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Aug 12, 2020

Discovery, Inc.(DISCA)

$22.48 (As of 08/11/20)

Price Target (6-12 Months): **$24.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/13/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A	Growth: B	**3-Hold** VGM:A Momentum: A

Summary

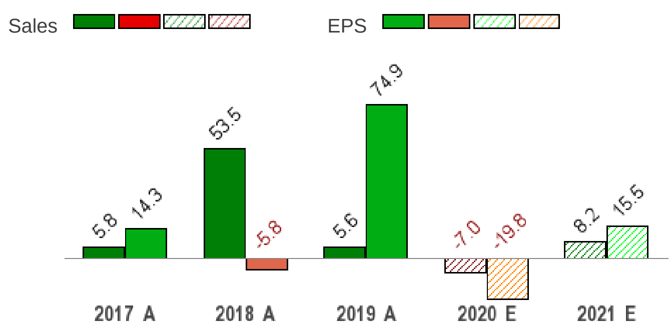
Discovery's second-quarter 2020 results were adversely impacted by the coronavirus-led chaos. Lockdowns and shelter-in-place guidelines hurt advertising demand and spending, which dented Discovery's advertising revenues. The company's leveraged balance sheet and an unfavorable forex are other concerns. Shares have underperformed the industry year-to-date. Nevertheless, climbing viewership reflects portfolio strength. Further, the increased monetization of digital streaming products in several markets are expected to fuel international affiliate growth. Faster recovery in Poland and Germany, Discovery's two largest advertising markets in Europe, is positive. Additionally, the growing popularity of the Food Network is a major driver. Resumption of the share repurchase program also makes Discovery shares attractive.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$33.66 - $17.12**
20 Day Average Volume (sh)	**4,108,156**
Market Cap	**$11.7 B**
YTD Price Change	**-31.3%**
Beta	**1.48**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Broadcast Radio and Television**
Zacks Industry Rank	**Bottom 29% (180 out of 253)**
Last EPS Surprise	**2.7%**
Last Sales Surprise	**1.4%**
EPS F1 Est- 4 week change	**2.2%**
Expected Report Date	**11/05/2020**
Earnings ESP	**0.0%**
P/E TTM	**6.4**
P/E F1	**7.6**
PEG F1	**0.4**
P/S TTM	**1.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,596 E	2,744 E	2,928 E	2,802 E	11,219 E
2020	2,683 A	2,541 A	2,453 E	2,726 E	10,367 E
2019	2,707 A	2,885 A	2,678 A	2,874 A	11,144 A

EPS Estimates

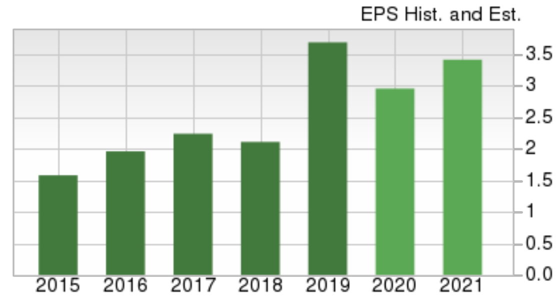
	Q1	Q2	Q3	Q4	Annual*
2021	$0.75 E	$0.94 E	$0.62 E	$0.90 E	$3.42 E
2020	$0.87 A	$0.77 A	$0.65 E	$0.68 E	$2.96 E
2019	$0.87 A	$0.98 A	$0.87 A	$0.98 A	$3.69 A

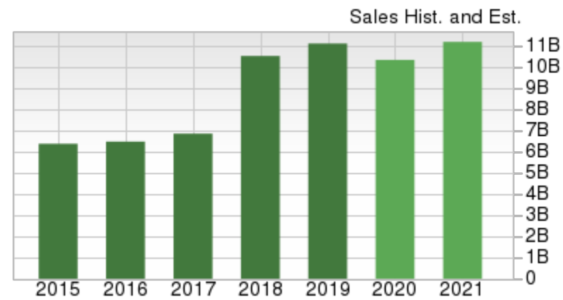
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

Overview

Discovery Communications is now known as Discovery, Inc. following the completion of the acquisition of Scripps Networks Interactive on Mar 6, 2018. The company offers original and purchased content as well as live events to 3.8 billion cumulative subscribers plus viewers worldwide. Discovery distributes content in the United States and to 220 other countries plus territories in more than 50 languages.





