

The Walt Disney (DIS)

\$116.45 (As of 03/03/20)

Price Target (6-12 Months): **\$122.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Disney is expected to benefit from its solid slate of theatrical releases in fiscal 2020. Its upcoming movies, including *Mulan*, *Free Guy* and *Black Widow*, are anticipated to aid Studio Entertainment top line. Moreover, growing popularity of Disney+ makes it a key catalyst for the company's prospects owing to a strong content portfolio and a cheaper bundle offering. Notably, Disney+ is set for launch in India on Mar 29 through Hotstar and in Western Europe on Mar 24. However, the company anticipates higher operating losses in the DTC & International segment due to the ongoing investments in Disney+ and the consolidation of Hulu. Moreover, closure of Shanghai and Hong Kong parks due to coronavirus is expected to negatively impact profitability. Notably, Disney's shares have underperformed the industry in the past year.

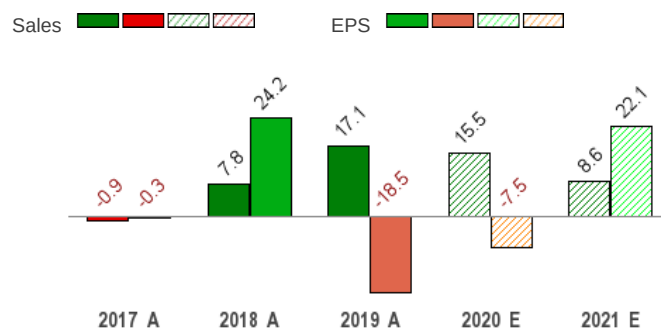
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$153.41 - \$107.32
20 Day Average Volume (sh)	15,008,744
Market Cap	\$210.2 B
YTD Price Change	-19.5%
Beta	1.02
Dividend / Div Yld	\$1.76 / 1.5%
Industry	Media Conglomerates
Zacks Industry Rank	Top 43% (110 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.0%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	20.9
P/E F1	21.8
PEG F1	3.9
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	22,082 E	20,859 E	22,436 E	21,642 E	87,282 E
2020	20,858 A	18,912 E	19,885 E	20,416 E	80,376 E
2019	15,303 A	14,922 A	20,245 A	19,100 A	69,570 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.77 E	\$1.91 E	\$1.91 E	\$1.61 E	\$6.52 E
2020	\$1.53 A	\$1.29 E	\$1.27 E	\$1.20 E	\$5.34 E
2019	\$1.84 A	\$1.61 A	\$1.35 A	\$1.07 A	\$5.77 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

Overview

Burbank, CA-based Walt Disney Company has assets that span movies, television, publishing and theme parks. Revenues were \$69.57 billion in fiscal 2019.

Media Networks (35.7% of total revenues) segment includes domestic broadcast television network, television production and distribution operations, domestic television stations, cable networks, domestic broadcast radio networks and stations, and publishing and digital operations. The company operates the ABC Television Network and 8 owned television stations; ESPN and Disney Channel cable networks; ESPN Radio and Radio Disney networks.

Studio Entertainment (16% of revenues) segment produces animated and live-action motion pictures, direct-to-video programming, musical recordings, and live stage plays. The library of films is distributed under 5 banners namely Walt Disney Pictures, Touchstone Pictures, Pixar, Marvel, and Lucasfilms.

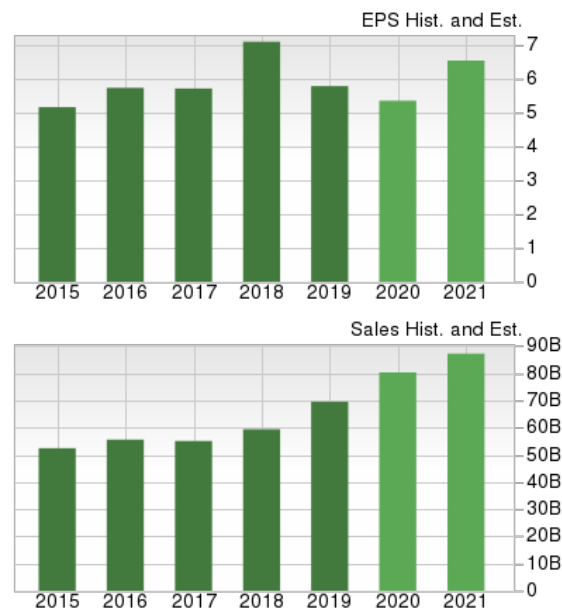
Parks, Experiences & Consumer Products (37.7% of revenues) segment is a combination of global consumer products business with Parks and Resorts. Parks and Resorts owns and operates the Disney World Resort in Florida, the Disneyland Resort in California, the Disney Vacation Club, the Disney Cruise Line, and Adventures by Disney. The company also has ownership interests in Disneyland Paris, in Hong Kong Disneyland Resort and in Shanghai Disney Resort, and licenses the operations of the Tokyo Disney Resort in Japan.

