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Disney

NYSE: DIS

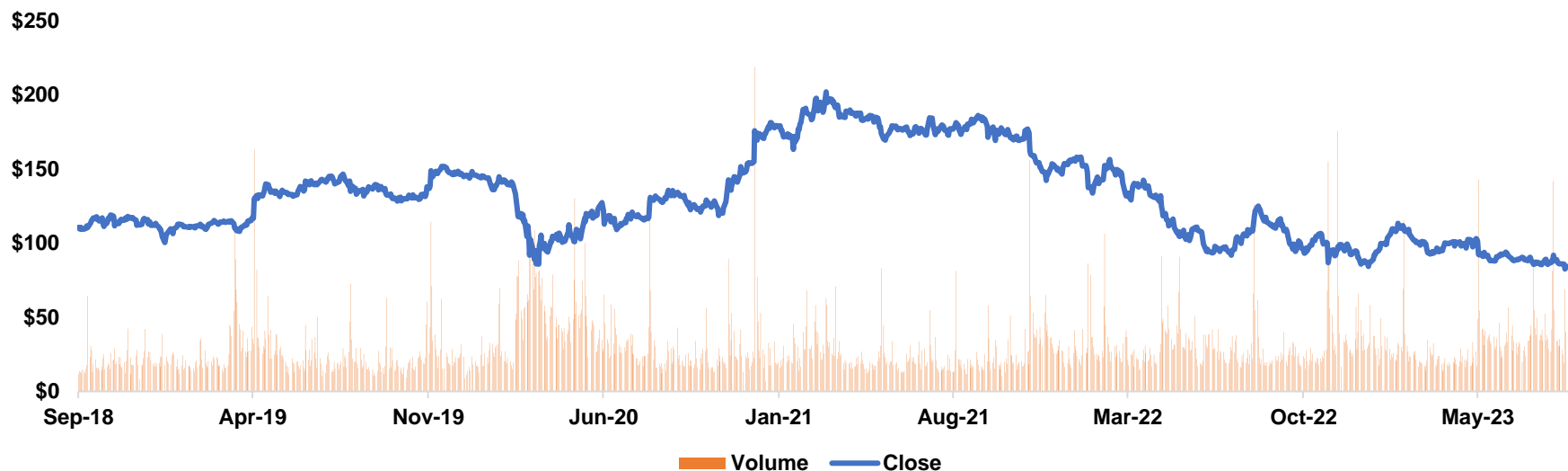
A Battled Entertainment Conglomerate



Market Cap	\$149.3B
Last Close	\$81.96
52 Week Range	\$79.75 – 119.18
5 Year Rev CAGR	8.45%
EBIT Margin	8.3%

Investment Thesis

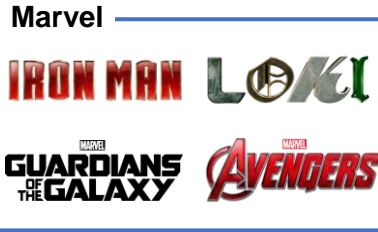
1. The current valuation is overly concerned with issues surrounding the media business when parks provides over 65% of the company's operating income. We believe the current valuation and strength of parks gives us a margin of safety when looking at the overall company.
2. The once celebrated media assets are being ascribed little long-term value by the market today. We see strong avenues for growth in DTC from advertising, price increases, under-earning issues, and password sharing reduction.
3. The current market is extremely worried about DTC losses, ESPN OTT, carriage disputes, and linear network's decline. We view these issues as mostly short-term issues that, at this valuation, are overly priced into the stock





Disney's Media Assets

Disney Intellectual Property



Fox 21st Century Intellectual Property



How Disney Monetizes Content via Media



Studios: Revenue from the domestic and international box office

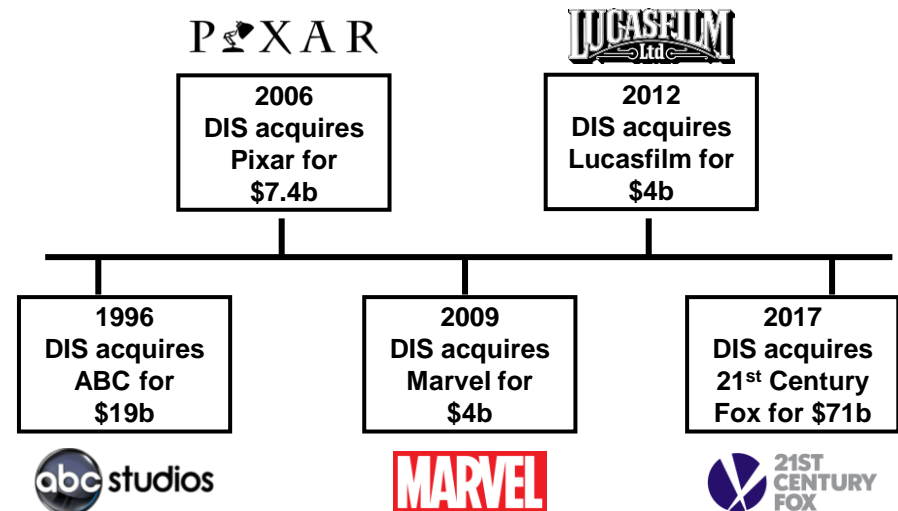


Linear Networks: Revenue from affiliate fees and advertising on DIS owned channels



Streaming: Revenue from subscription fees and advertising on Hulu, ESPN+, and Disney+

Creating the Media Conglomerate





Disney's Parks and Experiences Assets

The Disney Theme Parks

Domestic
86% of Revenue

International
14% of Revenue



How Parks Make so Much Money



Ticket Sales: Sold to parks around the world individually or multi-park



Merch and Food: Merchandise and food sales throughout all parks

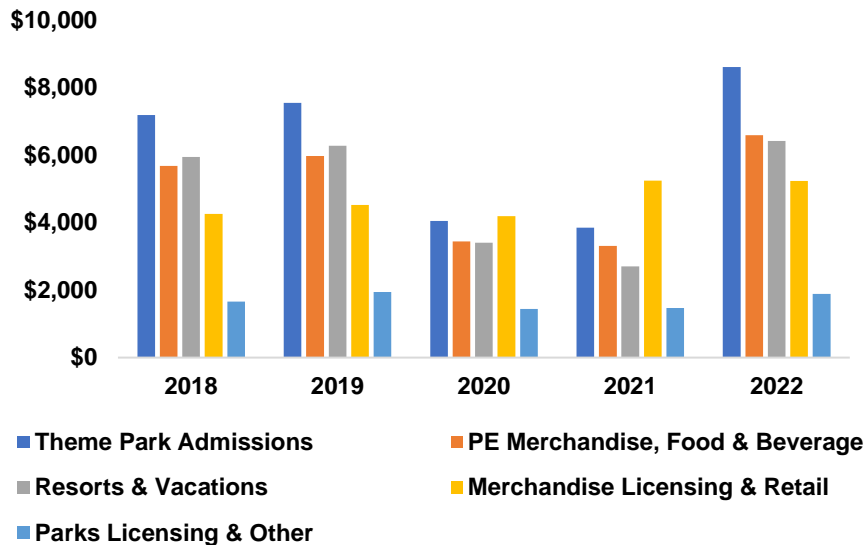


Park Add-Ons: Everything from the fastpass Genie+ system to Magic Bands that improve the guest experience

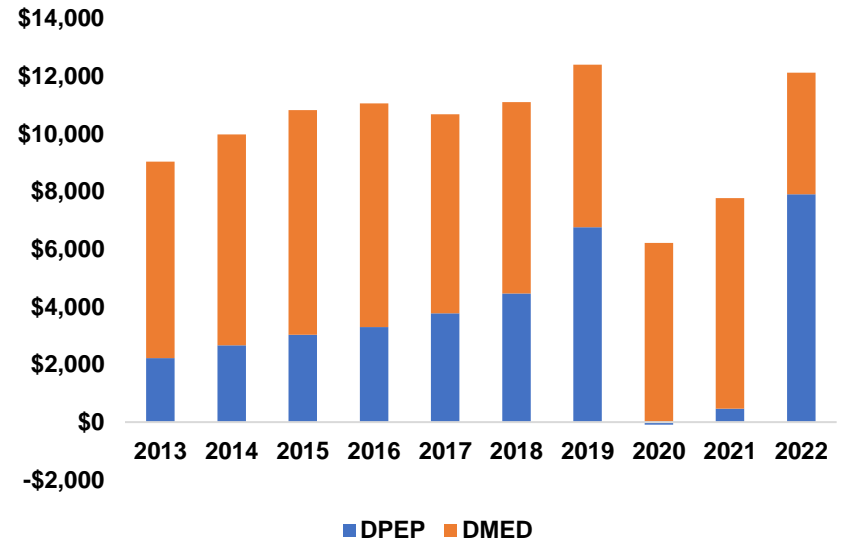


Cruises: Disney focused cruise lines with characters, experiences, and destinations

