

Disney (Walt) Co. (DIS) – Hold

DIS: FY3Q10 PREVIEW- Fine Tuning Estimates

DIS will report 3Q10 earnings on Tuesday, August 10th after the close of the market and will hold a conference call at 4:30 pm ET to discuss results. The call in number is (866) 788-0545, PIN 9048-1588.

FY3Q10. We are maintaining our 3Q10 revenue estimate at \$9.378B (up 9% y/y), and EBITA of \$2.08B (up 13% y/y). We are raising our EPS estimate by \$0.02 to \$0.58 (up 11% y/y), to reflect a lower tax rate of 36% for the balance of FY 2010. We are fine tuning our FY3Q10 revenue mix to reflect changes discussed in detail in this report. In summary, our revised 3Q estimates reflect our expectation for a solid quarter based on strong performances from DIS's film studio, lead by the opening weekend success of *Toy Story 3* and better than expected results for the DVD sales of *Alice in Wonderland*, the contribution from Marvel and it's Iron Man franchise, and a solid ad market for the Cable Networks.

FY4Q10. For 4Q10, we shifted a portion of Cable Networks revenues to 3Q10, resulting in lower revenue, \$10.28B, up 4% y/y and down 1.3% from prior estimates, and lower EPS, down \$0.01 to \$0.50, up 5% y/y. For FY 2011, we are maintaining our estimates for revenue of \$40.252B, up 6% y/y, and EPS of \$2.33, up 14.8%.

We reiterate our HOLD rating on DIS.

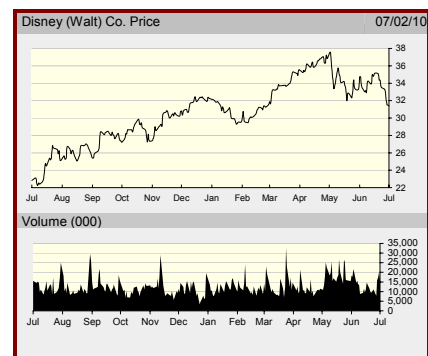
EPS Change

Market Data	
Price (07/02/10)	\$31.38
12-Month Price Target	N/A
52-Week range	\$37.56-22.24
Shares Out. (MM)	1,865.0
Market cap (MM)	\$58,524.0
Avg. daily volume (000)	14,160.3
Financial Data	
Total Debt/Cap.	25.4%
Price/LTM Rev.	1.7x
Tangible BVPS	\$4.41
Net Cash Per Share	(\$5.15)

The Walt Disney Company, together with its subsidiaries and affiliates, is a leading diversified international family entertainment and media enterprise with four business segments.

	FY	FY		FY	
	09/30/09 A	09/30/10 E		09/30/11 E	
		Old	New	Old	New
Rev. (MM)	\$36,149.0	\$38,109.0	\$37,975.6	\$40,251.7	\$40,251.9
Growth	(4.5%)	5.4%	5.1%	5.6%	6.0%
Op. Mar.	18.5%	19.5%	19.5%		20.4%
EPS: 1Q	0.41	0.47	0.47A		
EPS: 2Q	0.43	0.48	0.48A		
EPS: 3Q	0.52	0.56	0.58		
EPS: 4Q	0.47	0.51	0.50		
EPS: Year	1.82	2.02	2.03	2.33	2.33
Growth	(20.0%)	11.1%	11.8%	15.5%	14.8%
P/E Ratio	12.6x	15.5x	15.4x	13.5x	13.4x

Note: Pro forma earnings estimates displayed above do not include one-time items or any stock compensation expenses.



Disclosures applicable to this security: B.
 Disclosure explanation on the inside back cover of this report.

WHAT'S NEW?

For FY3Q10, we are maintaining our revenue estimate and raising our DIS EPS estimate owing to a lower assumed tax rate for the quarter. Similarly, for FY10, we are lowering our estimate while raising our DIS EPS estimate based on a lower tax rate than we had previously estimated. Figure A includes our current and prior estimates for FY 2010 and 2011, and compares these to consensus estimates.

Figure A

Fiscal Year Sept 30:	3Q10E	4Q10E	2010E	2011E
Revenue Current (\$mm)	\$9,378	\$10,279	\$37,976	\$40,252
Previous (\$mm)	\$9,378	\$10,412	\$38,109	\$40,252
Consensus (\$mm)	\$9,370	\$10,260	\$37,900	\$40,000
EPS Current Operating	\$0.58	\$0.50	\$2.03	\$2.33
Previous	\$0.56	\$0.51	\$2.02	\$2.33
Consensus	\$0.58	\$0.50	\$2.03	\$2.34
P/E			15.9	13.8

Source: Needham & Company estimates, Yahoo Finance

3Q10 Estimates

We project DIS to report FY3Q10 Revenue of \$9.378B (up 9% y/y and no change from our prior estimates), EBITA of \$2.08B (up 13% y/y and no change from our prior estimates) and Operating EPS of \$0.58 (up 11% y/y and \$.02 above our estimates). Our change in EPS reflects a lower tax rate of 36% for the balance of FY 2010. We are adjusting our revenue mix to reflect several changes, as follows:

- **Media Networks** is estimated to report revenue of \$4.335B (up 9% y/y and 2% above our previous estimates), and EBITA of \$1.44B (up 9% y/y and no change from prior estimates). Within this division, we are lowering our revenue estimate for Broadcasting by 2% to \$1.426B, up 2% y/y, to reflect lower than expected ratings and lower ad sales. We are raising our revenue estimate for Cable Networks by 4% to \$2.91B, up 14% y/y, to reflect an approximately \$118M shift in revenue from ESPN's 4th quarter into 3Q10. Strong ratings for the World Cup and the NBA Finals contributed to a solid quarter and this momentum is expected to continue into 4Q10.
- **Parks & Resorts** is estimated to report revenue of \$2.707B, (down 2% y/y and 3% below our prior estimates), and EBITA of \$487M, (down 6% y/y and 3% below our prior estimates). Recently improved booking momentum are not expected to be enough to overcome a slow beginning to the quarter.
- **Studio Entertainment** is estimated to report revenue of \$1.576B (up 25% y/y and no change from our prior estimates), and EBITA of \$90M (up versus a loss of \$12M in 3Q09 and 14% above our prior estimate). Our higher estimates reflect better than expected opening weekend success of *Toy Story 3* and better than expected results for the DVD sales of *Alice in Wonderland*, and the contribution from Marvel and its Iron Man franchise. Possible downside in our quarterly EPS could result from the poor performance of *Prince of Persia*, which could result in a 3Q10 write-down.

- **Consumer Products** is estimated to report revenue of \$638M (up 25% y/y and no change from our prior estimates), and EBITA of \$134M (up 39% y/y and no change from our prior estimates). Strength in this segment reflects growth at Merchandise Licensing, driven by higher earned revenue led by the strong performance of *Toy Story* and Marvel merchandise and an increase at Publishing driven by Marvel titles.
- **Disney Interactive Media Group** is expected to report revenue of \$122M (up 8% y/y and no change from our prior estimates), and EBITA loss of \$72M (flat with a loss of \$75M in 3Q09, and no change from our prior estimates).

DETAILED QUARTERLY EARNINGS ANALYSIS

Table 1 shows our estimates for 3Q10 EPS, new and prior, vs 3Q09 results.

Table 1					
Disney: June Quarter Comparison, 3Q09A vs 3Q10E vs Prior 3Q10E					
\$ and shares in millions, except per share data					
Revenue	6/30/09A	6/30/10E	Change	Prior 6/30/10E	New/Old
Broadcasting	\$1,398	\$1,426	2%	\$1,460	-2%
Cable Networks	<u>\$2,563</u>	<u>\$2,909</u>	14%	<u>\$2,804</u>	4%
Media Networks	\$3,961	\$4,335	9%	\$4,263	2%
Parks & Resorts	\$2,751	\$2,707	-2%	\$2,779	-3%
Studio Entertainment	\$1,261	\$1,576	25%	\$1,576	0%
Consumer Products	\$510	\$638	25%	\$638	0%
Interactive Media	\$113	\$122	8%	\$122	0%
Total Revenue	\$8,596	\$9,378	9%	\$9,378	0%
EBITA (After Stock Op. Exp.)					
Broadcasting	\$204	\$184	-10%	\$226	-19%
Cable Networks	\$1,115	\$1,260	13%	\$1,214	4%
Media Networks	\$1,319	\$1,444	9%	\$1,440	0%
Parks & Resorts	\$521	\$487	-6%	\$500	-3%
Studio Entertainment	(\$12)	\$90	NM	\$79	14%
Consumer Products	\$96	\$134	39%	\$134	0%
Interactive Media	(\$75)	(\$72)	4%	(\$72)	0%
Segment Op Inc(pre corp)	\$1,849	\$2,083	13%	\$2,081	0%
Corp & Other (inc. Stock Op. Exp.)	(\$251)	(\$210)	16%	(\$210)	0%
Net Interest Expense	(\$75)	(\$115)	-53%	(\$115)	0%
Restructuring and Impairment	(\$21)	\$0	NM	\$0	
Equity in Income	<u>\$155</u>	<u>\$135</u>	-13%	<u>\$135</u>	0%
Income Before Tax	\$1,657	\$1,893	14%	\$1,891	0%
Income Taxes (at 38%)	(\$626)	(\$681)	-9%	(\$719)	5%
Minority Interest	<u>(\$77)</u>	<u>(\$80)</u>	-4%	<u>(\$80)</u>	0%
NI-Reported	\$954	\$1,131	19%	\$1,093	4%
Net Income-Operations	\$954	\$1,131	19%	\$1,093	4%
Operating EPS	\$0.52	\$0.58	11%	\$0.56	4%
Reported EPS	\$0.51	\$0.58	13%	\$0.56	4%
Avg Diluted Shares Out	1,874	1,960	5%	1,960	0%
Sources: Company Reports, Needham & Company estimates.					

