

**Entertainment, Cable & Media / Consumer**

**Disney (Walt) Co. (DIS) – Hold**

**DIS: 1Q12 Earnings Preview**

DIS will report 1Q12 earnings on Tuesday, February 7, 2012 after the close of the market and management will hold a conference call at 5pm ET to discuss results. The call-in number is (866) 770-7120, PIN: 45173349.

In this report we are maintaining our estimates for FY12, and we also introduce our FY12 quarterly estimates.

- We maintain our FY12 revenue estimate of \$43.397B, up 6% y/y, Segment Operating Income of \$9.331B, up 7% y/y, and EPS estimate of \$2.87, up 13% y/y.
- We introduce our quarterly estimates for FY12 with 1Q12 revenue estimate of \$11.166B, up 4% y/y, Segment Operating Income of \$2.29B, up 5% y/y, and EPS estimate of \$0.71, up 6% y/y.

We maintain our HOLD rating and remain focused on DIS’s capital spending cycle as discussed in our quarterly notes entitled “DIS’s ROIC Trends”.

**Earnings Preview**

Market Data	
Price (01/20/12)	\$39.31
12-Month Price Target	N/A
52-Week range	\$44.07-29.00
Shares Out. (MM)	1,909.3
Market cap (MM)	\$75,052.6
Avg. daily volume (000)	11,919.1
Financial Data	
Total Debt/Cap.	25.2%
Price/LTM Rev.	1.8x
Tangible BVPS	\$5.47
Net Cash Per Share	(\$5.79)

*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	
	09/30/11 A	09/30/12 E			
		Old	New	Old	New
Rev. (MM)	\$40,893.0	\$43,396.6	\$43,396.7		
Growth	7.4%	6.1%	6.1%	0.0%	0.0%
Op. Mar.	21.6%		21.5%		
EPS: 1Q	0.68		0.71		
EPS: 2Q	0.49		0.61		
EPS: 3Q	0.78		0.91		
EPS: 4Q	0.59		0.64		
EPS: Year	2.54	2.87	2.87		
Growth	18.8%	12.7%	12.9%	0.0%	0.0%
P/E Ratio	15.1x	13.7x	13.7x	nm	0.0x

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?

We are maintaining our estimates for FY2012 of revenue of \$43.397B, up 6% y/y, and Operating EPS of \$2.87, up 13% y/y, and we also introduce our quarterly estimates.

## EARNINGS SUMMARY

Figure A includes our quarterly estimates for FY 2012, and compares these to consensus estimates.

Figure A

Fiscal Year Sept 30:	1Q12E	2Q12E	3Q12E	4Q12E	2012E
Revenue Current (\$mm)	\$11,166	\$9,622	\$11,421	\$11,189	\$43,397
Previous (\$mm)	-	-	-	-	\$43,397
Consensus (\$mm)	\$11,180	\$9,620	NA	NA	\$43,050
EPS Current Operating	\$0.71	\$0.61	\$0.91	\$0.64	\$2.87
Previous	-	-	-	-	\$2.87
Consensus	\$0.71	\$0.61	NA	NA	\$2.91
P/E					13.4
Source: Needham & Company estimates, Yahoo Finance					

## FY1Q12 Results Analysis

DIS is expected to report FY1Q12 Revenue of \$11.166B, up 4% y/y, Segment Operating Income of \$2.29B, up 5% y/y and Operating EPS of \$0.71, up 6% y/y. Segment results are expected to be as follows:

- Media Networks** is expected to report revenue of \$5.015B, up 8% y/y, and EBITA of \$1.151B, up 8% y/y. Further breakouts in this division are as follows:
  - **Broadcasting** is expected to report revenue of \$1.64B, up 4% y/y, and EBITA of \$300mm, up 2% y/y. Results at this segment are expected to be driven by lower production and programming costs. We expect to see higher scatter prices in the quarter as well as lower political ad spending at the TV stations, contributing to results.
  - **Cable Networks** is expected to report revenue of \$3.375B, up 10% y/y, and EBITA of \$850mm, up 10% y/y. While results at this segment are expected to be solid, we are monitoring recent TV ratings trend at ESPN which saw gains by other networks including USA at the expense of ESPN.
- Parks & Resorts** is expected to report revenue of \$3.069B, up 7% y/y, and EBITA of \$500mm, up 7% y/y. Results in this segment are expected to be driven by increases at the domestic parks and resorts, the cruise lines and the Hong Kong Park. We will continue to monitor closely Cap Ex spending at this division given its impact on DIS's ROIC.
- Studio Entertainment** is expected to report revenue of \$1.739B, down 10% y/y, and EBITA of \$355mm, down 5% y/y. This segment is expected to face difficult comparisons with 1Q11 which included the home video release of *Toy Story 3*. Releases in the current quarter included *War Horse*, with significant P&A spending in the quarter to support this film, and *The Muppets* movie.

