Walt Disney Co DIS (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
103.00 USD	134.00 USD	93.80 USD	180.90 USD	Medium	Wide	Stable	Standard	Entertainment

Recent Concerns on Media Sector Sub Losses Overblown; Buying Opportunity for Wide Moat Stocks

See Page 2 for the full Analyst Note from 07 Aug 2015

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The primary analyst covering this company does not own its stock.

Research as of 07 Aug 2015
Estimates as of 04 Aug 2015
Pricing data through 02 Oct 2015
Rating updated as of 02 Oct 2015

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 27 Jul 2015

While Disney is a media conglomerate, we view the company as two distinct yet complementary businesses: media networks, which include ESPN and ABC, and Disney-branded businesses, including parks, filmed entertainment, and consumer products.

The crown jewel of Disney's media networks segment is ESPN. It dominates domestic sports television with its 24-hour programming on ESPN, ESPN2, and its growing sister networks. ESPN has exclusive rights within both NFL and college football, the premier sports programming rights in the United States. ESPN profits from the highest affiliate fees per subscriber of any cable channel, and generates revenue from advertisers interested in reaching adult males ages 18-49, a key advertising demographic that watches less scripted television than other groups. This dual income stream is a significant advantage not shared by the broadcast networks, which rely primarily on ad revenue. The Disney Channel also benefits from attractive economics, as its programming consists of internally generated hits with Disney's vast library of feature films and animated characters. We expect that the unique content on ESPN and Disney Channel will provide the firm with a softer landing than its peers as viewing transfers to a OTT world over the next decade.

Disney's other components rely on the world-class Disney brand, sought after by children and trusted by parents. Over the past decade, Disney has demonstrated its ability to monetize its characters and franchises across multiple platforms--movies, home video, merchandising, theme parks, and even musicals. The stable of animated franchises will continue to grow as more popular movies get released by the animated studio and Pixar, which has already generated hits such as "Toy Story," "Cars," and most recently, "Frozen." Similar to the animated franchises, Disney arranged the Marvel universe to create a series of interconnected films and product tie-ins. With the acquisition of Lucasfilm, Disney appears to be positioning the Star Wars franchise in the same manner. Disney's theme parks and resorts are almost impossible to replicate, especially considering the tie-ins with its other business lines.

Vital Statistics

Market Cap (USD Mil)	173,849
52-Week High (USD)	122.08
52-Week Low (USD)	78.54
52-Week Total Return %	20.8
YTD Total Return %	10.1
Last Fiscal Year End	13 Sep 2014
5-Yr Forward Revenue CAGR %	5.6
5-Yr Forward EPS CAGR %	11.8
Price/Fair Value	0.77

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings	19.0	20.6	*20.4*	*18.6*
EV/EBITDA	10.9	11.8	*12.3*	*11.9*
EV/EBIT	13.5	14.2	*14.5*	*14.0*
Free Cash Flow Yield %	5.7	4.3	*4.6*	*5.2*
Dividend Yield %	1.1	1.0	*0.9*	*1.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue	45,041	48,813	*51,988*	*55,474*
Revenue YoY %	6.5	8.4	*6.5*	*6.7*
EBIT	9,451	11,540	*12,710*	*13,166*
EBIT YoY %	6.6	22.1	*10.1*	*3.6*
Net Income, Adjusted	6,146	7,599	*8,511*	*8,843*
Net Income YoY %	10.0	23.6	*12.0*	*3.9*
Diluted EPS	3.39	4.32	*5.04*	*5.54*
Diluted EPS YoY %	10.3	27.4	*16.7*	*9.9*
Free Cash Flow	4,012	5,379	*7,115*	*8,089*
Free Cash Flow YoY %	68.2	34.1	*32.3*	*13.7*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Walt Disney owns the rights to some of the most globally recognized characters, from Mickey Mouse to Buzz Lightyear to Thor to Luke Skywalker. These characters and others are featured in several theme parks that Disney owns or licenses around the world. Disney makes live-action and animated films under several labels, including Pixar, Marvel, and Lucasfilm. Disney also operates media networks including ESPN, ABC, and Disney Channel, and several television production studios.