VALUATION

Our HOLD rating is based on several forms of valuation, summarized in Table 2:

Table 2: DIS Valuation Summary & Conclusions		
2011E Valuation Multiples		Embedded Expectations Metrics
1 EV/Sales	1.7	7 Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 7.7%
2 EV/OIBDA	7.4	
3 P/E	13.4	
4 FCF/Share	\$0.91	
5 EV/FCF	40.7	
6 FCF Yield	3%	
Source: Needham & Company estimates.		

1. The “**Breakeven DCF**” valuation methodology uses the current share price to calculate the market’s growth expectations for the enterprise, including capital efficiency trends. This valuation methodology concludes that DIS must achieve a 10-year OIBDA compound annual growth rate of approximately 7.7% to justify its current share price. (Please see Table 6.)
2. In Table 7, we summarize several **valuation multiples** for Sales, OIBDA and P/E. DIS’s EV/OIBDA trading multiple is approximately 7.4x 2011E.
3. In Table 8, we present **Free Cash Flow** valuation metrics. Our Free Cash Flow analysis shows that DIS is currently valued at about 40.7x 2011E Free Cash flow and has a 3% free cash flow yield.
4. In Table 9, we present our **Comparative Industry** valuation metrics which shows that DIS is one of the more expensive companies we cover on an EV/FCF and Breakeven DCF basis.

INVESTMENT POSITIVES

Content Library Value. Proliferating distribution platforms creates incremental demand for high quality, branded content. High quality content is one of the most valuable forms of differentiation for competing distribution platforms. DIS’s film and television libraries represent differentiated, globally scalable, long-lived content.

- **Premier Brands.** As consumer choice proliferates, brands become more expensive to create and established brands increase in value. DIS’s brands are some of the most valuable in the world. In addition to character brands (e.g. Mickey Mouse, Donald Duck, Goofy, etc.), DIS owns many of the important classic fairy tale characters (e.g., Peter Pan, Alice in Wonderland, Pinocchio, the fairy tale princesses, etc.) The Disney family brand and the ESPN sports brand are also premium brands with global applicability.
- **TV Content Momentum.** The Disney Channel has achieved impressive ratings growth over the past 5 years with content such as *High School Musical*, *Hannah Montana*, *Wizards of Waverly Place*, *The Suite Life of Zac*

and *Cody*, etc. ABC's content performance has also been solid with *Desperate Housewives*, *Lost*, *Grey's Anatomy*, *Extreme Makeover: Home Edition* and *Dancing with the Stars*. DIS's acquisition of Marvel should add to content creation upside over the long-term.

- **Cable Network Bundle.** One of the fastest growing silos in the traditional media space is cable networks. DIS is one of the premier cable network operators, with ESPN, The Disney Channel, ABC Family, as well as minority ownership positions in A&E, History Channel, E! Entertainment and Lifetime Channel in its portfolio.
- **Games Investment.** Disney increased its commitment to video games with its April 2005 purchase of Avalanche Software. Since then, DIS has invested hundreds of millions of dollars in the games business. Video games are a market segment that is growing rapidly and tie-ins with Disney movies should create incremental value for both businesses.

INVESTMENT RISKS

1. **Economic Health.** About 25% of DIS's revenue comes from advertising. Advertising spending is closely tied to economic health. If the economy slows, advertising spending may not grow as quickly as people expect, suggesting downside to DIS's EPS estimates. The Parks are dependent on a strong global economy as well.
2. **Digital Disruption.** Hulu.com, in which DIS is a major owner, may be retraining consumers to watch for free what they have historically bought as part of a \$60 bundle of TV programming. Migration to the internet of media silos to date has destroyed economics and we worry that the broadcasters are accelerating their own demise.
3. **TV Viewing.** Personal video recorders (PVRs) are changing the way viewers watch TV. If these trends are followed by advertising shifts away from traditional broadcast networks (like ABC), this could slow DIS's long term growth rate and valuation.
4. **Terrorist Activity.** Because DIS's theme parks are highly dependent on offshore visitation to drive revenue growth and their cost structures are predominantly fixed, any disruption in travel patterns could materially hurt this segment's earnings potential.
5. **Piracy.** Digital technology, with its ease and low cost of duplication, represents the dark side of technology and a significant challenge to content owners in the form of Intellectual Property Rights (IPR) management. The mass adoption of broadband takes the IPR challenge from music into the television and film environments.

COMPANY DESCRIPTION

Founded in 1923, The Walt Disney Company is one of the largest entertainment companies in the world and THE leading family-oriented entertainment enterprise. DIS's five business segments include media networks (broadcast and cable TV channels), parks and resorts, studio entertainment, consumer products and interactive media.

