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

Equity Research - The Walt Disney Company: The Entertainment Giant

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

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Abstract

The purpose of this Equity Research is to analyze The Walt Disney Company, its peers, and its industry, in order to provide a recommendation regarding the company's value and target share price to potential investors, which is based on three different scenarios and the Discounted Cash Flows Methodology. This Individual Report contains some of the sections that were vital to achieve an accurate estimate of Disney's intrinsic value, including the valuation of its most relevant segment, Disney Media, Entertainment and Distribution.

Keywords
Disney, Entertainment, Equity Research, Streaming

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This report is part of the Walt Disney Company Equity Research (annexed), developed by João Pedro Leal Nabais and Pedro Ribeiro da Silva de Pina Serrano, and should be read as an integral part of it.

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Introduction

The purpose of the joint Equity Research on The Walt Disney Company is to perform an equity valuation of the company and provide a recommendation to potential investors, based on a comprehensive analysis of its business, competitors, and the industries in which it operates. Considering three different scenarios for the future expected performance of the company and the Discounted Cash Flows methodology, this Equity Research yields a final recommendation that investors should buy Disney's stock, given a target share price of $120.63 for FY2023, implying returns of 33.2% over the current share price ($90.55, as of December 15th, 2022).

This Individual Report covers some sections that are essential to forecast the future of the company and achieve an accurate valuation. Specifically, it covers the company overview, which provides an understanding of the company, divided into two main segments, its recent performance, and the key strategic pillars for long-term success, which include M&A activity and a strong investment in the Direct-to-Consumer business line, related to streaming platforms.

Afterward, this report includes a thorough analysis of Disney's main segment, Disney Media Entertainment and Distribution (DMED), which represents 65% of the company's revenues and includes three business lines: Linear Networks, Direct-to-Consumer, and Content Sales/Licensing. The analysis that was performed undergoes a rigorous overview of the market and its recent trends, both globally and in the U.S., and an analysis of the competitive landscape within the different business lines covered by DMED. Given these analyses, it was possible to identify the main drivers of Disney's DMED segment and forecast its performance, resulting in a valuation of the segment of $126.00 B. Considering that the main focus of the company is to make its Direct-to-Consumer business line expand and become profitable, the analysis of this segment is key to the final recommendation given to investors.

Finally, this individual report also includes a section regarding the valuation of The Walt Disney Company through the multiples methodology, to compare its results with the Discounted Cash Flow methodology.

The other sections that are included in the joint report and my pair's Individual Report comprise a detailed description of Disney's segments and business lines, and an analysis of the other main segment of the company (Disney Parks, Experiences and Products), including its forecast and valuation. It also includes a section discussing the discount rate used in the Discounted Cash Flows methodology, the overall valuation of the company, and the final recommendation to investors, based on three different scenarios and considering a sensitivity analysis.

Company Overview

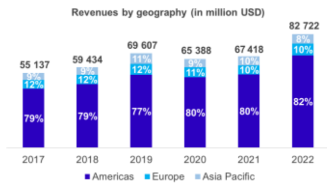


Figure 1 – Source: Disney's Annual Report

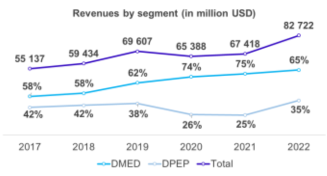


Figure 2 – Source: Disney's Annual Report

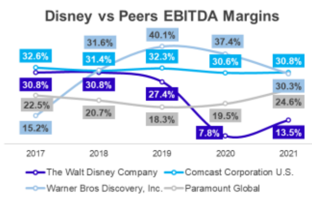


Figure 3 – Source: Disney's Annual Report

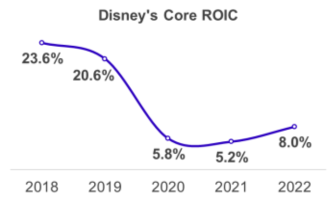


Figure 4 – Source: Disney's Annual Report

The Walt Disney Company (or Disney) was founded nearly a century ago, in 1923, by the brothers Walt and Roy Disney. As one of the largest companies in the world, Disney is a leading diversified international entertainment and media firm, operating in two main segments: Disney Media & Entertainment Distribution (DMED) and Disney Parks, Experiences and Products (DPEP). As of FY2022, Disney registered over $82.7 B in revenues, employed around 220,000 people worldwide, and had its content reaching approximately 200 countries across the world, with most of its revenues coming from the Americas, around 82% (driven mainly by the U.S.), followed by Europe and Asia Pacific, which accounted for about 10% and 8%, respectively (Figure 1). DMED was responsible for about 65% of revenues, while DPEP for the remaining 35% (Figure 2), with the main source of revenues being affiliate fees (22%), followed by subscription fees (18%) and advertising (16%). Regarding margins, Disney has been showing decreasing EBITDA and net margins due to two main reasons: on the one hand, the launching of Disney+ in late 2019 has been followed by strong investments in produced content to sustain the streaming platform's growth, with increased operating expenses and SG&A costs that make the streaming business line still unprofitable. On the other hand, in FY2020 and FY2021, DPEP's segment had a big decrease in margins due to the pandemic and the closure of parks for a great part of those years. Thus, while Disney used to have high margins (above 30% EBITDA margins), amongst the highest compared to its peers (Figure 3), recently these have dropped significantly below its three main comparable companies, since in relation to these, Disney has a much bigger presence in the parks' segment and is investing much more on innovating its business by boosting its streaming growth. As of FY2022, Disney slightly increased its EBITDA margin to 14.3% and net margin to 4.2%, from 13.5% and 3.7% in the previous FY, as DPEP recovered profitability. The attempt to be a disruptive company in the entertainment industry, by investing in Disney+, is therefore causing a short-term decrease in profitability, which is meant to pay off in the long-term once the platform's performance stabilizes. The same rationale applies to the company's core ROIC, which was above 20% before the pandemic and the company's strategy to become the leading streaming player, but has since dropped below the industry's average of 10.06%[1], due to high amounts of invested capital in the last three years, which are still not providing the desired returns (Figure 4).

Throughout the years, besides organic growth, Disney has strongly invested in inorganic growth through acquisitions of several businesses, aligned with its strategic goal to be the leader in the entertainment sector. Disney has spent over $100 B in M&A activity, and some of its major moves include the $19 B merger with Capital Cities/ABC/ESPN in 1995, the $7.4 B stock deal acquisition of Pixar in 2006, the $4 B acquisition of Marvel Entertainment in 2009, the $4.06 B acquisition of Lucasfilm in 2012, and the acquisition of 21st Century Fox in 2019 (or TFCF) by $71.3 B, the biggest made by Disney so far. These deals have shown important returns for Disney as, since its acquisitions, Marvel produced ten, Lucasfilm four, and Pixar other four movies with a worldwide box office higher than $1 B. Furthermore, seven of the ten highest-grossing movies worldwide are from producers that Disney acquired. In total, Disney and its subsidiaries produced or co-produced eight movies in this Top 10 (Figure 5), which shows its dominance in the film production industry. TFCF acquisition, one of the biggest media deals ever, was the latest step into this market consolidation, as Disney now owns TFCF's entire library of films and TV shows, as well

Top 10 Movies by Worldwide Box Office	
Movie Name	**Producer Studio**
1. Avatar	**20th Century Fox**
2. Avengers: Endgame	**Marvel Studios**
3. Titanic	**20th Century Fox/Paramount**
4. Star Wars VII: The Force Awakens	**Lucasfilm**
5. Avengers: Infinity War	**Marvel Studios**
6. Spider-Man: No Way Home	**Marvel Studios/Columbia**
7. Jurassic World	Universal Pictures
8. The Lion King	**Walt Disney Pictures**
9. The Avengers	**Marvel Studios**
10. Furious 7	Universal Pictures

Figure 5 – Source: The Numbers

[1] Damodaran, as of January 2022, for the U.S. market

as its movie studios and TV networks. Moreover, with this acquisition, Disney got the 30% stake TFCF had in Hulu which, adding to the 30% it already owned beforehand, makes Disney the majority owner of this streaming platform. Thus, this deal heavily expanded the available content, characters and resources Disney has and can leverage upon, being key in Disney's long-term strategy to boost its streaming platforms and be the leader in this growing industry. Disney's revenues increased by over 17% in the year of TFCF's acquisitions, while its EBITDA margin dropped from 31% to 27% (Figure 3), and its core ROIC from 23.6% to 20.6% (Figure 4). These dropped further given the pandemic and the investments in Disney+, but it is worth highlighting that this deal is part of a long-term strategy and therefore short-term returns were not expected.

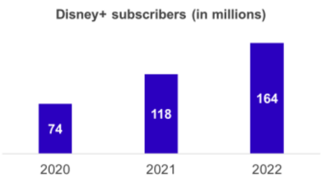


Figure 6 – Source: Disney's Annual Report

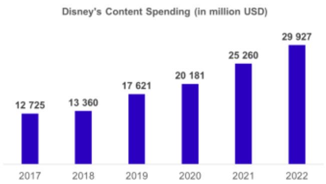


Figure 7 – Source: Disney's Annual Report

Keystone to Disney's strategy, as mentioned previously, has been its investment in its streaming platforms, mainly Disney+, the platform launched in late 2019 and the main responsible for the exponential growth in the company's subscription fees, due to the massive increase in the number of subscribers, which as of FY2022 were about 164.2 million, a 39% increase when compared to FY2021 (Figure 6). The company expects that, by the end of FY2024, Disney+ will have between 215 to 245 million subscribers. Considering all of Disney's streaming platforms (Disney+, ESPN+ and Hulu), the company has over 235 million total subscribers, already higher than the number of Netflix subscribers, its main competitor when it comes to streaming. Disney's streaming growth has been underpinned by a strong investment in content. Disney spent about $29.9 B in content production and licensing in FY2022, almost $4.7 B more in relation to FY2021 (Figure 7), with most of this increase being driven by the streaming platforms' expansion. Moreover, Disney expects that by FY2024, $14-$16 B will be spent annually on content for its streaming platforms, with $8-$9 B to Disney+ alone. Another factor contributing to the success of Disney+ is the possibility to leverage the previously mentioned acquisitions. For instance, the streaming platform has multiple Marvel, TFCF, and Pixar blockbuster movies available to watch (and keeps updating the list with new releases) and has been investing in various TV shows from the Marvel Cinematic Universe in recent years. As for TFCF, the library of content that was made available for Disney with the acquisition can be streamed in Disney+, and that was the main reason Disney decided to pursue this acquisition, with the goal of increasing its subscribers base at a fast pace, by having captivating content such as "How I Met Your Mother" or the iconic "The Simpsons", among many others, while new content (both movies and TV shows) is also being produced and released on the platform. With so much investment being made, Disney is naturally still registering negative profits from its streaming services. Turning this business line profitable is Disney's main goal, as it expects its losses to have peaked in FY2022 and to end by FY2024.

Disney Media and Entertainment Distribution

Market Overview & Trends

Disney's DMED segment comprises different markets, due to having different business lines, and it is essential to have a profound knowledge of the dynamics and trends inherent to each one.

Regarding Linear Networks, this industry is facing some challenges, mainly as video services and streaming platforms continue to grow. The fact that these services provide access to much of the same content as cable channels at lower prices, decreases demand for cable TV. Cord-cutting has then become a trend in the U.S., with current forecasts[2] predicting that by 2023 the

[2] eMarketer

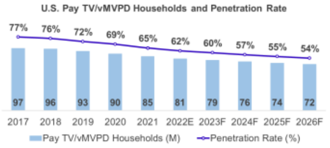


Figure 8 – Source: eMarketer

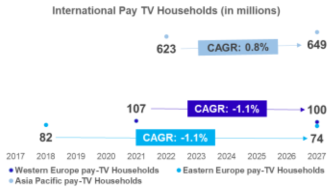


Figure 9 – Source: Digital TV Research

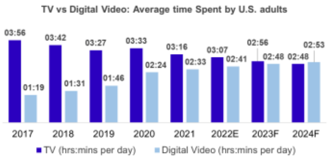


Figure 10 – Source: eMarketer

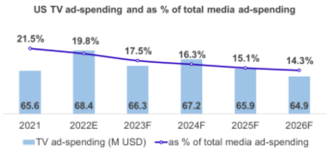


Figure 11 – Source: eMarketer

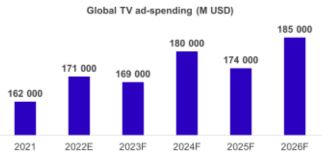


Figure 12 – Source: GroupM

penetration rate of pay TV/vMVPD (virtual multichannel video programming distributors) on U.S. households will drop to 60%, reaching about 54% in 2026 (Figure 8). It is estimated that the number of pay TV/vMVPD households in the U.S. decreased at a CAGR of -3.6% from 2017 to 2022 (around 16.5 million households), and expectations are that this number keeps decreasing at a CAGR of -2.7% until 2026, i.e., around 8.5 million households. Many of these will turn to streaming services, such as Disney+. To offset this decrease in demand, cable TV players in the U.S. are increasing the carriage fees they charge to multichannel pay TV providers for access to their content. Although this offsets the impact of a reduction in the number of pay TV subscribers on affiliate revenues, it also deepens the problem of the decrease in demand, as subscriptions become more expensive, which contributes to the cord-cutting trend. This trend is also happening in Europe, as analysts[3] forecast that the pay TV subscriber count will drop by 7% in Western Europe from 2021 to 2027, and the number of pay TV subscribers in Eastern Europe will drop to 74 million in 2027, from 82 million in the peak year of 2018. Meanwhile, the same analysts predict that the number of subscribers in Asia Pacific will increase by 26 million over the next five years to a total of 649 million (Figure 9). Besides the cord-cutting trend, the average time spent viewing TV is decreasing, as it is replaced by digital video, which has a direct impact on the number of advertising impressions. Forecasts[4] predict that by 2024 the average U.S. adult will spend more time watching digital video than TV (Figure 10). To offset this, companies like Disney are charging higher commercial rates. These companies may also be forced to increase the number of advertisements delivered. For instance, the U.K.'s communications regulator, Ofcom, is considering extending the time and frequency allowed for advertising breaks on U.K. televisions, due to growing competition from online streaming platforms. The U.S. TV ad-spending is expected to have reached its peak and to decrease at a nominal CAGR of -1.3% until 2026[4], decreasing its relevance as digital advertising spending becomes more attractive (Figure 11). On a global level, however, it is forecasted that the TV advertising market will grow at a CAGR of 3.99% from 2022 to 2026[5] (Figure 12), as the rise in advertising prices compensate for the loss of audience. Finally, it is important to consider that highly anticipated events, such as presidential and midterm elections (political advertising), or sporting events, like the Olympics or the World Cup, have a positive influence on the advertising market, increasing its revenues.

On the contrary of Linear Networks, the outlook for Direct-to-Consumer is quite positive, as digital streaming keeps growing as a popular choice of entertainment. As of February 2022, Americans spent a weekly average of 169.4 B minutes streaming video content, an YoY increase of 18%, as SVOD (subscription video on-demand) is estimated to account for over 53% of all time spent watching content[6]. Moreover, 93% of Americans were planning to increase their streaming options or make no change to their existing plans, and 18% of Americans were paying for four streaming services, versus the 9% who did so in 2019[6]. Regarding the number of subscribers, Digital TV Research predicts that global SVOD subscriptions will increase by 475 million between 2021 and 2027 to reach 1.68 billion. However, the subscription growth is already seeing a decline compared to the boom witnessed in recent years, which could be deepened by the current macroeconomic situation, as high inflation levels force consumers to cut down on non-essential spending, with findings from Statista's Global Consumer Survey stating that two-thirds of U.S. adults would cut back on contracts and subscriptions to save money in times of high inflation.

[3] Digital TV Research
[4] eMarketer
[5] GroupM
[6] Nielsen's State of Play

Meanwhile, streaming platforms are increasing subscription prices to rise their ARPU (average revenue per user), as they strive to meet Wall Street's emphasis on profitability, after spending billions on content and charging lower prices to attract new subscribers at a fast pace. At the same time, ad-supported streaming is a new trend that some big players have already adopted, as they introduce lower-cost ad-supported subscriptions, which could provide an alternative for people to save money as they suffer inflationary pressures and as subscription prices rise. In fact, AVOD (ad-supported video streaming) adoption rate is outpacing SVOD in the U.S., as there was a 29% increase in U.S. homes streaming AVODs versus a 21% increase in the same period for SVODs[7]. It was forecasted in December 2021, at a time when it was not expected that big streaming players would launch ad-supported plans, that global Connected TV (devices that support video content streaming) advertising revenue would grow at a CAGR of 14.5% from 2021 to 2026[8] (Figure 13). Thus, the recent announcements that the big players are indeed launching ad-supported plans should further boost the growth in advertising revenues from streaming platforms. Finally, to support this growth, there has been significant content spending, with an 18% growth in all available content over the last three years[9]. Moreover, it is predicted that $23 B will be spent on original content by the main streaming players (Apple TV+, Amazon, Disney+, HBO Max, and Netflix) in 2023, a 10% increase compared to 2022 and more than twice the spending of 2019[10]. All this spending puts pressure on the platforms' profitability. All in all, global SVOD revenues, represented in Figure 14, are expected to grow at a CAGR of 11.48% from 2022 to 2027[11].

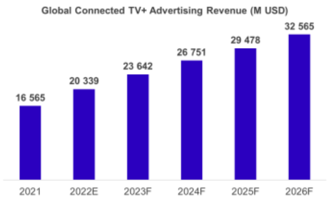


Figure 13 – Source: GroupM

Figure 14 – Source: Statista

The Content Sales/Licensing market was highly impacted by the Covid-19 pandemic, as releases were delayed, shortened, or in some cases cancelled, and stage play performances were suspended. Theatres were closed and subject to capacity limitations, with significant disruptions in the production and availability of content, with most of the films being suspended by March 2020. As the pandemic comes to an end, disruptions are fading, and the sector is back on track. In 2022, cinemas are slowly recovering from the Covid-19 shutdowns and are expected to surpass their 2019 global revenue, reaching $46.4 B next year[12]. Afterwards, revenues will keep rising to record highs at an 8.52% CAGR from 2022 to 2026, as the number of admissions grows from 5.7 billion to 7.7 billion (Figure 15). Moreover, the number of digital cinema screens worldwide in 2021 was more than 208 thousand, up from less than 156 thousand in 2016, an increase of 34% over half a decade[11]. One threat to this industry is film piracy over the internet, which is becoming more widespread and puts financial pressure on the movie business. Due to this threat and the growth in streaming popularity, the home entertainment industry is declining, as sales of films and episodic television in DVD and Blu-ray discs keep declining. Physical home video revenues worldwide decreased by over 56% from 2017 to 2022 and are expected to drop further at a CAGR of -15.3% between 2022 and 2025[11] (Figure 16).

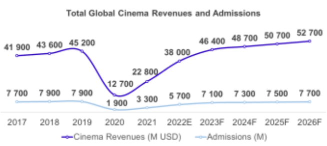


Figure 15 – Source: PwC Global Entertainment & Media Outlook 2022-2026

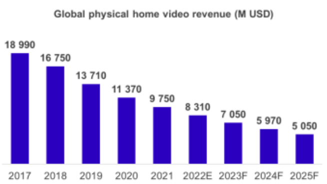


Figure 16 – Source: Statista

Competitive Landscape

Since this segment includes different business lines, ranging from the streaming platforms to the licensing of film and television content, each one has its own competitors, being important to

[7] Comscore's 2022 State of Streaming
[8] GroupM
[9] Nielsen's State of Play
[10] Ampere Analysis
[11] Statista
[12] PwC Global Entertainment & Media Outlook 2022-2026

identify and analyse them.

Regarding Linear Networks, the competition in this market is essentially made up of television networks and channels that compete with Disney's channels, both in terms of cable and broadcasting. There are several factors that determine the penetration in this market. Firstly, the scale of the network, as it becomes difficult for a small, non-scale company to compete with television channels that have been watched for decades and with a national, and sometimes international, distribution network. Additionally, the content produced influences the performance of companies in this industry, considering that it is necessary to continue to innovate in terms of programming, in order to decelerate the trend of decreasing viewing of television channels, highly leveraged by the development of streaming platforms and social networks. In the U.S., the major broadcasting networks are CBS, NBC and ABC. Columbia Broadcasting System (CBS) is an American mass-media company, founded in 1927 and owned by Paramount Global. In terms of average viewers in the U.S., this network occupies the first place in the ranking with 5.57 million viewers[13] (Figure 17). National Broadcasting Company (NBC) is the oldest of the three networks, with an average viewership of 5.48 million viewers[13]. ABC appears in third place with an average viewing volume of 4.08 million[13], and Fox follows with 3.68 million viewers[13]. Fox is also one of Disney's competitors at a domestic level, since the acquisition package of TFCF did not include Fox and Fox News channels in the U.S.. In this deal, Disney acquired the FX and National Geographic channels at a domestic level and all TFCF's channels at an international level. In addition, social media platforms, such as Facebook, Instagram (both belonging to Meta Platforms, Inc.), Twitter and TikTok also constitute competition for the company, since, on average, a consumer spends 147 minutes of its day on social media[14]. Global penetration rate of social networks is 60%[14], having increased in recent years.

Top 10 American Networks in 2021	
Network	Average Viewers, in millions
CBS	5.57
NBC	5.48
ABC	**4.08**
Fox	3.68
Fox News	2.39
ESPN	**1.62**
MSNBC	1.54
Univision	1.43
HGTV	1.24
Hallmark Channel	1.11

Figure 17 – Source: Variety

When looking to the Direct-to-Consumer segment, as it was previously mentioned, the streaming market has been increasing in the last years, leveraged by the rise in demand for these services as well as the increase in the number of players, consequently increasing the number of Disney's competitors. There is no doubt that Netflix has a big relevance in this segment, continuously offering different shows and films and being the top-of-mind company in the market. The company's diversity of content at affordable prices led consumers to stop watching traditional television content and shift its preference to this streaming platform and, in consequence, nowadays the company has 221 M subscribers[15]. Several companies followed Netflix path and started offering streaming services, in an attempt to enter this market. Amazon Prime Video, HBO and Apple TV+ are some examples of relevant companies that started offering original content at competitive prices, in order to capture consumers, and consequently nowadays represent big players in the streaming market (Figure 18). Unlike Netflix, these companies stand out as they belong to a parent company, previously recognized and implemented in the market, allowing them to gain scale and notoriety at an accelerated pace.