Revenue Breakdown of DPEP in Millions



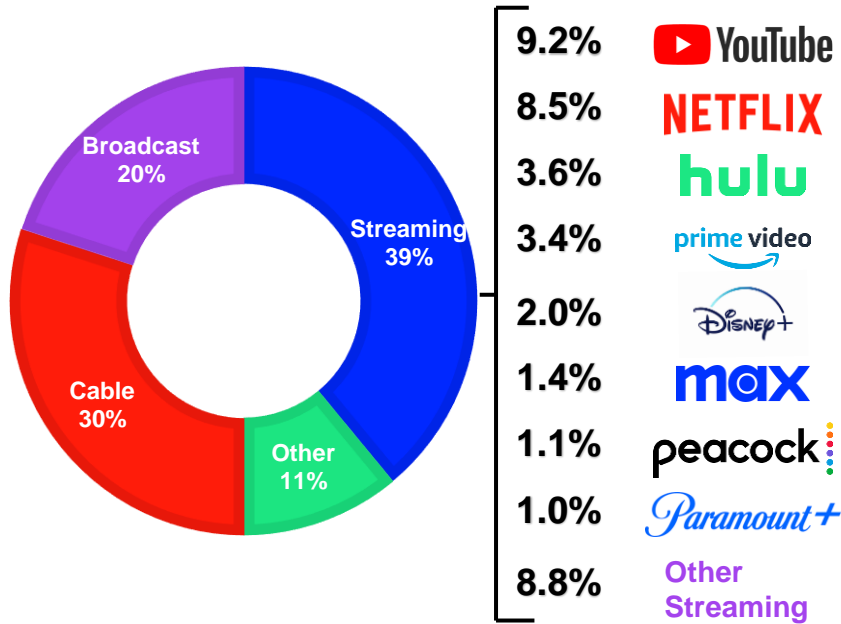
OI for DPEP and DMED



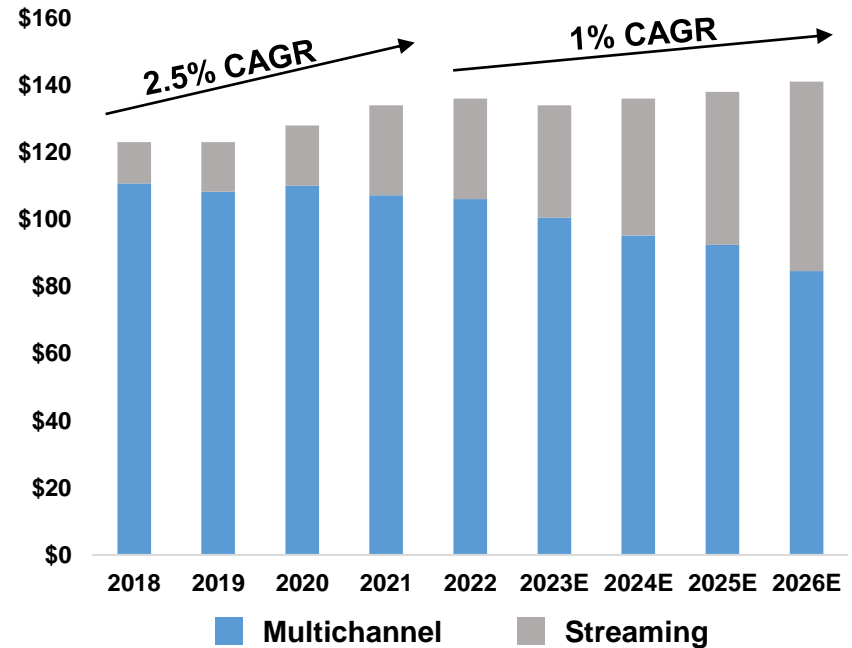


The State of Streaming

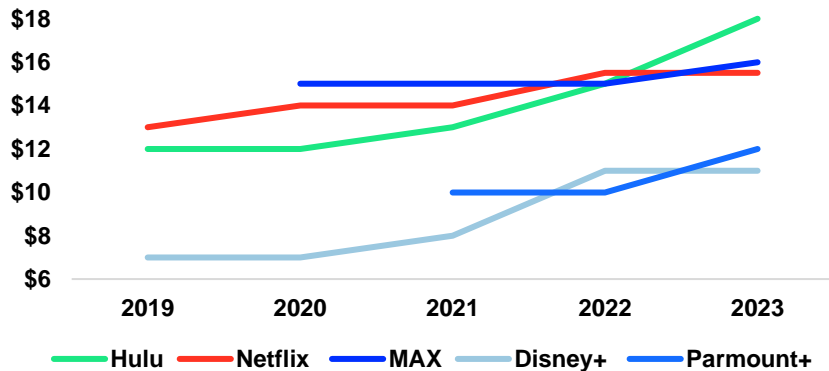
Content Delivery Breakdown



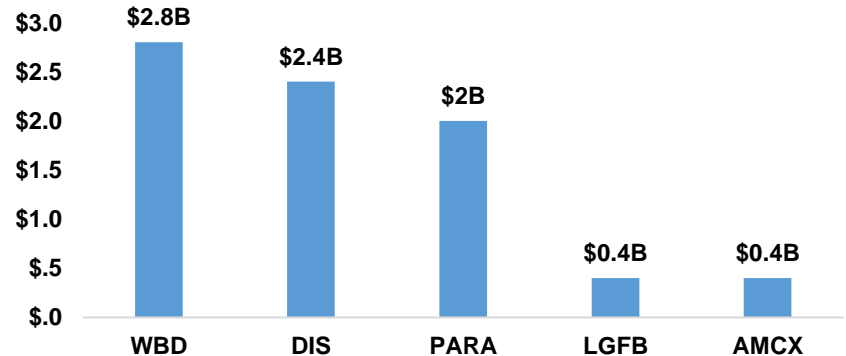
US Video Subscription Consumer Spend (\$bn)



Ad-Free Streaming Price Increases Over the Years



Content Impairments (\$b)



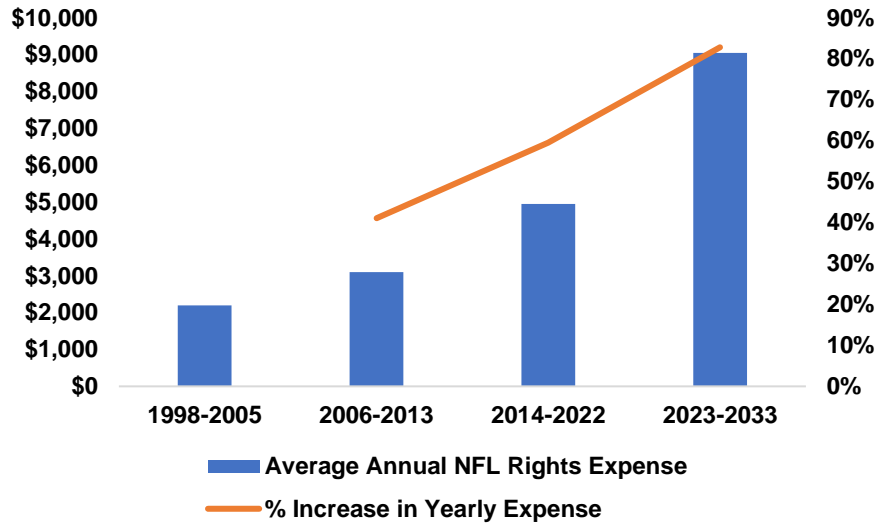
1) Morgan Stanley Equity Research

2) <https://www.nielsen.com/insights/2022/streaming-claims-largest-piece-of-tv-viewing-pie-in-july/>