The company's global portfolio of networks includes non-fiction television brands, such as Discovery Channel, HGTV, Food Network, TLC, Animal Planet, Investigation Discovery, Trvl Channel, OWN, Science Channel and MotorTrend (previously known as Velocity, domestically and currently known as Turbo in most international countries).

Moreover, the company's international portfolio constitutes Eurosport, a leading sports entertainment provider and broadcaster of the Olympic Games across Europe, TVN, a Polish media company, as well as Discovery Kids, a leading children's entertainment brand in Latin America.

Discovery also participates in joint ventures including Group Nine Media. The company is a participant in the multi-platform venture with Chip and Joanna Gaines, which plans to launch linear networks, SVOD and TV Everywhere (TVE) products in 2020.

Discovery reported revenues of $11.14 billion in 2019. It operates through two reportable segments: U.S. Networks and International Networks.

U.S. Networks segment owns and operates 18 national television networks. In 2019, the segment contributed to 63.6% of the company's total revenue base. Moreover, advertising, distribution and other revenues were 60%, 39% and 1%, respectively, of the total segmental revenues.

International Networks segment primarily consists of the national pan-regional TV networks of the company. In 2019, the segment accounted for 36.3% of the company's total revenue stream. Moreover, advertising, distribution and other revenues were 45%, 52% and 3%, respectively, of the total segment revenues.

Other revenues were $11 million in 2019. On Apr 30, 2018, Discovery sold 88% controlling equity stake in the Education Business to Francisco Partners.

Reasons To Buy:

Discovery's acquisition of Scripps significantly expands content portfolio and international footprint, which along with an expanding sports coverage and partnerships are key catalysts.

- Discovery is one of the world's largest pay-TV programmers, with approximately 4 billion cumulative subscribers. The company is benefiting from content portfolio strength, post the Scripps Networks' buyout. The acquisition also helped the company to expand its international footprint, especially in regions like Europe, Latin America and the Nordics. Cost synergies from the merger drove profitability as adjusted OIBDA grew 12% in 2019.

- Discovery's expanding market share has been driven by solid viewership of multiple channels including Discovery Channel, Animal Planet, Food Network, HGTV, MotorTrend, Science, TLC, ID, Oprah, Eurosport, the Cooking Channel and UKTV Lifestyle. Notably, Discovery generated more than $700 million of direct-to-consumer revenues in 2019. Viewership further increased due to the coronavirus outbreak, as more and more people were compelled to stay at home.

- Moreover, expanding sports coverage based on partnership with the likes of PGA TOUR, Tiger Woods and Olympics is a major growth driver. In Oct 2018, the company entered a 12-year agreement with PGA Tour worth about $2 billion to manage TV and digital rights for golf events in territories outside the United States. Additionally, GOLFTV inked a partnership with the European Tour to broadcast and stream a number of golf events. Apart from GOLFTV, Discovery's European sports network, EuroSport won European multi-platform broadcast and distribution rights for four Olympic Games between 2018 and 2024. Additionally, the platform has rights to prominent pro leagues in soccer and tennis, among others. This extensive sports coverage enhances Discovery's growth prospect in the long haul.

- Apart from PGA and European Tour, partnerships with the likes of AT&T, Hulu, Sling TV and Bilibili are helping Discovery rapidly penetrate the online viewing market. Moreover, the company's expanding direct-to-consumer offerings are expected to aid its top line in the long haul. Through the Eurosport Player video streaming service, the company offers premium and localized sports content to fans across 52 markets in Europe. Dplay, the company's real-life entertainment streaming service, is now available in 10 markets including the U.K., Ireland, Spain, the Nordics, Japan and Italy. In Germany, Discovery partnered with ProSiebenSat.1 to launch the streaming service, Joyn. In Poland, it teamed up with Cyfrow Polsat to create a video streaming platform for disseminating polish content.