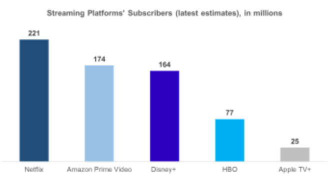


Figure 18 – Source: Companies' Reports and Estimates

In terms of paid subscribers (Figure 18), as of October 2022, Amazon Prime had 174 M subscribers, HBO and HBO Max combined had 77 M subscribers[13] and Apple TV had 25 M subscribers[13]. Despite Disney+ being the third largest streaming platform in terms of subscribers, with 164M, when considering Hulu and ESPN+, the total number of Disney's streaming subscribers globally reaches over 236M, higher than Netflix. One factor that helped Disney gain

[13] Variety
[14] Statista
[15] Netflix's 2022 Q3 Financial Results

Streaming Platforms monthly prices	
Netflix	$6.99- $19.99
Amazon Prime Video	$8.99
HBO	$9.99-$14.99
Apple TV+	$6.99
Disney+	$7.99-$10.99

Figure 19 – Source: Streaming Platforms' Plans

scale, when compared to the competition, is that when the streaming platforms were launched, the company already had a relevant amount of content produced, due to the decades of production from the other business lines. This, aligned with the TFCF M&A acquisition, made the company more attractive in consumers' eyes and, consequently, the number of subscribers leveled up. One common trend in the streaming segment is to enter the market with a low-price strategy, and with the expansion in the content production and distribution, companies gradually increase their plans' prices. Figure 19 represents the monthly U.S. price for each of the plans offered by the biggest streaming players. As it can be seen, Netflix offers a very diverse price strategy, from the "basic with adds" plan costing $6.99 per month to the "premium" package with a price of $19.99, this one allowing four people to stream simultaneously. The other players have different prices, possibly justified by the quantity of content offered. Similarly to its competition, Disney+ recently decided to shift its price strategy and, in December of 2022, started offering a new ad-supported plan for $7.99 a month and increased the price of its ad-free subscription plan to $10.99 a month. This move can be understood as a way to increase revenues, since the ad-free plan price is higher and the ad-supported plan will carry higher advertising revenues, without neglecting users and lose subscribers.

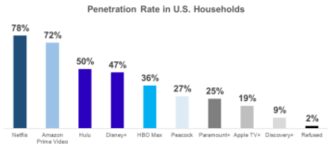


Figure 20 – Source: Statista

Concerning the players' penetration rate in the U.S.[16] (Figure 20), 78% of U.S. households subscribe to Netflix's services, followed by Amazon Prime Video with 72% and then Hulu, with 50% market share. Disney+ only appears in the fourth place, with 47% subscription rate among U.S. families. Furthermore, the study reveals that HBO Max has a penetration rate of 36%, and Apple TV+ of 19%. This trend is expected to change, as in the last fiscal year, Disney+ gained alone 46 million subscribers and Disney platforms increased in 57 million users, while in the same period Netflix only gained around 10 million new viewers.

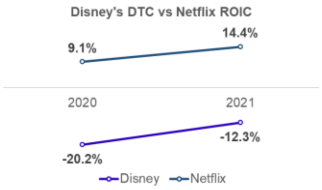


Figure 21 – Source: Disney's Annual Report and Refinitiv Eikon

To better understand the Disney's sustainability in this business line when compared with peers, it is worth analysing the ROIC, given the high amounts of invested capital needed. For this comparison, it was only considered Netflix, as it is the peer that competes with Disney only in this segment. The other mentioned players have other business lines apart from the streaming, making it inaccurate to contrast their ROICs with the Disney's DTC ROIC. While Netflix has been recording high ROICs (9.1% in 2021 and 14.4% 2022), Disney's ROIC in this segment was negative (-20% in FY2021 and -12% in FY2022), as highlighted in Figure 21. The big difference in the ratio between the companies can be justified if we understand that the companies are in different business states. Netflix has been investing in content production in the last decade, being now the most mature player in the segment, with a consolidated position and with positive returns. In opposition, Disney only started offering this service in 2019 and since then, have been investing largely in content production and marketing. This sector is very cost intensive, being necessary for companies to make big investments before receiving the expected profits. In this sense, the company has not registered the expected returns for the investments done yet, but with the increase in the number of subscribers, and the launch of the new ad-supported plan, it is predictable that this business line will be profitable in the near future.

Regarding the Content Sales/Licensing and Other business line, responsible for the sale and licensing of film and television content, there are some factors that determine the market presence, such as the amount of content produced and distributed, the popularity of the distributor and the international presence. The biggest Disney's competitors in this segment are the other

[16] Statista

film production studios, commonly known as the “Big Five”, including Columbia Pictures, Universal Pictures, Warner Bros, Paramount Pictures, as well as Walt Disney Pictures. Columbia Pictures, founded in 1924, is nowadays part of the Sony multinational conglomerate and, since its creation, produced and distributed around 270 movies, with some top performance films like Skyfall and the Spider-Man series. Universal Pictures, the oldest film production studio in the U.S., has a variety of content, of around 300 movies, and is responsible for some hit movies, like Jurassic World and Minions. This company operates some recognized subsidiary studios such as Illumination, Dreamworks Animation, and Working Title Films. Warner Bros is the second largest movie studio in the U.S. by all-time box office performance, having distributed the Harry Potter series, the Joker, and The Hobbit films. Lastly, Paramount Pictures is an American film producer and distributor with two subsidiaries: Paramount Home Entertainment and Paramount Players, responsible for MTV, Nickelodeon, and Comedy Central films. Regarding the film studios’ market share in the American and Canadian markets in 2021[17] (Figure 22), Disney’s market share was 25.5%, followed by Sony/Columbia, with 23.1%. Then, Universal Studios appears with a 15.6% market share, followed by Warner Bros, Paramount, and Lionsgate. In terms of box office revenues in the U.S. and Canada in 2021[17], Disney had the highest performance, with $1.17 B, followed by Sony/Columbia with revenues of $1.06 B. The third biggest studio in box office revenues was Universal with $714.2 M, and then Warner Bros, MGM (owned by Amazon), Paramount, and Lionsgate.

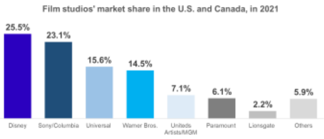


Figure 22 – Source: Statista

In order to understand DMED’s performance and returns, it was calculated the core ROIC for the segment and compared with the peers in Figure 23, which include Comcast Corporation U.S. (mother company of NBC and Universal Pictures), Warner Bros Discovery, Inc. (HBO and Warner Bros Pictures) and Paramount Global (CBS and Paramount Pictures). When analysing this comparison, it is clear that between FY2018 and FY2020, Disney’s DMED ROIC was extremely higher than the competition. While in FY2018, Paramount had a ROIC of 12.6%, Comcast of 6.2% and Warner Bros of 2.9%, DMED’s ROIC was 41.2%. From FY2020 onwards it has showed a declining trend, due to the operating losses from the DTC business line (Figure 23).

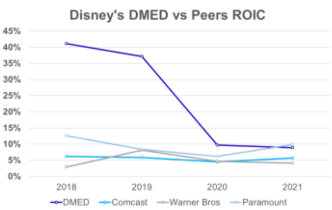


Figure 23 – Source: Disney’s Annual Report and Refinitiv Eikon

Main Drivers & Forecast

There are several drivers that impact Disney’s DMED segment. Revenues from affiliate revenues are dependent on the number of LN subscribers as well as on the average carriage/retransmission fee that the company earns with each subscriber. Regarding the number of subscribers, in FY2019 there was a significant increase, both in the U.S. (over 51%) and internationally (over 100%), highly impacted by the purchase of the TFCF in 2019, that made the company increase its range of channels from 9 to 14 domestically and from 4 to 7 globally. However, from FY2020 onwards this driver has been declining at a 5.1% CAGR for the domestic market and 8.6% CAGR for the international one. In the future, both markets are expecting decreases in the number of users, as consumers are switching to other substitute markets, such as streaming, and the pay TV penetration rate is declining. Despite that, after the stabilization of the streaming market, it is predicted that this driver will grow again, anchored on the real GDP perspectives. The retransmission fee per user in the U.S. market have been following a rising tendency, and it is expected that both domestically and internationally it will grow with inflation rates, to offset the decrease in subscribers. Given the evolution of the drivers, presented in Figures 24 and 25, the affiliate revenues will reach $23.7 B in FY2039, representing a CAGR of

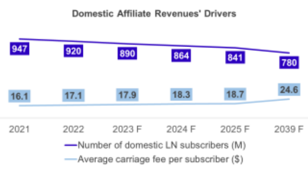


Figure 24 – Source: Equity Research Forecasts

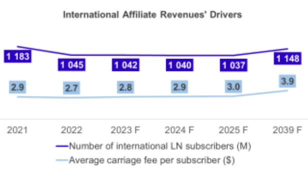


Figure 25 – Source: Equity Research Forecasts

[17] Statista

1.5% from the value of $18.5 B in FY2022 (Figure 26).

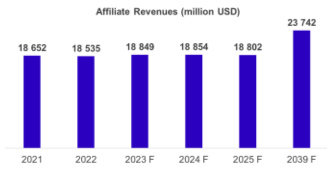


Figure 26 – Source: Equity Research Forecasts

The second most relevant source of revenue, as of FY2022, are subscription fees for streaming platforms. Looking to the aggregate number of subscribers across the different platforms, it is undeniable that the company has been growing, having reached 236 million users in 3 years, illustrative of a CAGR of 94.6% (from FY2019 to FY2022). However, with the current inflations levels that force costumers to cut on non-essential services, in FY2023 the number of users is expected to grow only 15% (less than half of FY2022 growth rate). Forecasts predict that, since the company is still reaching its consolidated form in this industry, it will register growth rates that, with time, will converge to the real GDP evolution. The subscription fee per user decreased about 3.4% to $64.9 in FY2022 (Figure 27), however, in the future, this driver is forecasted to increase with inflation, following the market trend to increase prices in order to achieve profitability. Aggregating these two drivers (Figure 27), revenues from subscription fees will be $42.8 B in FY2039 (Figure 28), representing a CAGR of 6.2% and around 39% of the revenues of that FY, which highlights the relevance that the DTC has on the company's long-term strategy.

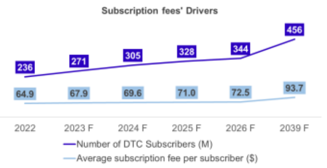


Figure 27– Source: Equity Research Forecasts

Figure 28 – Source: Equity Research Forecasts

Another important revenue caption that is associated with LN and DTC is advertising. As for the advertisement revenues related to LN, it is relevant to mention that global TV ad-spending (i.e., domestic and international combined) is expected to show a tendency for an increase in even years and a decline in odd years, due to international events that happen in even years, such as the Olympic Games or the FIFA World Cup. In perpetuity, it is expected that TV advertising spending will follow the nominal GDP, having a value of $83.3 B in the U.S. and $189 B in the international market, in FY2039. Additionally, the company penetration in the ad-spending market is forecasted to remain stable through the years, at around 10.6% in the U.S. and 1.9% in the international segment, as the company has a consolidated position in the LN market. Aggregating the drivers' effects, both in the domestic and international market, represented in Figures 29 and 30, LN advertisement revenue will be $12.4 B in FY2039 (Figure 31). For the DTC segment, as previously mentioned, the number of subscribers is forecasted to grow, expecting to reach 456 M in FY2039 (Figure 27). As for the average advertising fee per subscriber, the implementation of the ad-supported streaming plan will leverage this driver to grow 50% in FY2023, and afterwards to follow the U.S. inflation, reaching $32.8 in FY2039, a CAGR of 4.4% since FY2022. Aligning the driver's evolution, present in Figure 32, it is predicted that the revenues from advertising in DTC will go from $3.7 B in FY2022 to $15 B in FY2039 (Figure 33), i.e., a CAGR of 8.5%. Combining the advertising revenues from the different segments, they will reach $27 B in FY2039, being the second most important revenues caption, with a 25% weight.

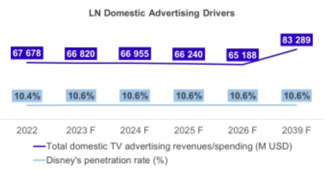


Figure 29 – Source: Equity Research Forecasts

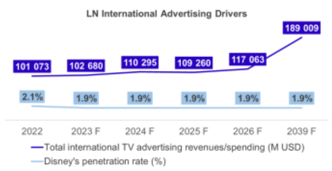


Figure 30 – Source: Equity Research Forecasts

Figure 31 – Source: Equity Research Forecasts

Regarding TV/SVOD distribution licenses revenues, they are related to the DTC and 'Content sales/licensing and Other' business line. For the DTC revenues, it is relevant to mention that the company does not expect to release additional Disney+ Premier Access in the upcoming years, after the theatres reopened, and the UFC events are projected to keep a stable level of one event per month, i.e., 12 events per year. The average revenue per event is forecasted to grow with the world's inflation rate, from $41 M in FY2022 to $65 M in FY2039 (2.2% CAGR). For the content sales/ licensing and other, the main drivers are the number of DTC subscribers and the number of TV viewers worldwide. The rationale behind this projection is Disney's recent strategy to move towards distributing its content into its own DTC platforms rather than to licensing it to third parties. Therefore, we believe that content licensing revenues will be negatively related with the number of DTC's subscribers' growth (as this will incentivize Disney to keep pursuing the mentioned strategy) and positively related with the number of TV viewers worldwide (as a higher number of

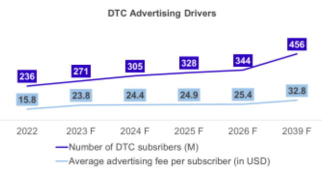


Figure 32 – Source: Equity Research Forecasts

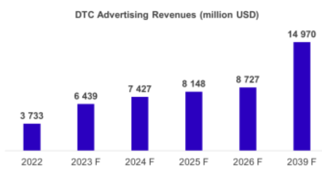


Figure 33 – Source: Equity Research Forecasts

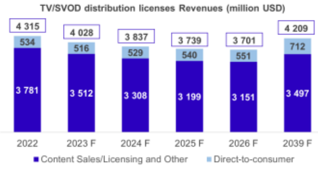


Figure 34 – Source: Equity Research Forecasts

TV viewers leads to a greater market to license content to third party television channels). As previously mentioned, DTC users are projected to grow (Figure 27), while the TV viewers are expected to move with the world's real GDP. Overall, the TV/SVOD revenues are expected to decrease from $4.3 B in FY2022 to $4.2 B in FY2039 (Figure 34).

Theatrical distribution licensing revenues are driven by the annual number of films released, the number of tickets sold per film and the average revenue per ticket. When it comes to film releases, between FY2017 and FY2019, the number of major film (movies with at least $100 M worldwide box office) distributed increased from 7 to 11. In the pandemic years (including FY2022), the quantity of releases shrinked as the film production levels were lower. However, with the evolution of the film production market, the production levels have been higher, being expected that the company returns to pre-pandemic levels. Consequently, for forecasting purposes, it was considered that the company will produce 10 films every year, taking into account that for FY2023 and FY2024 it was already announced the distribution of 10 films per year. The average number of tickets sold per film decreased between FY2018 and FY2021, justified by the competition from the streaming platforms and aggravated by the Covid-19 situation, that closed theatres all over the world. In FY2022, however, the driver showed a different pattern, with a 42% increase, as consumers returned to theatres. Looking further, the market expects an increase in the number of cinema admissions all over the world in the upcoming years. Consequently, the number of tickets sold per film was forecasted based on that high predictable growth (37% in FY2023 and 8% in FY2024), and in perpetuity a stabilization of the growth rate at around 1.5% per year, representing the global real GDP growth in the long run. The average revenue per ticket increased from FY2017 to FY2022, going from $4.5 to $6.1, and it is predictable that in the future, this driver will grow with the U.S. inflation, having a $8.9 revenue per ticket sold in FY2039. Combining the evolution of the previous drivers (Figure 35), the revenue from film distribution in theatres is predicted to grow from $1.9 B in FY2022 to $8 B in FY2039, at a 9% CAGR (Figure 36).

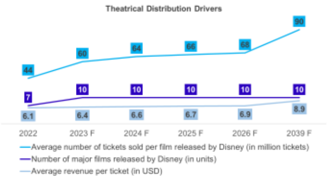


Figure 35 – Source: Equity Research Forecasts

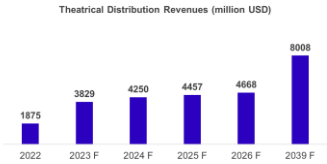


Figure 36 – Source: Equity Research Forecasts

As for the home entertainment revenues, that consist on the sale of physical film products, they evolve with the number of major films released as well as the average revenue per physical film sold. Regarding the first driver, as previously mentioned, it will maintain a stable amount of 10 movies per year, beginning in FY2023. As for the average revenue per film, the market predicts a decline in the sale of physical films, and considering that evolution, the driver expects to continue the decreasing tendency from $117 M in FY2022 to $71 M in FY2025, and that Disney will discontinue this business line by FY2031 (Figure 37).

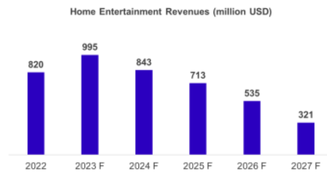


Figure 37 – Source: Equity Research Forecasts

Lastly, the other revenues, which include fees from sub-licensing of sports programming rights and sales of post-production services, are expected to grow with the segment's revenues, reaching $4.3 B in FY2039.

In regard of costs, DMED's operating costs, SG&A costs, as well as corporate and shared expenses are anticipated to evolve with the revenues of the segment. Both operating and SG&A expenses have peaked in FY2022, due to the expenses incurred to attract subscribers to the streaming platforms. However, it is expected a gradual decrease in these costs (in percentage of revenues), and a stabilization when the streaming platforms become more efficient (Figure 38). In FY2039, operating costs will represent 65% of revenues, SG&A expenses 17% and corporate and shared expenses 1.3%. Depreciation and amortization expenses are expected to evolve considering the 3.8% historical average depreciation and amortization rate.

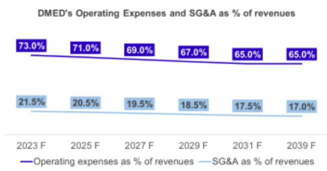


Figure 38 – Source: Equity Research Forecasts

Overall, the segment's revenues are projected to increase from $54 B in FY2022 to $63 B in

FY2023, representing a 17% growth, while the after-tax result will go from $1.2 B to $2.2 B, an 85% increase, given a higher operating margin (4.7% in FY2023 versus 3.0% in FY2022). In perpetuity, both revenues and results will be growing 3.47% per year, reaching a value of $108.5 B and $14.8 B in FY2039, respectively (Figure 39). This represents a net margin of 14.7% and an EBITDA margin of 18.4%.

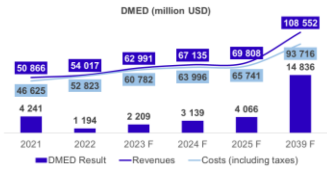


Figure 39 – Source: Equity Research Forecasts

As for DMED's invested capital, it is relevant to mention that receivables, inventories and accounts payable were forecasted based on the average collection period (67 days), average holding period (123 days) and average payable period (115 days), calculated with the historical averages from the last three years (Figure 40), in order to only capture the effects of the TFCF acquisition and the Disney+ launch. The segments' inventories are projected to decrease in the upcoming years, until they eventually disappear in FY2031, bearing in mind that home entertainment revenues will disappear in that FY.

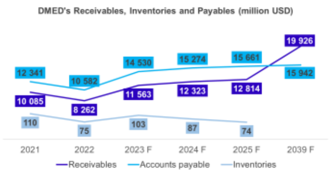


Figure 40 – Source: Equity Research Forecasts

The produced and acquired/licensing content costs and advances is the most relevant asset caption of DMED ($37.7 B), representing around 74% of the invested capital and driven by the annual spending and amortization in content. While the spending in licensed programming and rights is expected to follow the stable path of the last years, the spending on produced content is forecasted to show a decreasing trend in its growth, which peaked in FY2022 due to the heavy investments made in content for Disney+, and thus it will grow 11.9% in FY2023, after having increased 29.3% in FY2022. In perpetuity, this driver will represent around 21.5% of revenues, a higher annual investment compared to pre-streaming levels. In FY2039, the segment will invest around $50 B in content, a 3% CAGR from the $30 B in FY2022 (Figure 41). Taking into account the amortization effects, the asset value is projected to be $71.3 B in FY2039, a CAGR of 3.82% from FY2022 (Figure 42).

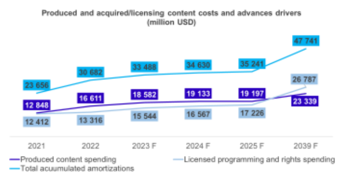


Figure 41 – Source: Equity Research Forecasts

Considering the evolution of the previously mentioned drivers, as well as other relevant captions, such as operating cash, intangible assets and other assets, DMED's invested capital is expected to grow from $50.6 B in FY2022 to $53.7 B in FY2023, representing a 6% rise. By FY2039, the invested capital is projected to reach $78.6 B (Figure 43), given a perpetuity growth rate of 3.46% and a CAGR of 2.63% from FY2022 to FY2039 .

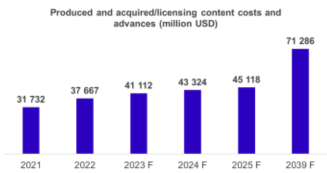


Figure 42 – Source: Equity Research Forecasts

The segment's free-cash-flows will increase from negative $1.5 B in FY2022 to negative $853 M in FY2023, recovering to the positive value of $1.91 B in FY2024. This evolution is explained by the notorious expected increase in the segment's results, leveraged by the expansion of the DTC business line. In FY2039, free-cash-flow will reach $12.2 B (Figure 44), representing a perpetuity growth rate of 3.46%.