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Morningstar Analysis

Recent Concerns on Media Sector Sub Losses Overblown; Buying Opportunity for Wide Moat Stocks
07 Aug 2015
Given the recent volatility in media stocks, we wanted to address some concerns that may be behind recent price declines. We believe that the recent research reports on ESPN's subscriber losses and subsequent discussion by management at Disney generated an overhang over the sector and downward pressure on all media shares. Given that these subscriber losses were well-known and relatively small, we believe that the sell-off was overdone and created a buying opportunity. We prefer wide moat rated names such as Disney (fair value estimate $134) and Time Warner (fair value estimate $99), both of which are trading around 20% below our fair value estimates.

In its quarterly earnings call held on Aug. 4, management at Disney noted that cable subscribers at ESPN would decline roughly 1% primarily because of cord-cutting in 2016. We note that the company discloses the Nielsen sub numbers for its channels in its annual 10-K. ESPN reported household sub levels of 98 million in 2012, 99 million in 2013, and 97 million in 2014. However, these numbers are lower than the actual number of subs that Disney gets paid for by distributors. Given the tremendous hype around cord-cutting and cord-nevers, we see the projected sub losses as both relatively low and expected. We also note that competitors such as Time Warner have explicitly included similar subscriber losses in previously issued long-term guidance. ESPN generally receives over 5% annual increases in its affiliate fee per sub as part of its carriage, which significantly outweighs the projected sub decline. Given these circumstances, we believe that ESPN will remain an important driver of growth at Disney.

Both Time Warner and Discovery have stated that their long-term planning anticipates similar levels of sub deterioration. We believe that all of the media companies use comparable numbers for their planning purposes given that the basic cable bundle looks remarkably similar regardless of the pay-TV provider.

While the reaction to the sub loss guidance may have been overdone, we acknowledge that the streaming service and skinny bundles will disturb the traditional pay-TV bundle in the near future. However, the timing of the disruption remains unclear. We believe that the legality of Verizon's skinny bundles will ultimately be decided in court as Disney, Time Warner, and Fox all appear unwilling to concede on the issue. The media companies believe that their current carriage agreements obligate pay-TV distributors such as Verizon to place certain channels such as ESPN, TBS, or FX in the basic bundle offering and that the skinny bundle offered by Verizon without those channels violates the agreement. Verizon's public position is that the agreements allow for their specific version of the skinny bundle. The cases covering these agreements may drag on for years, thus possibly halting other major distributors from selling a similar offering. We believe that Verizon's attempt is a reflection of the weaker position of distributors who are being squeezed one side by lowering video subs and rising affiliate fees on the other.

On the streaming side, we note that Disney, Time Warner, CBS, and Fox all either run their own SVOD service (HBO Now for Time Warner and CBS All Access) or own part of one (Hulu for Disney and Fox). We believe that in a shift to an OTT world, the media companies with both deep content libraries and must-watch live programming (sports and news) will be able to create a compelling SVOD service. The service for channels like TNT or FX could look like CBS All Access with a combination of linear programming and a deep library of on-demand content including new shows available sometime after airing (with full season stacking). ESPN's service could mimic its WatchESPN/ESPN3 service with multiple live streams and archived events. One advantage of moving to an OTT world for media companies would be deep and meaningful data concerning viewer