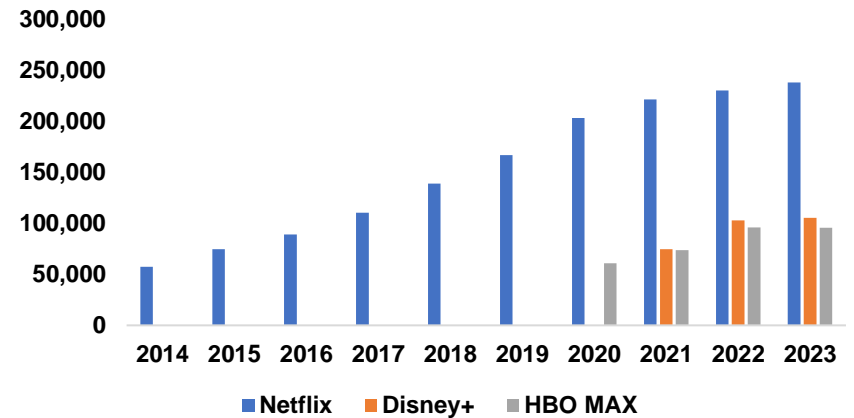
How we got here – the decline of the linear bundle

Sports Rights Drove Up the Cost of the Bundle



Streaming Services Created a Perfect Substitute

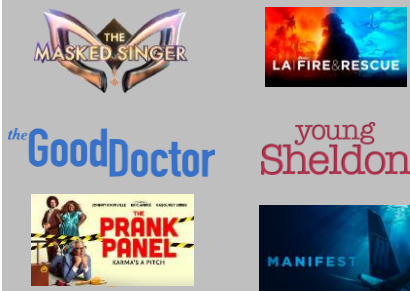
Number of Global Subscribers in Thousands



While Exclusive DTC Content Worsened Linear

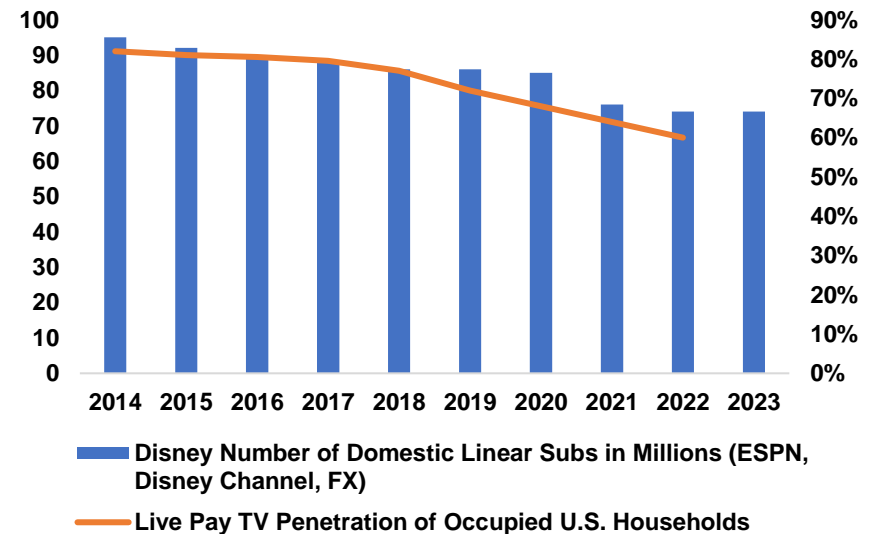
Linear Release Slate

DTC Release Slate



With All Episodes Available on Each Studio's Streaming Service

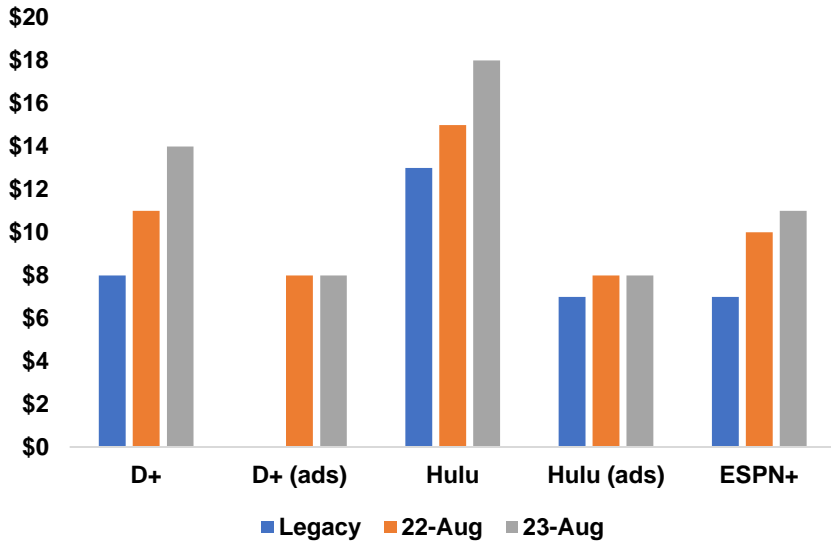
Causing the Collapse of the Cable Bundle



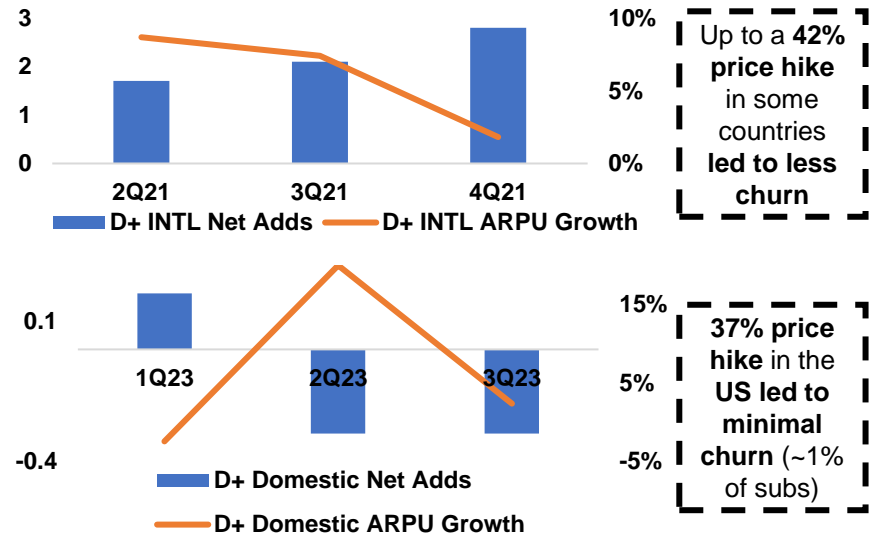


Levers for DTC Profitability – Pt 1

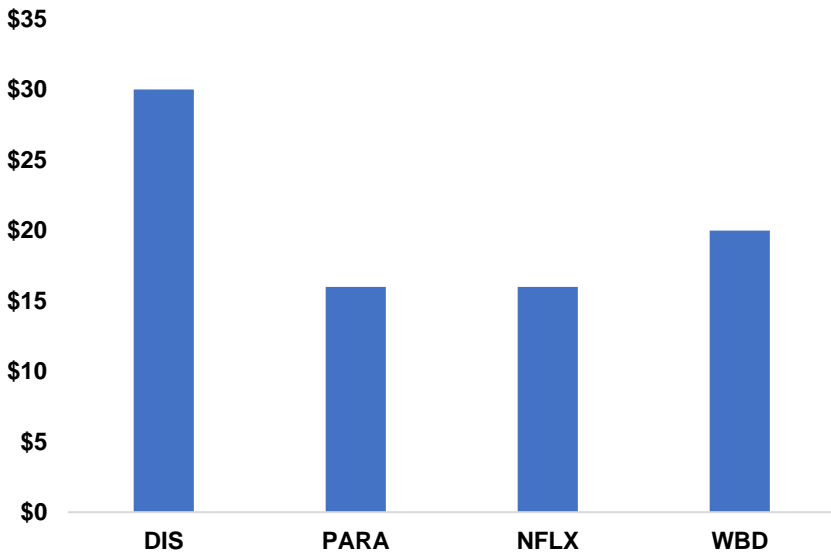
Continued Price Hikes



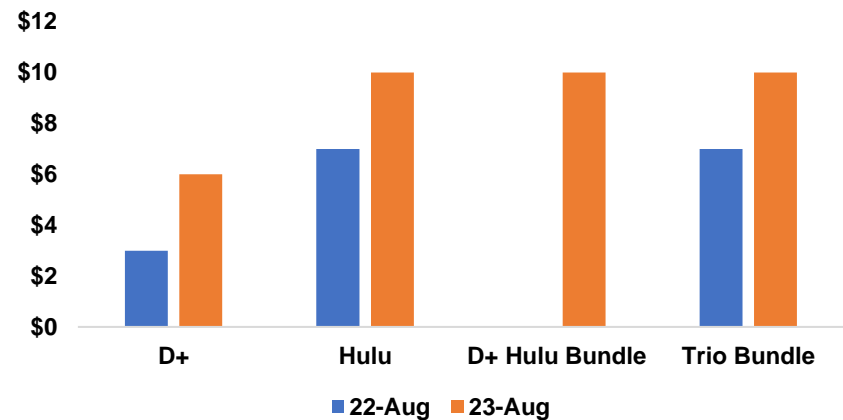
Previous Hikes Show Some Level of Pricing Power



