disney	0.73
Comcast	0.67
Marriott International	0.70
MGM Resorts	0.60
Park Hotels & Resorts	0.74
Six Flags	0.63
Industry	**0.68**

Direct-to-Consumer & International	
Peer	$Beta_{unlevered}$
Disney	0.73
Amazon	1.34
Apple	1.21
AT&T	0.56
Comcast	0.67
Netflix	1.62
Spotify	1.54
Industry	**1.10**

Table 22: Deriving segments unlevered beta
Source: Bloomberg (2019), Analysts estimates

The valuation is based on the sum-of-the-parts approach. Disney's cost of debt represents each segment best, as the average credit rating of the peer (Moody's: Baa2) is significantly worse and thus unsuitable. However, the peer (incl. Disney) reveals the intrinsic unlevered beta of each segment better than Disney's beta standalone. Interestingly, with Disney lying in-between, the difference in industry's systematic risk is widely ranging from 0.62 (Media Networks) to 1.10 (Direct-to-Consumer) and substantiates fundamentally the segment analysis. Excl. Direct-to-Consumer & International, Disney's industries are systematically less risky than the market. Thus, Studio Entertainment is riskier than US-based Media Networks and with the leverage effect even riskier than the market. With an unlevered beta of 1.10, Direct-to-Consumer & International reveals its riskiness for Disney as the whole industry is in the expansion stage and many companies entered/announced to enter in the upcoming months.

A country risk factor for Direct-to-Consumer & International to compute the WACC is not incorporated, as Direct-to-Consumer revenues are forecasted to outweigh in the long run International revenues (i.e. by 81.8% in 2024) and the US remains to be the most relevant market for Direct-to-Consumer.

Valuation

DCF Valuation (in million USD)	**absolute**	**relative**
+ Media Networks	105,056	30.2%
+ Parks, Experiences and Products	136,351	39.1%
+ Studio Entertainment	75,145	21.6%
+ Direct-to-Consumer & International	28,343	8.1%
thereof Terminal value	*282,311*	*81.1%*
+ Non-operating Equity Based Investments (market value)	8,471	2.4%
+ Non-operating Other Investments (book value)	302	0.1%
- Non-operating Pension and Post-retirement Medical Plan liabilities	-5,370	-1.5%
= Levered EV	**348,298**	**100.0%**
- Net Debt	-52,301	-15.0%
- Net Income Attributable to Non-controlling Interests (market value)	-19,301	-5.5%
= Equity Value	**276,695**	**79.4%**
/ Shares Outstanding (basic)	1,656	n/a
= Equity Value per Share	**167.09**	**n/a**

Table 23: Valuation output
Source: Analysts estimates

According to the performed sum-of-the-parts valuation, Disney's targeted share price is 167.09 USD (see table 23), which is substantially driven by the terminal value (81.1%). On the one hand, the cumulative expected losses in Direct-to-Consumer & International until 2024 are reducing the share price by a PV of 15.84 USD (-9.5%). On the other hand, excl. Media Networks, the segments have great potential to continue to grow in and outside the US (see table 24).

Due to the 21CF acquisition, Net Debt significantly increased yoy by a multiple of 2.7x to 52.0 bn USD in 2019. Net Debt is not expected to be reduced prior to 2023 and equals 52.3 bn USD in 2020.

Sensitivity Analysis

Segment	Terminal growth	WACC
Media Networks	0.5%	4.9%
Parks, Experiences and Products	3.8%	5.2%
Studio Entertainment	3.8%	6.4%
Direct-to-Consumer & International	4.5%	7.6%
Disney	**2.9%**	**5.6%**

Table 24: Terminal growth rates vs. WACC per segment
Source: Analysts estimates

Δ Growth \ Δ WACC	**-0.6%**	**-0.3%**	**5.6%**	**+0.3%**	**+0.6%**
-0.6%	167.81	167.30	166.80	166.30	165.81
-0.3%	167.96	167.45	166.94	166.44	165.95
2.9%	168.11	167.59	**167.09**	166.58	166.09
+0.3%	168.26	167.74	167.23	166.73	166.23
+0.6%	168.41	167.89	167.38	166.87	166.37