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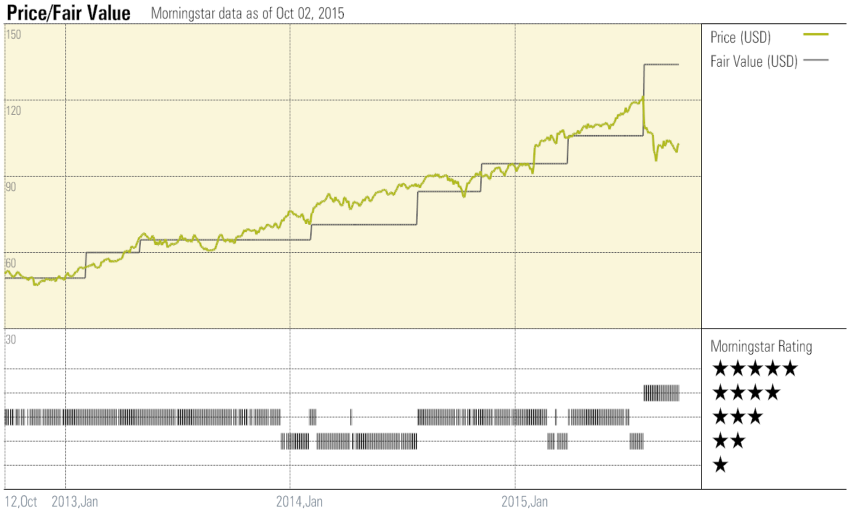
Price/Fair Value Morningstar data as of Oct 02, 2015



watching habits and demographics, similar to the data that Netflix currently obtains. This data would be used to not only better understand what programs to greenlight and to renew, but also to better target advertising and to measure its efficacy.

One potential issue with an OTT or SVOD world would be pricing and overall cost to the consumer. The basic pay-TV bundle works via subsidizing as the cost per channel is borne over the entire sub base. One of the main reasons used to support the move to skinny bundles or even a la carte pricing is that the average household watches 17 channels. Under current OTT pricing (from $5 per month for CBS All Access to $15 per month for HBO Now), that bundle of 17 channels would cost between $85 and $255 per month, at or well above the current cost of the basic cable bundle. Also, we expect that the current pay-TV providers with ability to offer broadband would increase the price of broadband given additional usage and the lack of video revenue/profit. While the large media firms with large numbers of high demand networks could create individual company bundles to alleviate this pricing pressure, smaller media firms with a smaller number of networks such as AMC or Scripps could be priced out of the market. Another method of alleviate this pressure is that pay-TV distributors and media firms work together to offer bundles attached to broadband or video service.

Against this backdrop, we believe that the wide-moat firms with the best production studios, deep content libraries, and live programming rights will have the best chance to navigate any of these potential changes in the space. Three of our wide-moat names, Disney (fair value estimate $134), Time Warner (fair value estimate $99), and Fox (fair value estimate $38), fit these criteria and are now trading at a discount to our fair value estimate because of the recent pullback.

Valuation, Growth and Profitability 04 Aug 2015

We are raising our fair value estimate to $134 per share from $106 to better reflect the impact from the Shanghai resort and Star Wars films. Our fair value estimate of $134 per share implies price/earnings of approximately 24 times our fiscal 2016 earnings per share forecast. We expect average annual top-line growth of about 5.6% through fiscal 2019. We forecast 4.9% average annual sales growth from the media networks (5.3% for affiliate fees and 4.6% for advertising), driven by growth at ESPN and Disney Channel.

We project 7.4% average annual sales growth during the next five years for parks and resorts. The investments that required heavy capital expenditures over the past few years are bearing fruit now including the launch of Shanghai Disneyland in fiscal 2016. We forecast operating margins for the segment to reach 20% by fiscal 2019. We have modeled 4.1% average annual growth for the filmed entertainment segment due to the addition of the Star Wars movies and the growth in television, subscription VOD and other distribution outlets. We estimate 6.8% annual growth for consumer products, which should benefit from continued global growth of key Disney brands, which now include Star Wars. We believe the interactive segment will continue to generate slightly positive operating income over the next five years, albeit a very small piece of the overall Disney pie. We project Disney's overall operating margin will improve to 24.9% in fiscal 2019 from 23.6% in fiscal 2014. We think this profit expansion is achievable, as the highest-margin segment, cable networks, will grow at a faster rate than the overall firm.

Scenario Analysis

Although our $134 fair value estimate reflects what we believe is the most likely outcome for Disney, we have contemplated downside and upside cases to frame our base-case fair value estimate. Our base case reflects our view that the current broadcast and pay-TV ecosystem remains relatively intact and macroeconomic conditions will be relatively stable during the next five years.