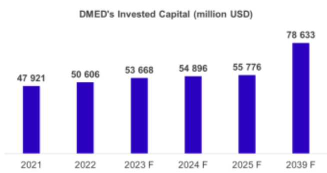


Figure 43 – Source: Equity Research Forecasts

Valuation

After forecasting DMED's Income Statement, Balance Sheet, and free cash flows, and considering a WACC of 8.24%, it is possible to determine the segment's valuation and performance.

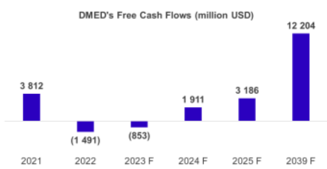


Figure 44 – Source: Equity Research Forecasts

DMED Long Term Value Drivers	
g	3.5%
WACC	8.2%
Core ROIC/RONIC	19.5%
Sales Growth	3.5%
Segment Value (M $)	**126 001**

Figure 45 – Source: Equity Research Forecasts

As of FY2039, DMED's growth will be stable at around 3.5% per year, in line with the world's long-term nominal GDP growth rate. Regarding the segment's ROIC and RONIC, these stabilize with a value of 19.5%, above DMED's ROIC in FY2022 (which was only 2.5%, due to the streaming still being unprofitable), the WACC (8.2%) and the industry's average (10.06%[18]),

[18] Damodaran, as of January 2022, for the U.S. market

meaning the segment will be creating value for its shareholders. There are several reasons that could help explain this value creation. Firstly, the competitive advantages that the company has comparing to competition, such as the unique range of services offered, that reach a variety of different customers. Additionally, the several acquisitions that Disney has made, as well as the launching of its streaming platforms, gave the company the ability to continue innovating and offering new services, contributing to its relevance in the entertainment market. Furthermore, the Intellectual Property detained by the company, with characters like Mickey, and franchises such as Star Wars and The Avengers, is an unmatched advantage that leads Disney to reach the number one position in multiple business lines. This ROIC is, however, lower than the segment's ROIC prior to the launching of its streaming platforms (37.2% as of FY2019), due to the strong levels of invested capital needed to keep this business line operating with a good performance.

The overall value of DMED's segment, considering the segment's long-term value drivers, free cash flows, and the company's WACC, is about $126.00 B.

Multiples Methodology

Although there are several limitations in selecting peer companies for Disney, as mentioned in the WACC section, a relative valuation for each segment was conducted, based on the multiples methodology.

Regarding DMED, it is considered that multiples based on earnings such as EV/EBITDA or P/E are not adequate, since this segment is currently experiencing lower margins that are not representative of its future expected performance, given the current losses of the streaming business line. Thus, although it carries some limitations as it doesn't account for the firm's costs structure, the selected multiple was the EV/Sales, based on the four most relevant peers and precedent transactions within the industry. The peers include Comcast (owner of NBC and Universal Pictures), Warner Bros. Discovery (owner of HBO and Warner Bros Pictures), and Paramount Global (owner of CBS and Paramount Pictures), three companies competing with Disney in multiple DMED's business lines, and Netflix, the most relevant player in the DTC business line, while the transactions include Paramount's acquisition of Viacom and Disney's acquisition of TFCF. The corresponding EV/Sales is 2.6x, which leads to a segment's value of $141.34 B.

Regarding DPEP, it is believed that both EV/EBITDA and P/E are suitable multiples, and thus both were considered, based on six different players, including Comcast (owner of Universal Parks & Resorts and Universal Products & Experiences), Warner Bros. Discovery., Paramount Global, Six Flags, Cedar Fair, and Sea World. For the precedent transactions, it was considered the acquisition of Parques Reunidos and Merlin Entertainments, both recently acquired by PE funds. The resulting EV/EBITDA value is 11.8x and the P/E is 15.9x, which, considering an average of the valuations inherent to each of these multiples, leads to a segment's value of $103.09 B.

Multiple Valuation Summary, in million USD	
DMED	
EV/Sales Multiple	2.6x
Segment Value	141 343
DPEP	
EV/EBITDA Multiple	11.8x
P/E Multiple	15.9x
Segment Value	103 090
Value of Core Business	244 432
Value of Non Core Business	67 754
Enterprise Value	312 186
Net-Debt and other Claims	62 356
Equity Value	249 830
Shares Outstanding (M)	1 827
Share Price (in USD)	**136.7**

Figure 46 – Source: Equity Research Estimates

This methodology leads to an Enterprise Value of $312.18 B, an Equity Value of $249.83 B and a share price of $136.7 (Figure 46), which is higher than what was achieved through the DCF methodology. However, we believe this methodology does not reflect the company's reality, given its several limitations.

Additionally, a sensitivity analysis was conducted, to understand the impact on the share price, given fluctuations in the multiples of up to 10%. This analysis led lead to a share price range between $123.4 and $150.1 (Figure 47).

Multiple Sensitivity Analysis	-10%	-5%	Base Case	5%	10%
DMED	2.4x	2.5x	2.6x	2.7x	2.9x
DMED EV (M USD)	127 209	134 276	141 343	148 410	155 477
DPEP EV/EBITDA	10.6x	11.2x	11.8x	12.3x	12.9x
DPEP P/E	14.3x	15.1x	15.9x	16.6x	17.4x
DPEP EV (M USD)	92 781	97 935	103 090	108 244	113 398
Share Price (USD)	**123.4**	**130.1**	**136.7**	**143.4**	**150.1**

Figure 47 – Source: Equity Research Estimates

Annex: Full Report

THE WALT DISNEY COMPANY

COMPANY REPORT

ENTERTAINMENT

16 DECEMBER 2022

JOÃO NABAIS & PEDRO SERRANO

48186@novasbe.pt/48682@novasbe.pt

Leading the past, Shaping the future

A Closer Look into the Entertainment Giant

- Disney acquired 21st Century Fox in 2019 for around $71.3 B, due to its wide library of Intellectual Property and its potential to boost the company's streaming platforms, mainly Disney+, which is key to its long-term strategic success.

- The company's content spending reached over $29.9 B in FY2022, to sustain the growth in the number of subscribers of its streaming platforms, which showed a CAGR of almost 95% since their launching, in 2019.

- The Direct-to-Consumer business line is still not profitable, with losses amounting to $4.0 B in FY2022. To be able to achieve the goal of turning this business line profitable by FY2024, an ad-supported plan for Disney+ was launched in December 2022.

- Disney's theme parks and theatrical distribution business lines were heavily impacted by the Covid-19 pandemic, but showed almost full recovery in FY2022, with the company's revenues increasing by 22.7% and its net income by 39.8%.

- Given our valuation of the company and the different scenarios considered regarding its future performance, we target a share price of $120.63 for FY2023, thus our recommendation is to BUY Disney's stock, with expected returns of over 33% next year.

Company description

The Walt Disney Company is a U.S. company founded nearly a century ago, operating in two main segments: Disney Media, Entertainment and Distribution, and Disney Parks, Experiences and Products. It is the leading player in many of its business lines, including theme parks, film production, and merchandise licensing.

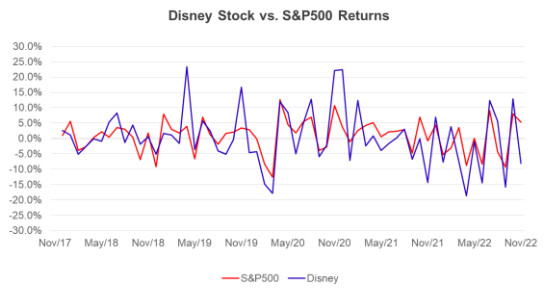
Recommendation:	**BUY**

Price Target FY23:	**120.63 $**
Upside:	*33.2%*
Price (as of 15-Dec-22)	**90.55 $**

Bloomberg: DIS: US; Refinitiv Eikon: DIS

52-week range ($)	86.28-160.32
Current Market Cap ($ million)	165,435
Outstanding Shares (B)	1,827

Source: Disney's Annual Report and Refinitiv Eikon



Source: Bloomberg

(Values in $ millions)	2022	2023E	2024F
Revenues	82,722	95,106	100,898
EBITDA	11,845	15,515	17,336
EBITDA margin (%)	14.32%	16.31%	17.18%
EBIT	6,682	9,838	11,781
Net Profit	3,505	5,792	7,800
EPS	1.92	3.17	4.27
Core ROIC (%)	8.0%	9.2%	9.8%

Source: Disney's Annual Report and Own Estimates

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Company Overview

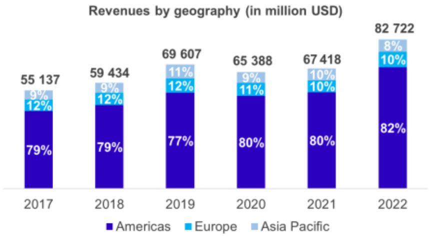


Figure 1 - Source: Disney's Annual Report

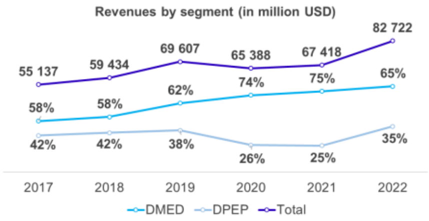


Figure 2 - Source: Disney's Annual Report

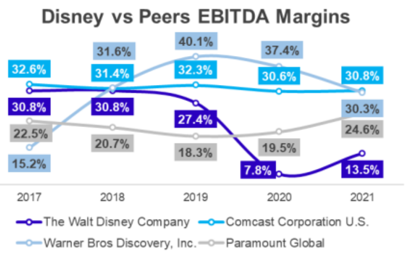


Figure 3 - Source: Disney's Annual Report and Bloomberg

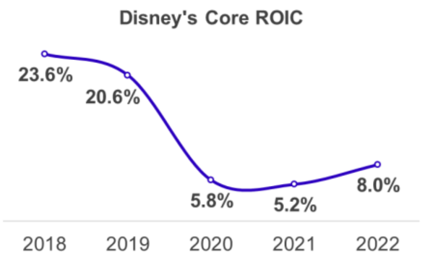


Figure 4 – Source: Disney's Annual Report

The Walt Disney Company (or Disney) was founded nearly a century ago, in 1923, by the brothers Walt and Roy Disney. As one of the largest companies in the world, Disney is a leading diversified international entertainment and media firm, operating in two main segments: Disney Media & Entertainment Distribution (DMED) and Disney Parks, Experiences and Products (DPEP). As of FY2022, Disney registered over $82.7 B in revenues, employed around 220,000 people worldwide, and had its content reaching approximately 200 countries across the world, with most of its revenues coming from the Americas, around 82% (driven mainly by the U.S.), followed by Europe and Asia Pacific, which accounted for about 10% and 8%, respectively (Figure 1). DMED was responsible for about 65% of revenues, while DPEP for the remaining 35% (Figure 2), with the main source of revenues being affiliate fees (22%), followed by subscription fees (18%) and advertising (16%). Regarding margins, Disney has been showing decreasing EBITDA and net margins due to two main reasons: on the one hand, the launching of Disney+ in late 2019 has been followed by strong investments in produced content to sustain the streaming platform's growth, with increased operating expenses and SG&A costs that make the streaming business line still unprofitable. On the other hand, in FY2020 and FY2021, DPEP's segment had a big decrease in margins due to the pandemic and the closure of parks for a great part of those years. Thus, while Disney used to have high margins (above 30% EBITDA margins), amongst the highest compared to its peers (Figure 3), recently these have dropped significantly below its three main comparable companies, since in relation to these, Disney has a much bigger presence in the parks' segment and is investing much more on innovating its business by boosting its streaming growth. As of FY2022, Disney slightly increased its EBITDA margin to 14.3% and net margin to 4.2%, from 13.5% and 3.7% in the previous FY, as DPEP recovered profitability. The attempt to be a disruptive company in the entertainment industry, by investing in Disney+, is therefore causing a short-term decrease in profitability, which is meant to pay off in the long-term once the platform's performance stabilizes. The same rationale applies to the company's core ROIC, which was above 20% before the pandemic and the company's strategy to become the leading streaming player, but has since dropped below the industry's average of 10.06%[1], due to high amounts of invested capital in the last three years, which are still not providing the desired returns (Figure 4).

[1] Damodaran, as of January 2022, for the U.S. market

Throughout the years, besides organic growth, Disney has strongly invested in inorganic growth through acquisitions of several businesses, aligned with its strategic goal to be the leader in the entertainment sector. Disney has spent over $100 B in M&A activity, and some of its major moves include the $19 B merger with Capital Cities/ABC/ESPN in 1995, the $7.4 B stock deal acquisition of Pixar in 2006, the $4 B acquisition of Marvel Entertainment in 2009, the $4.06 B acquisition of Lucasfilm in 2012, and the acquisition of 21st Century Fox in 2019 (or TFCF) by $71.3 B, the biggest made by Disney so far. These deals have shown important returns for Disney as, since its acquisitions, Marvel produced ten, Lucasfilm four, and Pixar other four movies with a worldwide box office higher than $1 B. Furthermore, seven of the ten highest-grossing movies worldwide are from producers that Disney acquired. In total, Disney and its subsidiaries produced or co-produced eight movies in this Top 10 (Figure 5), which shows its dominance in the film production industry. TFCF acquisition, one of the biggest media deals ever, was the latest step into this market consolidation, as Disney now owns TFCF's entire library of films and TV shows, as well as its movie studios and TV networks. Moreover, with this acquisition, Disney got the 30% stake TFCF had in Hulu which, adding to the 30% it already owned beforehand, makes Disney the majority owner of this streaming platform. Thus, this deal heavily expanded the available content, characters and resources Disney has and can leverage upon, being key in Disney's long-term strategy to boost its streaming platforms and be the leader in this growing industry. Disney's revenues increased by over 17% in the year of TFCF's acquisitions, while its EBITDA margin dropped from 31% to 27% (Figure 3), and its core ROIC from 23.6% to 20.6% (Figure 4). These dropped further given the pandemic and the investments in Disney+, but it is worth highlighting that this deal is part of a long-term strategy and therefore short-term returns were not expected.

Top 10 Movies by Worldwide Box Office	
Movie Name	**Producer Studio**
1. Avatar	**20th Century Fox**
2. Avengers: Endgame	**Marvel Studios**
3. Titanic	**20th Century Fox/Paramount**
4. Star Wars VII: The Force Awakens	**Lucasfilm**
5. Avengers: Infinity War	**Marvel Studios**
6. Spider-Man: No Way Home	**Marvel Studios/Columbia**
7. Jurassic World	Universal Pictures
8. The Lion King	**Walt Disney Pictures**
9. The Avengers	**Marvel Studios**
10. Furious 7	Universal Pictures

Figure 5 – Source: The Numbers

Keystone to Disney's strategy, as mentioned previously, has been its investment in its streaming platforms, mainly Disney+, the platform launched in late 2019 and the main responsible for the exponential growth in the company's subscription fees, due to the massive increase in the number of subscribers, which as of FY2022 were about 164.2 million, a 39% increase when compared to FY2021 (Figure 6). The company expects that, by the end of FY2024, Disney+ will have between 215 to 245 million subscribers. Considering all of Disney's streaming platforms (Disney+, ESPN+ and Hulu), the company has over 235 million total subscribers, already higher than the number of Netflix subscribers, its main competitor when it comes to streaming. Disney's streaming growth has been underpinned by a strong investment in content. Disney spent about $29.9 B in content production and licensing in FY2022, almost $4.7 B more in relation to

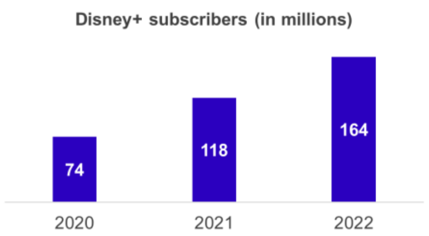


Figure 6 – Source: Disney's Annual Report

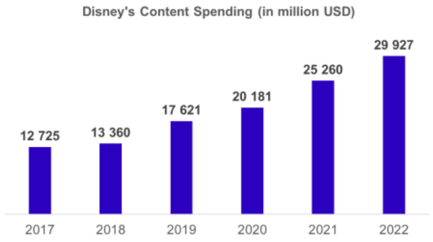


Figure 7 – Source: Disney's Annual Report

FY2021 (Figure 7), with most of this increase being driven by the streaming platforms' expansion. Moreover, Disney expects that by FY2024, $14-$16 B will be spent annually on content for its streaming platforms, with $8-$9 B to Disney+ alone. Another factor contributing to the success of Disney+ is the possibility to leverage the previously mentioned acquisitions. For instance, the streaming platform has multiple Marvel, TFCF, and Pixar blockbuster movies available to watch (and keeps updating the list with new releases) and has been investing in various TV shows from the Marvel Cinematic Universe in recent years. As for TFCF, the library of content that was made available for Disney with the acquisition can be streamed in Disney+, and that was the main reason Disney decided to pursue this acquisition, with the goal of increasing its subscribers base at a fast pace, by having captivating content such as "How I Met Your Mother" or the iconic "The Simpsons", among many others, while new content (both movies and TV shows) is also being produced and released on the platform. With so much investment being made, Disney is naturally still registering negative profits from its streaming services. Turning this business line profitable is Disney's main goal, as it expects its losses to have peaked in FY2022 and to end by FY2024.

Segments Description and Evolution

Until FY2020, Disney was divided into 4 segments: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-to-Consumer & International. More recently, in FY2021, the company reorganized itself into two main segments: Disney Media and Entertainment Distribution (DMED) and Disney Parks, Experiences and Products (DPEP); and five business lines. As it is represented in Figure 2, as of FY2022, revenues associated with DMED represented 65% of total revenues, while DPEP accounted for 35%.

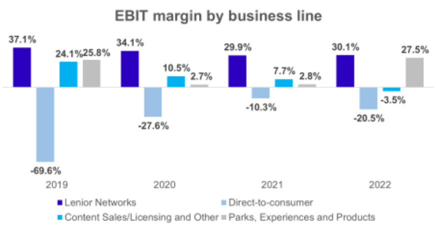


Figure 8 – Source: Disney's Annual Report

Regarding DMED, it comprises all Disney's activities related to film and television content production and distribution activities, and it is divided into three business lines: Linear Networks, Direct-to-Consumer and Content Sales/Licensing.

The Linear Networks (LN) business line conglomerates the company's Domestic and International Channels, like ABC Television Networks (ABC), eight owned ABC television broadcasting stations, Disney channels, ESPN, Freeform, FX, Fox, National Geographic and Star branded domestic networks outside the U.S.. This line of business also includes a 50% equity investment in A+E Televisions Networks, which operates cable channels including A&E, History and Lifetime. This is a particularly stable business line since the company is a mature player in this market. It has the highest EBIT margin of all Disney's business lines, around 30% (Figure 8), although it has decreased with the acquisition of TFCF. LN's significant revenues are affiliate fees (fees charged by LN to multichannel video

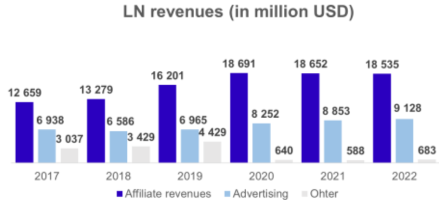


Figure 9 – Source: Disney's Annual Report

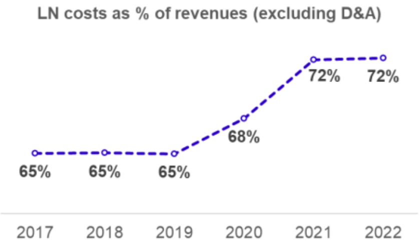


Figure 10 – Source: Disney's Annual Report

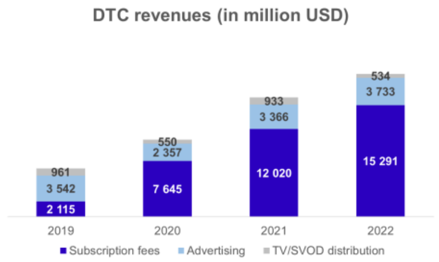


Figure 11 – Source: Disney's Annual Report

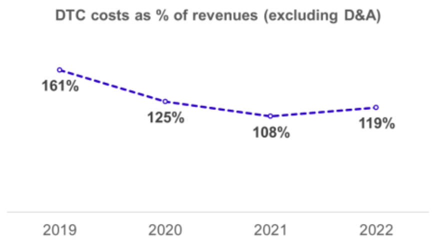


Figure 12 – Source: Disney's Annual Report

programming distributors and television stations affiliated with ABC for the right to deliver the company's content to customers), and advertising fees. While revenues associated with affiliate fees have been stable since TFCF's acquisition, the fees from advertisement are increasing since FY2018 (Figure 9), and the biggest growth happened in the period between FY2019 and FY2020, due to the before mentioned acquisition, with an 18.5% growth rate (from \$7.0 B to \$8.3 B). Regarding the branch's costs, these include operational costs, such as programming and production costs, technical support costs, operating labor and distribution costs, among others. In the last years, the weight of the LN operational costs (including SG&A and excluding amortizations) over revenues rose, from 65% between FY2017 and FY2019, to 72% in the last FYs (Figure 10), which directly affects the business line profitability.

The Direct-to-Consumer (DTC) segment essentially comprises Disney's streaming platforms: Disney+, Disney+ Hotstar, ESPN+, Hulu and Star+. The most relevant revenues in this line of business are subscription fees, advertising fees and TV/SVOD distribution (regarding UFC pay-per-view events and Premier Access releases). On the contrary, significant costs include operating expenses and SG&A. As previously mentioned, this business line represents the current and future focus of the company. Since streaming is a market in expansion, Disney has been investing in content production in order to gain scale. This is making the operating expenses of DTC to be higher than the actual revenues, consequently making the EBIT margin to be negative (Figure 8). However, there are some signs that the investment will be worth it. Firstly, the number of subscribers has been having tremendous growth (Figure 6), and in consequence subscription fees went from \$2.1 B in FY2019 to \$15.3 B in FY2022 (Figure 11). This represents a CAGR of 93%, making this revenue source one of the most important. Additionally, advertising revenues have also been gaining scale (Figure 11) and with the implementation of Disney+ ad-supported streaming plan, the company expects to leverage this caption. Combining these two trends, the DTC operating margin has been increasing, from -70% in FY2019 to -21% in FY2022. However, the business line is still unprofitable, as the operational expenses still represent 119% of revenues (Figure 12).