Table 3

Disney: Quarterly Income Statement Projections, 2010E

\$ and shares in millions, except per share data

	12/31/09A	3/31/10A	6/30/10E	9/30/10E	2010E	Year/Year Change				
						10/09	10/09	10/09	10/09	10/09
Revenue										
Broadcasting	\$1,521	\$1,432	\$1,426	\$1,397	\$5,776	5%	1%	2%	1%	2%
Cable Networks	<u>\$2,654</u>	<u>\$2,412</u>	<u>\$2,909</u>	<u>\$3,369</u>	<u>\$11,344</u>	8%	9%	14%	1%	7%
Media Networks	\$4,175	\$3,844	\$4,335	\$4,767	\$17,121	7%	6%	9%	1%	6%
Parks & Resorts	\$2,662	\$2,449	\$2,707	\$2,932	\$10,750	0%	2%	-2%	3%	1%
Studio Entertainment	\$1,935	\$1,536	\$1,576	\$1,659	\$6,707	-1%	7%	25%	11%	9%
Consumer Products	\$746	\$596	\$638	\$749	\$2,729	-3%	20%	25%	16%	13%
Interactive Media	\$221	\$155	\$122	\$171	\$669	-29%	20%	8%	9%	-6%
Total Revenue	\$9,739	\$8,580	\$9,378	\$10,279	\$37,976	1%	6%	9%	4%	5%
EBITA (After. Stock Option Exp)										
Broadcasting	\$180	\$123	\$184	\$14	\$501	30%	-24%	-10%	NMF	-1%
Cable Networks	<u>\$544</u>	<u>\$1,183</u>	<u>\$1,260</u>	<u>\$1,483</u>	<u>\$4,469</u>	5%	3%	13%	0%	5%
Media Networks	\$724	\$1,306	\$1,444	\$1,496	\$4,970	11%	0%	9%	1%	4%
Parks & Resorts	\$375	\$150	\$487	\$293	\$1,305	-2%	-12%	-6%	-15%	-8%
Studio Entertainment	\$243	\$223	\$90	\$116	\$672	30%	NMF	NMF	NMF	284%
Consumer Products	\$243	\$133	\$134	\$180	\$690	-8%	37%	39%	19%	13%
Interactive Media	(\$10)	(\$55)	(\$72)	(\$100)	(\$237)	78%	-10%			
EBITA (pre corp)	\$1,575	\$1,757	\$2,083	\$1,986	\$7,400	9%	15%	13%	7%	11%
Corp & Other (Including Stock Op. Exp)	(\$134)	(\$175)	(\$210)	(\$200)	(\$719)	19%	-27%	-16%	567%	14%
Net Interest Expense	(\$103)	(\$130)	(\$115)	(\$113)	(\$461)	-26%	2%	53%	-9%	-1%
Restructuring and Impairment	(\$105)	(\$71)	\$0	\$0	(\$176)					
Equity in Income	<u>\$89</u>	<u>\$154</u>	<u>\$135</u>	<u>\$120</u>	<u>\$498</u>	-39%	5%	-13%	-6%	
Income Before Tax	\$1,322	\$1,535	\$1,893	\$1,793	\$6,542	-1%	53%	14%	8%	16%
Income Taxes	(\$478)	(\$537)	(\$681)	(\$645)	(\$2,342)	-2%	54%	9%	10%	14%
Minority Interest	<u>\$0</u>	<u>(\$45)</u>	<u>(\$80)</u>	<u>(\$180)</u>	<u>(\$305)</u>	-100%	13%	4%	1%	1%
Net Income-Reported	\$844	\$953	\$1,131	\$967	\$3,896	0%	55%	19%	8%	18%
Net Income-Operations	\$899	\$953	\$1,131	\$967	\$3,951					
Diluted EPS-Reported	\$0.44	\$0.48	\$0.58	\$0.50	\$2.00	-2%	47%	13%	5%	14%
Diluted EPS-Operations	\$0.47	\$0.48	\$0.58	\$0.50	\$2.03	16%	13%	11%	5%	12%
Avg Diluted Shares Out	1,903	1,973	1,960	1,940	1,944	2%	6%	5%	3%	4%

Sources: Company Reports, Needham & Company estimates.