In our downside case, the economy weakens and hurts the parks business and advertising at the media networks. The media network business is affected by a decline in pay-TV subscribers due to cord-cutting, with the attendant declining audience ratings for its networks. This would lead to 3.6% average annual growth and fiscal 2019 operating margin of 18.5%, with 3.5% average annual revenue growth for the media networks and 4.5% average annual revenue growth for the parks and resorts through fiscal 2019. Our downside-case fair value estimate is $89 per share.

In our upside case, we assume a strong macroeconomic backdrop, which fuels the cyclical parts of Disney's business such as advertising and parks and resorts, and generates 7.5% average annual growth. This scenario assumes 7.1% average annual growth for media networks and 9.4% sales growth for parks and resorts, with both strong attendance and pricing increases. Stronger sales growth would lift fiscal 2019 operating margin to 28.9% and lead to a fair value estimate of $170.

Economic Moat

Disney's economic moat is wide. Both its media networks segment and its collection of Disney-branded businesses have demonstrated strong pricing power through the past few years.

The ESPN network is the dominant player in U.S. sports entertainment. Its position and brand strength empower it to charge the highest subscriber fees of any cable network, which in turn generate sustainable profits. ESPN uses these profits to reinforce its position by acquiring long-term sports programming rights, including the NFL, the NBA, and college football and basketball. The ESPN brand has been extended to create sister channels (ESPN2, ESPN Classic, and SEC Network) and the pre-eminent sports news website (ESPN.com).

The media network component also includes the Disney Channel, one of two dominant cable networks for children, which allows Disney to introduce and extend its strong IP and content portfolio. ABC, one of the four major broadcast networks, offers an outlet to reach almost all 116 million households in the United States. While network viewership has declined over the past decade, it still outpaces cable ratings, and provides advertisers with one of the only remaining avenues for reaching a mass audience.

Disney has mastered the process of monetizing its world-renowned characters and franchises across multiple platforms. The company has moved beyond the historical view of a brand that children recognize, and that parents trust, by acquiring and creating new franchises and intellectual property. Recent success with the Pixar and Marvel franchises has helped to create new opportunities with adults that may have previously outgrown their attraction to the company's traditional characters. The recent acquisition of Lucasfilm added another avenue to remain engaged with children and adults. Disney uses the success of its filmed entertainment not only to drive DVD sales, but also to create new experiences at its parks and resorts, merchandising, TV programming, and even Broadway shows. Each new franchise deepens the Disney library, which will continue to generate value over the years.

Moat Trend

We think Disney's moat trend is stable. While the media environment is highly competitive, the demand for content continues to grow. ESPN's ability to continue to increase its subscriber fees allows the network to continue to bid on sports programming rights. We also believe that the popularity of the NFL and college football will continue to grow and, given the live nature of its programming, its importance to advertisers will grow as well.

ESPN's position as the cable network with the highest fees has attracted competitors in the form of both national networks and regional sport networks, or RSNs. Two of the prominent entrants into the national sports network arena, NBCSN (formerly known as NBC Sports) and Fox Sports 1, have struggled to gain traction against ESPN. Of the big four pro sports, NBCSN currently only shows the NHL, the league with the lowest ratings of the four. While NBCSN own the rights to sports with enthusiastic support such as NASCAR and English Premier League (soccer), these sports cater largely to niche markets, as opposed to the broader appeal of the NFL, college football, MLB, and the NBA. Fox Sports 1 will begin to pose a more serious threat to ESPN as the channel will broadcast the MLB playoffs along with major conference football and basketball games. However, we expect that ESPN's broad portfolio of sports rights and attendant programming will allow the channel to fend off any challenge, and retain its position as the dominant sports network.

While RSNs have spent to gain local rights, the high affiliate fees demanded by newer networks such as SportsNet LA (L.A. Dodger games) and CSN Houston (Houston Rockets and Astros) have led to local carriage disputes with a majority of the local viewing public in both markets unable to watch the respective RSN. The market for local sports rights appears to be a bubble with valuation based on optimistic projections and absurdly long-term contracts (SportsNet LA signed a 25-year deal for Dodgers rights). While ESPN does not compete directly for these rights, any backlash around the rising cable bills would impact the company given the affiliate fees that it currently commands.