Table 25: Share price variation under different long-term settings
Source: Analysts estimates

The recommended share price is based on an overall WACC of 5.6% with a corresponding weighted growth rate of 2.9%. The change in inputs for the long run allows to observe how the share price changes in different settings. For instance, on the one hand, WACC computation is dependent on the US risk-free rate which exhibits a 52-week range from 1.5% (28 August 2019) to 2.8% (18 January 2019) (US Department of the Treasury, 2019). On the other hand, the terminal value growth is influenced by the segment's RONIC and the RR. For the latter, Disney does not disclose its dividend payout policy. The payout ratios varied from 14.2% in 2007 (Investopedia, 2015) to 26.4% in 2017 (Analysts estimates). Having in mind, that Direct-to-Consumer & International is profitable after 2024 and is thus ready to contribute dividends to investors, the average US dividend payout ratio across sectors (excl. financials) of 41.3% is assumed (NYU Stern, 2019). Therefore, the sensitivity analysis reveals changes in WACC and terminal growth of +/-0.3% and +/-0.6% (see table 25).

Final recommendation

Expected Return to Shareholders	
Expected Dividend per Share	1.94
Dividend Yield	1.3%
Share Price Increase	16.2%
Total Expected Return	**17.6%**

Table 26: Break down of total expected return
Source: Analysts estimates

According to the valuation, Disney's target value lies 16.2% above the closing price in the end of December 2019. Adding the expected dividend per share of 1.94 USD, the total expected return of shareholders is 17.6% (see table 26).

Coming back to Disney's mission, the Disney's management has understood very well customer needs, which trends the entertainment industry affect and how to align the whole group accordingly. With the additional 21CF's Hulu stake and the establishment of Disney+, Disney has the right understanding how the market is shifting. Analysing consensus data of other equity research analysts and the current news of Disney, everyone would expect that Direct-to-Consumer is the main source of Disney's future and that the other segments are the residual part. However, looking at figure 24 and 58, the truth is that Direct-to-Consumer & International, on the one hand is facing the highest growth rate, on the other hand, this segment represents solely 17.12 USD of the target price. Thus, the other segments should not be neglected to avoid biases.

Overall, the equity story of Disney is remarkable. Media Networks, a highly profitable industry, which lacks growth, and thus finance Direct-to-Consumer. Studio Entertainment, amended through 21CF's studios, is the real growth driver by creating sheer synergies across segments with its IP portfolio and is therefore Disney's centrepiece. Without the IP rights, Parks, Experiences and Products does not have the appeal to attract attendees worldwide. Thus, Parks, Experiences and Products generates its competitive advantage through Studio Entertainment.

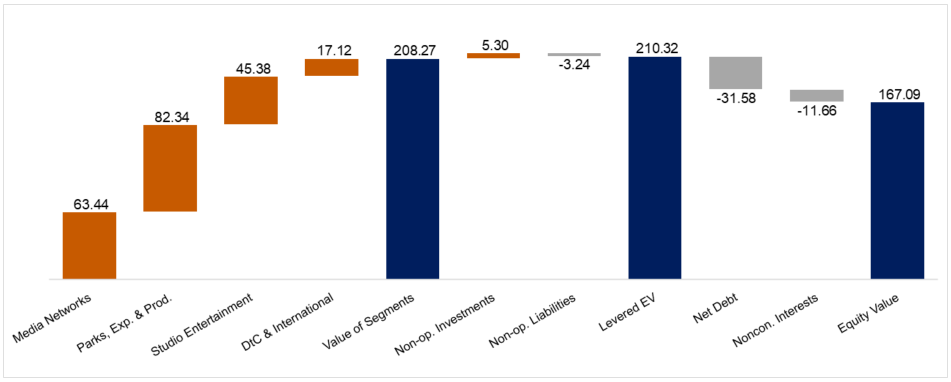

Figure 59: Equity Bridge per share
Source: Analysts estimates

Appendix

Forecasted Balance Sheet (2019-2024)