4. **Consumer Products** is expected to report revenue of \$991mm, up 8% y/y, and EBITA of \$337mm, up 8% y/y and is expected to be driven by higher revenue from Marvel properties.
5. **Disney Interactive Media Group** is expected to report revenue of \$352mm, up 1% y/y, and an EBITA loss of \$20mm down 54% y/y.

## DETAILED 1Q12 QUARTERLY EARNINGS ANALYSIS

Table 1 includes our estimates for 1Q12 vs 1Q11 results.

Table 1			
Disney: December Quarter Comparison, 1Q11A vs 1Q12E			
\$ and shares in millions, except per share data			
Revenue	12/31/10A	12/31/11E	Change
Broadcasting	\$1,577	\$1,640	4%
Cable Networks	<u>\$3,068</u>	<u>\$3,375</u>	10%
Media Networks	\$4,645	\$5,015	8%
Parks & Resorts	\$2,868	\$3,069	7%
Studio Entertainment	\$1,932	\$1,739	-10%
Consumer Products	\$922	\$991	8%
Interactive Media	\$349	\$352	1%
<b>Total Revenue</b>	<b>\$10,716</b>	<b>\$11,166</b>	<b>4%</b>
<b>EBITA (After Stock Op. Exp.)</b>			
Broadcasting	\$295	\$300	2%
Cable Networks	\$771	\$850	10%
Media Networks	\$1,066	\$1,151	8%
Parks & Resorts	\$468	\$500	7%
Studio Entertainment	\$375	\$355	-5%
Consumer Products	\$312	\$337	8%
Interactive Media	(\$13)	(\$20)	-54%
<b>Segment Op Inc(pre corp)</b>	<b>\$2,176</b>	<b>\$2,290</b>	<b>5%</b>
Corp & Other (inc. Stock Op. Exp.)	(\$161)	(\$250)	-55%
Net Interest Expense	(\$95)	(\$95)	0%
Restructuring and Impairment	(\$12)	\$0	NM
Equity in Income	<u>\$156</u>	<u>\$160</u>	3%
Income Before Tax	\$2,064	\$2,137	4%
Income Taxes (at 38%)	(\$730)	(\$769)	-5%
Minority Interest	<u>(\$32)</u>	<u>(\$45)</u>	NM
NI-Reported	\$1,302	\$1,323	2%
<b>Net Income-Operations</b>	<b>\$1,302</b>	<b>\$1,323</b>	<b>2%</b>
<b>Operating EPS</b>	<b>\$0.68</b>	<b>\$0.71</b>	<b>6%</b>
Reported EPS	\$0.68	\$0.71	6%
Avg Diluted Shares Out	1,927	1,854	-4%
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		
2012E Valuation Multiples		Embedded Expectations Metrics
1 EV/Sales	1.9	7 Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 3.9%
2 EV/OIBDA	7.3	
3 P/E	13.4	
4 FCF/Share	\$2.42	
5 EV/FCF	18.3	
6 FCF Yield	6%	
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 3.9% to justify its current share price. (Please see Table 6.)
2. In Tables 7 and 8, we summarize several **valuation multiples** for Sales, OIBDA, P/E and Free Cash Flow. DIS’s EV/OIBDA trading multiple is approximately 7.3x 2012E and has a 6% free cash flow yield, making it fairly valued in our opinion.

## INVESTMENT POSITIVES

1. **Content Library Value.** Proliferating distribution platforms create 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.
2. **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.
3. **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*, *Extreme Makeover: Home Edition* and *Dancing with the Stars*. DIS’s acquisition of Marvel should add to film and TV content valuation upside over the long-term.
4. **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.

## INVESTMENT RISKS

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1. **ROIC Trends.** DIS is in the middle of a capital spending cycle in its Parks segment, attributable to two new cruise ships, a re-boot of the California adventure theme park, and a holiday vacation development in Hawaii. What next? A new park in Shanghai was recently approved by the Chinese government and DIS will be required to spend its 43% ownership share of nearly a \$4B financial commitment to build that park over the next 5 years. In the media space, there is a 90% correlation between forward year returns on capital and share price. The extra capital spending slows ROIC improvement.
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 \$70 bundle of TV programming. Migration to the Internet of other media silos (music, newspapers, yellow pages, etc) has destroyed economics and we worry that the broadcasters are accelerating the demise of television.
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. **Intellectual Property Rights.** Digital technology, with its ease of use 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 ever higher broadband speeds brings the IPR challenge into the television and film environments.
6. **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 stymie growth, suggesting downside to DIS's EPS estimates. Theme Park attendance and spending are also dependent on a strong global economy.