Consumer products business engages with licensees, manufacturers, publishers and retailers to design, develop, publish, promote and sell a wide variety of products based on existing and new Disney characters and other intellectual property via its Merchandise Licensing, Publishing and Retail businesses throughout the world.

Direct-to-Consumer (DTC) & International segment (13.4% of revenues) comprises Disney's direct-to-consumer streaming services, international media operations and global advertising sales and ad technology for Disney media properties including Freeform, ESPN, ABC and Disney Channels.

On Mar 20, 2019, Disney completed the acquisition of 21st Century Fox and got hold of Fox's production, animation and television assets. National Geographic channel, FX Networks and international networks were also part of the deal.

Additionally, the company has acquired full operational control of Hulu.



Reasons To Buy:

- ▲ Disney completed the acquisition of Twenty-First Century Fox (TFCF). The majority of Fox's assets acquired contribute to Disney's content portfolio. Fox's television business is expected to help the company strengthen its TV slate globally, which has been facing some issues in terms of distribution or subscribers. Disney's international footprint will increase substantially post the acquisition. Notably, Fox Networks International operates above 350 channels in 170 countries, while Star India has 69 channels serving 720 viewers per month
- ▲ Disney's Studio Entertainment segment has an impressive line-up of big budget movies slated to be released over the next 18 months. Additionally, following Fox's acquisition, the company's slate of movies releases has increased. Additionally, following Fox's acquisition, the company's slate of movie releases has increased. The movies scheduled to release include *Mulan*, *Free Guy* and *Black Widow*.
- ▲ Disney launched its own direct-to-consumer service Disney+ on Nov 12 in the United States, Canada and The Netherlands. The service offers nearly 500 movies and 7,500 episodes of television from brands such as Disney, Pixar, Marvel, Star Wars and National Geographic and Disney+ originals. Moreover, Disney+ will cost \$6.99 a month or \$69.99 a year. Notably, the service can also be purchased in the United States as part of a bundle that includes Hulu (with ads) and ESPN for \$12.99 a month. Disney+ is expected to have between 60 million and 90 million subscribers globally by the end of fiscal 2024.
- ▲ Disney's already launched ESPN+, which offers tournaments like Major League Baseball, National Hockey League, Major League Soccer, Grand Slam tennis, Italy's Serie A soccer and thousands of college sports, is gaining traction. ESPN+, which currently has more than 6.6 million paid subscribers, is expected to expand its subscriber base through continued investments in content.

The acquisition of the majority of Fox's assets, impressive lineup of big budget movies, launch of direct-to-consumer service and robust visitor growth rate are key catalysts.

Reasons To Sell:

- ▼ Higher programming costs at ESPN are a major concern for the company's profitability. Programming costs were high due to increase in contractual rate and production costs for a few sports programs.
- ▼ Moreover, continued heavy investments in ESPN+ and Disney+ is likely to hurt DTC & International segment's profitability. Notably, management projects license content expenses related to Disney+ to increase from less than \$1.5 billion for fiscal 2020 to mid-\$2-billion range by fiscal 2024. Additionally, total operating expenses for Disney+, which include marketing, technology, customer service, billing and G&A expenses, are estimated to be slightly less than \$1 billion for fiscal 2020. Furthermore, Disney will spend \$1 billion in cash on original programming for Disney+ in fiscal 2020. Spending on Disney+ originals is likely to flare up to around \$2.5 billion by fiscal 2024. The company expects Disney+ to achieve profitability not before fiscal 2024, which is expected to keep margins under pressure.
- ▼ Disney+ is expected to face significant competition in the streaming market from the likes of Netflix and Amazon Prime. Netflix enjoys a first-mover advantage in the streaming market and its solid original programming portfolio is a major differentiator. Amazon is also catching up. With the entrance of Apple TV+, HBO Max and Comcast's Peacock, the competition is likely to get stiffer. In fact, we believe Disney is significantly late to the streaming market and thus have to spend a significant amount to attract subscribers.
- ▼ Softness experienced in tourism and consumer confidence in China is a headwind. Moreover, closure of Shanghai and Hong Kong parks (impact of coronavirus and lower tourism due to political unrest in Hong Kong) is expected to hurt operating income by \$135 million and \$145 million, respectively, in the second quarter of fiscal 2020.