Lastly, Content Sales/Licensing includes the sale and licensing of film and television content to third-party television (TV) and subscription video-on-demand (SVOD) services. Additionally, it also comprises theatrical distribution and home entertainment distribution. For this business line, the main sources of income are licensing fees for the right to use the company's film and television content, rentals from licensing film productions in theaters and the sale of film and television productions to retailers and distributors in home video formats. The

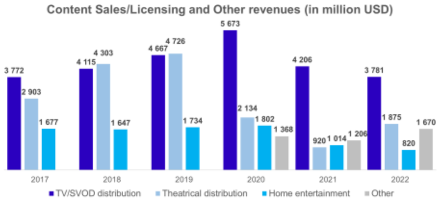


Figure 13 – Source: Disney's Annual Report

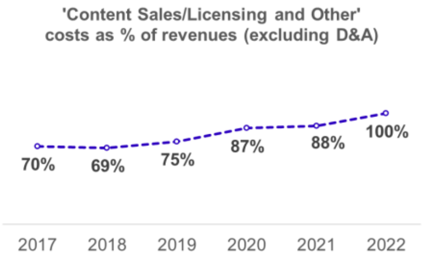


Figure 14 – Source: Disney's Annual Report

Figure 15 – Source: Disney's Annual Report

most relevant revenue type is TV/SVOD distribution, which in FY2022 accounted for 46% of the branch's revenues, although it has been decreasing since it peaked in FY2020 (Figure 13). Home Entertainment revenues have been decreasing since FY2020, at a 33% CAGR (from $1.8 B in FY2020 to $0.82 B in FY2022), illustrating the decrease in demand for physical video formats. This can be explained by the increase in digital video solutions, offered by streaming platforms. Despite the revenue reduction in the past few years, operational expenses have been growing. While in FY2017, the costs represented around 70% of revenues, in the last FY they covered the whole sales value (Figure 14), meaning that the sector was not profitable and the EBIT margin was negative.

On the other hand, the DPEP segment comprises two business lines: Parks & Experiences; and Consumer Products. However, when reporting results, the company conglomerates both under the "Parks, Experience and Products" segment. The Parks & Experiences business line covers the company's theme parks and resorts, which include Walt Disney World Resort in Florida, Disneyland Resort in California, Disneyland Paris, Hong Kong Disneyland Resort (with a 48% ownership interest) and Shanghai Disney Resort (with a 43% ownership interest); and the licensing of IP to a third party that operates Tokyo Disney Resort. This business line also includes Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (with a 73% ownership interest), Adventures by Disney and Aulani, and a Disney Resort Spa in Hawaii. The most significant source of income is the sale of theme park admissions, that in FY2022 represented 30% of the total branch's revenues. This caption was revealing an increasing trend until FY2020, when the pandemic forced the company to close parks, and only was able to register around half of the expected revenues (Figure 15). In FY2021, the performance was even worse with only $3.8 B in sales. In FY2022 this value recovered, registering a park admissions revenue of $8.6 B, higher than the pre-pandemic values. The merchandise, food and beverage sales at theme parks had the same path, with a value of $6.6 B in FY2022. Sales related to resorts and cruises, which include room nights at hotels, cruises and other vacation properties, also followed this trend, going from $2.7 B in FY2021 to $6.4 B in FY2022. The 'Parks licensing and other' caption essentially comprises the revenues from sponsorships, real estate and royalties earned from Tokyo Disney Resort revenues. Despite having less significance than the rest of the DPEP's revenues, in FY2022 they revealed a strong increase of 29% (Figure 15), mainly justified by the reopening of the Tokyo resort.

Regarding the Consumer Products branch, it includes the licensing of the company´s trade names, characters, visual, literacy and other IP to manufacturers, game developers, publishers, and retailers all over the world, to be used in merchandise, games, and published materials. The business line also comprises the sale of branded merchandise through retail, online and wholesale businesses, and the development and publishing of books, comic cons and magazines. Revenue from this business unit followed a growth tendency between FY2019 and FY2021, but stabilized in FY2022 (Figure 15).

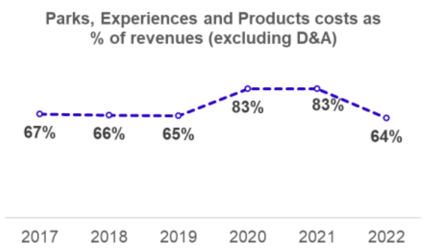


Figure 16 – Source: Disney's Annual Report

Regarding DPEP's costs, they essentially comprise operating expenses (such as operating labor, costs of goods sold, infrastructure costs, supplies, commissions, and entertainment offerings), SG&A costs, and depreciation and amortization expenses. Not accounting the effects of depreciation/amortization costs, the weight of the operating costs over the segment's revenues was stable between FY2017 and FY2019, rounding 65% of revenues (Figure 16). In the pandemic years, as parks, hotels and resorts were closed, the revenues decreased, while the costs, due to their fixed nature, did not have the same decline. In this way, the costs (excluding depreciations) percentage over the revenues increased to 83% (Figure 16) and the EBIT margin declined to less than 3% (Figure 8). FY2022 recovered the pre-pandemic levels, with an EBIT margin of 27.5% and with costs (excluding depreciations) representing 64% of revenues.

Disney Media and Entertainment Distribution

Market Overview & Trends

Disney's DMED segment comprises different markets, due to having different business lines, and it is essential to have a profound knowledge of the dynamics and trends inherent to each one.

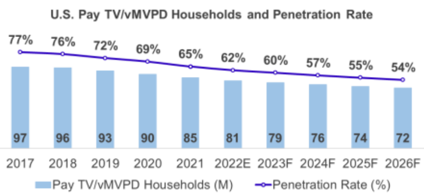


Figure 17 – Source: eMarketer

Regarding Linear Networks, this industry is facing some challenges, mainly as video services and streaming platforms continue to grow. The fact that these services provide access to much of the same content as cable channels at lower prices, decreases demand for cable TV. Cord-cutting has then become a trend in the U.S., with current forecasts[2] predicting that by 2023 the penetration rate of pay TV/vMVPD (virtual multichannel video programming distributors) on U.S. households will drop to 60%, reaching about 54% in 2026 (Figure 17). It is estimated that the number of pay TV/vMVPD households in the U.S. decreased at a CAGR of -3.6% from 2017 to 2022 (around 16.5 million households), and expectations are that this number keeps decreasing at a CAGR of -2.7% until 2026, i.e., around 8.5 million households. Many of these will turn to streaming services, such as Disney+. To offset this decrease in demand, cable TV players

[2] eMarketer

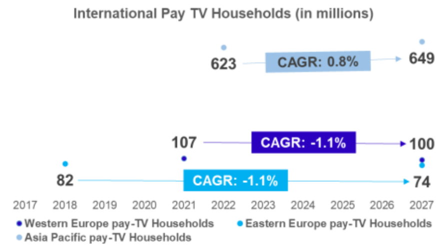


Figure 18 – Source: Digital TV Research

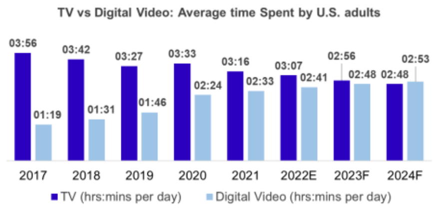


Figure 19 – Source: eMarketer

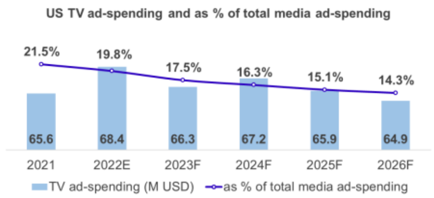


Figure 20 – Source: eMarketer

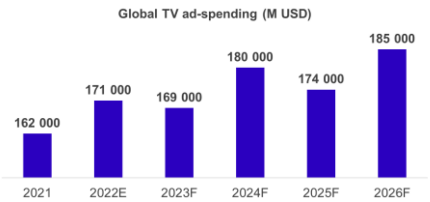


Figure 21 – Source: GroupM

in the U.S. are increasing the carriage fees they charge to multichannel pay TV providers for access to their content. Although this offsets the impact of a reduction in the number of pay TV subscribers on affiliate revenues, it also deepens the problem of the decrease in demand, as subscriptions become more expensive, which contributes to the cord-cutting trend. This trend is also happening in Europe, as analysts[3] forecast that the pay TV subscriber count will drop by 7% in Western Europe from 2021 to 2027, and the number of pay TV subscribers in Eastern Europe will drop to 74 million in 2027, from 82 million in the peak year of 2018. Meanwhile, the same analysts predict that the number of subscribers in Asia Pacific will increase by 26 million over the next five years to a total of 649 million (Figure 18). Besides the cord-cutting trend, the average time spent viewing TV is decreasing, as it is replaced by digital video, which has a direct impact on the number of advertising impressions. Forecasts[4] predict that by 2024 the average U.S. adult will spend more time watching digital video than TV (Figure 19). To offset this, companies like Disney are charging higher commercial rates. These companies may also be forced to increase the number of advertisements delivered. For instance, the U.K.'s communications regulator, Ofcom, is considering extending the time and frequency allowed for advertising breaks on U.K. televisions, due to growing competition from online streaming platforms. The U.S. TV ad-spending is expected to have reached its peak and to decrease at a nominal CAGR of -1.3% until 2026[4], decreasing its relevance as digital advertising spending becomes more attractive (Figure 20). On a global level, however, it is forecasted that the TV advertising market will grow at a CAGR of 3.99% from 2022 to 2026[5] (Figure 21), as the rise in advertising prices compensate for the loss of audience. Finally, it is important to consider that highly anticipated events, such as presidential and midterm elections (political advertising), or sporting events, like the Olympics or the World Cup, have a positive influence on the advertising market, increasing its revenues.

On the contrary of Linear Networks, the outlook for Direct-to-Consumer is quite positive, as digital streaming keeps growing as a popular choice of entertainment. As of February 2022, Americans spent a weekly average of 169.4 B minutes streaming video content, an YoY increase of 18%, as SVOD (subscription video on-demand) is estimated to account for over 53% of all time spent watching content[6]. Moreover, 93% of Americans were planning to increase their streaming options or make no change to their existing plans, and 18% of Americans were paying for four streaming services, versus the 9% who did so in 2019[6].

[3] Digital TV Research
[4] eMarketer
[5] GroupM
[6] Nielsen's State of Play

Regarding the number of subscribers, Digital TV Research predicts that global SVOD subscriptions will increase by 475 million between 2021 and 2027 to reach 1.68 billion. However, the subscription growth is already seeing a decline compared to the boom witnessed in recent years, which could be deepened by the current macroeconomic situation, as high inflation levels force consumers to cut down on non-essential spending, with findings from Statista's Global Consumer Survey stating that two-thirds of U.S. adults would cut back on contracts and subscriptions to save money in times of high inflation. Meanwhile, streaming platforms are increasing subscription prices to rise their ARPU (average revenue per user), as they strive to meet Wall Street's emphasis on profitability, after spending billions on content and charging lower prices to attract new subscribers at a fast pace. At the same time, ad-supported streaming is a new trend that some big players have already adopted, as they introduce lower-cost ad-supported subscriptions, which could provide an alternative for people to save money as they suffer inflationary pressures and as subscription prices rise. In fact, AVOD (ad-supported video streaming) adoption rate is outpacing SVOD in the U.S., as there was a 29% increase in U.S. homes streaming AVODs versus a 21% increase in the same period for SVODs[7]. It was forecasted in December 2021, at a time when it was not expected that big streaming players would launch ad-supported plans, that global Connected TV (devices that support video content streaming) advertising revenue would grow at a CAGR of 14.5% from 2021 to 2026[8] (Figure 22). Thus, the recent announcements that the big players are indeed launching ad-supported plans should further boost the growth in advertising revenues from streaming platforms. Finally, to support this growth, there has been significant content spending, with an 18% growth in all available content over the last three years[9]. Moreover, it is predicted that $23 B will be spent on original content by the main streaming players (Apple TV+, Amazon, Disney+, HBO Max, and Netflix) in 2023, a 10% increase compared to 2022 and more than twice the spending of 2019[10]. All this spending puts pressure on the platforms' profitability. All in all, global SVOD revenues, represented in Figure 23, are expected to grow at a CAGR of 11.48% from 2022 to 2027[11].

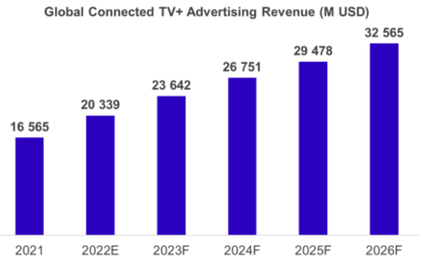


Figure 22 – Source: GroupM

Figure 23 – Source: Statista

The Content Sales/Licensing market was highly impacted by the Covid-19 pandemic, as releases were delayed, shortened, or in some cases cancelled, and stage play performances were suspended. Theatres were closed and subject to capacity limitations, with significant disruptions in the production and availability of content, with most of the films being suspended by March 2020. As

[7] Comscore's 2022 State of Streaming
[8] GroupM
[9] Nielsen's State of Play
[10] Ampere Analysis
[11] Statista

the pandemic comes to an end, disruptions are fading, and the sector is back on track. In 2022, cinemas are slowly recovering from the Covid-19 shutdowns and are expected to surpass their 2019 global revenue, reaching $46.4 B next year[12]. Afterwards, revenues will keep rising to record highs at an 8.52% CAGR from 2022 to 2026, as the number of admissions grows from 5.7 billion to 7.7 billion (Figure 24). Moreover, the number of digital cinema screens worldwide in 2021 was more than 208 thousand, up from less than 156 thousand in 2016, an increase of 34% over half a decade[13]. One threat to this industry is film piracy over the internet, which is becoming more widespread and puts financial pressure on the movie business. Due to this threat and the growth in streaming popularity, the home entertainment industry is declining, as sales of films and episodic television in DVD and Blu-ray discs keep declining. Physical home video revenues worldwide decreased by over 56% from 2017 to 2022 and are expected to drop further at a CAGR of -15.3% between 2022 and 2025[13] (Figure 25).

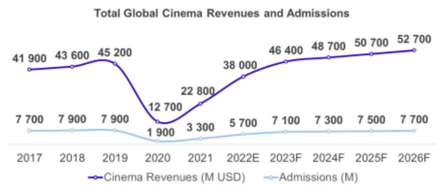


Figure 24 – Source: PwC Global Entertainment & Media Outlook 2022-2026

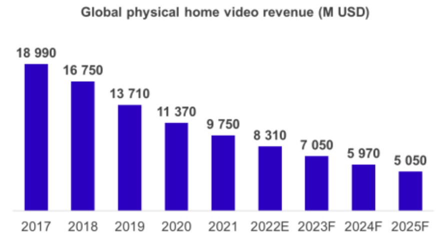


Figure 25 – Source: Statista

Competitive Landscape

Since this segment includes different business lines, ranging from the streaming platforms to the licensing of film and television content, each one has its own competitors, being important to identify and analyse them.

Regarding Linear Networks, the competition in this market is essentially made up of television networks and channels that compete with Disney's channels, both in terms of cable and broadcasting. There are several factors that determine the penetration in this market. Firstly, the scale of the network, as it becomes difficult for a small, non-scale company to compete with television channels that have been watched for decades and with a national, and sometimes international, distribution network. Additionally, the content produced influences the performance of companies in this industry, considering that it is necessary to continue to innovate in terms of programming, in order to decelerate the trend of decreasing viewing of television channels, highly leveraged by the development of streaming platforms and social networks. In the U.S., the major broadcasting networks are CBS, NBC and ABC. Columbia Broadcasting System (CBS) is an American mass-media company, founded in 1927 and owned by Paramount Global. In terms of average viewers in the U.S., this network occupies the first place in the ranking with 5.57 million viewers[14] (Figure 26). National Broadcasting Company (NBC) is the oldest of the three networks, with an average viewership of 5.48 million viewers[14]. ABC appears in third place with an average viewing volume of 4.08 million[14], and Fox follows with 3.68 million viewers[14]. Fox is also

Top 10 American Networks in 2021

Network	Average Viewers, in millions
CBS	5.57
NBC	5.48
ABC	**4.08**
Fox	3.68
Fox News	2.39
ESPN	**1.62**
MSNBC	1.54
Univision	1.43
HGTV	1.24
Hallmark Channel	1.11

Figure 26 – Source: Variety

[12] PwC Global Entertainment & Media Outlook 2022-2026
[13] Statista
[14] Variety

one of Disney's competitors at a domestic level, since the acquisition package of TFCF did not include Fox and Fox News channels in the U.S.. In this deal, Disney acquired the FX and National Geographic channels at a domestic level and all TFCF's channels at an international level. In addition, social media platforms, such as Facebook, Instagram (both belonging to Meta Platforms, Inc.), Twitter and TikTok also constitute competition for the company, since, on average, a consumer spends 147 minutes of its day on social media[15]. Global penetration rate of social networks is 60%[15], having increased in recent years.

When looking to the Direct-to-Consumer segment, as it was previously mentioned, the streaming market has been increasing in the last years, leveraged by the rise in demand for these services as well as the increase in the number of players, consequently increasing the number of Disney's competitors. There is no doubt that Netflix has a big relevance in this segment, continuously offering different shows and films and being the top-of-mind company in the market. The company's diversity of content at affordable prices led consumers to stop watching traditional television content and shift its preference to this streaming platform and, in consequence, nowadays the company has 221 M subscribers[16]. Several companies followed Netflix path and started offering streaming services, in an attempt to enter this market. Amazon Prime Video, HBO and Apple TV+ are some examples of relevant companies that started offering original content at competitive prices, in order to capture consumers, and consequently nowadays represent big players in the streaming market (Figure 27). Unlike Netflix, these companies stand out as they belong to a parent company, previously recognized and implemented in the market, allowing them to gain scale and notoriety at an accelerated pace.

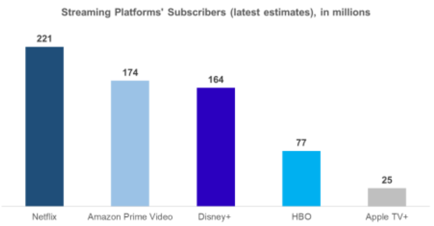


Figure 27 – Source: Companies' Reports and Estimates

In terms of paid subscribers (Figure 27), as of October 2022, Amazon Prime had 174 M subscribers, HBO and HBO Max combined had 77 M subscribers[17] and Apple TV had 25 M subscribers[15]. Despite Disney+ being the third largest streaming platform in terms of subscribers, with 164M, when considering Hulu and ESPN+, the total number of Disney's streaming subscribers globally reaches over 236M, higher than Netflix. One factor that helped Disney gain scale, when compared to the competition, is that when the streaming platforms were launched, the company already had a relevant amount of content produced, due to the decades of production from the other business lines. This, aligned with the TFCF M&A acquisition, made the company more attractive in consumers' eyes and, consequently, the number of subscribers leveled up. One common trend in

[15] Statista
[16] Netflix's 2022 Q3 Financial Results
[17] Variety

Streaming Platforms monthly prices	
Netflix	$6.99- $19.99
Amazon Prime Video	$8.99
HBO	$9.99-$14.99
Apple TV+	$6.99
Disney+	$7.99-$10.99

Figure 28 – Source: Streaming Platforms' Plans

the streaming segment is to enter the market with a low-price strategy, and with the expansion in the content production and distribution, companies gradually increase their plans' prices. Figure 28 represents the monthly U.S. price for each of the plans offered by the biggest streaming players. As it can be seen, Netflix offers a very diverse price strategy, from the "basic with adds" plan costing $6.99 per month to the "premium" package with a price of $19.99, this one allowing four people to stream simultaneously. The other players have different prices, possibly justified by the quantity of content offered. Similarly to its competition, Disney+ recently decided to shift its price strategy and, in December of 2022, started offering a new ad-supported plan for $7.99 a month and increased the price of its ad-free subscription plan to $10.99 a month. This move can be understood as a way to increase revenues, since the ad-free plan price is higher and the ad-supported plan will carry higher advertising revenues, without neglecting users and lose subscribers.

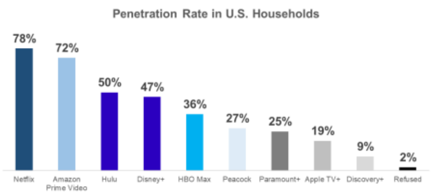


Figure 29 – Source: Statista

Concerning the players' penetration rate in the U.S.[18] (Figure 29), 78% of U.S. households subscribe to Netflix's services, followed by Amazon Prime Video with 72% and then Hulu, with 50% market share. Disney+ only appears in the fourth place, with 47% subscription rate among U.S. families. Furthermore, the study reveals that HBO Max has a penetration rate of 36%, and Apple TV+ of 19%. This trend is expected to change, as in the last fiscal year, Disney+ gained alone 46 million subscribers and Disney platforms increased in 57 million users, while in the same period Netflix only gained around 10 million new viewers.

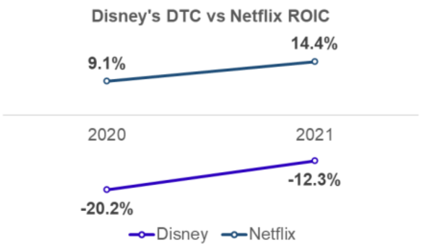


Figure 30 – Source: Disney's Annual Report and Refinitiv Eikon

To better understand the Disney's sustainability in this business line when compared with peers, it is worth analysing the ROIC, given the high amounts of invested capital needed. For this comparison, it was only considered Netflix, as it is the peer that competes with Disney only in this segment. The other mentioned players have other business lines apart from the streaming, making it inaccurate to contrast their ROICs with the Disney's DTC ROIC. While Netflix has been recording high ROICs (9.1% in 2021 and 14.4% 2022), Disney's ROIC in this segment was negative (-20% in FY2021 and -12% in FY2022), as highlighted in Figure 30. The big difference in the ratio between the companies can be justified if we understand that the companies are in different business states. Netflix has been investing in content production in the last decade, being now the most mature player in the segment, with a consolidated position and with positive returns. In opposition, Disney only started offering this service in 2019 and since then, have been investing largely in content production and marketing. This sector is very cost intensive, being necessary for companies to make big investments before receiving the expected profits. In this sense, the company

[18] Statista

has not registered the expected returns for the investments done yet, but with the increase in the number of subscribers, and the launch of the new ad-supported plan, it is predictable that this business line will be profitable in the near future.