## COMPANY DESCRIPTION

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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, 2012 E

\$ and shares in millions, except per share data

	12/31/11E	3/31/12E	6/30/12E	9/30/12E	2012E	Year/Year Change				
						12/11	12/11	12/11	12/11	12/11
<b>Revenue</b>										
Broadcasting	\$1,640	\$1,527	\$1,476	\$1,371	\$6,014	4%	2%	3%	3%	3%
Cable Networks	\$3,375	\$3,109	\$3,868	\$3,814	\$14,165	10%	10%	10%	10%	10%
Media Networks	\$5,015	\$4,636	\$5,344	\$5,185	\$20,179	8%	7%	8%	8%	8%
Parks & Resorts	\$3,069	\$2,814	\$3,432	\$3,411	\$12,726	7%	7%	8%	9%	8%
Studio Entertainment	\$1,739	\$1,333	\$1,648	\$1,485	\$6,204	-10%	-1%	2%	2%	-2%
Consumer Products	\$991	\$673	\$736	\$877	\$3,278	8%	8%	8%	8%	8%
Interactive Media	\$352	\$165	\$261	\$232	\$1,011	1%	4%	4%	4%	3%
<b>Total Revenue</b>	<b>\$11,166</b>	<b>\$9,622</b>	<b>\$11,421</b>	<b>\$11,189</b>	<b>\$43,397</b>	<b>4%</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>6%</b>
<b>Segment OIBDA (Bef Stock Option)</b>										
Broadcasting	\$332	\$215	\$295	\$230	\$1,072	-1%	4%	7%	-2%	2%
Cable Networks	\$882	\$1,524	\$1,996	\$1,307	\$5,709	8%	8%	6%	0%	5%
Media Networks	\$1,214	\$1,739	\$2,292	\$1,537	\$6,782	5%	8%	6%	-1%	5%
Parks & Resorts	\$810	\$468	\$834	\$673	\$2,785	5%	3%	3%	-8%	1%
Studio Entertainment	\$369	\$102	\$92	\$147	\$710	-9%	-6%	7%	5%	-4%
Consumer Products	\$352	\$166	\$172	\$285	\$976	7%	7%	1%	27%	11%
Interactive Media	(\$6)	(\$66)	(\$46)	(\$26)	(\$145)	3%	3%	4%	-1%	2%
<b>Segment OIBDA</b>	<b>\$2,739</b>	<b>\$2,409</b>	<b>\$3,343</b>	<b>\$2,616</b>	<b>\$11,107</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>	<b>-1%</b>	<b>2%</b>
<b>EBITA (After Stock Option Exp)</b>										
Broadcasting	\$300	\$183	\$273	\$199	\$955	2%	10%	9%	-1%	5%
Cable Networks	\$850	\$1,492	\$1,972	\$1,276	\$5,591	10%	10%	7%	1%	7%
Media Networks	\$1,151	\$1,675	\$2,246	\$1,474	\$6,546	8%	10%	7%	1%	7%
Parks & Resorts	\$500	\$158	\$539	\$363	\$1,560	7%	9%	4%	-14%	0%
Studio Entertainment	\$355	\$88	\$58	\$134	\$635	-5%	14%	18%	15%	3%
Consumer Products	\$337	\$151	\$162	\$270	\$921	8%	7%	5%	31%	13%
Interactive Media	(\$20)	(\$80)	(\$60)	(\$40)	(\$200)	-54%	30%	30%	57%	-35%
<b>EBITA (pre corp)</b>	<b>\$2,322</b>	<b>\$1,992</b>	<b>\$2,944</b>	<b>\$2,202</b>	<b>\$9,461</b>	<b>5%</b>	<b>12%</b>	<b>8%</b>	<b>4%</b>	<b>7%</b>
Less: Amortization	(\$33)	(\$33)	(\$33)	(\$33)	(\$130)	NM	NM	NM	NM	NM
<b>EBIT (pre corp)</b>	<b>\$2,290</b>	<b>\$1,960</b>	<b>\$2,912</b>	<b>\$2,170</b>	<b>\$9,331</b>	<b>5%</b>	<b>13%</b>	<b>8%</b>	<b>4%</b>	<b>7%</b>
Corp & Other (Including Stock Op. Exp)	(\$250)	(\$200)	(\$200)	(\$200)	(\$850)	55%	0%	-30%	-19%	-5%
Net Interest Expense	(\$95)	(\$95)	(\$95)	(\$95)	(\$380)	0%	14%	8%	23%	11%
Restructuring and Impairment	\$0	\$0	\$0	\$0	\$0					
Equity in Income	\$160	\$130	\$190	\$125	\$605	3%	6%	3%	2%	3%
Income Before Tax	\$2,137	\$1,827	\$2,839	\$2,032	\$8,836	4%	16%	13%	7%	10%
Income Taxes	(\$769)	(\$640)	(\$979)	(\$701)	(\$3,090)	5%	15%	16%	8%	11%
Minority Interest	(\$45)	(\$70)	(\$195)	(\$175)	(\$485)	41%	3%	4%	7%	8%
NI Before Extraordinary	\$1,323	\$1,118	\$1,665	\$1,156	\$5,262	2%	17%	13%	6%	9%
Less: Gain Sale, Comp Plan Mod.	\$0	\$0	\$0	\$0	\$0					
Extraordinary Charges	\$0	\$0	\$0	\$0	\$0					
Net Income-Reported	\$1,323	\$1,118	\$1,665	\$1,156	\$5,262	2%	17%	13%	6%	9%
<b>Net Income-Operations</b>	<b>\$1,323</b>	<b>\$1,118</b>	<b>\$1,665</b>	<b>\$1,156</b>	<b>\$5,262</b>	<b>2%</b>	<b>17%</b>	<b>11%</b>	<b>6%</b>	<b>9%</b>
Diluted EPS-Reported	\$0.71	\$0.61	\$0.91	\$0.64	\$2.87	6%	23%	18%	10%	14%
<b>Diluted EPS-Operations</b>	<b>\$0.71</b>	<b>\$0.61</b>	<b>\$0.91</b>	<b>\$0.64</b>	<b>\$2.87</b>	<b>6%</b>	<b>23%</b>	<b>17%</b>	<b>8%</b>	<b>13%</b>
Avg Diluted Shares Out	1,854	1,839	1,825	1,805	1,831	-4%	-5%	-5%	-3%	-4%