Content Spend Reduction (\$b)



Advertising Driving ARPU Growth



“We believe most companies price their ad-supported and ad-free tiers such that they are agnostic to which tier customers ultimately chose” – EVR 3Q Note



Levers for DTC Profitability – Pt 2

Disney Media is Under-Earning

CY23 Consensus Revenue and EBITDA

\$, in billions

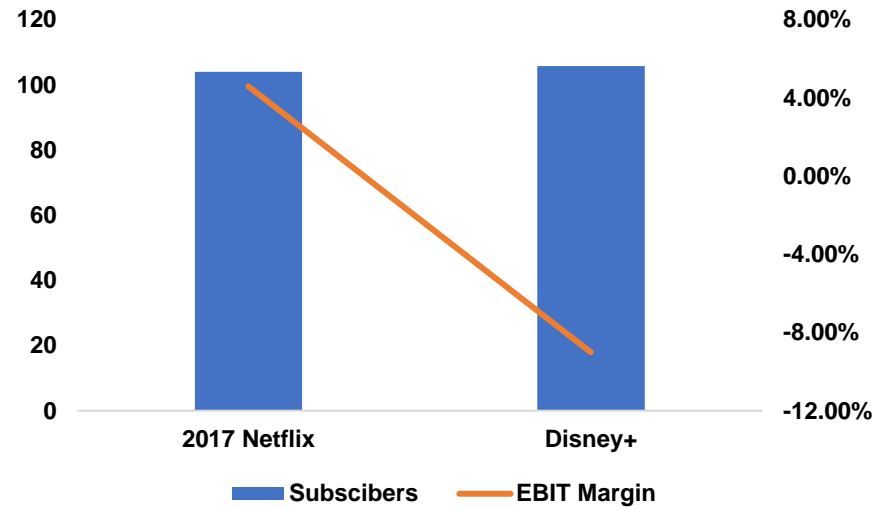
NETFLIX **max** **Disney**

Enterprise Value \$185bn \$62bn \$55bn

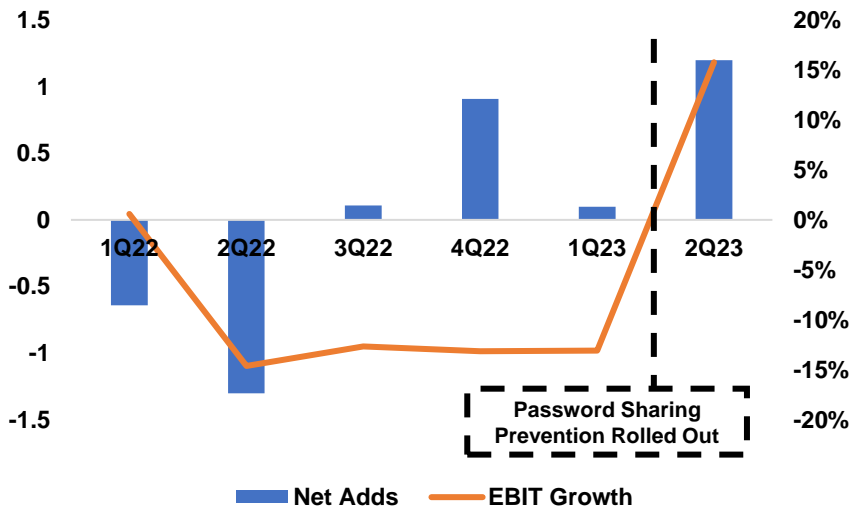
Revenue \$34b \$44b \$58b

EBITDA Margin 20% 26% 7%

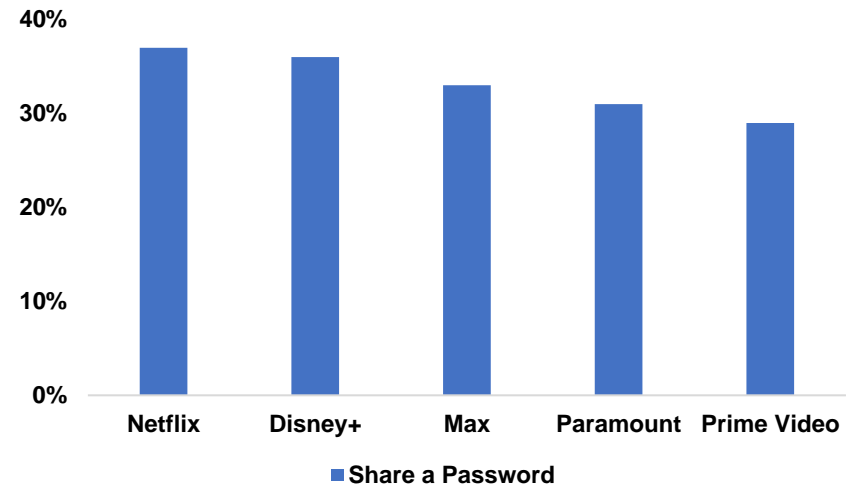
Netflix was in a Better Spot at Similar Subscribers



Password Sharing as a Rev and OI Driver for NFLX



While Disney+ Faces a Similar Sharing Headwind





Buying Hulu Hurts Disney Short-Term but Makes Strategic Sense

Bundle Will Help Reduce Churn

DIS's Obligation to Buy Remaining Hulu Stake for \$9.2bn is Scaring Investors



Hulu's Advertising Blueprint: For D+, Hulu shows the road to over \$3bn in advertising revenues (10x Max's ad revenues)

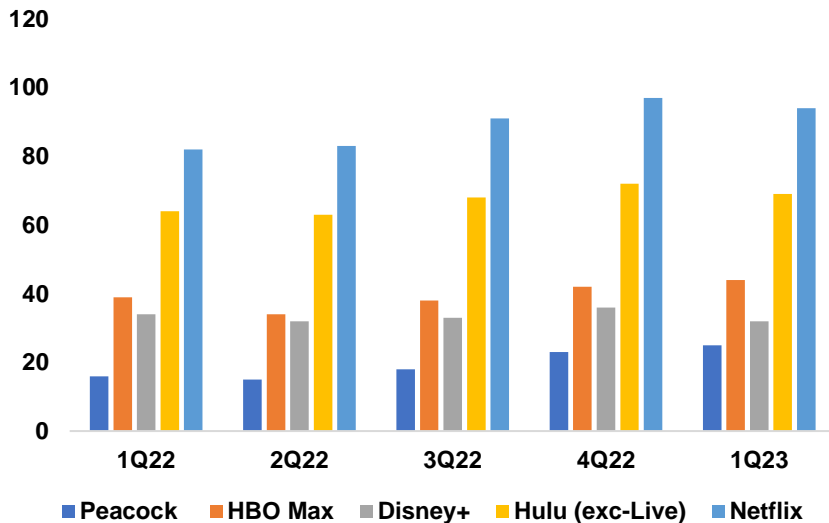


Churn Reduction: current Disney bundle has the lowest churn in the industry showing general entertainment benefits