Table 4							
Disney: Annual Income Statement Projections, 2007A-2012E							
\$ and shares in millions, except per share data							
FYE 9/30:	Annual						
	2007A	2008A	2009A	2010E ⁽¹⁾	2011E	2012E	'07-'12 CAGR
Revenue							
Broadcasting	\$5,937	\$5,816	\$5,654	\$5,776	\$5,863	\$5,951	0.0%
Cable Networks	<u>\$9,167</u>	<u>\$10,041</u>	<u>\$10,555</u>	<u>\$11,344</u>	<u>\$12,082</u>	<u>\$12,927</u>	7.1%
Media Networks	\$15,104	\$15,857	\$16,209	\$17,121	\$17,945	\$18,878	4.6%
Parks & Resorts	\$10,626	\$11,504	\$10,667	\$10,750	\$11,556	\$12,365	3.1%
Studio Entertainment	\$7,491	\$7,348	\$6,136	\$6,707	\$7,245	\$7,317	-0.5%
Consumer Products	\$2,289	\$2,415	\$2,425	\$2,729	\$2,783	\$2,811	4.2%
Interactive Media	\$490	\$719	\$712	\$669	\$723	\$773	9.6%
Total Revenue	\$35,510	\$37,843	\$36,149	\$37,976	\$40,252	\$42,145	3.5%
EBITA (After. Stock Option Exp)							
Broadcasting	\$698	\$842	\$506	\$501	\$575	\$536	-5.2%
Cable Networks	<u>\$3,577</u>	<u>\$4,139</u>	<u>\$4,259</u>	<u>\$4,469</u>	<u>\$4,591</u>	<u>\$4,912</u>	6.6%
Media Networks	\$4,275	\$4,981	\$4,765	\$4,970	\$5,166	\$5,448	5.0%
Parks & Resorts	\$1,710	\$1,897	\$1,418	\$1,305	\$1,387	\$1,422	-3.6%
Studio Entertainment	\$1,195	\$1,086	\$175	\$672	\$1,159	\$1,171	-0.4%
Consumer Products	\$631	\$778	\$609	\$690	\$835	\$928	8.0%
Interactive Media	(\$291)	(\$258)	(\$295)	(\$237)	(\$210)	(\$200)	-7.2%
Segment Operating Income	\$7,811	\$8,484	\$6,672	\$7,400	\$8,337	\$8,768	2.3%
Less: Amortization ⁽²⁾	(\$12)	(\$12)	(\$12)	(\$125)	(\$130)	(\$130)	61.0%
Segment EBIT (Op Inc)	\$7,799	\$8,472	\$6,660	\$7,275	\$8,207	\$8,638	2.1%
Corp & Other (Including Stock)	(\$535)	(\$499)	(\$633)	(\$719)	(\$450)	(\$450)	-3.4%
Net Interest Expense	(\$593)	(\$524)	(\$466)	(\$461)	(\$450)	(\$450)	-5.4%
Gain on Sale	\$1,052	(\$59)	(\$492)	\$0	\$0	\$0	
Restructuring and Impair			(\$176)	(\$176)	\$0	\$0	
Equity in Income		<u>\$581</u>	<u>\$577</u>	<u>\$498</u>	<u>\$525</u>	<u>\$525</u>	
Income Before Tax	\$7,723	\$7,390	\$5,646	\$6,542	\$7,307	\$7,738	0.0%
Income Taxes	(\$2,891)	(\$2,673)	(\$2,049)	(\$2,342)	(\$2,630)	(\$2,786)	-0.7%
Minority Interest	<u>(\$177)</u>	<u>(\$302)</u>	<u>(\$302)</u>	<u>(\$305)</u>	<u>(\$300)</u>	<u>(\$300)</u>	11.1%
NI Before Extraordinary	\$4,655	\$4,427	\$3,307	\$3,896	\$4,376	\$4,653	0.0%
Cumulative Effect of Acct.	(\$639)	\$59	\$0	\$0	\$0	\$0	
Net Income	\$4,016	\$4,427	\$3,307	\$3,896	\$4,376	\$4,653	3.0%
Diluted EPS-Before Acct.	\$2.22	\$2.28	\$1.76	\$2.00	\$2.33	\$2.51	2.5%
Diluted EPS-After Acct.	\$1.92	\$2.27	\$1.82	\$2.03	\$2.33	\$2.51	5.6%
Avg Diluted Shares Out ⁽³⁾	2,093	1,948	1,875	1,944	1,875	1,850	-2.4%
Sources: Company Reports, Needham & Company estimates.							
(1) Assumes MVL acquisition closes on 12/31/09.							
(2) Assumes DIS amortizes \$3.5B of goodwill due to MVL acquisition.							
(3) Assumes DIS issues 59M shares for MVL on 12/31/09 and repurchases 59M over next 9 months.							

Table 5

Disney: Standard DCF Calculation, 2012E-2021E

\$ and shares in millions, except per share data

Valuation Conclusions		% of Total
Sum of PV of Free Cash Flow ¹	\$39,268	48%
PV of Terminal Value Discounted at WACC ¹	\$46,572	56%
Value of Operations (WACC Method)	\$85,839	104%
Plus: Excess Cash at 9/30/11E	\$3,250	
Plus: Non-Consolidated Assets (From PMV)	\$4,600	
Less: Minority Interest (20% ESPN & Euro Dis)	(\$11,200)	
Less: Unfunded Retirement Liabilities	\$0	
Enterprise Value	\$82,489	100%
Less: Debt at 9/30/11E	(\$13,500)	
Less: Lease Obligations	(\$4,750)	
Less: Preferred Stock Outstanding	\$0	
Less: Value of Options & Restricted Sk, After-tax	(\$5,400)	
Common Equity Value	\$58,839	71%
Fully Diluted Shares Out, 2011E	1,875	
DCF Value/Share	\$31.38	
Current Share Price @ 07/02/10	\$31.38	
Upside Potential (DCF-Current Price/Current Price)	0%	