Reasons To Sell:

Adverse effect of coronavirus on advertising demand and spending, cancellation of gaming events, unfavorable foreign exchange and high leverage are major concerns.

- The internal dynamics of the U.S. pay-TV industry has been gradually shifting from cable TV operators to large telecom operators and low-cost over-the-top (OTT) service providers. Online video streaming service providers such as Netflix, Hulu and YouTube, among others, have become a severe threat to legacy pay-TV content providers because of their extremely cheap source of TV programming and solid content. This doesn't bode well for Discovery, as loss of domestic subscribers is a major concern.

- Coronavirus-led lockdowns and shelter-in-home guidelines resulted in lower advertising demand and spending that hurt Discovery's advertising revenues in first-quarter. The company has witnessed higher cancellations and deferrals in the second quarter. In April Discovery's domestic and international markets are down 20% and 40%, respectively. Moreover, cancellation of gaming events globally due to the coronavirus outbreak is a major headwind to the company. These factors are expected to hurt company's top-line growth in the near term.

- Forex woes, as U.S. dollar appreciates, are a downside for Discovery. The company expects adverse currency translation to erode revenues by $130-$140 million and AOIBDA by $30 million.

- Discovery's Discovery's highly leveraged balance sheet is a significant worry for investors. As of Jun 30, 2020, cash & cash equivalents were $1.68 billion compared with $1.45 billion as of Mar 31, 2020. Moreover, as of Jun 30, 2020, long-term debt was $14.94 billion, higher than $15.27 billion as of Mar 31, 2020. The huge debt burden is a headwind as Discovery's advertising revenue stream is expected to get drained by the coronavirus pandemic.

Last Earnings Report

Discovery's Q2 Earnings & Revenues Beat Estimates

Quarter Ending	06/2020
Report Date	Aug 05, 2020
Sales Surprise	1.36%
EPS Surprise	2.67%
Quarterly EPS	0.77
Annual EPS (TTM)	3.49

Discovery reported second-quarter 2020 adjusted earnings of 77 cents per share, beating the Zacks Consensus Estimate by 2.7% but decreasing 21.4% year over year.

Revenues slid 11.9% year over year to $2.54 billion but beat the consensus mark by 1.2%.

This year-over-year decline was primarily attributed to a decrease in advertising (50.1% of revenues) revenues negatively impacted by the coronavirus pandemic.

Top-Line Details

Advertising revenues dipped 21.4% year over year to $1.27 billion. However, Distribution revenues climbed 1.6% year over year to $1.23 billion. Other revenues were $43 million, down 28.3% from the year-ago quarter.

U.S. Networks (69.1% of revenues) revenues declined 5.7% on a year-over-year basis to $1.76 billion. Advertising revenues declined 13.5% while distribution revenues grew 7.4%.

Total portfolio subscribers of Discovery's fully distributed networks were 5% lower on a year-over-year basis. In the second quarter, Discovery's portfolio of networks in the United States gained more share in primetime than any other TV portfolio in each of the company's targeted demographics, per Nielsen data.

International Networks revenues (30.8% of revenues) slipped 23.2% year over year to $783 million. Advertising and distribution revenues were down 40.8% and 6.2%, respectively.

Notably, total share of viewing across the international portfolio in the second quarter increased 4%, on average, with strong share growth in India, the United Kingdom and Italy.

Operating Details

In the second quarter, selling, general and administrative (SG&A) expenses decreased 10.4% from the year-ago quarter to $635 million. This year-over-year growth was due to 9% growth in U.S. Networks SG&A and a 13% increase in International Network SG&A.

Higher marketing expenses related to Discovery's next-generation initiatives escalated SG&A year over year.

Adjusted operating income before depreciation & amortization ("OIBDA") decreased 12% from the year-ago quarter to $1.13 billion. Excluding the foreign-exchange impact, OIBDA decreased 3%.