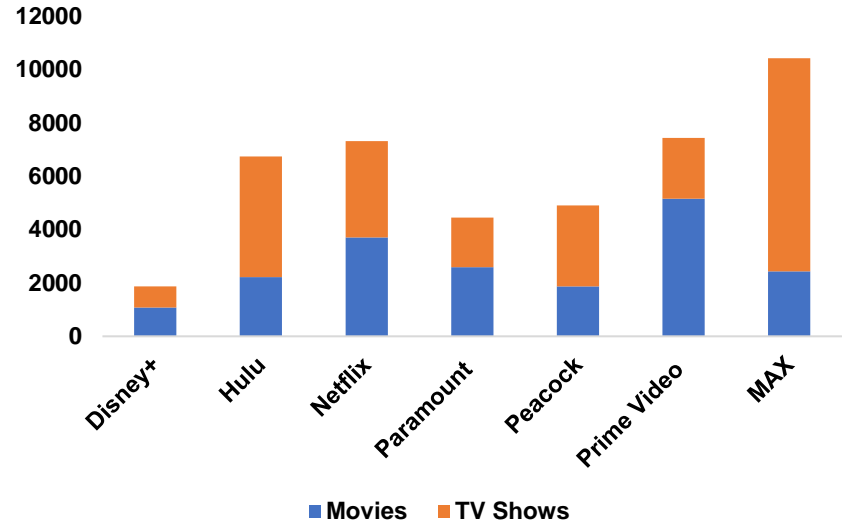


Hulu as an Aggregator: As one of the only profitable services Hulu could pay cash for distressed services' content

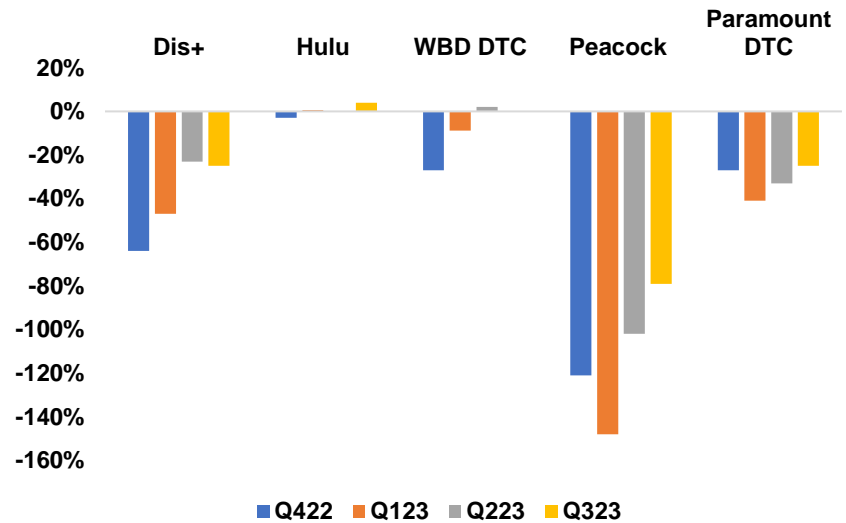
With the Second-Best Daily Engagement



Hulu's Extensive Library is Much Needed



Hulu Brings Profitability to Disney's DTC Offerings





Parks Continue to Strengthen due to Disney+ and New Products

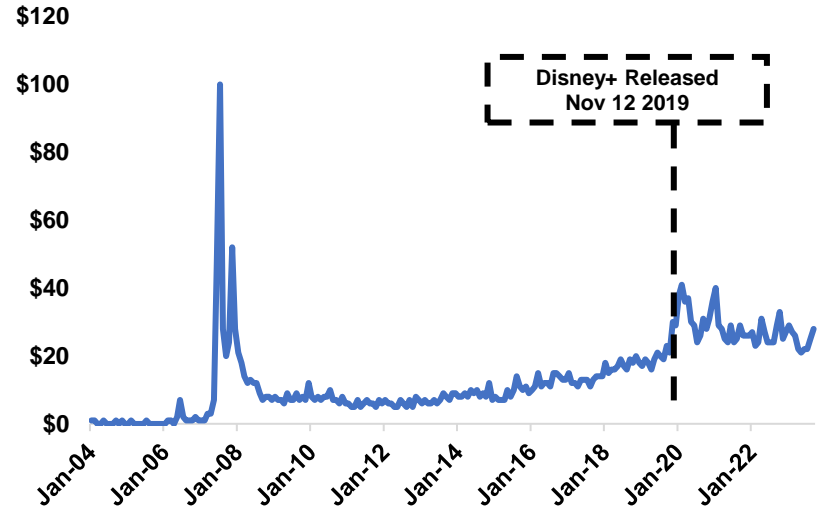
Disney+'s Ability to Create Fans

Situation 1	NETFLIX	Paramount+	max	Not On Streaming
4 Marvel Titles	5 Marvel Titles	3 Marvel Titles	7 Marvel Titles	

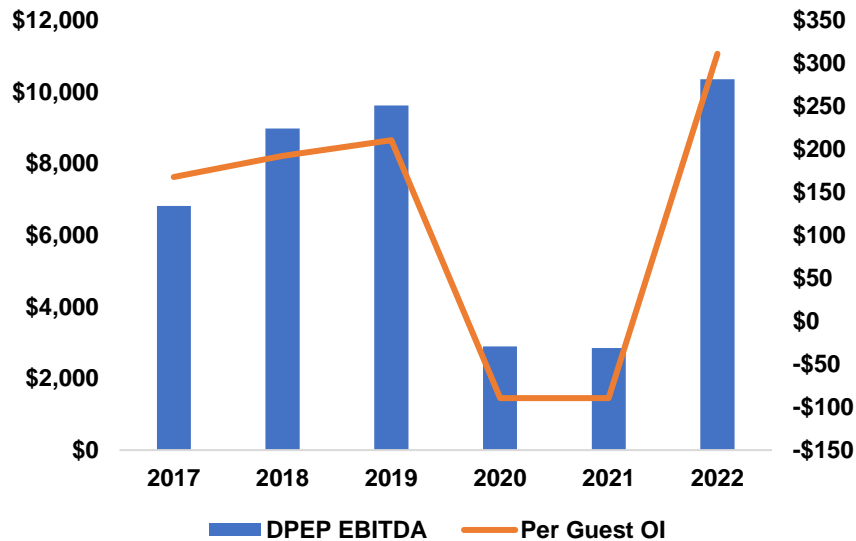
Situation 2	Disney+	Eliminating Friction with All Titles in One Streaming Service
All Marvel Titles in chronological order		

The Current Disney+ Situation Creates a Solution Where Consumers are Much More Likely to Become Fans of Universes – Pixar/Marvel

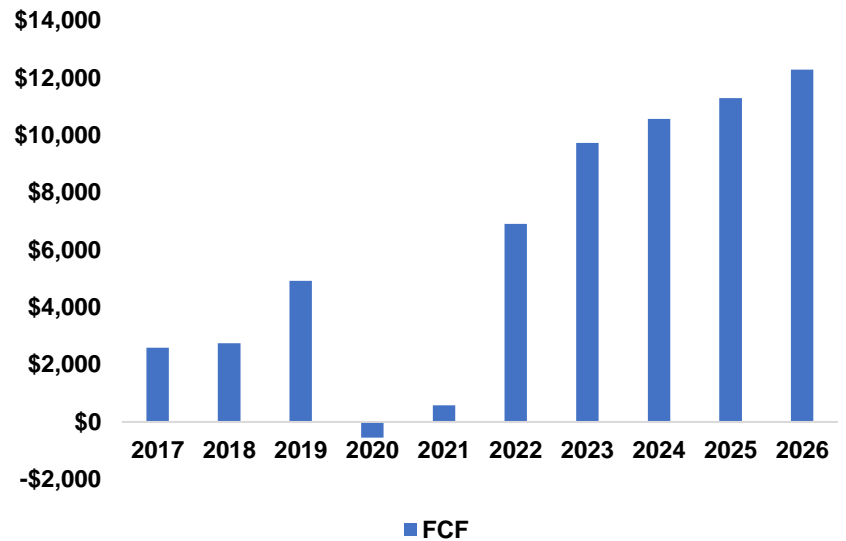
Ability to Create Multi-Generational Hits - Ratatouille