Regarding the Content Sales/Licensing and Other business line, responsible for the sale and licensing of film and television content, there are some factors that determine the market presence, such as the amount of content produced and distributed, the popularity of the distributor and the international presence. The biggest Disney's competitors in this segment are the other film production studios, commonly known as the "Big Five", including Columbia Pictures, Universal Pictures, Warner Bros, Paramount Pictures, as well as Walt Disney Pictures. Columbia Pictures, founded in 1924, is nowadays part of the Sony multinational conglomerate and, since its creation, produced and distributed around 270 movies, with some top performance films like Skyfall and the Spider-Man series. Universal Pictures, the oldest film production studio in the U.S., has a variety of content, of around 300 movies, and is responsible for some hit movies, like Jurassic World and Minions. This company operates some recognized subsidiary studios such as Illumination, Dreamworks Animation, and Working Title Films. Warner Bros is the second largest movie studio in the U.S. by all-time box office performance, having distributed the Harry Potter series, the Joker, and The Hobbit films. Lastly, Paramount Pictures is an American film producer and distributor with two subsidiaries: Paramount Home Entertainment and Paramount Players, responsible for MTV, Nickelodeon, and Comedy Central films. Regarding the film studios' market share in the American and Canadian markets in 2021[19] (Figure 31), Disney's market share was 25.5%, followed by Sony/Columbia, with 23.1%. Then, Universal Studios appears with a 15.6% market share, followed by Warner Bros, Paramount, and Lionsgate. In terms of box office revenues in the U.S. and Canada in 2021[19], Disney had the highest performance, with $1.17 B, followed by Sony/Columbia with revenues of $1.06 B. The third biggest studio in box office revenues was Universal with $714.2 M, and then Warner Bros, MGM (owned by Amazon), Paramount, and Lionsgate.

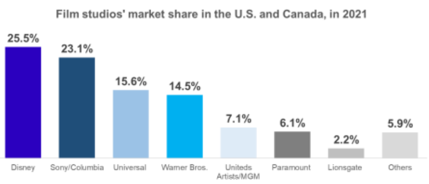


Figure 31 – Source: Statista

In order to understand DMED's performance and returns, it was calculated the core ROIC for the segment and compared with the peers in Figure 32, which include Comcast Corporation U.S. (mother company of NBC and Universal Pictures), Warner Bros Discovery, Inc. (HBO and Warner Bros Pictures) and Paramount Global (CBS and Paramount Pictures). When analysing this comparison, it is clear that between FY2018 and FY2020, Disney's DMED ROIC was extremely higher than the competition. While in FY2018, Paramount had a ROIC of 12.6%, Comcast of 6.2% and Warner Bros of 2.9%, DMED's ROIC was

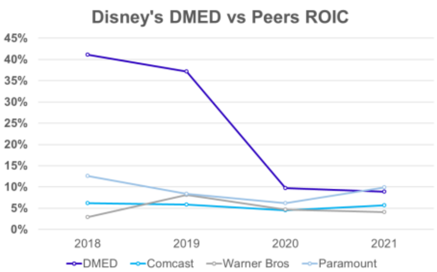


Figure 32 – Source: Disney's Annual Report and Refinitiv Eikon

[19] Statista

41.2%. From FY2020 onwards it has showed a declining trend, due to the operating losses from the DTC business line (Figure 32).

Main Drivers & Forecast

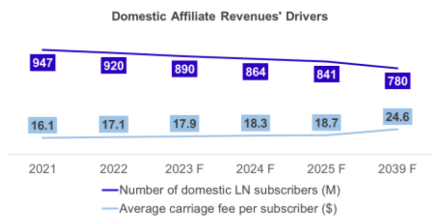


Figure 33 – Source: Equity Research Forecasts

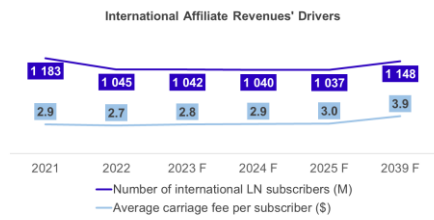


Figure 34 – Source: Equity Research Forecasts

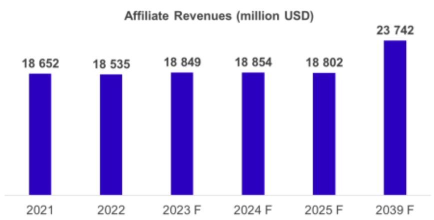


Figure 35 – Source: Equity Research Forecasts

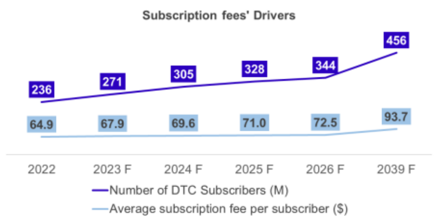


Figure 36 – Source: Equity Research Forecasts

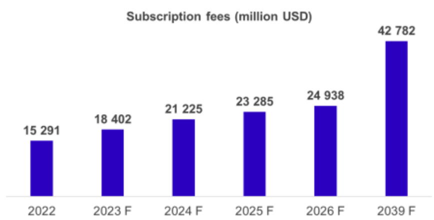


Figure 37 – Source: Equity Research Forecasts

There are several drivers that impact Disney's DMED segment. Revenues from affiliate revenues are dependent on the number of LN subscribers as well as on the average carriage/retransmission fee that the company earns with each subscriber. Regarding the number of subscribers, in FY2019 there was a significant increase, both in the U.S. (over 51%) and internationally (over 100%), highly impacted by the purchase of the TFCF in 2019, that made the company increase its range of channels from 9 to 14 domestically and from 4 to 7 globally. However, from FY2020 onwards this driver has been declining at a 5.1% CAGR for the domestic market and 8.6% CAGR for the international one. In the future, both markets are expecting decreases in the number of users, as consumers are switching to other substitute markets, such as streaming, and the pay TV penetration rate is declining. Despite that, after the stabilization of the streaming market, it is predicted that this driver will grow again, anchored on the real GDP perspectives. The retransmission fee per user in the U.S. market have been following a rising tendency, and it is expected that both domestically and internationally it will grow with inflation rates, to offset the decrease in subscribers. Given the evolution of the drivers, presented in Figure 33 and 34, the affiliate revenues will reach $23.7 B in FY2039, representing a CAGR of 1.5% from the value of $18.5 B in FY2022 (Figure 35).

The second most relevant source of revenue, as of FY2022, are subscription fees for streaming platforms. Looking to the aggregate number of subscribers across the different platforms, it is undeniable that the company has been growing, having reached 236 million users in 3 years, illustrative of a CAGR of 94.6% (from FY2019 to FY2022). However, with the current inflations levels that force costumers to cut on non-essential services, in FY2023 the number of users is expected to grow only 15% (less than half of FY2022 growth rate). Forecasts predict that, since the company is still reaching its consolidated form in this industry, it will register growth rates that, with time, will converge to the real GDP evolution. The subscription fee per user decreased about 3.4% to $64.9 in FY2022, however, in the future, this driver is forecasted to increase with inflation, following the market trend to increase prices in order to achieve profitability. Aggregating these two drivers (Figure 36), revenues from subscription fees will be $42.8 B in FY2039 (Figure 37), representing a CAGR of 6.2% and around 39% of the revenues of that FY, which highlights the relevance that the DTC has on the company's long-term strategy.

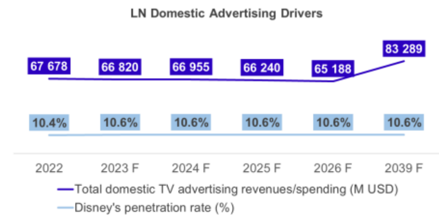


Figure 38 – Source: Equity Research Forecasts

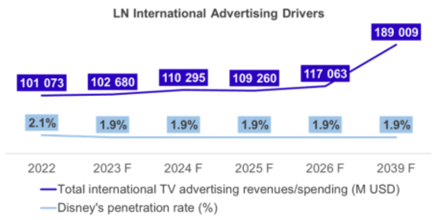


Figure 39 – Source: Equity Research Forecasts

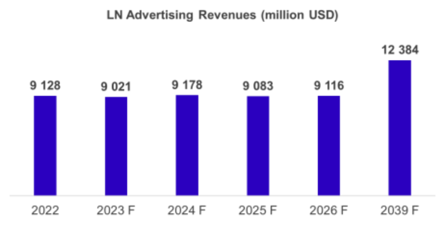


Figure 40 – Source: Equity Research Forecasts

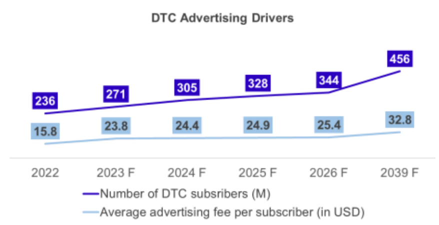


Figure 41 – Source: Equity Research Forecasts

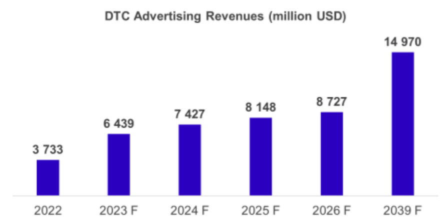


Figure 42 – Source: Equity Research Forecasts

Another important revenue caption that is associated with LN and DTC is advertising. As for the advertisement revenues related to LN, it is relevant to mention that global TV ad-spending (i.e., domestic and international combined) is expected to show a tendency for an increase in even years and a decline in odd years, due to international events that happen in even years, such as the Olympic Games or the FIFA World Cup. In perpetuity, it is expected that TV advertising spending will follow the nominal GDP, having a value of $83.3 B in the U.S. and $189 B in the international market, in FY2039. Additionally, the company penetration in the ad-spending market is forecasted to remain stable through the years, at around 10.6% in the U.S. and 1.9% in the international segment, as the company has a consolidated position in the LN market. Aggregating the drivers' effects, both in the domestic and international market, represented in Figures 38 and 39, LN advertisement revenue will be $12.4 B in FY2039 (Figure 40). For the DTC segment, as previously mentioned, the number of subscribers is forecasted to grow, expecting to reach 456 M in FY2039 (Figure 36). As for the average advertising fee per subscriber, the implementation of the ad-supported streaming plan will leverage this driver to grow 50% in FY2023, and afterwards to follow the U.S. inflation, reaching $32.8 in FY2039, a CAGR of 4.4% since FY2022. Aligning the driver's evolution, present in Figure 41, it is predicted that the revenues from advertising in DTC will go from $3.7 B in FY2022 to $15 B in FY2039 (Figure 42), i.e., a CAGR of 8.5%. Combining the advertising revenues from the different segments, they will reach $27 B in FY2039, being the second most important revenues caption, with a 25% weight.

Regarding TV/SVOD distribution licenses revenues, they are related to the DTC and 'Content sales/licensing and Other' business line. For the DTC revenues, it is relevant to mention that the company does not expect to release additional Disney+ Premier Access in the upcoming years, after the theatres reopened, and the UFC events are projected to keep a stable level of one event per month, i.e., 12 events per year. The average revenue per event is forecasted to grow with the world's inflation rate, from $41 M in FY2022 to $65 M in FY2039 (2.2% CAGR). For the content sales/ licensing and other, the main drivers are the number of DTC subscribers and the number of TV viewers worldwide. The rationale behind this projection is Disney's recent strategy to move towards distributing its content into its own DTC platforms rather than to licensing it to third parties. Therefore, we believe that content licensing revenues will be negatively related with the number of DTC's subscribers' growth (as this will incentivize Disney to keep pursuing the mentioned strategy) and positively related with the number of TV viewers worldwide (as a higher number of TV viewers leads to a greater market to license content to third party television channels). As previously mentioned,

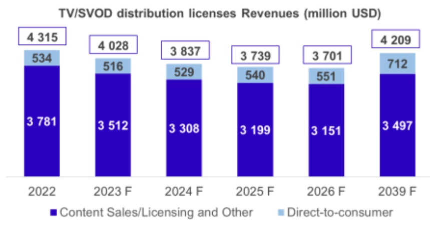


Figure 43 – Source: Equity Research Forecasts

DTC users are projected to grow (Figure 36), while the TV viewers are expected to move with the world's real GDP. Overall, the TV/SVOD revenues are expected to decrease from $4.3 B in FY2022 to $4.2 B in FY2039 (Figure 43).

Theatrical distribution licensing revenues are driven by the annual number of films released, the number of tickets sold per film and the average revenue per ticket. When it comes to film releases, between FY2017 and FY2019, the number of major film (movies with at least $100 M worldwide box office) distributed increased from 7 to 11. In the pandemic years (including FY2022), the quantity of releases shrinked as the film production levels were lower. However, with the evolution of the film production market, the production levels have been higher, being expected that the company returns to pre-pandemic levels. Consequently, for forecasting purposes, it was considered that the company will produce 10 films every year, taking into account that for FY2023 and FY2024 it was already announced the distribution of 10 films per year. The average number of tickets sold per film decreased between FY2018 and FY2021, justified by the competition from the streaming platforms and aggravated by the Covid-19 situation, that closed theatres all over the world. In FY2022, however, the driver showed a different pattern, with a 42% increase, as consumers returned to theatres. Looking further, the market expects an increase in the number of cinema admissions all over the world in the upcoming years. Consequently, the number of tickets sold per film was forecasted based on that high predictable growth (37% in FY2023 and 8% in FY2024), and in perpetuity a stabilization of the growth rate at around 1.5% per year, representing the global real GDP growth in the long run. The average revenue per ticket increased from FY2017 to FY2022, going from $4.5 to $6.1, and it is predictable that in the future, this driver will grow with the U.S. inflation, having a $8.9 revenue per ticket sold in FY2039. Combining the evolution of the previous drivers (Figure 44), the revenue from film distribution in theatres is predicted to grow from $1.9 B in FY2022 to $8 B in FY2039, at a 9% CAGR (Figure 45).

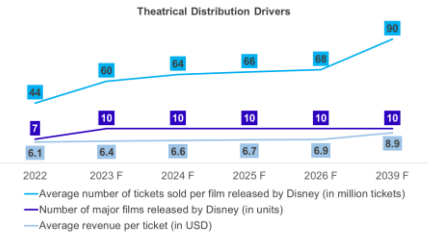


Figure 44 – Source: Equity Research Forecasts

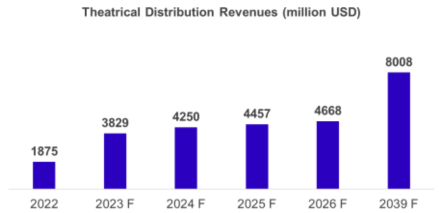


Figure 45 – Source: Equity Research Forecasts

As for the home entertainment revenues, that consist on the sale of physical film products, they evolve with the number of major films released as well as the average revenue per physical film sold. Regarding the first driver, as previously mentioned, it will maintain a stable amount of 10 movies per year, beginning in FY2023. As for the average revenue per film, the market predicts a decline in the sale of physical films, and considering that evolution, the driver expects to continue the decreasing tendency from $117 M in FY2022 to $71 M in FY2025, and that Disney will discontinue this business line by FY2031 (Figure 46).

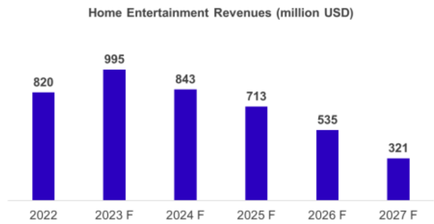


Figure 46 – Source: Equity Research Forecasts

Lastly, the other revenues, which include fees from sub-licensing of sports programming rights and sales of post-production services, are expected to grow with the segment's revenues, reaching $4.3 B in FY2039.

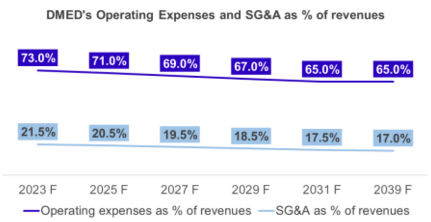


Figure 47 – Source: Equity Research Forecasts

In regard of costs, DMED's operating costs, SG&A costs, as well as corporate and shared expenses are anticipated to evolve with the revenues of the segment. Both operating and SG&A expenses have peaked in FY2022, due to the expenses incurred to attract subscribers to the streaming platforms. However, it is expected a gradual decrease in these costs (in percentage of revenues), and a stabilization when the streaming platforms become more efficient (Figure 47). In FY2039, operating costs will represent 65% of revenues, SG&A expenses 17% and corporate and shared expenses 1.3%. Depreciation and amortization expenses are expected to evolve considering the 3.8% historical average depreciation and amortization rate.

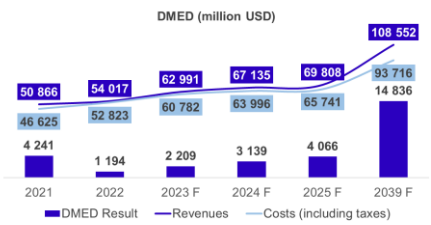


Figure 48 – Source: Equity Research Forecasts

Overall, the segment's revenues are projected to increase from $54 B in FY2022 to $63 B in FY2023, representing a 17% growth, while the after-tax result will go from $1.2 B to $2.2 B, an 85% increase, given a higher operating margin (4.7% in FY2023 versus 3.0% in FY2022). In perpetuity, both revenues and results will be growing 3.47% per year, reaching a value of $108.5 B and $14.8 B in FY2039, respectively (Figure 48). This represents a net margin of 14.7% and an EBITDA margin of 18.4%.

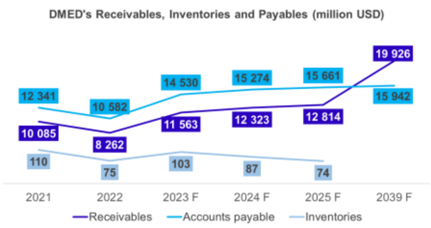


Figure 49 – Source: Equity Research Forecasts

As for DMED's invested capital, it is relevant to mention that receivables, inventories and accounts payable were forecasted based on the average collection period (67 days), average holding period (123 days) and average payable period (115 days), calculated with the historical averages from the last three years (Figure 49), in order to only capture the effects of the TFCF acquisition and the Disney+ launch. The segments' inventories are projected to decrease in the upcoming years, until they eventually disappear in FY2031, bearing in mind that home entertainment revenues will disappear in that FY.

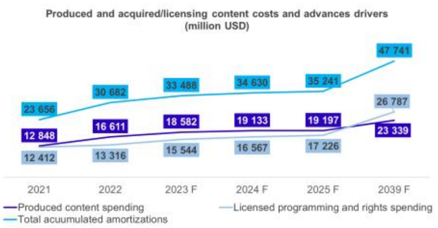


Figure 50 – Source: Equity Research Forecasts

The produced and acquired/licensing content costs and advances is the most relevant asset caption of DMED ($37.7 B), representing around 74% of the invested capital and driven by the annual spending and amortization in content. While the spending in licensed programming and rights is expected to follow the stable path of the last years, the spending on produced content is forecasted to show a decreasing trend in its growth, which peaked in FY2022 due to the heavy investments made in content for Disney+, and thus it will grow 11.9% in FY2023, after having increased 29.3% in FY2022. In perpetuity, this driver will represent around 21.5% of revenues, a higher annual investment compared to pre-streaming levels. In FY2039, the segment will invest around $50 B in content, a

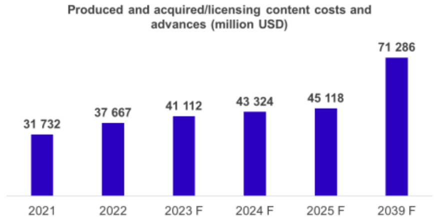


Figure 51 – Source: Equity Research Forecasts

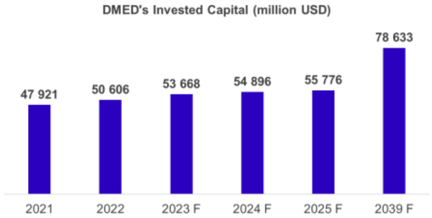


Figure 52 – Source: Equity Research Forecasts

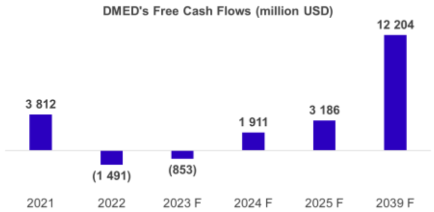


Figure 53 – Source: Equity Research Forecasts

DMED Long Term Value Drivers	
g	3.5%
WAAC	8.2%
Core ROIC/RONIC	19.5%
Sales Growth	3.5%
Segment Value (M $)	**126 001**

Figure 54 – Source: Equity Research Forecasts

3% CAGR from the $30 B in FY2022 (Figure 50). Taking into account the amortization effects, the asset value is projected to be $71.3 B in FY2039, a CAGR of 3.82% from FY2022 (Figure 51).

Considering the evolution of the previously mentioned drivers, as well as other relevant captions, such as operating cash, intangible assets and other assets, DMED's invested capital is expected to grow from $50.6 B in FY2022 to $53.7 B in FY2023, representing a 6% rise. By FY2039, the invested capital is projected to reach $78.6 B (Figure 52), given a perpetuity growth rate of 3.46% and a CAGR of 2.63% from FY2022 to FY2039.