Sources: Company Reports, Needham &amp; Company estimates.

Table 4					
Disney: Annual Income Statement Projections, 2009A-2012E					
\$ and shares in millions, except per share data					
FYE 9/30:	Annual				
	2009A	2010A <sup>(1)</sup>	2011A	2012E	'09-'12 CAGR
<b>Revenue</b>					
Broadcasting	\$5,654	\$5,687	\$5,837	\$6,014	2.1%
Cable Networks	<u>\$10,555</u>	<u>\$11,475</u>	<u>\$12,877</u>	<u>\$14,165</u>	10.3%
Media Networks	\$16,209	\$17,162	\$18,714	\$20,179	7.6%
Parks & Resorts	\$10,667	\$10,761	\$11,797	\$12,726	6.1%
Studio Entertainment	\$6,136	\$6,701	\$6,351	\$6,204	0.4%
Consumer Products	\$2,425	\$2,678	\$3,049	\$3,278	10.6%
Interactive Media	\$712	\$761	\$982	\$1,011	12.4%
<b>Total Revenue</b>	<b>\$36,149</b>	<b>\$38,063</b>	<b>\$40,893</b>	<b>\$43,397</b>	<b>6.3%</b>
<b>Segment OIBDA (Bef Stock Option)</b>					
Broadcasting	\$642	\$800	\$1,053	\$1,072	18.6%
Cable Networks	<u>\$4,410</u>	<u>\$4,634</u>	<u>\$5,412</u>	<u>\$5,709</u>	9.0%
Media Networks (1)	\$5,052	\$5,354	\$6,465	\$6,782	10.3%
Parks & Resorts	\$2,598	\$2,457	\$2,763	\$2,785	2.3%
Studio Entertainment	\$269	\$782	\$741	\$710	38.2%
Consumer Products	\$650	\$755	\$879	\$976	14.5%
Interactive Media		(\$191)	(\$253)	(\$145)	
<b>Segment OIBDA</b>	<b>\$8,569</b>	<b>\$9,299</b>	<b>\$10,848</b>	<b>\$11,107</b>	<b>9.0%</b>
<b>EBITA (After. Stock Option Exp)</b>					
Broadcasting	\$506	\$659	\$913	\$955	23.6%
Cable Networks	\$4,259	\$4,473	\$5,233	\$5,591	9.5%
Media Networks	\$4,765	\$5,132	\$6,146	\$6,546	11.2%
Parks & Resorts	\$1,418	\$1,318	\$1,553	\$1,560	3.2%
Studio Entertainment	\$175	\$693	\$618	\$635	53.6%
Consumer Products	\$609	\$677	\$816	\$921	14.8%
Interactive Media	(\$295)	(\$234)	(\$308)	(\$200)	-12.2%
<b>Segment Operating Income</b>	<b>\$6,672</b>	<b>\$7,586</b>	<b>\$8,825</b>	<b>\$9,461</b>	<b>12.3%</b>
Corp & Other (Including Stock Op. Exp)	(\$633)	(\$720)	(\$892)	(\$850)	10.3%
Net Interest Expense	(\$466)	(\$409)	(\$343)	(\$380)	-6.6%
Gain on Sale	(\$492)	\$0	\$0	\$0	
Restructuring and Impair	(\$270)	(\$270)	(\$55)	\$0	
Equity in Income	<u>\$577</u>	<u>\$440</u>	<u>\$585</u>	<u>\$605</u>	1.6%
Income Before Tax	\$5,646	\$6,627	\$8,055	\$8,836	16.1%
Income Taxes	(\$2,049)	(\$2,314)	(\$2,785)	(\$3,090)	14.7%
Minority Interest	<u>(\$302)</u>	<u>(\$350)</u>	<u>(\$451)</u>	<u>(\$485)</u>	17.1%
NI Before Extraordinary	\$3,307	\$3,963	\$4,819	\$5,262	16.7%
Cumulative Effect of Acct.	\$0	\$0	\$0	\$0	
<b>Net Income</b>	<b>\$3,307</b>	<b>\$3,963</b>	<b>\$4,839</b>	<b>\$5,262</b>	<b>16.7%</b>
Diluted EPS-Before Acct.	\$1.76	\$2.03	\$2.52	\$2.87	17.7%
<b>Diluted EPS-After Acct.</b>	<b>\$1.82</b>	<b>\$2.14</b>	<b>\$2.54</b>	<b>\$2.87</b>	<b>16.5%</b>
Avg Diluted Shares Out <sup>(3)</sup>	1,875	1,949	1,909	1,831	-0.8%
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: Target Price Calculation, 2013E-2022E**