Parks monetization



With Safe Cash Flows to Subsidize Media Assets

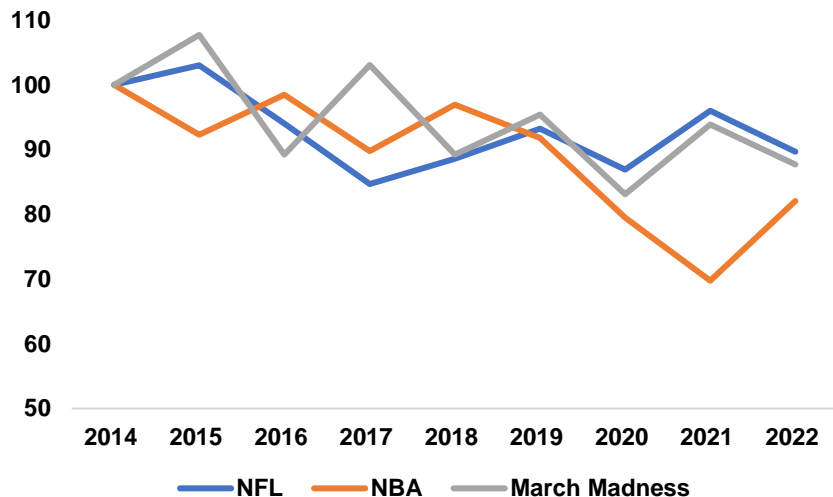


(1) Algo aqui

ESPN OTT is not the Armageddon Investors Currently View it as

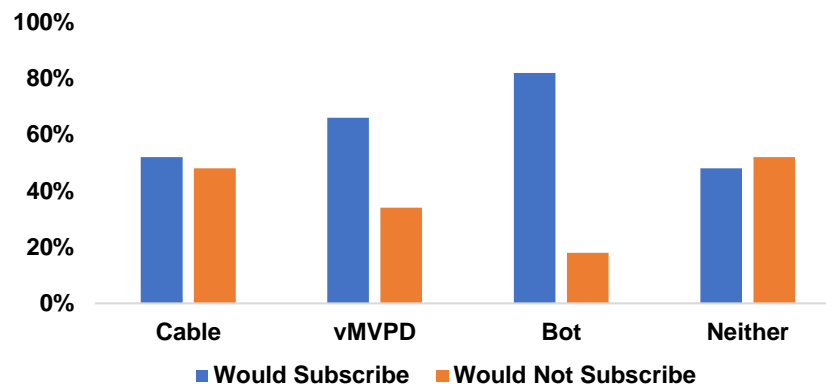


Sports Ratings Suffer Due to the Decline of Cable



Both Leagues and Consumers Want an OTT Option

Roger Goodell on ESPN's inevitability of going DTC – "It's a positive for us ... we've recognized the growth of streaming with our youtube TV and Amazon Prime deals"



Sports rights are at the end of a cycle (legacy is done)

ESPN DTC	2022 ESPN DTC State	
ESPN Linear Subs	74	50
ESPN DTC Subs	0	16.8
Total Subs	74	66.8
% of cable customers that subscribe		22.7%
% of cord cutters who subscribe		70.0%
Pay TV ARPU	\$ 11.53	\$ 11.00
Streaming ARPU		\$ 25.00
Pay TV Revenue	\$ 10,241	\$ 6,600
Streaming Revenue		\$ 5,040
Total Revenue	\$ 10,241	\$ 11,640
Accretion vs Dilution		\$ 1,399

ESPN potential leagues and sponsors

		ESPN DTC Subs (mn)				
		15	20	25	30	35
Streaming ARPU	20	\$ (41)	\$ 1,159	\$ 2,359	\$ 3,559	\$ 4,759
	25	\$ 859	\$ 2,359	\$ 3,859	\$ 5,359	\$ 6,859
	30	\$ 1,759	\$ 3,559	\$ 5,359	\$ 7,159	\$ 8,959
	35	\$ 2,659	\$ 4,759	\$ 6,859	\$ 8,959	\$ 11,059
	40	\$ 3,559	\$ 5,959	\$ 8,359	\$ 10,759	\$ 13,159
		Implied % of cord-cutters who subscribe to ESPN DTC				
		62.5%	83.3%	104.2%	125.0%	145.8%

ARPU would come from both ads and subscription fees

Includes no adds from non-linear subscribers

No additional content costs to drive EBIT accretion



Linear will Continue Providing Cash for Years to Come

Linear Optionality Remains High



Opportunity to cut costs – “we are targeting \$5.5 billion of cost savings...the savings will come from reductions in SG&A and other operating costs”
– Bob Iger 1Q23 Earnings

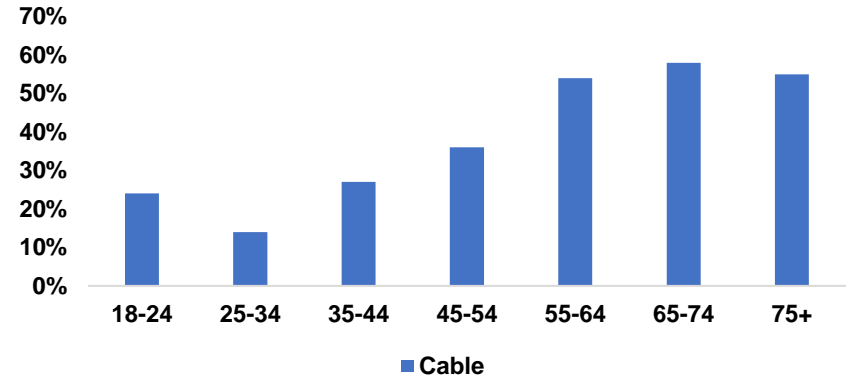


Opportunity to continue to work with distributors – Deal announced today working with Charter to increase affiliate fees while providing DTC access



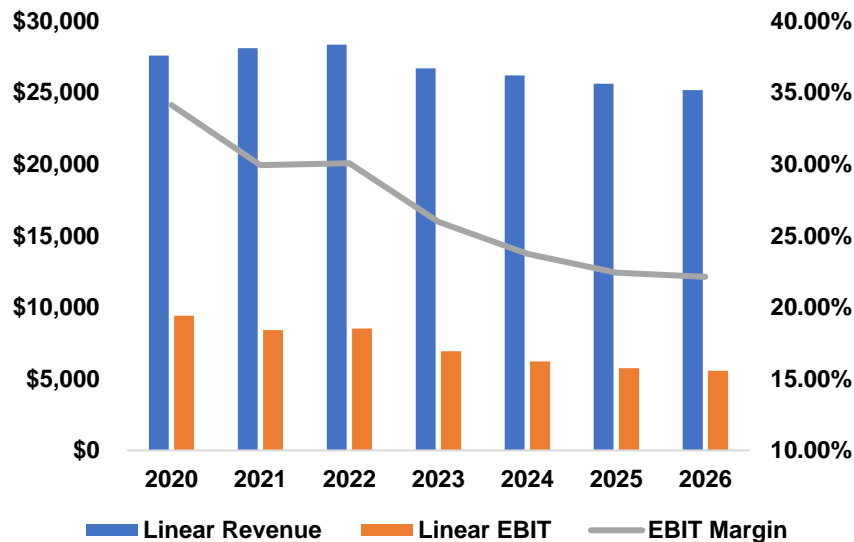
Opportunity to sell – “particularly the linear business, which we are expansive in our thinking about, and we are going to look expansively about opportunities there” – Bob Iger on CNBC

With Structural Support from its Demographic



“Given that 30% of the US population is above 55 and this demographic consumes 65% of legacy, it’s not unreasonable to assume that a similar proportion of US households continue to pay for TV for many years to come”

Worsening Margins but still an EBIT Contributor



Rumored Sale Could Help with Cash

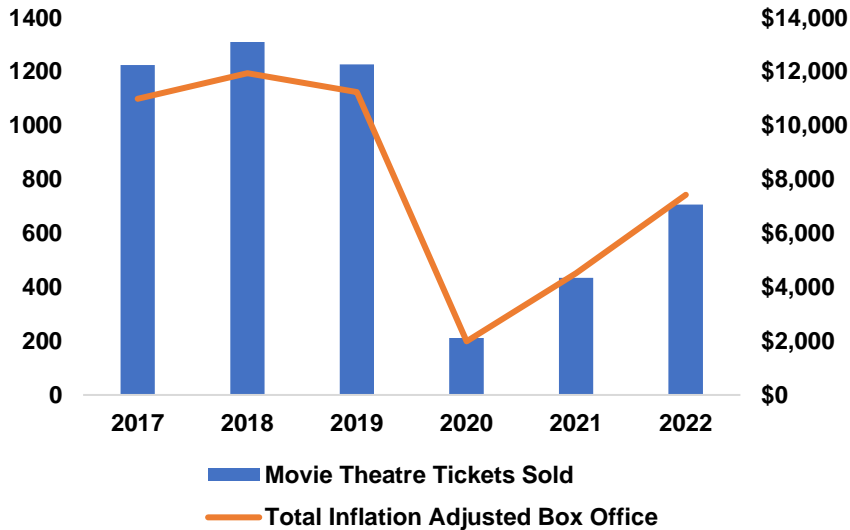
	2022	2023	2024	2025	2026
Non ESPN Cable	858	783	792	628	496
Broadcast	784	741	747	755	740
A+E Stake	838	721	649	584	526
Total EBIT	2,480	2,245	2,188	1,967	1,762
Purchase Price	8,331				
EV/EBIT	3.36x	3.71x	3.81x	4.24x	4.73x