Standard Discounted Cash Flow (DCF) Valuation

Why We Calculate: DCF is a rigorous bottoms-up valuation of the enterprise focusing on cash flows (not accounting)

Strengths

- 1 Focuses on operations. Removes financing
- 2 Focuses on FCF. Removes non-cash accounting
- 3 Explicitly forecasts capital needs (WC & CapX)
- 3 Uses a levered beta (widely available)
- 4 Ent value focus captures entire business model

Weaknesses

- 1 Many assumptions. Valuation can be manipulated
- 2 Terminal value big & based on low visibility projections
- 3 Model assumes constant debt/equity ratio
- 4 Complex to calculate
- 5 Calculates the enterprise value first, then equity value

¹ Calculation of the Value of Operations (WACC Method)

FYE 9/30:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	CAGR '12-21E
OIBDA (after sk comp exp & corp):	\$9,407	\$9,868	\$10,707	\$11,617	\$12,547	\$13,551	\$14,635	\$15,805	\$17,070	\$18,435	\$19,910	8.1%
- Depreciation	(\$1,635)	(\$1,750)	(\$1,909)	(\$2,139)	(\$2,632)	(\$2,835)	(\$3,053)	(\$3,289)	(\$3,542)	(\$3,814)	(\$4,108)	
+ Option Exercise Proceed	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	
+ Int & Inv Income only	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
EBIT	\$8,132	\$8,478	\$9,158	\$9,839	\$10,274	\$11,075	\$11,941	\$12,877	\$13,888	\$14,981	\$16,162	
Cash Taxes (at 37%)	(\$1,220)	(\$3,137)	(\$3,388)	(\$3,640)	(\$3,802)	(\$4,098)	(\$4,418)	(\$4,764)	(\$5,139)	(\$5,543)	(\$5,980)	
Plus: Depreciation	\$1,635	\$1,750	\$1,909	\$2,139	\$2,632	\$2,835	\$3,053	\$3,289	\$3,542	\$3,814	\$4,108	
Plus: Sk Based Comp Exp	\$300	\$300	\$300	\$250	\$200	\$200	\$200	\$200	\$200	\$200	\$200	
Working Capital Change	(\$350)	(\$350)	(\$573)	(\$458)	(\$230)	(\$248)	(\$267)	(\$288)	(\$310)	(\$334)	(\$359)	
Less: Capital Spending	(\$3,292)	(\$3,546)	(\$3,819)	(\$3,055)	(\$3,291)	(\$3,544)	(\$3,817)	(\$4,111)	(\$4,427)	(\$4,768)	(\$5,135)	
FCF from Operations	\$5,205	\$3,496	\$3,587	\$5,074	\$5,784	\$6,221	\$6,692	\$7,203	\$7,754	\$8,351	\$8,996	11.1%
PV Discounted at WACC ²		\$3,496	\$3,258	\$4,184	\$4,332	\$4,231	\$4,134	\$4,040	\$3,950	\$3,863	\$3,779	
Sum of PV of Free Cash Flow												\$39,268
Terminal Value of 2020E FCF ³												\$110,851
PV of Terminal Value at WACC ²												\$46,572
Discount Period		0	1	2	3	4	5	6	7	8	9	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.25
Target Equity/(Debt + Equity)	80%
Debt Rating	A
Debt Spread	2.5%
Marginal Tax Rate ("T")	35.0%
WACC	10.1%

$$\frac{RFR + (\text{Equity Risk Premium} \times \text{Beta}) \times \% \text{ Equity/Total Capital} + ((RFR + \text{Debt Spread}) \times (1 - T)) \times \% \text{ Debt/Total Capital}}{1}$$
³ Calculation of Terminal Multiple (WACC Method)

WACC	10.1%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.1%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	12.3
EBITDA Terminal Multiple	5.6

Sources: Company Reports, Needham & Company estimates.

Table 6
Disney: Breakeven Discounted Cash Flow Valuation Calculation, 2012E - 2021E

\$ and shares in millions, except per share data

Valuation Conclusions	
Sum of PV of Free Cash Flow ¹	\$39,640
PV of Terminal Value Discounted at WACC ¹	\$46,052
Value of Operations (WACC Method)	\$85,692
Plus: Excess Cash at 9/30/11E	\$3,250
Plus: Non-Consolidated Assets (From PMV)	\$4,600
Less: Minority Interest (20% ESPN & Euro Dis)	(\$11,200)
Enterprise Value	\$82,342
Less: Debt at 9/30/11E	(\$13,500)
Less: Lease Obligations	(\$4,750)
Less: Preferred Stock Outstanding	\$0
Less: Value of Options & Restricted Sk, After-tax	(\$5,400)
Common Equity Value	\$58,692
Fully Diluted Shares Out, 2011E	1,875
Breakeven DCF Value/Share	\$31.30
Current Share Price @ 7/2/2010	\$31.38
Discount to DCF Value (DCF-Current Price/DCF)	0%