in million USD	2019	2020	2021	2022	2023	2024
The Walt Disney Company						
Operating						
Assets:						
Working capital (Assets)	24,137	25,092	25,231	27,791	30,349	31,844
Film and television costs	22,810	23,897	25,233	26,437	29,350	31,060
Parks, resorts and other property	31,603	37,058	44,298	50,233	56,193	62,359
Intangible assets, net	23,215	26,200	31,386	33,048	37,445	41,583
Goodwill	80,293	80,293	80,293	80,293	80,293	80,293
Other non-current assets	4,715	5,199	7,136	8,012	9,570	10,261
Total assets	**186,773**	**197,738**	**213,578**	**225,814**	**243,201**	**257,400**
Liabilities:						
Working capital (Liabilities)	22,484	25,608	25,462	24,765	26,090	27,486
Deferred income taxes	7,902	9,141	9,613	10,549	11,350	12,101
Other long-term liabilities	8,977	10,190	11,059	11,716	12,422	12,799
Total liabilities	**39,363**	**44,938**	**46,134**	**47,029**	**49,863**	**52,386**
Invested operating capital	**147,410**	**152,800**	**167,444**	**178,784**	**193,339**	**205,014**
Total financial sources	**51,962**	**52,301**	**61,183**	**64,668**	**69,267**	**69,650**
Total equity	**93,889**	**98,353**	**104,117**	**111,683**	**121,343**	**132,285**

Forecasted Income Statment (2019-2024)

in million USD	2019	2020	2021	2022	2023	2024
The World Disney Company						
Operating						
Segment revenues						
Media Networks	24,827	24,844	25,497	26,122	26,616	27,175
Parks, Experiences and Products	26,225	27,849	30,357	32,375	34,896	37,265
Studio Entertainment	11,127	16,673	12,548	15,229	15,611	15,987
Direct-to-Consumer & International	9,349	10,974	13,797	16,715	20,314	23,553
Segment revenues	**71,528**	**80,340**	**82,198**	**90,441**	**97,436**	**103,981**
Operating expenses	-43,198	-48,497	-48,487	-51,094	-53,763	-56,929
Gross profit	**28,330**	**31,843**	**33,711**	**39,347**	**43,673**	**47,052**
Gross margin	39.61%	39.64%	41.01%	43.51%	44.82%	45.25%
Selling, general, administrative and other	-10,721	-14,680	-14,532	-16,541	-17,189	-18,554
Corporate and unallocated shared expenses	-987	-455	-505	-569	-640	-705
Restructuring and impairment charges	-1,183	-157	-130	-	-	-
Eliminations	-241	-62	-62	-62	-62	-62
EBITDA	**15,198**	**16,489**	**18,482**	**22,175**	**25,782**	**27,731**
EBITDA margin	21.25%	20.52%	22.48%	24.52%	26.46%	26.67%
Depreciation and amortization	-2,950	-3,619	-4,311	-5,081	-5,773	-6,419
Amoritization of TFCF and Hulu intangible asset	-1,595	-	-	-	-	-
EBIT	**10,653**	**12,870**	**14,171**	**17,094**	**20,009**	**21,312**
EBIT margin	14.89%	16.02%	17.24%	18.90%	20.54%	20.50%
Notional income taxes	-2,471	-2,986	-3,288	-3,966	-4,642	-4,944
Tax adjustments	204	64	70	85	99	106
NOPLAT	**8,386**	**9,948**	**10,954**	**13,213**	**15,467**	**16,474**
Non-operating						
Total equity in the income of investees	450	-116	587	1,419	2,389	3,493
Other income/(expense), net	4,357	-	-	-	-	-
Interest and investment income	268	268	268	268	268	268
Vice Gain	-	-	-	-	-	-
Infinity Charge	-	-	-	-	-	-
Impairment of equity investments	-538	-	-	-	-	-
Result before taxes and OCI	**4,537**	**152**	**855**	**1,687**	**2,657**	**3,761**
Non-operating taxes	-1,053	-35	-198	-391	-616	-873
Non-operating OCI	-2	-	-	-	-	-
Net Income from discontinued operations	671	-	-	-	-	-
Non-operating result	**4,153**	**116**	**657**	**1,296**	**2,040**	**2,889**
Financial						
Interest expense	-1,246	-1,979	-1,906	-2,339	-2,936	-3,237
Result before taxes and OCI	**-1,246**	**-1,979**	**-1,906**	**-2,339**	**-2,936**	**-3,237**
Tax shield	289	459	442	543	681	751
Financial OCI	-2,812	-873	-873	-873	-873	-873
Financial result	**-3,769**	**-2,393**	**-2,336**	**-2,669**	**-3,127**	**-3,359**
Result	**8,770**	**7,672**	**9,275**	**11,840**	**14,380**	**16,004**