\$ and shares in millions, except per share data

Valuation Conclusions		% of Total
Sum of PV of Free Cash Flow <sup>1</sup>	\$45,597	48%
PV of Terminal Value Discounted at WACC <sup>1</sup>	\$52,161	55%
<b>Value of Operations (WACC Method)</b>	<b>\$97,759</b>	<b>104%</b>
Plus: Cash at 9/30/11	\$3,185	
Plus: Non-Consolidated Assets (From PMV)	\$4,600	
Less: Minority Interest (20% ESPN & Euro Dis)	(\$11,200)	
Less: Unfunded Retirement Liabilities	\$0	
<b>Enterprise Value</b>	<b>\$94,344</b>	<b>100%</b>
Less: LTD at 9/30/11	(\$13,977)	
Less: Lease Obligations	(\$4,750)	
Less: Preferred Stock Outstanding	\$0	
Less: Value of Options & Restricted Sk, After-tax	(\$5,400)	
<b>Common Equity Value</b>	<b>\$70,217</b>	<b>74%</b>
Fully Diluted Shares Out, 2012E	1,831	
<b>DCF Value/Share</b>	<b>\$38.35</b>	
Current Share Price @ 01/17/12	\$38.48	
<b>Upside Potential (DCF-Current Price/Current Price)</b>	<b>0%</b>	

**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

**<sup>1</sup> Calculation of the Value of Operations (WACC Method)**

FYE 9/30:	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	CAGR *13-22E
<b>OIBDA (after sk comp exp &amp; corp):</b>	\$11,107	\$11,540	\$11,990	\$12,458	\$12,943	\$13,448	\$13,973	\$14,518	\$15,084	\$15,672	\$16,283	3.9%
- Depreciation	(\$1,750)	(\$1,750)	(\$1,619)	(\$2,180)	(\$2,485)	(\$2,367)	(\$2,236)	(\$2,323)	(\$2,413)	(\$2,508)	(\$2,345)	
+ Option Exercise Proceed	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	
+ Int & Inv Income only	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	
EBIT	\$9,907	\$10,340	\$10,921	\$10,827	\$11,008	\$11,631	\$12,287	\$12,745	\$13,220	\$13,714	\$14,488	
Cash Taxes (at 37%)	(\$1,486)	(\$3,826)	(\$4,041)	(\$4,006)	(\$4,073)	(\$4,304)	(\$4,546)	(\$4,716)	(\$4,892)	(\$5,074)	(\$5,361)	
Plus: Depreciation	\$1,750	\$1,750	\$1,619	\$2,180	\$2,485	\$2,367	\$2,236	\$2,323	\$2,413	\$2,508	\$2,345	
Plus: Sk Based Comp Exp	\$300	\$300	\$300	\$250	\$200	\$200	\$200	\$200	\$200	\$200	\$200	
Working Capital Change	(\$350)	(\$350)	(\$486)	(\$467)	(\$217)	(\$207)	(\$196)	(\$203)	(\$211)	(\$219)	(\$205)	
Less: Capital Spending	(\$3,260)	(\$3,462)	(\$3,237)	(\$3,114)	(\$3,106)	(\$2,959)	(\$2,795)	(\$2,904)	(\$3,017)	(\$3,134)	(\$2,931)	
<b>FCF from Operations</b>	<b>\$6,861</b>	<b>\$4,752</b>	<b>\$5,076</b>	<b>\$5,670</b>	<b>\$6,296</b>	<b>\$6,729</b>	<b>\$7,186</b>	<b>\$7,445</b>	<b>\$7,714</b>	<b>\$7,994</b>	<b>\$8,536</b>	6.7%
PV Discounted at WACC <sup>2</sup>		\$4,752	\$4,669	\$4,797	\$4,900	\$4,817	\$4,732	\$4,510	\$4,298	\$4,097	\$4,024	
Sum of PV of Free Cash Flow												\$45,597
Terminal Value of 2022E FCF <sup>3</sup>												\$110,649
PV of Terminal Value at WACC <sup>2</sup>												\$52,161
Discount Period		0	1	2	3	4	5	6	7	8	9	

**<sup>2</sup> Calculation of WACC: (Updated 8/20/11)**

10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.0%
Levered Beta (Bloomberg)	1.22
Target Equity/(Debt + Equity)	92%
Debt Rating	A
Debt Spread	0.7%
Marginal Tax Rate ("T")	35.0%
<b>WACC</b>	<b>8.7%</b>
(RFR+(Equity Risk Premium x Beta)) x % Equity/Total Capital + ((RFR + Debt Spread) x (1-T) x % Debt/Total Capital).	