The segment's free-cash-flows will increase from negative $1.5 B in FY2022 to negative $853 M in FY2023, recovering to the positive value of $1.91 B in FY2024. This evolution is explained by the notorious expected increase in the segment's results, leveraged by the expansion of the DTC business line. In FY2039, free-cash-flow will reach $12.2 B (Figure 53), representing a perpetuity growth rate of 3.46%.

Valuation

After forecasting DMED's Income Statement, Balance Sheet, and free cash flows, and considering a WACC of 8.24%, it is possible to determine the segment's valuation and performance.

As of FY2039, DMED's growth will be stable at around 3.5% per year, in line with the world's long-term nominal GDP growth rate. Regarding the segment's ROIC and RONIC, these stabilize with a value of 19.5%, above DMED's ROIC in FY2022 (which was only 2.5%, due to the streaming still being unprofitable), the WACC (8.2%) and the industry's average (10.06%[20]), meaning the segment will be creating value for its shareholders. There are several reasons that could help explain this value creation. Firstly, the competitive advantages that the company has comparing to competition, such as the unique range of services offered, that reach a variety of different customers. Additionally, the several acquisitions that Disney has made, as well as the launching of its streaming platforms, gave the company the ability to continue innovating and offering new services, contributing to its relevance in the entertainment market. Furthermore, the Intellectual Property detained by the company, with characters like Mickey, and franchises such as Star Wars and The Avengers, is an unmatched advantage that leads Disney to reach the number one position in multiple business lines. This ROIC is, however, lower than the segment's ROIC prior to the launching of its streaming

[20] Damodaran, as of January 2022, for the U.S. market

platforms (37.2% as of FY2019), due to the strong levels of invested capital needed to keep this business line operating with a good performance.

The overall value of DMED's segment, considering the segment's long-term value drivers, free cash flows, and the company's WACC, is about $126.00 B.

Disney Parks, Experiences and Products

Market Overview & Trends

The company's Parks, Experiences and Products segment includes operations in different industries, ranging from amusement parks and hotels to the licensing or sale of products. Thus, it is relevant to analyse each industry and its trends.

Regarding the Parks and Hotels industry, it is crucial to mention the COVID-19 pandemic has it directly impacted this market. Between January and October of 2020, the pandemic declined 70% of international tourism compared to the homologous period in 2019[21]. This phenomenon had a direct effect on the reduction of amusement park admissions as well as hotel room night bookings. Looking at this year's performance, the tourism industry is recovering, reaching almost 60% of the pre-pandemic levels in the first seven months of the year, and it is expected to continue growing.

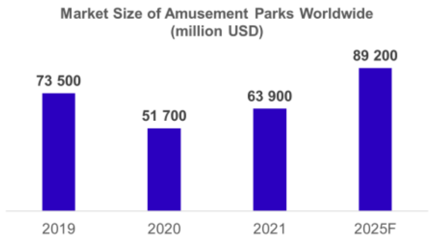


Figure 55 – Source: Statista

When looking to the amusement parks market worldwide, in 2019 the market revenues were $73.5 B[22], decreasing in the following year to $51.7 B, as expected, due to the pandemic impact. In 2021 the market value of the amusement parks was $63.9 B, and it is expected to grow to $89.2 B in 2025 (Figure 55), representing an 8.7% CAGR. The biggest drivers for this growth are the increase in recreation and leisure spending, mostly by the baby boomer's generation, as well as the evolution of international tourism. When looking at this market, there are several trends that already appeared or are appearing, which companies will have to follow, to continue competing and attracting consumers. Dynamic pricing is already implemented in several parks in the World, meaning that the admission prices range depending on the length of the stay, day of the week and season. Additionally, the parks' industry is becoming even more technological, with the creation of apps that control the occupancy and waiting time of each attraction, or the development of new attractions with virtual reality.

Regarding the Hotels' markets, similarly to the parks' market, it was considerably impacted by the pandemic. However, it is already visible the recovery of this industry, as tourism is growing, and the number of hotels stays is increasing as

[21] World Tourism Organization
[22] Statista

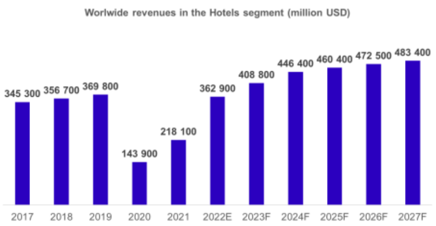


Figure 56 – Source: Statista

consequence. It is projected that at the end of 2022, global revenue in this segment will reach $362.9 B, with the U.S. generating $99.69 B (around 27%). The evolution of the industry forecasts a global revenue value of $483.4 B in 2027[23] (Figure 56), representing a CAGR of 5.90%, and, regarding user penetration, it is expected to increase from 13.3% in 2022 to 16.8% in 2027[23]. In addition, the number of hotel customers is expected to be 1.33 billion in 2027[23]. One of the biggest trends in this segment is the digitalization of the purchase, since it is expected that by 2027, 81% of total revenues will be generated through online channels[23]. Another trend is the development of the customer experience, in which customers prefer to pay more and have a better and more personalized experience. In this sense, companies must adapt the experience provided to the type of customer, to their preferences, and even to the time of the year they are visiting.

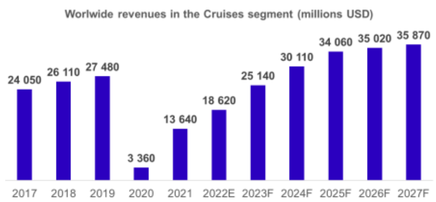


Figure 57 – Source: Statista

In relation to the cruises' market segment, the service provided by its players is divided into three categories – luxury, premium and contemporary, depending on the per day price of the cruise and consequently, on the target defined. This is a highly concentrated market with few players, since there are high barriers to entry and exit, due to the high necessary levels of invested capital. In 2022, industry's revenue is expected to reach $18.62 B, and then, continue to rise at a CAGR of 14.01%, until a $35.87 B revenue value in 2027[23] (Figure 57). Regarding the number of users, in 2027 these are projected to hit 32.5 million with a user penetration of 0.41%, higher than the present one (0.24% in 2022)[23]. An important trend of the market is the increase of digitalization, since it is expected that by 2027, 24% of total revenues will be generated through online sales[23].

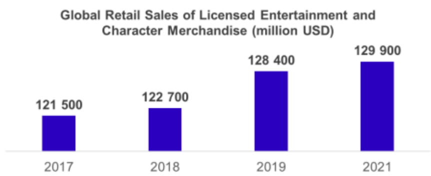


Figure 58 – Source: Global Licensing Study

When analysing the licensing market, in the last years the global retail sales of licensed entertainment and character merchandise have been increasing, from $121.5 B in 2017 to $129.9 B in 2021[24] (Figure 58). Within the overall licensed merchandise market, in 2021, the entertainment/character sector was the largest, with a weight of 41%, while Corporate Brands appeared in second with sales of $76.9 B (24%), and Sports having a revenue value of $31.2 B (10%)[24]. Looking to the future, the overall revenues from licensed merchandise are forecasted to rise at a 4.8% CAGR[25], from $320.55 B in 2020 to $445.06 B in 2027.

Competitive Landscape

When it comes to theme parks, Disney, the undisputed industry leader, has competitors both domestically and internationally. In the Americas, the main

[23] Statista
[24] Global Licensing Study (Licensing International)
[25] Business Research Insights

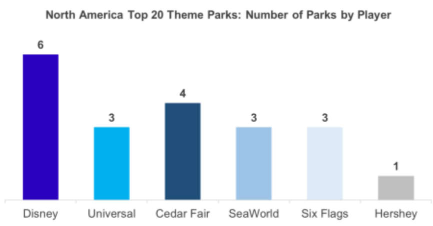


Figure 59 – Source: TEA/AECOM Theme Index Report

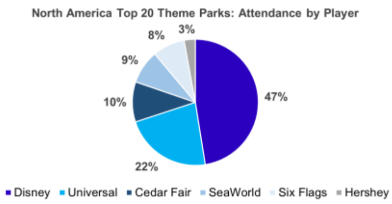


Figure 60 – Source: TEA/AECOM Theme Index Report

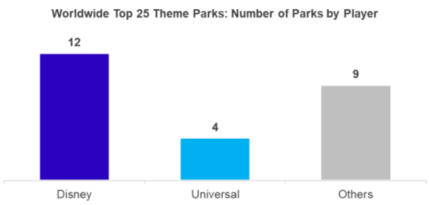


Figure 61 – Source: TEA/AECOM Theme Index Report

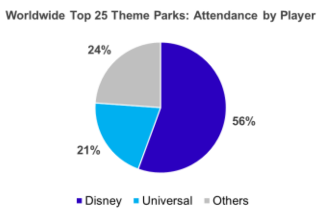


Figure 62 – Source: TEA/AECOM Theme Index Report

competitors are Universal Studios Parks and Resorts, with three major theme parks and one water park in two U.S. locations; Cedar Fair Entertainment Company, which has 17 theme and water parks across the U.S. and Canada; SeaWorld Parks & Entertainment, which has 12 theme and water parks in the U.S.; and Six Flags, which has 27 theme and water parks across the U.S, Canada, and Mexico. Out of the 20 theme parks in North America with highest attendance, these five players account for 19 of them (Figure 59), which highlights their dominance in the industry. The number of visitors in 2021 for these top 20 theme parks was around 105 million people[26], with Disney being the major player accounting for about 47%, followed by Universal at 22% (Figure 60). As for the international market, competitors include Universal Studios Parks and Resorts, with three parks in Asia; Merlin Entertainment Group, which owns several Legoland Theme Parks and other Resort Theme Parks in Asia, America, but especially in Europe, where it is one of the leading players; Parques Reunidos, a Spanish player with over 60 parks and attractions in Europe, North America and Australia; Chimelong Group, which operates two of the biggest theme parks and the biggest water park in Asia; Efteling, the second most visited park in Europe in 2021; Europa-Park, the third most visited park in Europe in 2021; and OCT Parks, which is a group operating several parks across China. Globally, Disney and Universal Parks and Resorts are the biggest players in the sector, as when looking into the 25 most visited theme parks in the world[26], it is noticeable that 12 of those parks are owned by Disney and four by Universal (Figure 61). As for attendance on those 25 parks, which was about 141 million people[26], Disney accounts for over 55% while Universal for around 21%, meaning both these companies combined are responsible for over three quarters of total visitors on the 25 major theme parks in the world (Figure 62). These attendance levels are recovering but still lagging pre-pandemic levels, especially regarding Europe and Asia Pacific. When it comes to future investments by the major players, the main highlight is the opening of a new Universal Studio's Park in the summer of 2025, in Orlando, while, as the dependence on Intellectual Property within the industry expands, other undergoing investments regarding new attractions at existing parks occur by all players in order to keep them competitive and attractive to visitors.

As for hotels and cruises, Disney faces competition from some of the biggest hotel chains in the world, such as Marriot International (market value of around \$58.7 B in 2021[27]) and Hilton (market value of around \$42.8 B in 2021[27]), the two biggest hotel and resort companies by market value in 2021, and some of the

Notes: The sum of all individual figures on the charts may not match with the total for rounding reasons
[26] TEA/AECOM Theme Index Report
[27] Statista

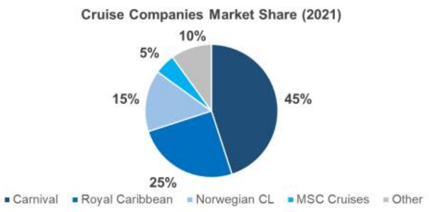


Figure 63 – Source: Statista

biggest cruise companies, such as Carnival Corporation, Royal Caribbean Cruises, and Norwegian Cruise Line, the three biggest cruise firms in terms of market share[28] (Figure 63). Overall, other small players also compete with Disney, mainly when it comes to hotels, as it is a very fragmented market with a big number of players, which also include some theme parks industry players, as most of the mentioned above also offer accommodation.

Market competition on the merchandise and retail business line is wide, since many substitute products exist, from very different sectors, such as general clothing, accessories, and toys' retailers. However, some competitors can be identified as the most relevant. Warner Bros, Universal and Paramount have specific business lines designed to cover the licensing and retailing of a range of products, such as toys, fashion, or home décor, inspired by the franchises owned by each company, like Harry Potter (Warner Bros), Fast & Furious (Universal) or SpongeBob (Paramount), while another relevant competitor is the Pokémon Company International, which licenses and sells gaming products, toys, apparel, accessories, tech gear, home décor and more of the Pokémon universe. The biggest toy retailers in the world such as Mattel and Hasbro are also major competitors in this segment, but at the same time are a source of revenue, since besides selling products and toys from its own brands like Barbie, Hot Wheels, Transformers or Nerf, they also sell Disney branded products such as Star Wars, Toy Story, or Marvel toys, meaning they must pay Disney for its licensing and the use of its Intellectual Property. Out of all the players involved in brand licensing globally, Disney is the leader with global retail sales of licensed Disney merchandise amounting to around $56.2 B in 2021[29] (this value doesn't reflect Disney's revenues but rather sales of Disney merchandise all over the world, which includes Disney branded products sold by other companies). Warner Bros sits in fourth place with $15 B in sales, followed by The Pokémon Company International in fifth with $8.5 B, Hasbro in sixth with $8.4 B, Universal in seventh with $8.3B, Mattel in eight with $7.4 B and Paramount in tenth with $6B. Other companies in this ranking that were not mentioned are players which portfolio doesn't match the types of products sold by Disney, and thus are not considered direct competition. The market share of the Disney brand (not of Disney itself, which is much lower, but of all products sold that carry the brand Disney) and its main competitors in the global brand licensing industry is highlighted in Figure 64.

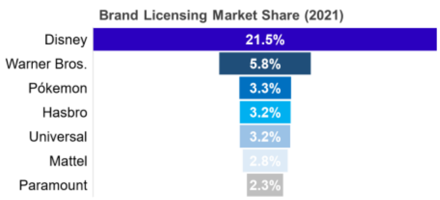


Figure 64 – Source: Top Global Licensors Report 2022

As for the competitor's financial performance (only pre-pandemic performance was considered, due to the negative impacts of lockdowns and restrictions), it was made a comparison between Disney DPEP's segment and the main peers

[28] Statista
[29] Top Global Licensors Report 2022 (License Global)

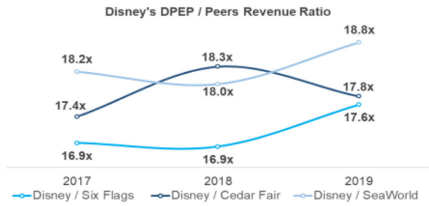


Figure 65 – Source: Disney's Annual Report and Bloomberg

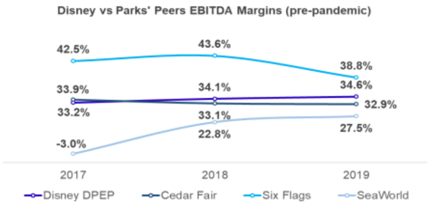


Figure 66 – Source: Disney's Annual Report and Bloomberg

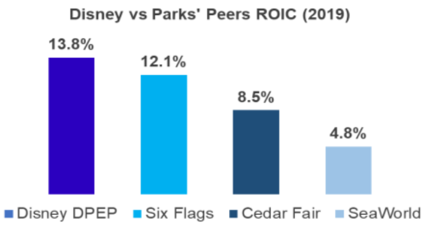


Figure 67 – Source: Disney's Annual Report and Bloomberg

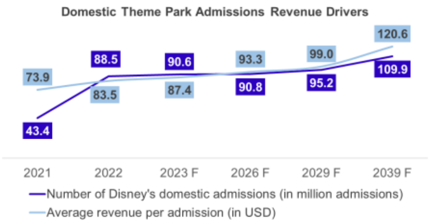


Figure 68 – Source: Equity Research Forecasts

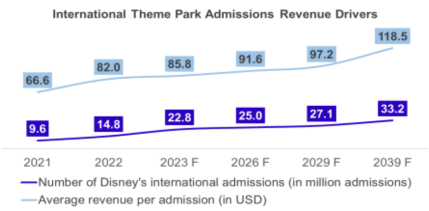


Figure 69 – Source: Equity Research Forecasts

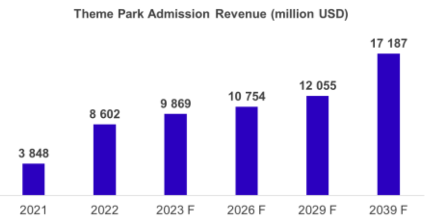


Figure 70 – Source: Equity Research Forecasts

exclusively operating in this industry (i.e., excluding companies such as Universal or Warner Bros, since these operate in multiple segments). While Disney had revenues between 16.9 and 18.8 times higher than each of the three selected peers (Figure 65), Six Flags had better EBITDA margins, even though the gap decreased in 2019 (Figure 66). During the pandemic, the companies' margins plummeted, but Disney was the only of these firms able to keep them positive, around 17%, due to its merchandise licensing business. In FY2022, Disney recovered and registered a 36.1% EBITDA margin, higher than 2019's values of any of the analysed peers. Regarding the return on invested capital in this capital-intensive industry, Disney had, as of FY2019, the best ratio among the selected peers (Figure 67) and was the only one able to maintain a positive ROIC during the pandemic (around 0.5%). In FY2022, Disney DPEP's ROIC followed the segment's recuperation to reach 14.9%, higher than its pre-pandemic levels.

Main Drivers & Forecast

Disney's DPEP segment is shaped by several drivers. Regarding the theme parks' admissions revenues, these are obviously highly impacted by the number of admissions, and it is worth to highlight their recent and forecasted evolution. Since parks suffered significant restrictions during the pandemic, the number of admissions decreased dramatically in FY2020, above 50% for both domestic and international parks. However, domestic parks showed an impressive recovery in FY2022, as their attendance levels surpassed the pre-pandemic levels. Going forward, and considering no new parks will be opened by Disney, it is expected that these levels show stable growth at the U.S.'s real GDP growth rate, but are forecasted to drop in FY2026 by around 3% (2.8 million admissions), due to the opening of the new Universal Studio's Park, designed to fight Disney's dominance. As for international parks, these have shown only partial recovery, as attendance is still around 35% lower than FY2019, due to lockdowns that still took place in China in FY2022, and thus full recuperation is only expected to be achieved next year. Given the evolution of its drivers (Figures 68 and 69), theme park admissions' revenues are forecasted to grow at a CAGR of 4.16% between FY2022 and FY2039, to reach $17.2 B (Figure 70). Moreover, between 2022 and 2025 the CAGR will be around 7.7%, close to the forecasts for the industry[30].

Regarding the number of room guests Disney had on its hotels and cruises, a similar trend to the one highlighted for the number of admissions occurred during the pandemic, with occupancy rates decreasing to 42% domestically in FY2021 and to 21% internationally in that same year. As for FY2022, while domestically there was an almost full recovery regarding occupancy rates, to 82%,

[30] According to the previously mentioned forecasts from Statista

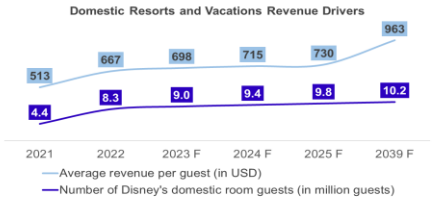


Figure 71 – Source: Equity Research Forecasts

Figure 72 – Source: Equity Research Forecasts

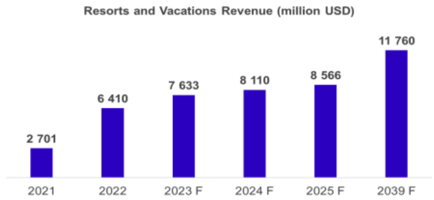


Figure 73 – Source: Equity Research Forecasts

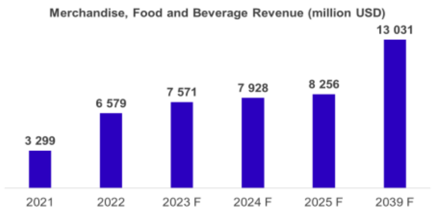


Figure 74 – Source: Equity Research Forecasts

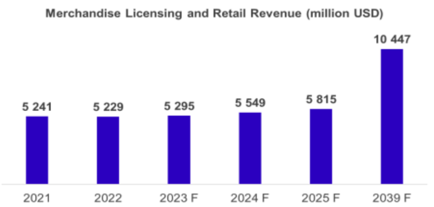


Figure 75 – Source: Equity Research Forecasts

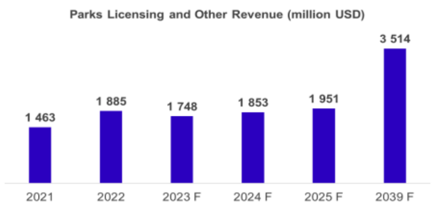


Figure 76 – Source: Equity Research Forecasts

internationally (and for the same reasons as above) this recovery was only partial, to 56%. However, from FY2023 onwards, the occupancy rates for both markets will stabilize around pre-pandemic levels, at 87% for domestic hotels and cruises and at 82% for international ones. The main highlight for the forecasted period is the launching of two new cruises, one in FY2024 and another in FY2025, with 1,250 rooms each, which will increase the total number of domestic room nights available per year by over 400,000 in each of these years, to 11.2 million. In perpetuity, the number of room nights available is expected to grow aligned with the real GDP. Given the forecasted room guests per year (based on available room nights and occupancy rates) and the average revenue per guest (Figures 71 and 72), it is predicted that resorts and vacations revenues increase at a CAGR of 3.63% from FY2022 to FY2039 (Figure 73). Moreover, from FY2022 to FY2027 the CAGR will be around 6.81%, above the hotel industry growth[31], due to the launching of the new cruises, but lower than the cruise industry evolution[31] given its lower weight on Disney's business.

Merchandise, food and beverage sales on parks and resorts are linked to both the number of admissions in parks and number of room guests in resorts and cruises. Considering the forecasts for these two drivers (Figures 68, 69, 71 and 72), and that the average spending per admission/room guest will grow in line with inflation rates, these revenues are forecasted to increase from about $6.6 B in FY2022 to around $13.0 B in FY2039, at a CAGR of 4.10% (Figure 74).