Forecasted FCF Map (2019-2024)

in million USD	2019	2020	2021	2022	2023	2024
The World Disney Company						
Operating						
EBIT Media Networks	5,613	5,198	6,113	7,653	8,289	8,434
Notional income taxes	-1,302	-1,206	-1,418	-1,775	-1,923	-1,957
Tax adjustments	107	26	30	38	41	42
NOPLAT Media Networks	**4,418**	**4,018**	**4,725**	**5,915**	**6,407**	**6,519**
Depreciation and amortization	191	193	197	201	205	209
Gross cash flow Media Networks	**4,609**	**4,211**	**4,923**	**6,117**	**6,612**	**6,728**
EBIT Parks, Experiences and Products	6,391	6,774	7,343	7,771	8,421	8,987
Notional income taxes	-1,483	-1,572	-1,704	-1,803	-1,954	-2,085
Tax adjustments	122	34	36	39	42	45
NOPLAT Parks, Experiences and Products	**5,031**	**5,236**	**5,676**	**6,007**	**6,509**	**6,947**
Depreciation and amortization	2,306	2,670	3,166	3,585	4,003	4,435
Gross cash flow Parks, Experiences and Products	**7,337**	**7,906**	**8,842**	**9,591**	**10,512**	**11,382**
EBIT Studio Entertainment	1,580	4,196	3,113	3,898	3,996	4,092
Notional income taxes	-367	-973	-722	-904	-927	-949
Tax adjustments	30	21	15	19	20	20
NOPLAT Studio Entertainment	**1,244**	**3,243**	**2,406**	**3,013**	**3,089**	**3,163**
Depreciation and amortization	135	160	147	160	165	170
Gross cash flow Studio Entertainment	**1,379**	**3,403**	**2,553**	**3,174**	**3,254**	**3,333**
EBIT Direct-to-Consumer and International	-2,931	-3,299	-2,398	-2,228	-696	-201
Notional income taxes	680	765	556	517	162	47
Tax adjustments	-56	-16	-12	-11	-3	-1
NOPLAT Direct-to-Consumer and International	**-2,307**	**-2,550**	**-1,853**	**-1,722**	**-538**	**-155**
Depreciation and amortization	318	596	801	1,135	1,399	1,605
Gross cash flow Direct-to-Consumer and International	**-1,989**	**-1,954**	**-1,053**	**-587**	**861**	**1,450**
Change in Net working capital	-1,846	2,168	-285	-3,258	-1,233	-99
Net Capex	-19,935	-10,161	-12,888	-12,219	-14,647	-14,294
Change in Intangible assets	-16,403	-2,985	-5,187	-1,662	-4,397	-4,138
Change in Goodwill	-49,024	-	-	-	-	-
Change in Deferred income taxes	4,793	1,239	472	936	802	751
Change in Non-current other assets & Other long-term liabilities	3,749	729	-1,067	-219	-851	-314
Gross investment	**-78,666**	**-9,010**	**-18,955**	**-16,421**	**-20,327**	**-18,095**
Operating free cashflow	**-67,330**	**4,557**	**-3,690**	**1,873**	**913**	**4,798**
Non-operating						
Net income from discontinued operations	671	-	-	-	-	-
Non-operating result before taxes and OCI	4,537	152	855	1,687	2,657	3,761
Non-operating taxes	-1,053	-35	-198	-391	-616	-873
Non-operating OCI	-2	-	-	-	-	-
Non-operating result	**4,153**	**116**	**657**	**1,296**	**2,040**	**2,889**
Change in Non-operating investments	-325	-	-	-	-	-
Change in Pension and postretirement medical plan liabilities	2,071	587	-1	289	295	351
Non-operating free cashflow	**5,899**	**703**	**656**	**1,584**	**2,336**	**3,239**
Free cash flow available to investors	**-61,431**	**5,260**	**-3,034**	**3,458**	**3,248**	**8,037**
Financing						
Interest	-1,246	-1,979	-1,906	-2,339	-2,936	-3,237
Tax shield	289	459	442	543	681	751
Change in Borrowings (current portion & non-current)	26,112	-3,827	8,699	11,878	5,010	1,953
Change in Excess Cash	-1,039	3,987	-	-	-485	-1,651
Financial OCI	-2,812	-873	-873	-873	-873	-873
Change in Redeemable Noncontrolling interests (liability)	7,840	179	183	-8,393	75	81
Net Change in Equity (in Cash)	32,287	-3,207	-3,511	-4,274	-4,720	-5,062
Total financing sources	**61,431**	**-5,260**	**3,034**	**-3,458**	**-3,248**	**-8,037**