Breakeven Discounted Cash Flow Valuation	
Why We Calculate: BE DCF uses the current share price to calculate the market's growth expectations for the enterprise.	
Strengths	
1	Makes no assumption about growth for first 10 years
2	Prevents over-optimism by working backwards
3	Data widely available and model well understood
4	Explicitly forecasts capital needs (WC & CapX)
5	Uses a levered beta (widely available)
Weaknesses	
1	Terminal value big & based on low visibility projections
2	Model assumes constant debt/equity ratio
3	Complex to calculate
4	Calculates the enterprise value first, then equity value

¹ Calculation of the Value of Operations (WACC Method)												Required LT Growth Rate
FYE 9/30:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	
OIBDA (after sk comp exp & corp):	\$9,407	\$10,131	\$10,911	\$11,751	\$12,656	\$13,630	\$14,680	\$15,810	\$17,028	\$18,339	\$19,751	7.7%
- Depreciation	(\$1,635)	(\$1,750)	(\$1,909)	(\$2,139)	(\$2,632)	(\$2,835)	(\$3,053)	(\$3,289)	(\$3,542)	(\$3,814)	(\$4,108)	
+ Option Exercise Proceed	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	
+ Int & Inv Income only	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
EBIT	\$8,132	\$8,741	\$9,362	\$9,972	\$10,384	\$11,155	\$11,987	\$12,882	\$13,846	\$14,884	\$16,003	
Cash Taxes (at 37%)	(\$3,009)	(\$3,234)	(\$3,464)	(\$3,690)	(\$3,842)	(\$4,127)	(\$4,435)	(\$4,766)	(\$5,123)	(\$5,507)	(\$5,921)	
Plus: Depreciation	\$1,635	\$1,750	\$1,909	\$2,139	\$2,632	\$2,835	\$3,053	\$3,289	\$3,542	\$3,814	\$4,108	
Plus: Sk Based Comp Exp	\$300	\$300	\$300	\$250	\$200	\$200	\$200	\$200	\$200	\$200	\$200	
Working Capital Change	(\$350)	(\$350)	(\$573)	(\$458)	(\$230)	(\$248)	(\$267)	(\$288)	(\$310)	(\$334)	(\$359)	
Less: Capital Spending	(\$3,292)	(\$3,546)	(\$3,819)	(\$3,055)	(\$3,291)	(\$3,544)	(\$3,817)	(\$4,111)	(\$4,427)	(\$4,768)	(\$5,135)	
FCF from Operations	\$3,416	\$3,661	\$3,716	\$5,158	\$5,853	\$6,271	\$6,721	\$7,206	\$7,728	\$8,290	\$8,895	10.4%
PV Discounted at WACC ²		\$3,661	\$3,374	\$4,254	\$4,384	\$4,265	\$4,151	\$4,042	\$3,937	\$3,835	\$3,737	
Sum of PV of Free Cash Flow												\$39,640
Terminal Value of 2021E FCF ³												\$109,615
PV of Terminal Value at WACC ²												\$46,052
Discount Period		0	1	2	3	4	5	6	7	8	9	

² Calculation of WACC:	
10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.25
Target Equity/(Debt + Equity)	80%
Debt Rating	A
Debt Spread	2.5%
Marginal Tax Rate ("T")	35.0%
WACC	10.1%
$(RFR + (Equity Risk Premium \times Beta)) \times \% Equity / Total Capital + ((RFR + Debt Spread) \times (1 - T) \times \% Debt / Total Capital)$	

³ Calculation of Terminal Multiple (WACC Method)	
WACC	10.1%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.1%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	12.3
EBITDA Terminal Multiple	5.5

Sources: Company Reports, Needham & Company estimates.

Table 7	
Disney: Valuation Multiples (Sales, OIBDA, P/E)	
\$ and shares in millions, except per share data	
Valuation Conclusions	2011E
Market-Based Enterprise Value ¹	\$69,238
2011E Sales (From Annual Projections)	\$40,252
EV/Sales	1.7
Market-Based Enterprise Value ¹	\$69,238
2011E OIBDA (From Annual Projections)	\$9,407
EV/OIBDA	7.4
Target Price	NA
Target Price EV/2012 OIBDA	NA
Current Price	7/2/10 \$31.38
2011E EPS (From Annual Projections)	\$2.33
P/E Ratio	13.4
¹ Calculation of Market-Based Enterprise Value	
Year End 9/30:	2011E
Current Share Price	07/02/10 \$31.38
Fully Diluted Shares Out	1,875
Market Capitalization	\$58,838
Less: Excess Cash	(\$3,250)
Less: Non-Consolidated Assets	(\$4,600)
Plus: Unfunded Retirement Liabilities	\$0
Plus: Debt at 9/30/11E	\$13,500
Plus: Lease Obligations	\$4,750
Plus: Preferred Stock Outstanding	\$0
Plus: Options & Warrants Outstanding	\$5,400
Market-Based Enterprise Value	\$69,238
Sources: Company Reports, Needham & Company estimates.	

