Sector Overview

Current Holdings

Communications Sector Overview

Normalized LTM (%)

- **XLC**: 140.89 (+40.89%)
- **IEME**: 137.05 (+37.05%)
- **SPX**: 135.08 (+35.08%)
Investment Thesis

- Strong Brand Reputation
- Increased Streaming Presence
- Diverse Range of Assets
- Reopening of theme parks
## Industry and Trends

### Communications Sector Overall
- CAGR of 5.4% from 2021 to 2028
- $6.82T Mkt Cap
- 11.31% overall mkt weight

### Media and Content Subsector
- CAGR of 5% from 2021 to 2025
- $2.5T Mkt Cap
- 37% of total Communications sector

### XLC vs. SPY

<table>
<thead>
<tr>
<th>Date</th>
<th>XLC</th>
<th>SPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>29-Sep</td>
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<td>29-Oct</td>
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<td>29-Nov</td>
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<td>28-Dec</td>
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<td>28-Jan</td>
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<td>31-Mar</td>
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<td>30-Jun</td>
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<td>31-Aug</td>
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</tr>
</tbody>
</table>
Company Overview

Media Networks
- Disney Channel
- ESPN
- FX
- National Geographic

Parks, Experiences, and Products
- Disney Parks

Studio Entertainment
- Walt Disney Pictures
- Pixar
- Marvel Studios
- 21st Century Fox
- Lucasfilm Ltd

Direct-to-Consumer & International
- Disney+
- ESPN+
- hulu
- Star

Media Networks
Parks, Experiences, and Products
Studio Entertainment
Direct-to-Consumer & International
### Competitive Landscape

<table>
<thead>
<tr>
<th>Company</th>
<th>EV (M)</th>
<th>Mkt Cap (M)</th>
<th>Revenue (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disney</td>
<td>377,562M</td>
<td>323,291M</td>
<td>63,591M</td>
</tr>
<tr>
<td>Comcast</td>
<td>351,840M</td>
<td>258,356M</td>
<td>6,108.2M</td>
</tr>
<tr>
<td>Netflix</td>
<td>272,465M</td>
<td>262,300M</td>
<td>27,585M</td>
</tr>
<tr>
<td>Fox</td>
<td>25,000.3M</td>
<td>22,171.3M</td>
<td>12,909M</td>
</tr>
</tbody>
</table>

**Netflix**
- EV: 272,465M
- Mkt Cap: 262,300M
- Revenue: 27,585M

**Comcast**
- EV: 351,840M
- Mkt Cap: 258,356M
- Revenue: 6,108.2M

**Disney**
- EV: 377,562M
- Mkt Cap: 323,291M
- Revenue: 63,591M

**Fox**
- EV: 25,000.3M
- Mkt Cap: 22,171.3M
- Revenue: 12,909M
Company Strategy

**Accelerating Growth of DTC**

Increasing investments in programming and production
• Disney+ expanding into additional markets

Revenue from DTC content transactions grew 281.57% from 2019-2020

**Reorganization Efforts**

Specialization of **content groups**:
• Studios
• General Entertainment
• Sports

Creation of a **distribution group** to commercialize M&E across traditional and online platforms

**Diversification and Integration**

Migrating longstanding brand and content to new platforms

Acquiring companies to **expand market share** and interconnect the broader business
Revenue Breakdown

Key Points

- Disney+ subscribers increased 438% since Q1 2020
- ESPN averages 898k daily viewers, top 2 daily ratings
- ESPN owns long-term contracts to broadcast premium sporting events
- Intellectual property portfolio including Star Wars, Marvel, and Pixar
3-Year DIS Performance

Key Stats

- **YTD = +0.33%**
- **LTM = +41.49%**
- **6M = -3.57%**
- **1M = -0.96%**
- **52 Wk High % = +12.2%**
Top Line Projections

### Revenue Drivers

- Media and Entertainment will be driven by Hulu, ESPN, and Disney+
- Reopening of the economy will most likely boost ad networks and parks
- High demand for new releases and franchise exclusive content
### Financial Performance Ratios