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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THE INFLUENCE OF DISNEY PLUS' PERCEPTION IN SOCIAL MEDIA ON ITS FUTURE SUBSCRIBER GROWTH

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A Project carried out on the Master in Management Program, under the supervision of:

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6 JANUARY 2020

Abstract

The Walt Disney Company started its own streaming service Disney Plus in November 2019. To evaluate further growth potential in terms of subscriber growth, the consumer perception in social media regarding Disney Plus and the main market players were analyzed. The analysis revealed the huge interest of social media in Disney Plus expressed by 13% of total buzz volume in the considered time frame. However, a lower sentiment ratio compared to its competitors was revealed as a potential threat, which might pressure subscriber growth in the future. The scenario expects a growth potential to 60 million subscribers in 2024.

Keywords

Disney Plus, streaming, social media analysis,

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Individual Report Philipp Fricke Student-ID 34633 – Social Media Analysis

Over one month ago, Disney launched its streaming service Disney Plus. To evaluate further growth potential in terms of subscriber growth, the consumer perception regarding the service could give further insights into how future growth might be impacted. To evaluate the current consumer perception about the new streaming service a social media analysis for Disney Plus is conducted in the following report. Furthermore, Disney's second flagship, Hulu, will be analyzed regarding its perception in the market as well. Both streaming services will be compared to their main competitors, Amazon Prime and Netflix. The conducted analysis can be separated into two parts. Firstly, the monitoring and comparison of social buzz and secondly a sentiment analysis for each streaming service. Buzz monitoring is described as the tracking process of mentions[1] across the world wide web and social media platforms (Word Stream, 2019). Within the framework of the sentiment analysis, the number of mentions in social media are analyzed with the help of computer algorithms, typically analyzing whether those mentions are positively, negatively or neutrally connoted (Barker et al., 2012). Consequently, this analysis will be conducted to capture a public view regarding the selected streaming services. The analysis is performed with the social media monitoring tool Brandwatch. This tool covers different online/ social media sources including forums, blogs, reviews, and social networks such as Facebook, Instagram and Twitter. A query[2] was set up to analyze and gather the relevant online written mentions, regarding Disney Plus, Hulu, and their competitors. A query represents the search request in Brandwatch, which must isolate the information of interest Brandwatch will gather and analyze based on its tone (positive, neutral, negative mentions). Having identified the connotation of mentions a comparison of the sentiment toward each brand will

[1]Mentions are defined as written online items for the following analysis
[2]The search request (query) can be found in the attached Excel

be conducted. Furthermore, the sentiment ratio for each player will be calculated and compared $\frac{postive\ mentions}{(positive+negative\ mentions)}$.