Table 8	
Disney: Free Cash Flow Valuation Metrics	
\$ and shares in millions, except per share data	
Valuation Conclusions	2011E
FCF/Share ²	\$0.91
Current Price	7/2/10 \$31.38
FCF Yield	3%
FCF ²	\$1,701
2011E OIBDA (From Annual Projections)	\$9,407
FCF Conversion Rate (FCF/OIBDA)	18%
Market-Based Enterprise Value ¹	\$69,238
FCF ²	\$1,701
EV/FCF	40.7
Net Debt/OIBDA	1.1
Net Debt	\$10,250
Net Debt/Market Cap	17.4%
² Calculation of Free Cash Flow	
Year End 9/30:	2011E
EBITDA	\$9,407
Plus: Option Exercise Proceeds	\$300
Less: Cash Interest Expense	(\$450)
Minority Interest	\$300
Less: Preferred Dividends	\$0
Less: Cash Taxes	(\$3,464)
Less: Change in Working Capital	(\$573)
Less: Capital Spending	(\$3,819)
Free Cash Flow	\$1,701
Shares Outstanding	1,875
FCF/Share	\$0.91
Sources: Company Reports, Needham & Company estimates.	

Table 9													
Summary Comparative Financial & Valuation Information													
and shares in millions, except per share data													
Laura Martin's Coverage				2011E Multiples					7/2/10			Conflicts Disclosure	
Sorted by Industry	Ticker	Market Cap (\$B)	Rating	EV/ EBITDA	P/E	EV/ FCF	FCF Yield	Break-even DCF	Target Price	Current Price	Target/ Current		
Content Companies													
1	CBS	CBS	\$9	BUY	6.6	10.9	15.1	12.1%	1.6%	\$19.00	\$12.82	48%	B
2	Disney	DIS	\$59	HOLD	7.4	13.4	40.7	2.9%	7.7%	NA	\$31.38		B
3	NewsCorp	NWS	\$35	BUY	6.6	12.3	18.5	6.1%	1.2%	\$20.00	\$13.48	48%	B, G
4	Time Warner Inc	TWX	\$32	HOLD	7.0	11.6	17.3	8.3%	0.3%	NA	\$28.20		B
5	Viacom	VIAB	\$19	BUY	5.7	10.1	18.0	6.8%	2.3%	\$43.00	\$30.77	40%	B
6	Warner Music	WMG	\$0.7	BUY	5.3	(9.6)	10.1	31.3%	-8.5%	\$8.50	\$4.67	82%	B
Industry Total/Average			\$154		6.4	8.1	19.9	11.2%	0.8%	NA	\$20.22	NA	
Cable Companies													
7	Mediacom	MCCC	\$0.5	HOLD	7.3	NMF	NMF	NMF	2.5%	NA	\$6.75		B, G
8	Time Warner Cable	TWC	\$19	BUY	5.2	12.4	19.8	10.1%	0.3%	\$65.00	\$52.13	25%	B
Industry Total/Average			\$19		6.3	12.4	19.8	10.1%	1.4%	\$65.00	\$29.44	24.7%	
Total/Average from Above			\$173		6.3	10.3	19.9	10.7%	1.1%			NM	
Sorted by Industry	Ticker	Revenue 2011E	OIBDA 2011E	EPS 2011E	Debt Rating	Net Debt	Debt/ EBITDA	FCF	FCF/ Share	Dividend/ Share	Div. Yield		
\$ in millions, except per share data													
Content Companies													
1	CBS	CBS	\$14,313	\$2,414	\$1.18	BBB-	\$6,400	2.7	\$1,059	\$1.55	\$0.20	1.6%	
2	Disney	DIS	\$40,252	\$9,407	\$2.33	A	\$10,250	1.1	\$1,701	\$0.91	\$0.35	1.1%	
3	NewsCorp	NWS	\$32,909	\$5,861	\$1.09	BBB+	\$2,800	0.5	\$2,102	\$0.82	\$0.15	1.1%	
4	Time Warner Inc	TWX	\$27,237	\$6,551	\$2.43	BBB	\$10,500	1.6	\$2,654	\$2.34	\$0.85	3.0%	
5	Viacom	VIAB	\$14,601	\$4,040	\$3.05	BBB	\$4,000	1.0	\$1,279	\$2.10	\$0.60	1.9%	
6	Warner Music	WMG	\$3,077	\$422	(\$0.49)	BB-	\$1,420	3.4	\$221	\$1.46	\$0.00	NA	
Cable Companies													
7	Mediacom	MCCC	\$1,515	\$570	\$0.63	B+	\$3,580	6.3	\$120	\$1.69	\$0.00	NA	
8	Time Warner Cable	TWC	\$19,444	\$7,243	\$4.21	BBB	\$19,500	2.7	\$1,891	\$5.27	\$1.60	3.1%	
Sources: Needham & Company estimates, Company documents, FirstCall, Yahoo Finance.													
Analyst: Laura Martin, CFA. (917) 373-3066. LMartin@Needhamco.com													
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Buy	58	12
Hold	31	3
Under Perform	<1	0
Rating Suspended	3	17
Restricted	<1	100
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