<table>
<thead>
<tr>
<th>Company</th>
<th>52 Wk High %</th>
<th>EBITDA Margin</th>
<th>EBIT Margin</th>
<th>Sales Growth</th>
<th>EPS Growth</th>
<th>Dividend Yield</th>
<th>ROIC</th>
<th>ROE</th>
<th>Debt/EBITDA</th>
<th>PEG</th>
<th>P/S</th>
<th>P/CF</th>
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</thead>
<tbody>
<tr>
<td>DIS US EQUITY</td>
<td>-14.00%</td>
<td>15.35%</td>
<td>4.04%</td>
<td>-6.06%</td>
<td>#VALUE!</td>
<td>0.09%</td>
<td>1.38%</td>
<td>7.01</td>
<td>0.55</td>
<td>4.98</td>
<td>68.88</td>
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<tr>
<td>VIAC US EQUITY</td>
<td>-60.54%</td>
<td>19.47%</td>
<td>17.79%</td>
<td>-6.24%</td>
<td>-27.38%</td>
<td>2.93%</td>
<td>12.67%</td>
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<td>22.03%</td>
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<td>20.65%</td>
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<td>1.27</td>
<td>9.39</td>
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<td>-37.24%</td>
<td>0.00%</td>
<td>7.92%</td>
<td>10.46%</td>
<td>4.19</td>
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<td>1.14</td>
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<td>24.65%</td>
<td>21.15%</td>
<td>4.93%</td>
<td>131.47%</td>
<td>1.17%</td>
<td>11.63%</td>
<td>20.27%</td>
<td>2.83</td>
<td>1.92</td>
<td>1.85</td>
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### Enterprise Value and Equity Value

<table>
<thead>
<tr>
<th>Company</th>
<th>Current Price</th>
<th>Equity Value</th>
<th>Enterprise Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIS US EQUITY</td>
<td>$174.60</td>
<td>$317,270.4</td>
<td>$375,608.4</td>
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<td>$40.26</td>
<td>$24,377.9</td>
<td>$43,708.9</td>
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<td>$255,013.7</td>
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<td>$25.89</td>
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<td>$40.31</td>
<td>$12,994.4</td>
<td>$15,823.4</td>
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### Valuation Multiples

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<thead>
<tr>
<th>Company</th>
<th>EV/Revenue</th>
<th>EV/EBITDA</th>
<th>EV/EBIT</th>
<th>P/E</th>
<th>P/B</th>
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<td>1.13</td>
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<tr>
<td>FOXA US EQUITY</td>
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<td>8.58</td>
<td>8.67</td>
<td>10.00</td>
<td>2.09</td>
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</tbody>
</table>

### Enterprise Value Calculation

- **Equity Value (Market Cap)**: $347,270.4 + $24,377.9 + $259,033.7 + $4,367.5 + $12,994.4 = $375,608.4
- **Minus: Cash and Cash Equivalents**: $179,140.0 + $2,984.0 + $8,205.6 + $2,091.0 + $5,886.0 = $193,202.6
- **Plus: Preferred and Other**: $13,929.0 + $685.0 + $0.0 + $1,919.0 + $263.0 = $16,806.0
- **Plus Total Debt**: $62,323.0 + $21,672.0 + $18,510.0 + $16,308.0 + $8,452.0 = $122,075.0
- **Enterprise Value**: $375,608.4 - $193,202.6 + $16,806.0 - $122,075.0 = $15,823.4

### Equity Value Calculation

<table>
<thead>
<tr>
<th>Company</th>
<th>Current Price</th>
<th>Shares</th>
<th>Equity Value</th>
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<tr>
<td>DIS US EQUITY</td>
<td>$174.6</td>
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<tr>
<td>VIAC US EQUITY</td>
<td>$40.2</td>
<td>605,813.5</td>
<td>$24,377.9</td>
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<td>NFLX US EQUITY</td>
<td>$585.3</td>
<td>442,595.9</td>
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<tr>
<td>DISCA US EQUITY</td>
<td>$25.8</td>
<td>169,087</td>
<td>$4,367.5</td>
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<tr>
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<td>$40.3</td>
<td>322,361.5</td>
<td>$15,823.4</td>
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</table>
SWOT Analysis

Strengths
- Market Presence and Brand Value
- Strong Cyclical Finances
- ESG Commitment

Opportunities
- Expansion into International Markets
- Ability to Establish a Position in the Video Game Market
- Continued Expansion of DTC Services