Social Buzz Analysis

The period of December 30th, 2018 through December 1st, 2019 was considered for analysis. In this time frame, a total of 25 million mentions were gathered from the world wide web regarding the analyzed streaming services.

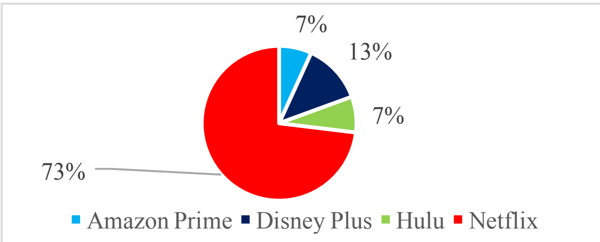

Figure 1: Total Buzz with company shares source: Brandwatch (2019)

Netflix shows significantly higher buzz volume (73%) of total mentions, revealing that Netflix has a significantly larger social audience compared to its competitors. Disney Plus follows with 13%. It must be stated that Disney's buzz was mainly generated during its launch month November (see figure 2). Here, Disney even outperformed Netflix in terms of weekly mentions in November. Hulu and Amazon did not outperform Netflix's weekly mentions a single time during the considered time frame.

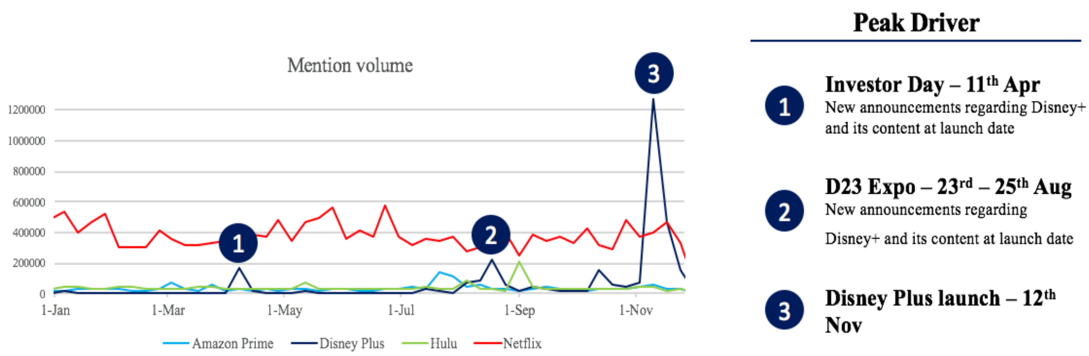

Figure 2: Weekly mentions with Disney peak drivers source: Brandwatch (2019)

The drivers behind the other two peaks of Disney Plus, stated in figure two, were predominantly driven by announcements regarding the streaming service and upcoming platform content at the investor day in April and the D23 Expo, a three-day Disney fan event (Disney, 2019 & D23, 2019). Overall, based on the mention peaks generated by new announcements, the impressive buzz during the days surrounding its launch and the second largest share of total mentions in comparison to the other streaming services reveals the significant interest for Disney Plus in the market. This is in line with Google Trends' search summary of 2019, where Disney Plus ranks in first place for search requests in the USA for the whole year. (Google Trends, 2019)

Sentiment Analysis

To conduct the sentiment analysis, the mentions in the period of December 30th, 2018 through December 1st, 2019 were considered and analyzed. Furthermore, to identify possible shifts in Disney Plus' sentiment driven by its launch, Disney mentions were considered in three ways for the analysis: 1. Total period, 2. Pre-launch period (December 30th – November 12th), 3. After launch period (November 12th – December 1st). The sentiment analysis revealed the following distribution of mentions corresponding to each streaming service.