		Multiple Paid				
		2.5x	3.0x	3.5x	4.0x	4.5x
EBIT	1,500	3,750	4,500	5,250	6,000	6,750
	2,000	5,000	6,000	7,000	8,000	9,000
	2,500	6,250	7,500	8,750	10,000	11,250
	3,000	7,500	9,000	10,500	12,000	13,500
	3,500	8,750	10,500	12,250	14,000	15,750

Overblown Theatrical Concerns



Concerns Over the State of Theatrical Release



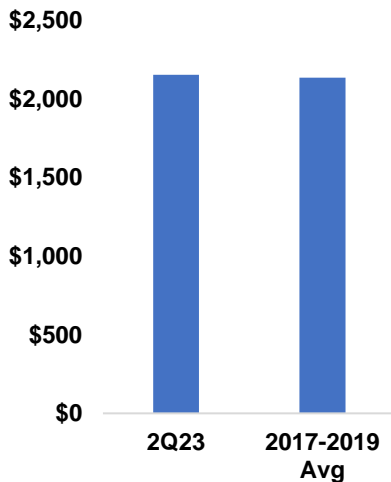
Overstated Concerns Over DIS's Film Quality



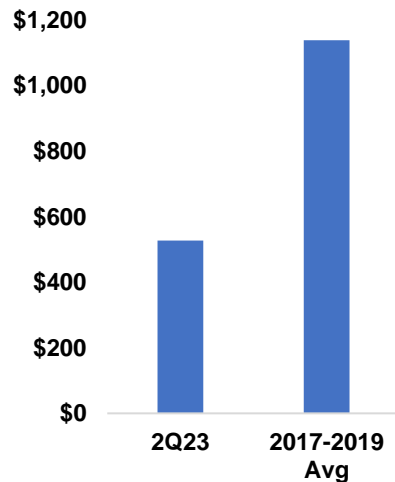
“new structure is aimed at returning greater authority to creative leaders, making them accountable for how their content performs financially. Our former structure severed that link, and it must be restored”
 – Bob Iger, 1Q23 Earnings Call

Recent Movie Theatre Performance Disagrees With

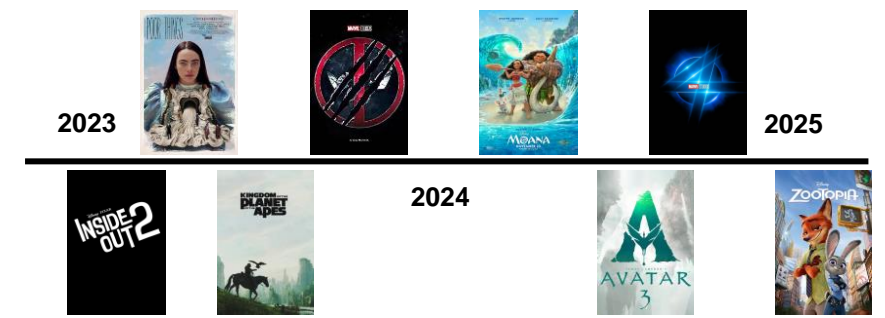
Top 10 Films DBO



Rest of Films DBO



With a Strong Slate Going Forward

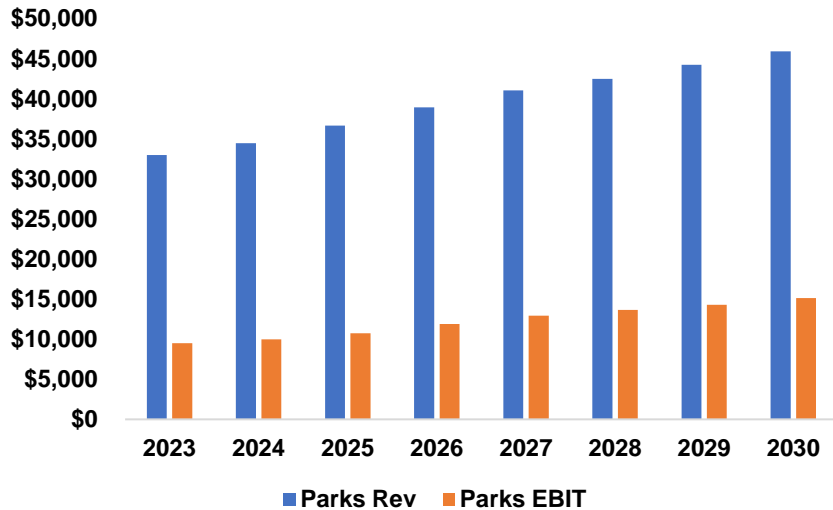


“We must also return creativity to the center of the company, increase accountability, improve results and ensure the quality of our content and experiences” – Bob Iger, 1Q23 Earnings Call