U.S. Networks adjusted OIBDA decreased 5.7% from the year-ago quarter to $1.06 billion.

Moreover, International Networks adjusted OIBDA declined 32.5% from the year-ago quarter to $193 million. Excluding the forex impact, adjusted OIBDA was down 2%.

GAAP operating income declined 21.3% year over year to $717 million.

Balance Sheet & Cash Flow

As of Jun 30, 2020, cash & cash equivalents were $1.68 billion compared with $1.45 billion as of Mar 31, 2020.

Moreover, as of Jun 30, 2020, long-term debt was $14.94 billion, higher than $15.27 billion as of Mar 31, 2020.

Free cash flow surged 47% year over year to $879 million.

Recent News

On Apr 23, Discovery-owned Eurosport signed a content partnership contract with Torque Esports. Per the deal, Eurosport will live telecast Torque's The Race All-Star Series - Fully Charged by ROKiT Phones across more than 150 countries and territories via its channels including cable, satellite, IPTV and simulcast over the internet and mobile (including social media), VoD and catch-up programming.

On Apr 13, Discovery announced an expanded content offering across its portfolio of 13 TV-everywhere streaming GO apps and sites. The "Family Favorites" initiative offers full seasons of fan-favorite series and specials from Discovery's collection of family-friendly networks including Discovery Channel, HGTV, Food Network, TLC, Animal Planet, Science Channel, Cooking Channel and DIY. The offering is currently available commercial-free across all Discovery's GO apps and requires no MVPD sign-in.

On Mar 9, Discovery announced that Neil Chugani was appointed chief financial officer and head of strategy and operations of its Direct-to-Consumer business.

Valuation

Discovery shares are down 31.3% in the year-to-date period and 24.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 8.7%, while the same in the Zacks Consumer Discretionary sector are down 4.8%. Over the past year, the Zacks sub-industry and the sector are up 12.6% and 4.3%, respectively.

The S&P 500 Index is up 4.2% in the year-to-date period and 14.9% in the past year.

The stock is currently trading at 6.93X forward 12-month earnings, which compares to 28.49X for the Zacks sub-industry, 33.44X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.47X and as low as 4.88X, with a 5-year median of 9.26X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $24 price target reflects 7.28X forward 12-month earnings.

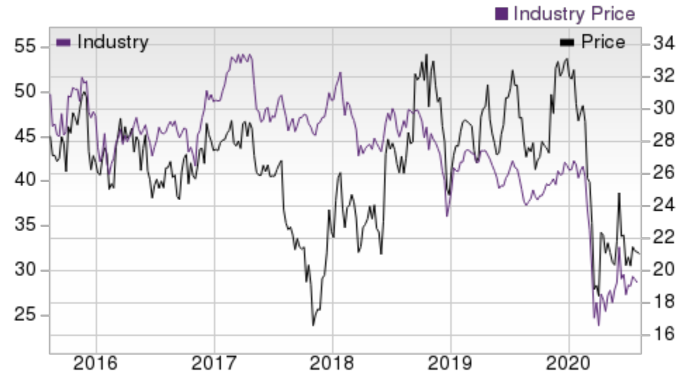
The table below shows summary valuation data for DISCA

Valuation Multiples - DISCA

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.93	28.49	33.44	22.8
	5-Year High	16.47	34.48	33.6	22.8
	5-Year Low	4.88	20.53	16.13	15.25
	5-Year Median	9.26	25.89	19.86	17.58
P/S F12M	Current	1.08	8.1	2.39	3.67
	5-Year High	2	12.24	2.95	3.67
	5-Year Low	0.73	6.12	1.68	2.53
	5-Year Median	1.39	9.41	2.5	3.05
EV/Sales TTM	Current	2.32	9.07	3.14	3.26
	5-Year High	3.94	14.72	3.86	3.46
	5-Year Low	2.06	6.8	2.29	2.14
	5-Year Median	2.77	10.43	3.39	2.86