**<sup>3</sup> Calculation of Terminal Multiple (WACC Method)**

WACC	8.7%
Long-term Nominal GDP Growth	1.0%
WACC-GDP Growth	7.7%
<b>FCF Terminal Multiple [1/(WACC-Growth Rate)]</b>	<b>13.0</b>
<b>EBITDA Terminal Multiple</b>	<b>6.8</b>

Sources: Company Reports, Needham &amp; Company estimates.

Table 6  
**Disney: Breakeven Discounted Cash Flow Valuation Calculation, 2013E - 2022E**

\$ and shares in millions, except per share data

<b>Valuation Conclusions</b>	
Sum of PV of Free Cash Flow <sup>1</sup>	\$45,590
PV of Terminal Value Discounted at WACC <sup>1</sup>	\$52,161
<b>Value of Operations (WACC Method)</b>	<b>\$97,751</b>
Plus: Cash at 9/30/11	\$3,185
Plus: Non-Consolidated Assets (From PMV)	\$4,600
Less: Minority Interest (20% ESPN & Euro Dis)	(\$11,200)
<b>Enterprise Value</b>	<b>\$94,336</b>
Less: LTD at 9/30/11	(\$13,977)
Less: Lease Obligations	(\$4,750)
Less: Preferred Stock Outstanding	\$0
Less: Value of Options & Restricted Sk, After-tax	(\$5,400)
<b>Common Equity Value</b>	<b>\$70,209</b>
Fully Diluted Shares Out, 2012E	1,831
<b>Breakeven DCF Value/Share</b>	<b>\$38.35</b>
Current Share Price @ 1/17/2012	\$38.48
Discount to DCF Value (DCF-Current Price/DCF)	0%

<b>Breakeven Discounted Cash Flow Valuation</b>	
<b>Why We Calculate:</b> BE DCF uses the current share price to calculate the market's growth expectations for the enterprise.	
<b>Strengths</b>	
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)	
<b>Weaknesses</b>	
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	

<sup>1</sup> Calculation of the Value of Operations (WACC Method)

FYE 9/30:	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	Required LT Growth Rate
<b>OIBDA (after sk comp exp &amp; corp):</b>	\$11,107	\$11,540	\$11,990	\$12,458	\$12,943	\$13,448	\$13,973	\$14,518	\$15,084	\$15,672	\$16,283	3.9%
- Depreciation	(\$1,750)	(\$1,731)	(\$1,619)	(\$2,180)	(\$2,485)	(\$2,367)	(\$2,236)	(\$2,323)	(\$2,413)	(\$2,508)	(\$2,345)	
+ Option Exercise Proceed	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	
+ Int & Inv Income only	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	
EBIT	\$9,907	\$10,359	\$10,921	\$10,827	\$11,008	\$11,631	\$12,287	\$12,745	\$13,220	\$13,714	\$14,488	
Cash Taxes (at 37%)	(\$3,665)	(\$3,833)	(\$4,041)	(\$4,006)	(\$4,073)	(\$4,304)	(\$4,546)	(\$4,716)	(\$4,892)	(\$5,074)	(\$5,361)	
Plus: Depreciation	\$1,750	\$1,731	\$1,619	\$2,180	\$2,485	\$2,367	\$2,236	\$2,323	\$2,413	\$2,508	\$2,345	
Plus: Sk Based Comp Exp	\$300	\$300	\$300	\$250	\$200	\$200	\$200	\$200	\$200	\$200	\$200	
Working Capital Change	(\$350)	(\$350)	(\$486)	(\$467)	(\$217)	(\$207)	(\$196)	(\$203)	(\$211)	(\$219)	(\$205)	
Less: Capital Spending	(\$3,260)	(\$3,462)	(\$3,237)	(\$3,114)	(\$3,106)	(\$2,959)	(\$2,795)	(\$2,904)	(\$3,017)	(\$3,134)	(\$2,931)	
<b>FCF from Operations</b>	<b>\$4,681</b>	<b>\$4,745</b>	<b>\$5,076</b>	<b>\$5,670</b>	<b>\$6,296</b>	<b>\$6,729</b>	<b>\$7,186</b>	<b>\$7,445</b>	<b>\$7,714</b>	<b>\$7,994</b>	<b>\$8,536</b>	6.7%
PV Discounted at WACC <sup>2</sup>		\$4,745	\$4,669	\$4,797	\$4,900	\$4,817	\$4,732	\$4,510	\$4,298	\$4,097	\$4,024	
Sum of PV of Free Cash Flow											\$45,590	
Terminal Value of 2022E FCF <sup>3</sup>											\$110,649	
PV of Terminal Value at WACC <sup>2</sup>											\$52,161	
Discount Period		0	1	2	3	4	5	6	7	8	9	

<sup>2</sup> Calculation of WACC: (Updated 8/20/11)