As for merchandise licensing and retail, Disney is expected to maintain its penetration rate in the global entertainment licensed merchandise market, of about 3.7%, since it is a mature and established company in the sector and the most licensed brand in the world, which gives a competitive advantage that allows the company to maintain its positioning in the market. Thus, considering the forecasted growth of the global entertainment licensed merchandise revenues[32] (CAGR of about 4.8% until 2027 and world's nominal GDP afterwards), Disney's revenues will increase at a CAGR of 4.16% from FY2022 to FY2039, reaching $10.5 B (Figure 75).

Finally, parks licensing and other revenues, which are heavily related to the licensing of Tokyo Disney Resort, are expected to grow at a CAGR of 3.73% until FY2039 to over $3.5 B (Figure 76).

As for costs, Disney DPEP's operating expenses, SG&A costs, and corporate and shared expenses are expected to grow with the segment's revenues. Operating expenses will be around 53.4% of revenues, SG&A about 12.1% and

[31] According to the previously mentioned forecasts from Statista
[32] According to the previously mentioned forecasts from Business Research Insights

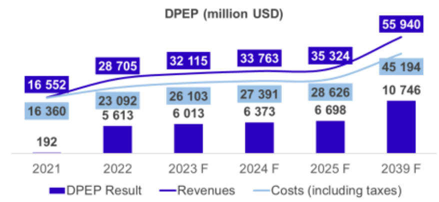


Figure 77 – Source: Equity Research Forecasts

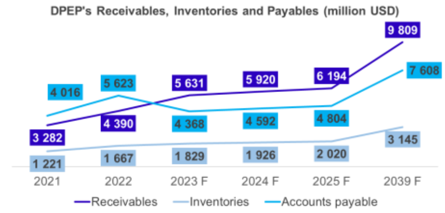


Figure 78 – Source: Equity Research Forecasts

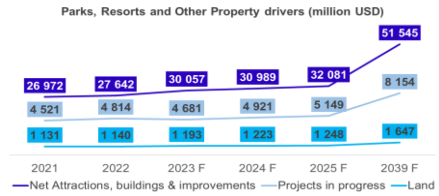
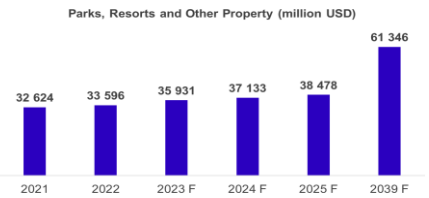


Figure 79 – Source: Equity Research Forecasts



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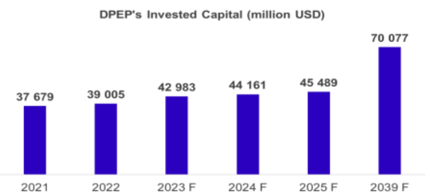

Figure 81 – Source: Equity Research Forecasts

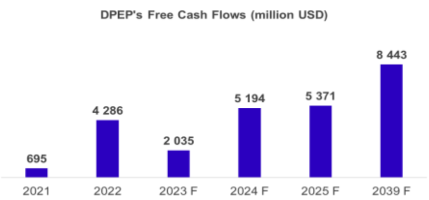

Figure 82 – Source: Equity Research Forecasts

corporate and shared expenses 1.3%. Operating expenses and SG&A weight on revenues will be lower than in FY2020 and FY2021, since they are aligned with pre-pandemic levels, as Covid-19 impacts become residual in the future. This was already achieved in FY2022. Depreciation and amortization expenses are based on the historical depreciation and amortization rate, around 3.9%.

All in all, DPEP's revenue is expected to grow 11.9% in FY2023 to over $32.1 B and its after-tax results to grow to more than $6.0 B, a 7.1% increase justified by the full recuperation from Covid-19. In perpetuity, both revenues and results will be increasing at around 3.4% per year to reach over $55.9 B and $10.7 B in FY2039 (Figure 77), respectively, which means the net margin will be around 19.2%, while the EBIT and EBITDA margins will be about 25.2% and 37.3%.

As for DPEP's invested capital, it is worth to mention that receivables, accounts payable and inventories were projected based on an average collection period of 64 days, average holding period of 106 days and average payable period of 93 days, respectively, based on historical averages. The main highlight is the decrease in payables in FY2023 due to the recovery to pre-pandemic levels (Figure 78).

Parks, resorts and other property (i.e., PP&E) is the main driver of DPEP's invested capital, with a weight of over 86% as of FY2022. This driver is mainly dependent on new attractions that Disney will build on its parks and the improvements it will make on both parks and resorts (given no new openings will occur). These constructions will be happening in a way that sustains the expected growth in revenues, as continuous effort to improve parks and resorts will be needed to maintain them attractive and competitive. Given the evolution of its drivers (Figure 79), Parks, resorts and other property will grow from about $33.6 B in FY2022 to over $61.3B in FY2039, at a CAGR of 3.61% (Figure 80), increasing its weight on DPEP's invested capital to around 88%.

In general, DPEP's invested capital, considering also other less relevant drivers such as intangibles or operating cash, is forecasted to grow over 10% in FY2023 to about $43.0 B and to reach around $70.1 B in FY2039 (Figure 81), with a growth rate of 3.4% in perpetuity and a CAGR of 3.51% from FY2022 to FY2039.

As for the segment's free cash flows (Figure 82), these will suffer a decrease in FY2023 to around $2.0 B, from $4.3 B in FY2022, due to a significant increase in invested capital, mainly because of higher working capital next year (due to lower accounts payable), to sustain the full recuperation from the pandemic. In FY2024 free cash flows will grow to almost $5.2 B and growth will be more stable going forward, reaching over $8.4 B in FY2039, at a perpetuity growth rate of 3.4%.

Valuation

DPEP Long Term Value Drivers	
g	3.4%
WAAC	8.2%
Core ROIC/RONIC	15.9%
Sales Growth	3.4%
Segment Value (M $)	**100 055**

Figure 83 – Source: Equity Research Forecasts

Having forecasted the company's DPEP Income Statement, Balance Sheet, and free cash flows, and considering a WACC of 8.24%, it was possible to analyse the segment's performance and compute its valuation.

As of FY2039, DPEP's growth will be stable at around 3.4% per year, in line with the U.S. and the world's long-term nominal GDP growth rate. ROIC and RONIC will be 15.9% in perpetuity, higher than DPEP's FY2022 ROIC (14.9%), the WACC (8.2%) and the industry's average (10.06%[33]), showing positive value creation for shareholders. This is sustained since Disney is a company that can leverage on sustainable competitive advantages in this segment, such as the fact that it is and will continue to be the undisputed leader in the theme parks market, with the most visited parks in the world, due to a differentiated brand that has unique Intellectual Property which allows Disney to captivate the visitors with attractions and characters only they can offer. The same happens in the licensing and retailing of their merchandise, where Disney is also the leading brand.

The overall value of DPEP's segment, considering the segment's long-term value drivers, free cash flows, and the company's WACC, is about $100.06 B.

Valuation

DCF Methodology

Disney Long Term Value Drivers	
g	3.4%
WAAC	8.2%
Core ROIC/RONIC	17.8%
Sales Growth	3.4%
Payout Rate	80.7%
IR new capital (core)	19.3%

Figure 84 – Source: Equity Research Forecasts

Valuation Summary (in million USD)	
Period Value	110 167
Terminal Value	115 890
Value of Core Business	226 057
Value of Non Core Business	67 754
Enterprise Value	293 810
Net-Debt and other Claims	62 356
Equity Value	231 454
Shares Outstanding (M)	1 827
Share Price (in USD)	**126.7**

Figure 85 – Source: Equity Research Forecasts

To get each segment's value, the discounted cash-flow methodology was used, based on the forecasted free cash flows, terminal growth rates and the calculated discount rate (8.24%). Overall, Disney hits perpetuity with a stabilized 3.4% growth rate, 17.8% ROIC/RONIC (for which the reasons of it being higher than the WACC and the industry's average were already mentioned in this report) and a pay-out rate of around 80.7%. Having calculated each of the segment's value, it is possible to get Disney's core business value which is around $226.06 B. Considering the company's non-core value of $67.75 B (mainly driven by goodwill) and its net debt and other claims of $62.36 (both based on book values), it is possible to compute the Enterprise Value, close to $293.81 B, and the Equity Value, about $231.45 B. Given the current number of shares outstanding (1.827 B), the implicit share price inherent to this valuation is $126.7.

[33] Damodaran, as of January 2022, for the U.S. market

- Weighted Average Cost of Capital (WACC)

To properly discount the company's free cash flows, there is a need to select the proper discount rate, which is the weighted average cost of capital, based on the company's cost of equity, after-tax cost of debt, and long-term capital structure.

As of FY2022, Disney's D/E ratio is 0.36, which means the company's capital structure is composed of 26.6% debt ($62.36 B) and 72.4% equity (market cap of $172.34 B as of FY2022). Since Disney was obliged to increase its leverage ratios with the pandemic, and considering it took significant debt to acquire TFCF in 2019, it is foreseeable that its long-term capital structure will be different and less leveraged, composed by 20% debt and 80% equity.

re	
	2022
rf (10Y T-Bond)	3.45%
Beta e	1.12
(rm-rf)	5.26%
re	9.36%

Figure 86 – Source: Equity Research Estimates (Beta); U.S. 10Y Bond; Damodaran

The cost of equity is based on the 10-Year U.S. Bond yield as the risk-free rate (3.45%, as of December 15th, 2022), since Disney is an American company with the great majority of its operations in this country, a 5.26% equity risk premium[34], and an unlevered beta of 0.94, based on the regression of Disney's last five year returns on the S&P500 and in line with the average unlevered beta of its main peers (0.89) and of the entertainment industry (0.91[35]). This beta is a result of an original 1.21 levered beta, suggesting that Disney has been more volatile than the S&P500, which is supported by the year-to-date returns of 2022, as Disney's share price has been way more volatile than the market, and that is something investors should consider when accessing the risk of investing in the company. However, adjusting the unlevered beta to Disney's target capital structure (D/E of 0.25) results in a target levered beta of 1.12, meaning it is expected that the company's volatility will be more aligned with the market as its indebtedness levels decrease. Furthermore, it is considered that having a different beta for each segment does not make sense, mainly for two reasons. Firstly, finding proper comparable companies that would allow for an accurate estimate of each segment's unlevered beta has several limitations, since both DMED and DPEP offer a unique variety of services that few (or none) companies can match. Netflix, for example, is the main peer for DMED's streaming, but its presence in linear networks is inexistent, while the U.S. theme park operators are much smaller than Disney and lack presence in the merchandise licensing and retail business line that DPEP offers. A few peers are suitable for the company as a whole, such as Comcast (through its subsidiaries NBC and Universal), given they are present in most of Disney's business lines, but are not the most accurate fit as peers for Disney's individual segments, precisely since they operate in both. The second reason is that the two segments are expected to have similar risk

[34] Damodaran, as of December 2022, for the U.S. market
[35] Damodaran, as of January 2022, for the U.S. market

profiles, given they both have their risk diversified due to having multiple business lines, are equally dependent on the same Intellectual Property, and one segment's success/failure is itself a driver for the other to thrive/decline. During FY2020 and FY2021 the segment's performance followed very different paths, but that is due to the significantly different impacts that the pandemic had on each one. Since a pandemic (or comparable event) is not something foreseeable, the risk profiles should be similar going forward. Thus, given all necessary inputs and considerations, the cost of equity for Disney and its segments is about 9.36%, impacted by the increasing risk-free rate in 2022, driven by high inflation and the FED's interest rate hikes.

rd (using a 15Y Disney Corporate Bond)	
Credit Rating	BBB+
Maturity (years)	15
YTM	4.92%
Cumulative default rate	5.57%
Recovery rate	53.90%
rd	**4.76%**
Spread (vs. Rf)	1.31%

Figure 87 – Source: Refinitiv Eikon; S&P; Moody's

Considering as a proxy a long term Disney corporate bond, with 15 years until maturity, credit rating of BBB+[36], and a yield to maturity of 4.92% (as of December 15th, 2022), and the corresponding cumulative default rate (5.57%[37]) and recovery rate (53.9%[38]), it is possible to conclude that Disney's cost of debt is 4.76%, implying a 1.31% credit spread, and an after-tax cost of debt of 3.76%.

WACC	
	2022
rd (1-t)	3.76%
D/A	0.20
re	9.36%
E/A	0.80
WACC	**8.24%**

Figure 88 – Source: Equity Research Estimates

With a 9.36% cost of equity and a 3.76% after-tax cost of debt, WACC was computed to be 8.24%, at which the future free cash flows are discounted.

- Scenario Analysis

The previously mentioned valuations, both for the segments and the company, were based on the forecasted scenario that is believed to be more likely (Base Case). However, there is a couple of scenarios that have a relevant probability of happening, and thus a scenario analysis is fundamental.

The First Scenario considers the likelihood of Disney not achieving the previously forecasted growth in its streaming platforms, mainly Disney+, and its ability to turn these into profitable businesses. With the current macroeconomic situation, characterized by high inflation rates, it is expected that consumers cut on the spending of non-essential goods and services, such as streaming. While this is already accounted for in the Base Case, in this First Scenario the projected growth in the number of streaming subscribers was dropped further, to about 7.5% in FY2023, which would mean a major slowdown in subscribers' growth, which was almost 32% in FY2022. Moreover, the introduction of Disney+ new ad-supported plan may not have the predicted impact, but rather a more modest one, which this scenario also considers. Finally, the biggest challenge that Disney currently faces it to turn its streaming platforms profitable. As such, this scenario implies that margins will be lower than the projected in the Base Case, with DMED's operating expenses in the long-term stabilizing at 67% of revenues

[36] S&P Global
[37] S&P Global - 2021 Annual Global Corporate Default and Rating Transition Study
[38] Moody's - Annual Default Study: Corporate Default and Recovery Rates, 1920-2017

First Scenario	
Valuation Summary (in million USD)	
Period Value	96 305
Terminal Value	95 617
Value of Core Business	191 921
Value of Non Core Business	67 754
Enterprise Value	259 675
Net-Debt and other Claims	62 356
Equity Value	197 319
Shares Outstanding (M)	1 827
Share Price (in USD)	**108.0**

Figure 89 – Source: Equity Research Forecasts

rather than 65% and SG&A at 18% rather than 17%. Accordingly, content production is also expected to be higher, leading to greater levels of invested capital. This scenario drops DMED's ROIC to 15.3%, although still higher than the industry as it benefits from having other business lines, while the value of the segment drops to $91.87 B and the company's share price to $108.0 (Figure 89).

The Second Scenario is linked with the possibility of the international DPEP's unit taking longer to recover from the pandemic, mainly in Asia, and also the impact that the new Universal's theme park in the U.S. will have on Disney's domestic parks. For the latter, it was considered that the opening of this new park, in the summer of 2025, will have a heavier impact in the growth of Disney's domestic theme park admissions in FY2026, that will decrease 10% (more than 9.3 million admissions), instead of the 3% (around 2.8 million) considered in the Base Case. This will also impact the number of admissions in every year after that, and it was assumed that, because of this higher competition from Universal, Disney would be having a higher growth in PP&E and thus invested capital. As for the recovery in the international market, it was projected that full recuperation would be achieved in FY2024 instead of FY2023, regarding the number of admissions in parks and occupancy rates in resorts. Given this scenario, DPEP's ROIC drops to 15.2%, still higher than the industry's average, its value to $94.58 B and the company's share price to $123.7 (Figure 90), a much lower impact in relation to the First Scenario, given this segment is less relevant than DMED.

Second Scenario	
Valuation Summary (in million USD)	
Period Value	107 489
Terminal Value	113 092
Value of Core Business	220 581
Value of Non Core Business	67 754
Enterprise Value	288 334
Net-Debt and other Claims	62 356
Equity Value	225 978
Shares Outstanding (M)	1 827
Share Price (in USD)	**123.7**

Figure 90 – Source: Equity Research Forecasts

As for the likelihood of each scenario, it is considered that the Base Case has a 55% probability of happening, while the First and Second Scenarios have a 30% and a 15% each, since the future performance of the company's streaming platforms is the main uncertainty regarding Disney's future. Given these probabilities and the share prices inherent to each scenario, the target share price for FY2023 will be $120.63, for an Enterprise Value of $282.75 B.

- Sensitivity Analysis

It is important to understand how changes in key value drivers affect the target share price. Thus, two sensitivity analysis were conducted.

Sensitivity Analysis of growth rate (g) and cost of capital (WACC)					
125.9	2.4%	2.9%	**3.4%**	3.9%	4.4%
8.8%	103.2	105.6	108.5	112.0	116.2
8.5%	108.1	110.9	114.3	118.3	123.4
8.2%	113.4	116.7	**120.6**	125.4	131.5
8.0%	119.2	123.0	127.7	133.4	140.8
7.8%	125.6	130.1	135.6	142.5	151.4

Figure 91 – Source: Equity Research Forecasts

The first analysis is useful to measure the impact that fluctuations on the company's WACC and long-term growth rate have on the target share price. Considering an error of up to 0.5% in the WACC and up to 1% in the long-term growth rate of each scenario, the target share price ranges from $103.2 to $151.4 (Figure 91). Additionally, a second analysis was performed, to measure the impact of the WACC and the long-term ROIC/RONIC. Considering an error of up to 0.5% in the WACC and up to 2% in the ROIC of each scenario, the share price ranges between $106.8 and $137.5 (Figure 92).

Sensitivity Analysis of ROIC/RONIC and cost of capital (WACC)					
125.9	- 2%	- 1%	**Base ROIC**	+ 1%	+ 2%
8.8%	106.8	107.7	108.5	109.2	109.8
8.5%	112.4	113.4	114.3	115.0	115.7
8.2%	118.6	119.7	**120.6**	121.5	122.2
8.0%	125.5	126.6	127.7	128.6	129.4
7.8%	133.1	134.4	135.6	136.6	137.5

Figure 92 – Source: Equity Research Forecasts

These analyses mainly highlight the impact the WACC has in the company's valuation and the importance of a rigorous and continuous analysis of this driver.

Multiples Methodology

Although there are several limitations in selecting peer companies for Disney, as mentioned in the WACC section, a relative valuation for each segment was conducted, based on the multiples methodology.

Regarding DMED, it is considered that multiples based on earnings such as EV/EBITDA or P/E are not adequate, since this segment is currently experiencing lower margins that are not representative of its future expected performance, given the current losses of the streaming business line. Thus, although it carries some limitations as it doesn't account for the firm's costs structure, the selected multiple was the EV/Sales, based on the four most relevant peers and precedent transactions within the industry. The peers include Comcast (owner of NBC and Universal Pictures), Warner Bros. Discovery (owner of HBO and Warner Bros Pictures), and Paramount Global (owner of CBS and Paramount Pictures), three companies competing with Disney in multiple DMED's business lines, and Netflix, the most relevant player in the DTC business line, while the transactions include Paramount's acquisition of Viacom and Disney's acquisition of TFCF. The corresponding EV/Sales is 2.6x, which leads to a segment's value of $141.34 B.

Regarding DPEP, it is believed that both EV/EBITDA and P/E are suitable multiples, and thus both were considered, based on six different players, including Comcast (owner of Universal Parks & Resorts and Universal Products & Experiences), Warner Bros. Discovery., Paramount Global, Six Flags, Cedar Fair, and Sea World. For the precedent transactions, it was considered the acquisition of Parques Reunidos and Merlin Entertainments, both recently acquired by PE funds. The resulting EV/EBITDA value is 11.8x and the P/E is 15.9x, which, considering an average of the valuations inherent to each of these multiples, leads to a segment's value of $103.09 B.

Multiple Valuation Summary, in million USD	
DMED	
EV/Sales Multiple	2.6x
Segment Value	141 343
DPEP	
EV/EBITDA Multiple	11.8x
P/E Multiple	15.9x
Segment Value	103 090
Value of Core Business	244 432
Value of Non Core Business	67 754
Enterprise Value	312 186
Net-Debt and other Claims	62 356
Equity Value	249 830
Shares Outstanding (M)	1 827
Share Price (in USD)	**136.7**

Figure 93 – Source: Equity Research Estimates

This methodology leads to an Enterprise Value of $312.18 B, an Equity Value of $249.83 B and a share price of $136.7 (Figure 93), which is higher than what was achieved through the DCF methodology. However, we believe this methodology does not reflect the company's reality, given its several limitations.

Multiple Sensitivity Analysis	-10%	-5%	Base Case	5%	10%
DMED	2.4x	2.5x	2.6x	2.7x	2.9x
DMED EV (M USD)	127 209	134 276	141 343	148 410	155 477
DPEP EV/EBITDA	10.6x	11.2x	11.8x	12.3x	12.9x
DPEP P/E	14.3x	15.1x	15.9x	16.6x	17.4x
DPEP EV (M USD)	92 781	97 935	103 090	108 244	113 398
Share Price (USD)	**123.4**	**130.1**	**136.7**	**143.4**	**150.1**

Figure 94 – Source: Equity Research Estimates

Additionally, a sensitivity analysis was conducted, to understand the impact on the share price, given fluctuations in the multiples of up to 10%. This analysis led lead to a share price range between $123.4 and $150.1 (Figure 94).

Final Recommendation

Final Recommendation Summary (in million USD)	
Period Value	105 607
Terminal Value	109 388
Value of Core Business	214 995
Value of Non Core Business	67 754
Enterprise Value	282 748
Net-Debt and other Claims	62 356
Equity Value	220 392
Shares Outstanding (M)	1 827
Target Share Price FY23 (in USD)	**120.63**

Figure 95 – Source: Equity Research Forecasts and Estimates

Our final recommendation is based on the DCF methodology, and the results gathered after a comprehensive analysis of the company, its competitors, and the markets in which it operates, as well as the three forecasted scenarios. Thus, considering the share prices inherent to each scenario and the respective probabilities of happening, we target Disney's share price for FY2023 at $120.63 per share, which means we believe that investors should buy the company's stock and can expect a return of around 33.2% next year, considering the current share price of $90.55 per share (as of December 15th, 2022). While Disney's share price has showed significant volatility in 2022, driven by the current macroeconomic situation and volatility in global markets, our prediction represents a shift in this trend and a partial recuperation in FY2023, although still 24.8% lower than the year-to-date maximum of $160.32 and 40.3% lower than the all-time high of $201.91.