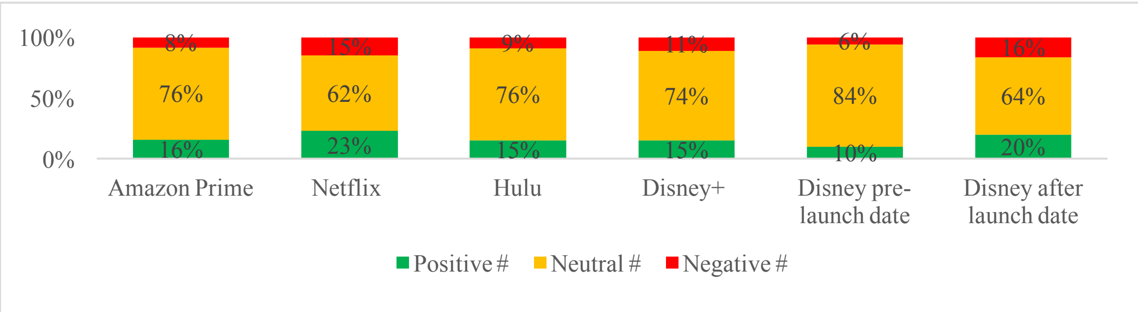

Figure 3: Sentiment of analyzed streaming services source: Brandwatch (2019)

Netflix's social audience takes the strongest position regarding positive and negative mentions in the world wide web compared to the other considered services, followed by Disney after its Disney Plus launch. Interestingly, the share of neutral mentions decreased (20 percentage points) between Disney's pre-launch mentions and its mentions gathered after the launch. However, this strong move is understandable, since customers had then experienced the service and could consequently take up a position more easily. Netflix has a leading position regarding positive mentions followed by Disney Plus after its launch date. Comparing the sentiment ratios of the streaming service providers reveals that all ratios are above 50%. Consequently, streaming services generated more positive mentions compared to negative ones, which is at first a good foundation to grow for all streaming providers. However, the degree of expression differs. All three Disney Plus ratios are below competitor one's. Especially the sentiment ratio after the Disney Plus launch (55%) is weak compared to its competitors. Looking at Hulu, the service convinces with the second strongest sentiment ratio (63%) behind Amazon Prime but outperforming Netflix.

Typ	Amazon Prime	Netflix	Hulu	Diseny+	Disney pre-launch date	Disney after launch date
Positive #	278,704.00	4,273,088.00	292,912.00	488,656.00	165,024.00	323,632.00
Neutral #	1,320,704.00	11,645,504.00	1,451,312.00	2,382,208.00	1,362,144.00	1,020,064.00
Negative #	145,328.00	2,767,328.00	169,728.00	352,992.00	92,000.00	260,992.00
Sentiment Ratio	66%	61%	63%	58%	64%	55%

Figure 4: Sentiments of the streaming services and their sentiment ratio source: Brandwatch (2019)

Impact on valuation

Overall, despite the huge awareness and interest for Disney Plus in the market, looking deeper into its sentiment, subscriber growth in the near future might be impacted negatively for the new streaming service. 16% negative mentions after Disney's launch might increase the churn rate of current subscribers while negative mentions in the world wide web could prevent new customers to subscribe for the service. In combination with better sentiment ratios of Disney Plus peers, which have a better foundation to grow, subscribers might only grow to 16 million subscribers in 2020, an upside of only six million subscribers from its ten million announced one day after its launch date (NBC, 2019). With an increasing library of content Disney Plus's sentiment ratio is expected to improve stepwise, subscribers will grow to 60mn worldwide in accordance with lower range management guidance (Disney, 2019). This will result in revenues of 5.0 billion USD in 2024. Assuming this scenario has a probability of 100%, Disney's equity value per share would result in 166.4 USD (1.1 USD below target price).

FY	20	21	22	23	24
Revenues in mn	587	1,504	2,413	3,927	4,990
Subscriber	16	23	38	56	60

Figure 5: Worse Case scenario revenue and subscriber growth source: Brandwatch (2019)

However, it is expected that the described scenario has only a probability of 10% in the valuation model. The main mitigation factors for a higher probability are the following: Firstly, Disney's aggressive start price and its option for bundling with Hulu and ESPN+, secondly Disney offered just a limited access to its subscribers in its first weeks, which will be constantly increased by its recent movie success stories and new original series, thirdly just 19 days of data was available after Disney Plus was considered.

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