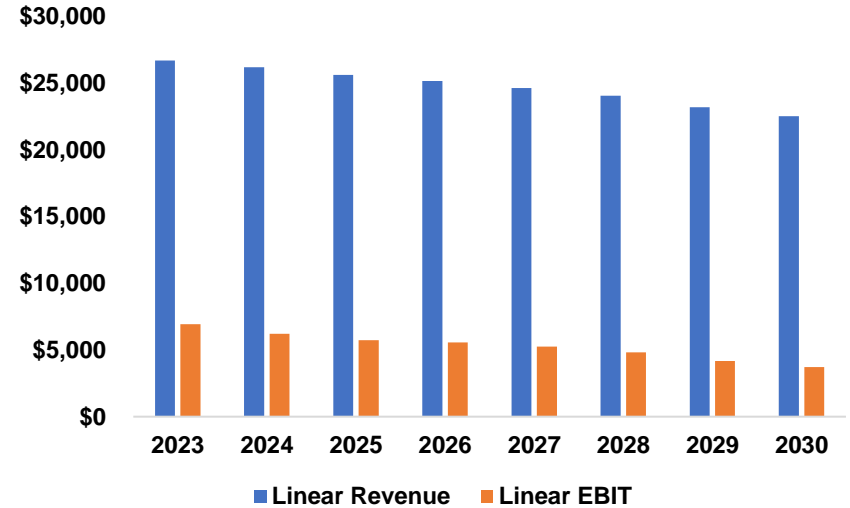
Thesis in the Model



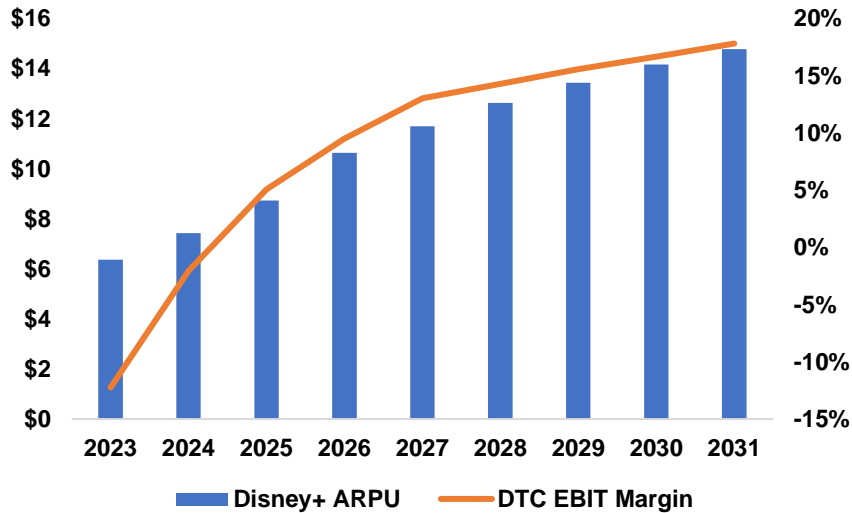
Parks Continues to Support the Company



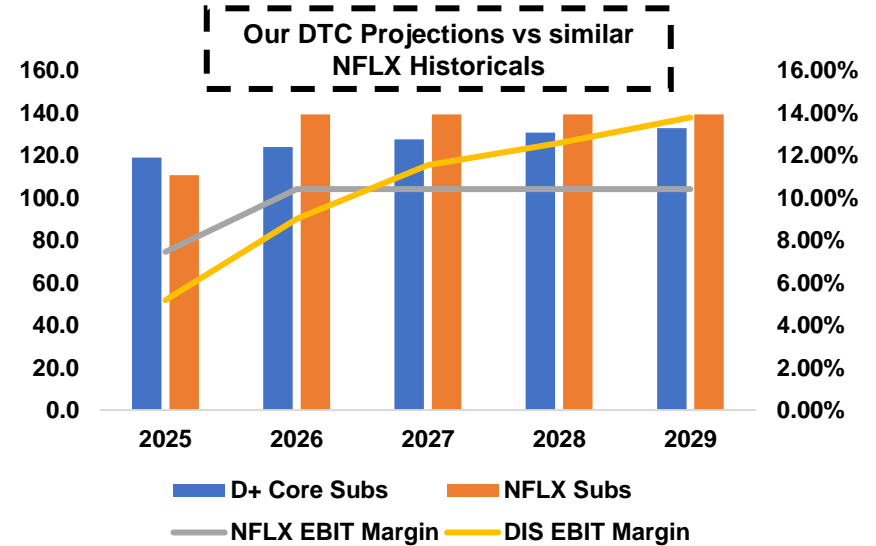
Linear's Decline Will Continue



DTC Will Turn Profitable as ARPU Improves



DTC Margins are Improving but Realistically



Valuation – 37% Upside



Terminal EV / EBITDA Valuation

Terminal Multiple EV/EBITDA - 10 Yr. DCF	
Terminal Value	\$343,187
PV of Terminal Value	\$143,732
PV of Free Cash Flow	\$110,895
Enterprise Value	\$254,627
Less: Debt	\$ 53,900
Less: Preferred / Other	\$ -
Plus: Cash	\$ 11,600
Implied Equity Value	\$212,327
Diluted Shares Outstanding	1,829
Implied Share Price	\$ 116.09
Upside / (Downside)	43.36%
<i>PV TV as a % of the Enterprise Value</i>	56.45%
Implied Long Term Growth Rate	2.96%

Terminal
Multiple

	Discount Rate				
	8.00%	9.00%	10.00%	11.00%	12.00%
6.00x	\$ 89.23	\$ 84.69	\$ 80.51	\$ 76.65	\$ 73.08
8.00x	\$ 98.94	\$ 93.60	\$ 88.69	\$ 84.16	\$ 79.99
10.00x	\$ 108.65	\$ 102.51	\$ 96.87	\$ 91.67	\$ 86.89
12.00x	\$ 118.37	\$ 111.42	\$ 105.04	\$ 99.19	\$ 93.80
14.00x	\$ 128.08	\$ 120.33	\$ 113.22	\$ 106.70	\$ 100.70

Long-Term Growth Rate Valuation

Long Term Growth Rate Method - 10 Yr. DCF	
Terminal Value	\$299,273
PV of Terminal Value	\$125,340
PV of Free Cash Flow	\$110,895
Enterprise Value	\$236,235
Less: Debt	\$ 53,900
Less: Preferred / Other	\$ -
Plus: Cash	\$ 11,600
Implied Equity Value	\$193,935
Diluted Shares Outstanding	1,829
Implied Share Price	\$ 106.03
Upside / (Downside)	30.94%
<i>PV TV as a % of the Enterprise Value</i>	53.06%
Implied Terminal Multiple	8.72x

Long Term
Growth Rate

	Discount Rate				
	8.00%	9.00%	10.00%	11.00%	12.00%
0.50%	\$ 111.50	\$ 99.57	\$ 90.15	\$ 82.52	\$ 76.20
1.50%	\$ 120.00	\$ 105.59	\$ 94.55	\$ 85.82	\$ 78.73
2.00%	\$ 125.31	\$ 109.24	\$ 97.16	\$ 87.74	\$ 80.19
2.50%	\$ 131.59	\$ 113.46	\$ 100.12	\$ 89.90	\$ 81.80
3.00%	\$ 139.13	\$ 118.38	\$ 103.51	\$ 92.32	\$ 83.58

Appendix

(Committee Name) – (Company Name) pitch



CULVERHOUSE
INVESTMENT MANAGEMENT GROUP

Sports Rights Owned by Disney



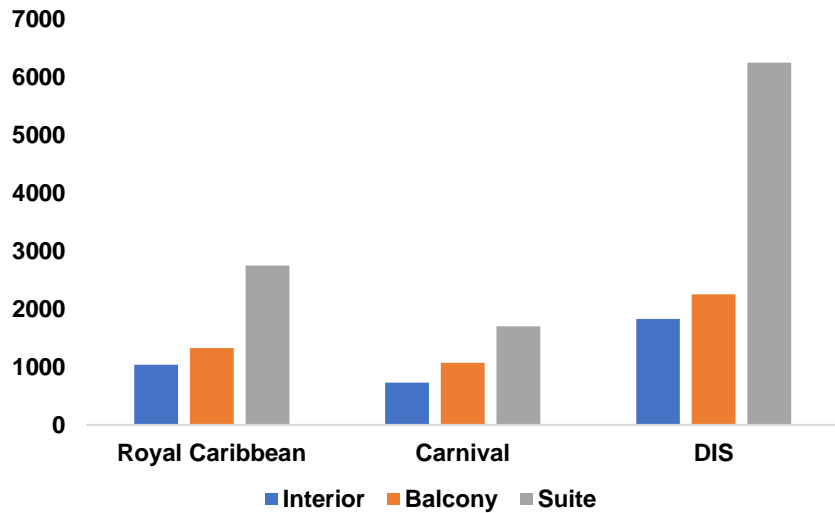
Sport, Contract End Date, and AAV

Monday Night Football → 2032 → \$2,700
NBA 100 regular season games, playoffs, finals → 2025 → \$1,430
MLB (Fox) → 52+ regular season games, LDS, LCS, WS, All-Star game → \$729
MLB (ESPN) → 30 games, wild card series → 2028 → \$535
Nascar → Cup Series: Xfinity, Camping World → 2024 → \$380
Formula 1 → Live races → 2025 → \$83
NHL → 100 reg season gms, ½ playoffs, 4 finals, out of market → 2028 → \$400
Fifa World Cup → 1 Mens 1 Womans WC → 2026 → \$234
MLS → 34 reg-season, 8 playoff, MLS cup, 16 leagues cup → 2026 → \$250
European Soccer → Bundesliga 306 matches → 2026 → \$30
European Soccer → Laliga 380 matches + Laliga 2 → 2029 → \$175
MMA → UFC 30 fight nights 12 PPV prelims → 2025 → \$300
MMA → UFC: 12 exclusive PPVs → 2025 → \$200
MMA-Professional fighters league → 2023 → N/A
Wrestling → WWE smackdown → 2024 → \$205
Tennis → Wimbledon → 2023 → \$33
Tennis → Australian Open → 2031 → N/A
Tennis → US Open → 2025 → \$75
Golf → PGA tour (shared rights with CBS, NBC) → 2030 → \$700
Golf → PGA Championship (shared with CBS) → 2030 → N/A
College Sports → B1G (shared with CBS, NBC) → 2030 → \$1,150
College Sports → College Football Playoffs + Rose, Sugar, Orange bowls → 2025 → \$685
College Sports → SEC → 2034 → \$395
College Sports → Pac-12 → 2024 → \$250
College Sports → ACC → 2036 → \$240
College Sports → Big 12 → 2025 → \$220
College Sports → American Athletic Conference → 2032 → \$83
College Sports → Mountain West (shared with CBS) → 2026 → \$45
College Sports → Big East Basketball → 2025 → \$42
College Sports → NCAA- The Championships → 2024 → \$38

Disney Cruises are a Good Business



7 Night Cruise from Cape Canaveral – Sep/Oct 2024



New cruises coming to market in 2025 and 2026 expected to double overall cruise capacity