Higher programming costs at ESPN, heavy investments in ESPN+ and Disney+ and softness experienced in tourism and impact of coronavirus in China are factors that may hamper growth in the near term.

Last Earnings Report

Disney Q1 Earnings Beat Estimates, Revenues Up Y/Y

Disney reported first-quarter fiscal 2020 adjusted earnings of \$1.53 per share, beating the Zacks Consensus Estimate by 7% but decreasing 16.8% year over year.

Notably, on Mar 20, Disney acquired Twenty-First Century Fox (TFCF) for cash and issuance of 307 million shares. The quarterly results include TFCF and Hulu LLC (Hulu) results and the consolidations have affected earnings before purchase accounting by 27 cents.

Revenues jumped 36.3% from the year-ago quarter to \$20.89 billion, lagging the consensus mark by 1.1%. The year-over-year growth was driven by solid top-line performance across all segments, particularly the Studio Entertainment and Direct-to-Consumer (DTC) businesses.

However, higher operating losses in the DTC segment and Media Networks' operating income decline hurt profitability.

Media Networks Segment Details

Media Networks' (35.3% of revenues) revenues grew 24.3% year over year to \$7.36 billion. Revenues from Cable Networks increased 19.6% to \$4.77 billion. Broadcasting revenues were up 34.1% year over year to \$2.60 billion.

Media Networks' segment operating income increased 22.6% year over year to \$1.63 billion. Cable Networks' operating income grew 16% to \$862 million. Broadcasting operating income surged 40% to \$377 million.

Cable Networks' operating income increased owing to the addition of the TFCF businesses (mainly the FX and National Geographic networks), partially offset by a decrease in ESPN.

ESPN's domestic linear advertising revenues declined 4.5% due to lower average viewership primarily for NBA and college football regular-season games. Moreover, ESPN's results were negatively impacted by higher programming, production and marketing costs, somewhat negated by an increase in affiliate revenues.

Higher programming costs were driven by rate increases for NFL, College Football Playoffs and other college sports programming as well as increased costs for the ACC Network, launched in August 2019.

Affiliate revenues benefited from contractual rate increases, partially offset by a decline in subscribers.

The increase in broadcasting operating income was driven by the TFCF consolidation. However, revenues were negatively impacted by lower advertising revenues, a decrease in ABC Studios program sales, and higher network programming and production costs.

Parks, Experiences and Products

The segment revenues (35.5% of revenues) increased 8.4% year over year to \$7.40 billion.

Operating income rose 8.6% to \$2.34 billion, driven by robust contributions from Consumer Products (merchandise licensing) and domestic parks and resorts (revenues up 10%), partially offset by lower revenues from international parks and resorts.

Consumer Products operating income grew 25% year over year, primarily driven by higher licensing revenues from the *Frozen*, *Star Wars* and *Toy Story* merchandise, partially offset by a decrease in the *Mickey* and *Minnie* merchandise.

Operating income growth at domestic parks and resorts (up 6%) was primarily owing to higher guest spending, driven by increases in average ticket prices and higher food, beverage and merchandise spending.

However, the growth in operating income was somewhat negated by expenses associated with *Star Wars: Galaxy's Edge*, which was opened on May 31, and negative impact of wage increases for union employees.

Studio Entertainment Details

Studio Entertainment segment (18% of revenues) revenues surged 106.4% to \$3.76 billion.

Operating income soared 206.8% to \$948 million, backed by higher theatrical and TV/SVOD distribution results, partially muted by the TFCF business losses.

Theatrical distribution revenues benefited from the solid performance of *Frozen II* and *Star Wars: The Rise Of Skywalker*.

The 21CF business operating losses (\$50 million) resulted from a loss in theatrical distribution, primarily due to the lackluster performance of *Spies in Disguise*, *Ford v. Ferrari* and *Terminator: Dark Fate*.

Direct-to-Consumer (DTC) & International Interactive Media

The segment (17.9% of revenues) revenues came in at \$3.99 billion, significantly up from \$918 million in the year-ago quarter.