10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.0%
Beta (Yahoo Finance)	1.22
Target Equity/(Debt + Equity)	92%
Debt Rating	A
Debt Spread (10 Year, Bonds Online)	0.7%
Marginal Tax Rate ("T")	35.0%
<b>WACC</b>	<b>8.7%</b>
$(RFR + (Equity Risk Premium \times Beta)) \times \% Equity/Total Capital + ((RFR + Debt Spread) \times (1-T) \times \% Debt/Total Capital)$	

<sup>3</sup> Calculation of Terminal Multiple (WACC Method)

WACC	8.7%
Long-term Nominal GDP Growth	1.0%
WACC-GDP Growth	7.7%
<b>FCF Terminal Multiple [1/(WACC-Growth Rate)]</b>	<b>13.0</b>
<b>EBITDA Terminal Multiple</b>	<b>6.8</b>

Sources: Company Reports, Needham & Company estimates.

Table 7 Disney: Valuation Multiples (Sales, OIBDA, P/E) \$ and shares in millions, except per share data		
<b>Valuation Conclusions</b>		<b>2012E</b>
Market-Based Enterprise Value <sup>1</sup>		\$81,389
2012E Sales (From Annual Projections)		\$43,397
<b>EV/Sales</b>		<b>1.9</b>
Market-Based Enterprise Value <sup>1</sup>		\$81,389
2012E OIBDA (From Annual Projections)		\$11,107
<b>EV/OIBDA</b>		<b>7.3</b>
Target Price		NA
<b>Target Price EV/2013 OIBDA</b>		<b>NA</b>
Current Price	1/17/12	\$38.48
2012E EPS (From Annual Projections)		\$2.87
<b>P/E Ratio</b>		<b>13.4</b>
<b><sup>1</sup> Calculation of Market-Based Enterprise Value</b>		
Year End 9/30:		2012E
Current Share Price	01/17/12	\$38.48
Fully Diluted Shares Out		<u>1,831</u>
<b>Market Capitalization</b>		<b>\$70,447</b>
Less: Excess Cash		(\$3,185)
Less: Non-Consolidated Assets		(\$4,600)
Plus: Unfunded Retirement Liabilities		\$0
Plus: Debt at 9/30/12E		\$13,977
Plus: Lease Obligations		\$4,750
Plus: Preferred Stock Outstanding		\$0
Plus: Options & Warrants Outstanding		<u>\$5,400</u>
<b>Market-Based Enterprise Value</b>		<b>\$81,389</b>
Sources: Company Reports, Needham & Company estimates.		