Weaknesses
- Diversification = Wide Competition
- Reliance on the U.S Market

Threats
- Pirated Content/Illegal Streaming
- Park Closures and Labor Shortages

S W O T
Financial Highlights

Disney Financial Highlights

- Over $16B in cash and equivalents
- 48% gross margins
- 8.5% WACC
- FCF up 16% from Q3 2020
- Total revenues up 45% from Q3 2020
- Diluted EPS up 100% from Q3 2020

Cash and Equivalents
## Valuation

### Operating Scenario

<table>
<thead>
<tr>
<th>Mid Year Convention</th>
<th>Historical Period</th>
<th>Sales</th>
<th>CAGR</th>
<th>Projection Period</th>
<th>CAGR</th>
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<tr>
<td>1 Y</td>
<td>2017</td>
<td>$55,117.0</td>
<td>12.4%</td>
<td>2020</td>
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<td></td>
<td>2018</td>
<td>$60,434.0</td>
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<td>$69,417.1</td>
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<td></td>
<td>2019</td>
<td>$60,007.0</td>
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<td>$102,402.4</td>
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<td>% growth</td>
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<td>IIA</td>
<td>7.8%</td>
<td>$110,594.6</td>
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<td>COGS</td>
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<td>$27,534.6</td>
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<td>$87,545.8</td>
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<tr>
<td>Gross Profit</td>
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<td>$27,010.0</td>
<td>-6.2%</td>
<td>$77,951.0</td>
<td>8.0%</td>
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<tr>
<td>% margin</td>
<td></td>
<td>50.0%</td>
<td>4.0%</td>
<td>$67,704.3</td>
<td>8.0%</td>
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<tr>
<td>Operating Expenses</td>
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<td>9.1%</td>
<td>$85,420.8</td>
<td>8.0%</td>
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<tr>
<td>EBITDA</td>
<td></td>
<td>$16,555.0</td>
<td>-2.6%</td>
<td>$94,817.1</td>
<td>8.0%</td>
</tr>
<tr>
<td>% margin</td>
<td></td>
<td>30.2%</td>
<td>4.0%</td>
<td>$102,402.4</td>
<td>8.0%</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
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<td>$2,782.6</td>
<td>21.3%</td>
<td>$110,594.6</td>
<td>8.0%</td>
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<tr>
<td>EBIT</td>
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<td>$13,773.0</td>
<td>-2.6%</td>
<td>$87,545.8</td>
<td>8.0%</td>
</tr>
<tr>
<td>% margin</td>
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<td>25.2%</td>
<td>4.0%</td>
<td>$77,951.0</td>
<td>8.0%</td>
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<td>$67,704.3</td>
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<tr>
<td>Plus: Depreciation &amp; Amortization</td>
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<td>$3,172.0</td>
<td>21.3%</td>
<td>$77,951.0</td>
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<tr>
<td>Less: Capital Expenditures</td>
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<td>($5.0)</td>
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<td>8.0%</td>
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<tr>
<td>Less: Increase in Net Working Capital</td>
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<td>- $ 11,400.9</td>
<td>21.3%</td>
<td>$77,951.0</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

### Unlevered Free Cash Flow

- **WACC**: 8.50%
- **Discount Period**: 0.5, 1.5, 2.5, 3.5, 4.5
- **Discount Factor**: 0.99, 0.88, 0.75, 0.69

### Present Value of Free Cash Flow

- **PV of Free Cash Flows**: $64,837.7
- **PV of Terminal Values**: $300,799.39
- **Enterprise Value**: $456,637.13
- **Adjustments for Equity Value**: $87,525.0
- **Shares Outstanding**: 1,830.0

### EBITDA Multiple Method

- **Estimated Value per Share**: 220.68

### Implied Perpetuity Growth Rate (Multiple Method)

- **Terminal Year EBITDA**: $30,137.0
- **Enterprise Value (Exit Multiple)**: $587,672.3
- **Terminal Year FCF**: $20,150.0

### Implied Perpetual Growth

- **4.90%**
Sensitivity Analysis

**Revenue Drivers**

- Disney has historically traded at a premium to comps
- Current exit multiple is below its historical average
- Current EV/EBITDA 21.3x
- Mean of the comps group is 15.9x
- Netflix trades at 33.9x
- 2Y low is 15.5x and high is 26.9x
Valuation Scenarios