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Cable One, Inc. **(CABO)**	Outperform	1
Amazon.com, Inc. **(AMZN)**	Neutral	3
Comcast Corporation **(CMCSA)**	Neutral	3
DISH Network Corporation **(DISH)**	Neutral	3
Netflix, Inc. **(NFLX)**	Neutral	3
ATT Inc. **(T)**	Neutral	3
The Walt Disney Company **(DIS)**	Underperform	4
Fox Corporation **(FOXA)**	Underperform	5

Industry Comparison Industry: Broadcast Radio And Television

Industry Peers

	DISCA	X Industry	S&P 500	CMCSA	DIS	NFLX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	A	F	C
Market Cap	11.71 B	478.56 M	23.61 B	196.38 B	235.80 B	205.92 B
# of Analysts	6	2	14	15	6	12
Dividend Yield	0.00%	0.00%	1.69%	2.14%	1.35%	0.00%
Value Score	A	-	-	A	D	D
Cash/Price	0.15	0.30	0.07	0.07	0.10	0.03
EV/EBITDA	3.41	4.77	13.32	8.35	13.99	17.83
PEG Ratio	0.39	0.72	2.95	1.85	10.46	2.48
Price/Book (P/B)	1.03	1.10	3.22	2.32	2.61	22.06
Price/Cash Flow (P/CF)	1.69	3.81	12.79	7.15	16.50	18.32
P/E (F1)	7.44	7.68	22.02	17.94	70.03	74.30
Price/Sales (P/S)	1.09	0.71	2.57	1.86	3.38	9.10
Earnings Yield	13.17%	0.62%	4.29%	5.58%	1.43%	1.34%
Debt/Equity	1.32	1.32	0.77	1.25	0.60	1.64
Cash Flow ($/share)	13.33	1.76	6.94	6.01	7.91	25.49
Growth Score	B	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	16.93%	16.93%	10.41%	17.39%	-1.85%	99.94%
Proj. EPS Growth (F1/F0)	-19.87%	-20.06%	-6.51%	-23.45%	-67.71%	52.16%
Curr. Cash Flow Growth	14.01%	-3.98%	5.22%	21.54%	4.37%	26.74%
Hist. Cash Flow Growth (3-5 yrs)	17.30%	12.95%	8.55%	11.76%	7.57%	30.03%
Current Ratio	1.83	1.83	1.34	0.97	1.34	1.12
Debt/Capital	57.53%	58.44%	44.59%	55.83%	41.19%	62.10%
Net Margin	12.86%	-2.79%	10.13%	10.91%	-1.58%	11.85%
Return on Equity	21.73%	0.89%	14.59%	16.66%	6.58%	33.32%
Sales/Assets	0.32	0.40	0.51	0.40	0.34	0.66
Proj. Sales Growth (F1/F0)	-6.97%	0.00%	-1.45%	-6.28%	-4.67%	23.21%
Momentum Score	A	-	-	C	C	C
Daily Price Chg	3.21%	1.05%	-0.17%	-0.07%	1.32%	-3.40%
1 Week Price Chg	-0.57%	0.25%	2.30%	0.02%	11.11%	1.20%
4 Week Price Chg	8.86%	3.14%	6.41%	4.40%	9.97%	-11.04%
12 Week Price Chg	6.79%	8.34%	15.42%	12.51%	14.10%	3.52%
52 Week Price Chg	-24.05%	-19.18%	2.88%	-1.08%	-4.76%	49.52%
20 Day Average Volume	4,108,156	241,008	2,007,486	17,568,774	13,362,435	8,674,267
(F1) EPS Est 1 week change	0.11%	0.00%	0.00%	0.00%	35.02%	0.00%
(F1) EPS Est 4 week change	2.25%	0.00%	1.84%	1.30%	29.55%	-2.46%
(F1) EPS Est 12 week change	-0.72%	0.00%	2.40%	2.17%	-11.02%	-2.38%
(Q1) EPS Est Mthly Chg	8.15%	0.00%	0.72%	-0.65%	-569.23%	5.51%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	B
Momentum Score	A
VGM Score	A

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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