ESPN+ had more than 6.6 million paid subscribers at the end of the fiscal first quarter. Disney+, launched on Nov 12, gathered 26.5 million paid subscribers. Hulu ended the quarter with 30.4 million paid subscribers.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	-1.05%
EPS Surprise	6.99%
Quarterly EPS	1.53
Annual EPS (TTM)	5.56

The average monthly revenue per paid subscriber for ESPN+ declined 4.9% year over year to \$4.44 due to a shift in the mix of subscribers to Disney's bundled offering.

Notably, in November 2019, the company began offering a bundled subscription package of Disney+, ESPN+ and Hulu, which has a lower average retail price per service compared to the average retail price of each service on a standalone basis.

The average monthly revenue per paid subscriber for Disney's Hulu SVOD Only service declined 9.2% year over year to \$13.15, driven by lower retail pricing and a shift in the mix of subscribers to the company's bundled offering.

The average monthly revenue per paid subscriber for Disney's Hulu Live TV + SVOD service increased 13.7% from the year-ago quarter to \$59.47 owing to higher retail pricing.

Operating loss widened to \$693 million from \$136 million in the year-ago quarter. Consolidation of Hulu and ongoing investments in ESPN+ and Disney+ affected profitability.

Increase in operating loss at ESPN+ was primarily due to higher programming costs, mainly for the Ultimate Fighting Championship rights, and an increase in marketing spending.

Other Quarter Details

Costs & expenses surged 51.6% year over year to \$18.02 billion in the reported quarter.

Selling, general & administrative expenses jumped 72.1% from the year-ago quarter to \$3.70 billion.

Segment operating income increased 9.5% year over year to \$4 billion. Consolidation of Hulu and intersegment eliminations marred profit by almost \$300 million.

Free cash flow at the end of the quarter was \$292 million compared with free cash flow of \$904 million reported in the year-ago quarter.

Outlook

Disney expects second-quarter fiscal 2020 operating income to be negatively impacted by park closure at Shanghai and Hong Kong Disneyland due to coronavirus. While the Shanghai closure is expected to hurt operating income by \$135 million, Hong Kong's closure will result in a negative impact of roughly \$145 million.

Notably, so far this quarter, Disney's domestic resort reservations have risen 4% year over year.

Management expects the DTC & International segment to report roughly \$900 million in operating losses for the second quarter. Moreover, continued investment in DTC services, particularly Disney+, and the consolidation of Hulu are expected to hurt DTC & International segment's operating income by \$520 million on a year-over-year basis.

Notably, Disney is set to launch Disney+ in India through the Hotstar service on Mar 29. The company will launch Disney+ in several international markets, starting with Western Europe on Mar 24.

Disney projects the 21CF acquisition and the impact of taking full operational control of Hulu to hurt fiscal second-quarter earnings before purchase accounting by 25 cents.

Recent News

On Feb 25, Disney appointed Bob Chapek as the new chief executive officer of The Walt Disney Company, effective immediately. Chapek replaced Robert A. Iger who will be the executive chairman through the end of his contract on Dec. 31, 2021.

On Jan 22, Disney announced that Scopely will acquire FoxNext Games Los Angeles, the game studio behind the hit *MARVEL Strike Force*, and Cold Iron Studios in San Jose from Disney.

On Jan 21, Disney announced that Disney+ is set for launch a week earlier than planned in Western Europe. The streaming service will now be launched on Mar 24 in the UK, Ireland, France, Germany, Italy, Spain, Austria, and Switzerland. Other Western European markets like Belgium, the Nordics and Portugal are expected to get Disney+ by summer 2020.

On Dec 16, Disney announced that *Frozen 2*'s global box office collection crossed \$1 billion.

Per a Reuters article on Dec 11, which cited a report by research firm Apptopia, Disney+ has been downloaded 22 million times on mobile devices since the launch of the streaming service in Nov 12.

Valuation

Disney shares are down 16.1% in the past six-month period while up 2.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 16.1% and 5.6% in the past six-month period. Over the past year, the Zacks sub-industry is up 7.9% while the sector is down 2.4%, respectively.

The S&P 500 index is up 1% in the past six-month period and 6.3% in the past year.

The stock is currently trading at 19.86X forward 12-month earnings, which compares to 19.72X for the Zacks sub-industry, 18.03X for the Zacks sector and 17.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.38X and as low as 13.4X, with a 5-year median of 16.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$122 price target reflects 20.82X forward 12-month earnings.