**Downside Case**
- Target price: **$163.14**
- Potential upside: -7.20%
- Below consensus estimate for Sales growth
- Consensus estimates for margins, NWC and Capex
- Lower than historical exit multiple

**Base Case**
- Target price: **$220.68**
- Potential upside: 27.08%
- In line with consensus for Sales growth
- Consensus estimate for margins and capex
- Higher NWC to meet demand
- Historical average for trading multiples

**Upside Case**
- Target price: **$270.06**
- Potential upside: 45.8%
- Higher sales growth and margin expansion
- Higher NWC and Capex to meet demand and new investments
- Higher than average exit multiple

**DCF Expected Price**

<table>
<thead>
<tr>
<th>Case</th>
<th>Multiple</th>
<th>Fair Value Estimate</th>
<th>Probability</th>
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<tr>
<td>Base</td>
<td>19.5</td>
<td>$220.0</td>
<td>50%</td>
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<tr>
<td>Upside</td>
<td>22.0</td>
<td>$270.0</td>
<td>35%</td>
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<tr>
<td>Downside</td>
<td>18.1</td>
<td>$165.0</td>
<td>15%</td>
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</table>

**Expected Price:** $229.3

**Implied Upside:** 32%

**Note:** Probabilities based on probabilities of economic conditions
Analyst Price Targets

Walt Disney Co/The

Consensus Rating

Buys 82.9% 29
Holds 17.1% 6
Sells 0.0% 0

12M Tgt Px 27/39 209.51
Last Price 176.00
Pricing Currency USD
Return Potential 19.0%
LTM Return 41.9%

Showing 40 of 45 sources

<table>
<thead>
<tr>
<th>Firm</th>
<th>Analyst</th>
<th>Recommendation</th>
<th>Tgt Px</th>
<th>Date</th>
<th>1 Yr Rtn</th>
<th>BARR</th>
<th>Rank</th>
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<td>Timothy W Nollen</td>
<td>outperform</td>
<td>205.00</td>
<td>09/23/21</td>
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<td>1</td>
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<td>4</td>
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<td>Douglas D Mitchels ...</td>
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<td>1</td>
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<td>Michael Erstad</td>
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Quantitative Analysis

**Favorable Exposures**

- EV/EBITDA (1FY)
- Dividend Payout %
- Op Margin Chg % (Est)
- Qty Sales Acceleration
- EPS Surprise % (Last)
- 1M EPS Revision % (FQ1)

**Unfavorable Exposures**

- # Positive Sales Gr Qtrs
- ROE (LTM-5Yr)
- EPS Est Dispersion (FY1)
- # Pos Sales Surprises (Q)
- 3M EPS Revision % (FQ1)
- 3M IVOL Skew Pctl 1y

(DIS US Equity Rank)  Peer Median Rank
Technical Analysis
Earnings and Forecast

Projected Revenue Growth

EPS Growth
Factors Driving Current Equity Levels

- Economic Environment
- Strong Earnings
- Quantitative Easing
- Increased Retail Investors

S&P 500 Year To Year Operating EPS Growth

Increase in Investments for Global Equities

Current Equity Levels
Buy Disney
(anywhere below $180, ideally below $175)
Football Field
Slides:

- Table of Contents (Alex)
- Sector Overview, trends in the sector (Alex)
- Summary of Investment Thesis (Alex)
- Competitive Landscape (Lucas)
- Industry of the Company and trends (Lucas)
- Company Overview (Lucas)
- Company Strategy (Alex)
- Revenue Breakdown and Segments (Lucas)
- Price Performance of the Stock (Alex)
- Top line projections by segment (Andre)
- Comp analysis and highlights (Lucas)
- Swot Analysis (Alex)
- Financial Highlights (Lucas)
- Valuation (Andre)
- Valuation Scenarios (Lucas)
- Analyst Price targets (Alex)
- Quantitative Analysis (Monte Carlo and Factor Exposure) (Andre)
- Technical Analysis of the Stock Price (Lucas)
- Earnings and earnings forecast (Lucas)
- Football Field (Andre)
- Reformat Graphs on slides 3,10,20,and 22
Appendix Slides:

- Ownership Summary
- ETFs that contain Disney
- Debt Schedule and other contractual obligations
- Customer and supply chain