Table 8 Disney: Free Cash Flow Valuation Metrics \$ and shares in millions, except per share data		
<b>Valuation Conclusions</b>		<b>2012E</b>
FCF/Share <sup>2</sup>		\$2.42
Current Price	1/17/12	\$38.48
<b>FCF Yield</b>		<b>6%</b>
FCF <sup>2</sup>		\$4,436
2012E OIBDA (From Annual Projections)		\$11,107
<b>FCF Conversion Rate (FCF/OIBDA)</b>		<b>40%</b>
Market-Based Enterprise Value <sup>1</sup>		\$81,389
FCF <sup>2</sup>		\$4,436
<b>EV/FCF</b>		<b>18.3</b>
Net Debt/OIBDA		1.0
Net Debt		\$10,792
<b>Net Debt/Market Cap</b>		<b>15.3%</b>
<b><sup>2</sup> Calculation of Free Cash Flow</b>		
Year End 9/30:		2012E
EBITDA		\$11,107
Plus: Option Exercise Proceeds		\$500
Less: Cash Interest Expense		(\$380)
Minority Interest		\$485
Less: Preferred Dividends		\$0
Less: Cash Taxes		(\$3,665)
Less: Change in Working Capital		(\$350)
Less: Capital Spending		<u>(\$3,260)</u>
<b>Free Cash Flow</b>		<b>\$4,436</b>
Less: Dividends		<u>(\$1,050)</u>
Free Cash Flow After Dividends		\$3,386
Shares Outstanding		1,831
<b>FCF/Share</b>		<b>\$2.42</b>
FCF/Share After Dividends		\$1.85
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				2012E Multiples				Break-even DCF	1/17/12			Conflicts Disclosure
Ticker	Market Cap (\$B)	Rating	EV/ EBITDA	P/E	EV/ FCF	FCF Yield	Target Price		Current Price	Target/ Current		
1 AOL, Inc.	AOL	\$1	BUY	4.7	53.0	6.2	16.2%	-9.1%	\$20.00	\$15.04	33%	B
2 CBS	CBS	\$19	BUY	7.7	12.5	11.7	12.1%	2.7%	\$30.00	\$28.09	7%	B
3 Discovery Communications	DISCA	\$17	HOLD	9.5	15.7	17.9	6.5%	2.4%	NA	\$43.70		B, G
<b>4 Disney</b>	<b>DIS</b>	<b>\$70</b>	<b>HOLD</b>	<b>7.3</b>	<b>13.4</b>	<b>18.3</b>	<b>6.3%</b>	<b>3.9%</b>	<b>NA</b>	<b>\$38.48</b>		<b>B</b>
5 Madison Square Garden	MSG	\$2	BUY	8.8	23.9	(19.0)	-5.5%	6.5%	\$37.00	\$29.24	27%	B
6 NewsCorp	NWS	\$48	HOLD	7.2	13.8	15.4	6.7%	2.7%	NA	\$19.02		B, G
7 Nielsen Company BV	NLSN	\$11	HOLD	10.8	27.7	38.4	4.3%	6.2%	NA	\$29.33		B
8 Pandora Media	P	\$2	BUY	837.5	NM	164.2	0.6%	38.3%	\$13.00	\$12.08	8%	B
9 Scripps Networks Interactive	SNI	\$7	BUY	6.9	13.6	14.7	7.4%	3.0%	\$62.00	\$43.81	42%	B
10 Time Warner Inc	TWX	\$37	HOLD	7.8	11.9	24.1	6.1%	2.2%	NA	\$37.31		B
11 Time Warner Cable	TWC	\$21	BUY	5.4	11.7	23.6	8.3%	0.9%	\$95.00	\$66.26	43%	B
12 Viacom	VIAB	\$26	BUY	7.9	11.1	15.8	8.1%	1.9%	\$63.00	\$47.56	32%	B
13 Yahoo!	YHOO	\$19	BUY	3.2	16.7	6.1	4.7%	-12.0%	\$19.00	\$15.43	23%	B, G
<b>Total/Average (1)</b>		<b>\$282</b>		<b>7.3</b>	<b>18.7</b>	<b>14.4</b>	<b>6.8%</b>	<b>0.9%</b>			<b>NM</b>	
	WACC	Revenue 2012E	OIBDA 2012E	EPS 2012E	EV	Net Debt	Debt/ OIBDA	Debt Rating	FCF	FCF/ Share	Dividend/ Share	Div. Yield
\$ in millions, except per share data												
1 AOL, Inc.	12.5%	\$2,084	\$306	\$0.28	\$1,440	(\$444)	(1.5)	BBB-	\$231	\$2.43	\$0.00	NA
2 CBS	10.1%	\$15,291	\$3,423	\$2.24	\$26,437	\$6,944	2.0	BBB-	\$2,256	\$3.41	\$0.40	1.4%
3 Discovery Communications	9.3%	\$4,429	\$2,104	\$2.79	\$19,896	\$3,247	1.5	BBB	\$1,113	\$2.83	\$0.00	NA
<b>4 Disney</b>	<b>8.7%</b>	<b>\$43,397</b>	<b>\$11,107</b>	<b>\$2.87</b>	<b>\$81,389</b>	<b>\$10,792</b>	<b>1.0</b>	<b>A</b>	<b>\$4,436</b>	<b>\$2.42</b>	<b>\$0.60</b>	<b>1.6%</b>
5 Madison Square Garden	9.1%	\$1,166	\$266	\$0.99	\$2,350	(\$305)	(1.1)	BBB-	(\$124)	(\$1.60)	\$0.00	NA
6 NewsCorp	10.1%	\$34,503	\$6,903	\$1.38	\$49,549	\$5,317	0.8	BBB+	\$3,216	\$1.28	\$0.15	0.8%
7 Nielsen Company BV	10.4%	\$5,845	\$1,656	\$1.06	\$17,919	\$5,650	3.4	Ba2	\$467	\$1.25	\$0.00	NA
8 Pandora Media	9.7%	\$276	\$3	(\$0.01)	\$2,452	(\$91)	(31.0)	BBB-	\$15	\$0.08	\$0.00	NA
9 Scripps Networks Interactive	8.7%	\$2,283	\$1,095	\$3.23	\$7,604	\$719	0.7	BBB+	\$516	\$3.22	\$0.40	0.9%
10 Time Warner Inc	8.9%	\$29,646	\$7,116	\$3.15	\$55,269	\$15,266	2.1	BBB	\$2,290	\$2.28	\$0.94	2.5%
11 Time Warner Cable	10.3%	\$20,440	\$7,625	\$5.68	\$41,278	\$20,673	2.7	BBB	\$1,747	\$5.47	\$1.92	2.9%
12 Viacom	9.1%	\$15,044	\$4,256	\$4.28	\$33,673	\$6,344	1.5	BBB+	\$2,136	\$3.87	\$1.00	2.1%
13 Yahoo!	9.0%	\$4,631	\$1,746	\$0.84	\$5,519	(\$2,870)	(1.6)	A-	\$900	\$0.73	\$0.00	NA

(1) P is excluded from this calculation given its NM number.

Sources: Needham & Co, LLC estimates, Company documents, FirstCall, Yahoo Finance.

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I, Dan Medina, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.



	% of companies under coverage with this rating	% for which investment banking services have been provided for in the past 12 months
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Buy	61	16
Hold	30	9
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Rating Suspended	1	0
Restricted	1	50
Under Review	0	0

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