The table below shows summary valuation data for DIS

Valuation Multiples - DIS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.86	19.72	18.03	17.15
	5-Year High	26.38	25.25	23.23	19.34
	5-Year Low	13.4	12.9	16.15	15.18
	5-Year Median	16.67	17.58	19.96	17.44
P/B TTM	Current	2.22	1.64	2.67	4.01
	5-Year High	4.17	2.89	5.04	4.54
	5-Year Low	1.91	1.09	2.67	2.85
	5-Year Median	3.33	1.95	4.25	3.62
EV/EBITDA TTM	Current	17.70	10.97	11.14	10.93
	5-Year High	23.85	15.72	17.59	12.88
	5-Year Low	9.77	5.66	10.77	8.49
	5-Year Median	11.83	7.31	12.32	10.79

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Top 43% (110 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
DISH Network Corporation (DISH)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
Cable One, Inc. (CABO)	Neutral
Comcast Corporation (CMCSA)	Neutral
Lions Gate Entertainment Corp. (LGF.A)	Neutral
Netflix, Inc. (NFLX)	Neutral
AT&T Inc. (T)	Neutral

Industry Comparison Industry: Media Conglomerates				Industry Peers		
	DIS Neutral	X Industry	S&P 500	AAPL Outperform	CMCSA Neutral	NFLX Neutral
VGM Score	F	-	-	D	B	F
Market Cap	210.24 B	8.50 B	21.37 B	1,265.91 B	188.68 B	161.82 B
# of Analysts	6	1	13	11	13	13
Dividend Yield	1.51%	0.00%	2.04%	1.06%	2.03%	0.00%
Value Score	D	-	-	D	B	F
Cash/Price	0.03	0.12	0.05	0.09	0.03	0.03
EV/EBITDA	12.65	10.22	12.65	15.99	8.29	14.29
PEG Ratio	3.91	4.28	1.87	2.03	1.19	2.03
Price/Book (P/B)	2.22	0.71	2.96	14.14	2.25	21.34
Price/Cash Flow (P/CF)	14.72	11.33	11.68	18.96	6.89	14.47
P/E (F1)	21.96	17.29	16.98	21.31	12.82	60.88
Price/Sales (P/S)	2.80	4.20	2.44	4.73	1.73	8.03
Earnings Yield	4.59%	4.59%	5.87%	4.69%	7.79%	1.64%
Debt/Equity	0.40	0.70	0.70	1.04	1.23	1.95
Cash Flow (\$/share)	7.91	3.24	7.01	15.26	6.01	25.49
Growth Score	F	-	-	C	A	F
Hist. EPS Growth (3-5 yrs)	5.67%	44.39%	10.85%	9.54%	16.77%	82.45%
Proj. EPS Growth (F1/F0)	-7.42%	-6.97%	6.36%	14.19%	3.27%	46.66%
Curr. Cash Flow Growth	4.37%	-0.66%	6.07%	-3.74%	21.54%	26.74%
Hist. Cash Flow Growth (3-5 yrs)	7.57%	13.97%	8.52%	7.40%	11.76%	30.03%
Current Ratio	0.80	0.71	1.23	1.60	0.84	0.90
Debt/Capital	33.19%	37.24%	42.57%	50.97%	55.43%	66.06%
Net Margin	13.81%	-15.38%	11.57%	21.49%	11.98%	9.26%
Return on Equity	10.23%	-1.39%	16.66%	60.19%	18.25%	28.45%
Sales/Assets	0.37	0.05	0.54	0.80	0.42	0.66
Proj. Sales Growth (F1/F0)	15.53%	8.84%	4.01%	8.22%	4.80%	20.90%
Momentum Score	F	-	-	F	D	D
Daily Price Chg	-2.94%	0.00%	-2.60%	-3.18%	-2.54%	-3.22%
1 Week Price Chg	-15.34%	-14.25%	-12.06%	-12.68%	-11.76%	-2.90%
4 Week Price Chg	-19.54%	-17.24%	-10.01%	-9.26%	-6.41%	-0.07%
12 Week Price Chg	-20.29%	-13.75%	-7.46%	7.76%	-3.11%	25.81%
52 Week Price Chg	2.15%	2.15%	2.54%	64.83%	7.02%	4.08%
20 Day Average Volume	15,008,744	218,153	2,406,738	42,133,116	22,562,444	5,781,276
(F1) EPS Est 1 week change	-0.96%	0.00%	0.00%	-0.51%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.02%	-1.02%	-0.06%	-1.17%	-0.35%	0.22%
(F1) EPS Est 12 week change	-4.76%	-4.76%	-0.39%	3.90%	-5.57%	10.60%
(Q1) EPS Est Mthly Chg	-9.12%	-9.12%	-0.45%	-9.94%	-0.74%	0.03%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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