We believe our valuation reflects the true intrinsic value of Disney, sustained by the prediction that Disney's streaming platforms will thrive, boosted by the introduction of its ad-supported plans in December 2022, and that these platforms will increase its efficiency in terms of costs and become profitable in the near future, as they mature. The theatrical distribution business line is also expected to have a boost in revenues in FY2023, as Disney will release more movies and as the film industry recovers, after three years with less activity due to the pandemic, while DPEP's segment will also fully recover. At the same time Disney's leading position in most of the business lines it operates, and its unmatched Intellectual Property, amplified by multiple M&A deals, provides sustainable competitive advantages, leading the company's high levels of invested capital to show strong returns in the long-term, above its main peers and the overall entertainment industry.

Appendix

Financial Statements

Reformulated Income Statement - Forecasted, in million USD																		
	2022	2023 F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F	2033 F	2034 F	2035 F	2036 F	2037 F	2038 F	2039 F
Core Operations																		
DMED																		
Revenues	54 017	62 991	67 135	69 808	72 075	73 790	75 818	77 959	80 470	82 930	85 755	88 532	91 618	94 805	98 006	101 402	104 916	108 552
Operating Expenses	(39 841)	(45 983)	(48 337)	(49 563)	(50 453)	(50 915)	(51 556)	(52 232)	(53 110)	(53 905)	(55 741)	(57 546)	(59 552)	(61 623)	(63 704)	(65 912)	(68 196)	(70 559)
SG&A	(12 017)	(13 543)	(14 098)	(14 311)	(14 415)	(14 389)	(14 405)	(14 422)	(14 485)	(14 513)	(14 578)	(15 050)	(15 575)	(16 117)	(16 661)	(17 238)	(17 836)	(18 454)
Depreciation and amortization	(814)	(747)	(751)	(751)	(751)	(665)	(662)	(412)	(331)	(330)	(330)	(330)	(330)	(330)	(56)	(56)	(58)	(60)
Corporate and shared expenses	(757)	(846)	(901)	(937)	(967)	(991)	(1 018)	(1 046)	(1 080)	(1 113)	(1 151)	(1 188)	(1 230)	(1 273)	(1 316)	(1 361)	(1 408)	(1 457)
Eliminations																		
Adjustments on intrasegment revenue	1 010	1 092	1 164	1 210	1 249	1 279	1 314	1 351	1 395	1 437	1 486	1 534	1 588	1 643	1 699	1 757	1 818	1 881
DMED Result Before Taxes	**1 598**	**2 964**	**4 211**	**5 455**	**6 738**	**8 109**	**9 490**	**11 197**	**12 858**	**14 507**	**15 442**	**15 952**	**16 520**	**17 106**	**17 968**	**18 593**	**19 237**	**19 904**
Statutory Taxes	(336)	(622)	(884)	(1 146)	(1 415)	(1 703)	(1 993)	(2 351)	(2 700)	(3 047)	(3 243)	(3 350)	(3 469)	(3 592)	(3 773)	(3 905)	(4 040)	(4 180)
Tax Adjustments	(69)	(132)	(188)	(243)	(301)	(362)	(423)	(499)	(573)	(647)	(689)	(711)	(737)	(763)	(801)	(829)	(858)	(888)
DMED Result	**1 194**	**2 209**	**3 139**	**4 066**	**5 023**	**6 045**	**7 074**	**8 346**	**9 585**	**10 814**	**11 510**	**11 891**	**12 314**	**12 751**	**13 394**	**13 859**	**14 339**	**14 836**
DPEP																		
Revenues	28 705	32 115	33 763	35 324	35 917	37 211	38 548	39 924	41 339	42 805	44 301	45 834	47 405	49 030	50 588	52 313	54 096	55 940
Operating Expenses	(14 936)	(17 143)	(18 023)	(18 856)	(19 173)	(19 863)	(20 577)	(21 311)	(22 067)	(22 849)	(23 648)	(24 466)	(25 305)	(26 172)	(27 004)	(27 925)	(28 876)	(29 861)
SG&A and other	(3 403)	(3 873)	(4 072)	(4 260)	(4 332)	(4 488)	(4 649)	(4 815)	(4 986)	(5 162)	(5 343)	(5 528)	(5 717)	(5 913)	(6 101)	(6 309)	(6 524)	(6 747)
Depreciation and amortization	(2 451)	(2 801)	(2 877)	(2 969)	(3 066)	(3 148)	(3 251)	(3 303)	(3 395)	(3 509)	(3 628)	(3 751)	(3 877)	(4 009)	(4 085)	(4 225)	(4 371)	(4 521)
Corporate and shared expenses	(402)	(412)	(433)	(453)	(460)	(477)	(494)	(512)	(530)	(549)	(568)	(587)	(608)	(628)	(648)	(670)	(693)	(717)
DPEP Result Before Taxes	**7 513**	**7 886**	**8 359**	**8 786**	**8 887**	**9 235**	**9 577**	**9 984**	**10 362**	**10 735**	**11 115**	**11 502**	**11 898**	**12 308**	**12 750**	**13 184**	**13 632**	**14 095**
Statutory Taxes	(1 578)	(1 656)	(1 755)	(1 845)	(1 866)	(1 939)	(2 011)	(2 097)	(2 176)	(2 254)	(2 334)	(2 415)	(2 499)	(2 585)	(2 678)	(2 769)	(2 863)	(2 960)
Tax Adjustments	(322)	(218)	(231)	(242)	(245)	(255)	(264)	(276)	(286)	(296)	(307)	(317)	(328)	(340)	(352)	(364)	(376)	(389)
DPEP Result	**5 613**	**6 013**	**6 373**	**6 698**	**6 775**	**7 041**	**7 302**	**7 612**	**7 900**	**8 185**	**8 474**	**8 769**	**9 071**	**9 383**	**9 721**	**10 051**	**10 393**	**10 746**
Overall Core Result	**6 807**	**8 222**	**9 511**	**10 765**	**11 798**	**13 085**	**14 376**	**15 958**	**17 484**	**18 998**	**19 984**	**20 660**	**21 385**	**22 134**	**23 114**	**23 910**	**24 732**	**25 582**
Non Core Operations																		
Reestructuring and impairment changes	(237)																	
Other income	(667)	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
Amortization of TFCF and Hulu	(2 353)	(2 129)	(1 927)	(1 744)	(1 578)	(1 428)	(1 292)	(1 170)	(1 058)	(958)	(867)	(784)	(710)	(642)	(581)	(526)	(476)	(431)
Impairment of equity investments																		
Equity in the income of investees	828	867	888	907	925	943	962	981	1 001	1 021	1 041	1 062	1 083	1 105	1 127	1 150	1 173	1 196
Non-Core result before taxes	**(2 429)**	**(1 013)**	**(788)**	**(587)**	**(403)**	**(235)**	**(80)**	**62**	**193**	**313**	**425**	**528**	**624**	**713**	**796**	**874**	**947**	**1 016**
Statutory Taxes	510	213	166	123	85	49	17	(13)	(40)	(66)	(89)	(111)	(131)	(150)	(167)	(184)	(199)	(213)
Tax Adjustments	(233)																	
Income (loss) from discontinued operations, net of income tax benefit	(48)																	
Other comprehensive income (loss), net of tax	2 178	73	73	73	73	73	73	73	73	73	73	73	73	73	73	73	73	73
Non-Core Result	**(21)**	**(727)**	**(550)**	**(390)**	**(245)**	**(112)**	**10**	**122**	**226**	**321**	**409**	**490**	**566**	**637**	**702**	**764**	**821**	**876**
Financial																		
Interest expense	(1 397)	(2 063)	(1 378)	(1 045)	(1 020)	(1 010)	(996)	(978)	(977)	(964)	(944)	(918)	(894)	(871)	(802)	(835)	(812)	(785)
Financial result before taxes	**(1 397)**	**(2 063)**	**(1 378)**	**(1 045)**	**(1 020)**	**(1 010)**	**(996)**	**(978)**	**(977)**	**(964)**	**(944)**	**(918)**	**(894)**	**(871)**	**(802)**	**(835)**	**(812)**	**(785)**
Statutory taxes	293	433	289	219	214	212	209	205	205	202	198	193	188	183	169	175	171	165
Net income from continuing operations attributable to noncontrolling interests	(360)	(525)	(607)	(687)	(753)	(835)	(917)	(1 018)	(1 116)	(1 212)	(1 275)	(1 318)	(1 364)	(1 412)	(1 475)	(1 526)	(1 578)	(1 632)
Other comprehensive income (loss) attributable to noncontrolling interests	143	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(6)
Financial Result	**(1 321)**	**(2 156)**	**(1 698)**	**(1 515)**	**(1 561)**	**(1 636)**	**(1 707)**	**(1 795)**	**(1 891)**	**(1 978)**	**(2 026)**	**(2 048)**	**(2 076)**	**(2 105)**	**(2 114)**	**(2 191)**	**(2 225)**	**(2 258)**
Total Comprehensive Income	**5 465**	**5 339**	**7 264**	**8 859**	**9 991**	**11 337**	**12 679**	**14 285**	**15 818**	**17 341**	**18 367**	**19 102**	**19 875**	**20 665**	**21 703**	**22 483**	**23 328**	**24 200**

NOVA SCHOOL OF BUSINESS & ECONOMICS

Reformulated Balance Sheet - Forecasted, in million USD

	2022	2023 F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F	2033 F	2034 F	2035 F	2036 F	2037 F	2038 F	2039 F
Core Operations																		
DMED																		
Operating Cash	1 080	1 260	1 343	1 396	1 442	1 476	1 516	1 559	1 609	1 659	1 715	1 771	1 832	1 896	1 960	2 028	2 098	2 171
Receivables	8 262	11 563	12 323	12 814	13 230	13 545	13 917	14 310	14 771	15 223	15 741	16 251	16 818	17 402	17 990	18 614	19 259	19 926
Inventories	75	103	87	74	55	33	8	4	1									
Produced and acquired/licensed content costs and advances	37 667	41 112	43 324	45 118	46 763	48 214	49 687	51 341	53 075	54 785	56 569	58 329	60 147	62 232	64 368	66 596	68 901	71 286
Intangible assets, net	11 981	10 723	9 429	8 227	7 430	6 698	5 846	5 346	4 958	4 574	4 189	3 804	3 419	1 461	1 461	1 513	1 567	1 623
Other Assets	5 903	7 573	8 071	8 392	8 665	8 871	9 115	9 372	9 674	9 970	10 310	10 643	11 014	11 398	11 782	12 191	12 613	13 050
Accounts payable	(10 582)	(14 530)	(15 274)	(15 661)	(15 942)	(16 088)	(16 291)	(16 504)	(16 782)	(17 033)	(17 613)	(18 183)	(18 817)	(19 472)	(20 129)	(20 827)	(21 549)	(22 295)
Deferred revenue and other	(3 781)	(4 136)	(4 408)	(4 583)	(4 732)	(4 845)	(4 978)	(5 119)	(5 283)	(5 445)	(5 631)	(5 813)	(6 015)	(6 225)	(6 435)	(6 658)	(6 889)	(7 127)
DMED Invested Capital	**50 606**	**53 668**	**54 896**	**55 776**	**56 911**	**57 905**	**58 820**	**60 309**	**62 024**	**63 732**	**65 281**	**66 802**	**68 398**	**68 693**	**70 997**	**73 456**	**76 000**	**78 633**
DPEP																		
Operating Cash	574	642	675	706	718	744	771	798	827	856	886	917	948	981	1 012	1 046	1 082	1 119
Receivables	4 390	5 631	5 920	6 194	6 298	6 525	6 759	7 000	7 249	7 505	7 768	8 037	8 312	8 597	8 870	9 173	9 485	9 809
Inventories	1 667	1 829	1 926	2 020	2 063	2 132	2 203	2 277	2 352	2 430	2 510	2 591	2 675	2 761	2 843	2 940	3 041	3 145
Parks, resorts and other property	33 596	35 931	37 133	38 478	39 725	41 051	42 453	43 903	45 403	46 956	48 559	50 216	51 926	53 694	55 505	57 384	59 332	61 346
Intangible assets, net	2 836	2 286	2 010	1 753	1 584	1 428	1 246	1 139	1 057	975	893	811	729	311	311	322	334	346
Other Current Assets - International Theme Parks	437	493	522	549	576	604	632	661	691	722	754	787	820	854	886	917	949	983
Other Assets	3 137	2 813	2 957	3 094	3 146	3 259	3 377	3 497	3 621	3 749	3 881	4 015	4 152	4 295	4 431	4 582	4 738	4 900
Accounts payable	(5 623)	(4 368)	(4 592)	(4 804)	(4 885)	(5 061)	(5 243)	(5 430)	(5 623)	(5 822)	(6 025)	(6 234)	(6 448)	(6 669)	(6 880)	(7 115)	(7 358)	(7 608)
Deferred revenue and other	(2 009)	(2 274)	(2 391)	(2 502)	(2 544)	(2 635)	(2 730)	(2 827)	(2 928)	(3 031)	(3 137)	(3 246)	(3 357)	(3 472)	(3 583)	(3 705)	(3 831)	(3 962)
DPEP Invested Capital	**39 005**	**42 983**	**44 161**	**45 489**	**46 681**	**48 046**	**49 468**	**51 019**	**52 650**	**54 340**	**56 088**	**57 893**	**59 757**	**61 352**	**63 395**	**65 545**	**67 773**	**70 077**
Total Core Invested Capital	**89 611**	**96 651**	**99 057**	**101 265**	**103 592**	**105 951**	**108 288**	**111 329**	**114 673**	**118 072**	**121 368**	**124 695**	**128 155**	**130 045**	**134 392**	**139 001**	**143 774**	**148 710**
Non Core Operations																		
Other Current Assets	762	696	738	769	790	812	837	862	891	920	951	983	1 017	1 052	1 087	1 124	1 163	1 203
Investments	3 218	3 368	3 453	3 523	3 594	3 666	3 739	3 814	3 890	3 968	4 047	4 128	4 211	4 295	4 381	4 469	4 558	4 649
Intangible assets, net	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Goodwill	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897	77 897
Other Assets	168	172	182	190	195	201	207	213	220	227	235	243	251	260	269	278	287	297
Payroll and employee benefits & Other	(4 008)	(5 648)	(5 928)	(6 100)	(6 197)	(6 287)	(6 395)	(6 507)	(6 637)	(6 762)	(6 964)	(7 194)	(7 444)	(7 702)	(7 958)	(8 232)	(8 516)	(8 810)
Other Long term liabilities - Pension Medical	(1 940)	(6 086)	(6 388)	(6 573)	(6 678)	(6 775)	(6 891)	(7 011)	(7 152)	(7 287)	(7 504)	(7 752)	(8 021)	(8 299)	(8 574)	(8 870)	(9 176)	(9 492)
Deferred income taxes	(8 363)	(8 989)	(9 537)	(9 937)	(10 207)	(10 492)	(10 810)	(11 142)	(11 513)	(11 884)	(12 293)	(12 700)	(13 140)	(13 595)	(14 045)	(14 529)	(15 030)	(15 548)
Total Non-Core Invested Capital	**67 754**	**61 428**	**60 438**	**59 789**	**59 413**	**59 041**	**58 604**	**58 146**	**57 615**	**57 098**	**56 389**	**55 624**	**54 790**	**53 928**	**53 076**	**52 157**	**51 204**	**50 217**
Total Invested Capital	**157 364**	**158 079**	**159 495**	**161 054**	**163 006**	**164 992**	**166 892**	**169 475**	**172 289**	**175 170**	**177 757**	**180 319**	**182 945**	**183 973**	**187 468**	**191 158**	**194 977**	**198 926**
Financial																		
Excess of cash	9 961	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt	(58 947)	(45 933)	(40 776)	(39 799)	(39 408)	(38 860)	(38 171)	(38 120)	(37 603)	(36 844)	(35 815)	(34 890)	(33 973)	(31 307)	(32 592)	(31 689)	(30 641)	(29 541)
Redeemable noncontrolling interests	(9 499)	(9 941)	(10 192)	(10 401)	(10 609)	(10 821)	(11 037)	(11 258)	(11 483)	(11 713)	(11 947)	(12 186)	(12 430)	(12 678)	(12 932)	(13 191)	(13 454)	(13 723)
Noncontrolling interests	(3 871)	(4 051)	(4 153)	(4 238)	(4 323)	(4 410)	(4 498)	(4 588)	(4 680)	(4 773)	(4 869)	(4 966)	(5 065)	(5 167)	(5 270)	(5 375)	(5 483)	(5 593)
Net Financial Assets	**(62 356)**	**(59 925)**	**(55 121)**	**(54 438)**	**(54 340)**	**(54 091)**	**(53 706)**	**(53 966)**	**(53 766)**	**(53 330)**	**(52 631)**	**(52 042)**	**(51 468)**	**(49 152)**	**(50 794)**	**(50 255)**	**(49 578)**	**(48 857)**
Total Disney Shareholders' equity	95 008	98 154	104 374	106 616	108 665	110 901	113 187	115 509	118 523	121 840	125 126	128 277	131 477	134 821	136 674	140 902	145 399	150 069

Free Cash Flow Map - Forecasted, in million USD

	2022	2023 F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F	2033 F	2034 F	2035 F	2036 F	2037 F	2038 F	2039 F
Core Operations																		
DMED																		
DMED Invested Capital	50 606	53 668	54 896	55 776	56 911	57 905	58 820	60 309	62 024	63 732	65 281	66 802	68 398	68 693	70 997	73 456	76 000	78 633
DMED Result	1 194	2 209	3 139	4 066	5 023	6 045	7 074	8 346	9 585	10 814	11 510	11 891	12 314	12 751	13 394	13 859	14 339	14 836
DMED FCF	**(1 491)**	**(853)**	**1 911**	**3 186**	**3 888**	**5 051**	**6 159**	**6 857**	**7 870**	**9 106**	**9 961**	**10 369**	**10 718**	**12 456**	**11 089**	**11 400**	**11 795**	**12 204**
DPEP																		
DPEP Invested Capital	39 005	42 983	44 161	45 489	46 681	48 046	49 468	51 019	52 650	54 340	56 088	57 893	59 757	61 352	63 395	65 545	67 773	70 077
DPEP Result	5 613	6 013	6 373	6 698	6 775	7 041	7 302	7 612	7 900	8 185	8 474	8 769	9 071	9 383	9 721	10 051	10 393	10 746
DPEP FCF	**4 286**	**2 035**	**5 194**	**5 371**	**5 583**	**5 676**	**5 880**	**6 060**	**6 269**	**6 494**	**6 727**	**6 964**	**7 207**	**7 789**	**7 678**	**7 901**	**8 165**	**8 443**
Core FCF	**2 795**	**1 182**	**7 105**	**8 557**	**9 471**	**10 727**	**12 038**	**12 918**	**14 140**	**15 600**	**16 688**	**17 333**	**17 925**	**20 244**	**18 767**	**19 301**	**19 960**	**20 646**
Non-Core Operations																		
Non-Core Invested Capital	67 754	61 428	60 438	59 789	59 413	59 041	58 604	58 146	57 615	57 098	56 389	55 624	54 790	53 928	53 076	52 157	51 204	50 217
Non-Core Result	(21)	(727)	(550)	(390)	(245)	(112)	10	122	226	321	409	490	566	637	702	764	821	876
Non-Core FCF	**(965)**	**5 599**	**441**	**259**	**130**	**260**	**447**	**580**	**756**	**838**	**1 118**	**1 255**	**1 400**	**1 499**	**1 554**	**1 683**	**1 774**	**1 863**
Core & Non-Core Operations																		
Invested Capital	157 364	158 079	159 495	161 054	163 006	164 992	166 892	169 475	172 289	175 170	177 757	180 319	182 945	183 973	187 468	191 158	194 977	198 926
Core & Non-Core Result	6 785	7 495	8 962	10 374	11 553	12 973	14 386	16 080	17 710	19 319	20 393	21 150	21 951	22 771	23 817	24 674	25 554	26 458
Free Cash Flow (FCF)	**1 830**	**6 781**	**7 546**	**8 815**	**9 601**	**10 986**	**12 486**	**13 497**	**14 896**	**16 438**	**17 806**	**18 589**	**19 325**	**21 743**	**20 321**	**20 985**	**21 734**	**22 509**
Net Financial Assets	(62 356)	(59 925)	(55 121)	(54 438)	(54 340)	(54 091)	(53 706)	(53 966)	(53 766)	(53 330)	(52 631)	(52 042)	(51 468)	(49 152)	(50 794)	(50 255)	(49 578)	(48 857)
- Changes in Net Financial Assets	(1 500)	(2 432)	(4 804)	(683)	(98)	(249)	(385)	260	(200)	(436)	(699)	(589)	(574)	(2 316)	1 642	(539)	(678)	(720)
Financial Result	(1 321)	(2 156)	(1 698)	(1 515)	(1 561)	(1 636)	(1 707)	(1 795)	(1 891)	(1 978)	(2 026)	(2 048)	(2 076)	(2 105)	(2 114)	(2 191)	(2 225)	(2 258)
Equity	95 008	98 154	104 374	106 616	108 665	110 901	113 187	115 509	118 523	121 840	125 126	128 277	131 477	134 821	136 674	140 902	145 399	150 069
Changes in Equity	6 455	3 146	6 220	2 242	2 049	2 236	2 285	2 323	3 014	3 317	3 286	3 151	3 200	3 344	1 853	4 228	4 497	4 670
Comprehensive Income	5 465	5 339	7 264	8 859	9 991	11 337	12 679	14 285	15 818	17 341	18 367	19 102	19 875	20 665	21 703	22 483	23 328	24 200
Financing CF	**(1 830)**	**(6 781)**	**(7 546)**	**(8 815)**	**(9 601)**	**(10 986)**	**(12 486)**	**(13 497)**	**(14 896)**	**(16 438)**	**(17 806)**	**(18 589)**	**(19 325)**	**(21 743)**	**(20 321)**	**(20 985)**	**(21 734)**	**(22 509)**

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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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