We expect Disney to continue to generate hits in both network (Disney Channel and ABC) and filmed entertainment. The growth of over-the-top (OTT) distributors like Netflix and international syndication increases the value of wholly-owning content. Despite the growth of viral and other short-form Internet video, we expect Americans to continue to consume original long-form content, making the studios that can generate high quality content increasingly valuable.

Also helping to buoy ABC's competitive position is the increase in the retransmission fees from cable operators. The company's slate of hit and sports programming (such as college football) helps keep retransmission fee disputes to a minimum. Even if the proposed consolidation in the pay-TV industry occurs, we believe that the breadth and popularity of the programming slate at ABC will insulate the company from potential declines in retransmission fees.

While the parks and resorts business could be seen as cyclical, demand for these experiences continues to grow. The company recently added two new larger cruise ships that sold out immediately, and were profitable from launch. Disney plans to open Shanghai Disney Resort in 2016, a Disneyland park covering an area 3 times the size of Hong Kong Disneyland. The company uses the parks and resorts to further monetize its content. A recent example is the

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Morningstar Analysis

successful animated film, "Frozen," from which the company has created movie-themed foods, firework shows and parades, and a themed ice skating ring. Disney uses the parks and cruise ships to further monetize the franchises and to keep the characters alive in the minds of children.

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Bulls Say/Bears Say

Bulls Say

- The parks and resorts segment has rebounded strongly from the recession and the opening of Disneyland Shanghai should provide additional momentum.
- The addition of the Star Wars franchise broadens the demographics that the company can address. Additionally, the strong distribution and merchandising capabilities of Disney should help to speed the monetization of the Lucasfilm acquisition.
- Although making movies is a hit-or-miss business, Disney's large library of content with popular franchises and characters reduces this volatility over time.

Bears Say

- The business model for the media networks depends on the continued growth of retransmission and reverse compensation fees. Any slowdown in the growth of these fees, perhaps because the pay-television business begins to shrink, would hurt the profitability of this segment.
- Increases in the cost of popular programming such as sports events and television series could adversely affect margins at ESPN and ABC.
- Developing mass-market hit programs can be unpredictable, especially as media fragmentation continues.

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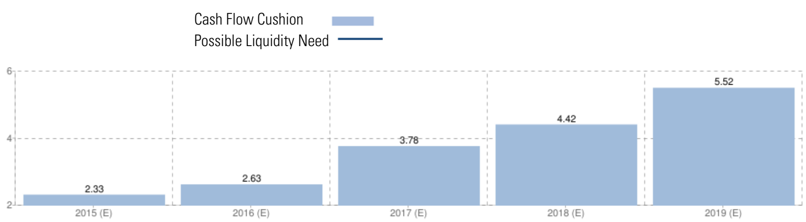
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	*2016(E)*	*2017(E)*	*2018(E)*	*2019(E)*
Cash and Equivalents (beginning of period)	*3,421*	*3,479*	*3,954*	*5,046*	*7,258*
Adjusted Available Cash Flow	*3,262*	*4,170*	*4,809*	*5,331*	*5,832*
Total Cash Available before Debt Service	*6,683*	*7,649*	*8,763*	*10,378*	*13,091*
Principal Payments	*-2,382*	*-2,382*	*-1,768*	*-1,768*	*-1,768*
Interest Payments	*14*	*14*	*14*	*14*	*14*
Other Cash Obligations and Commitments	*-502*	*-535*	*-566*	*-592*	*-619*
Total Cash Obligations and Commitments	*-2,870*	*-2,903*	*-2,320*	*-2,346*	*-2,373*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	3,421	26.7
Sum of 5-Year Adjusted Free Cash Flow	23,405	182.7
Sum of Cash and 5-Year Cash Generation	26,826	209.4
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	26,826	209.4
Sum of 5-Year Cash Commitments	-12,813	—

Financial Health

We believe Disney's financial health is solid. Debt is a low percentage of total capitalization, and we expect EBITDA to cover interest expense more than 30 times on average during the next five years. We've assigned an issuer credit rating of A+ to Disney, implying minimal default risk. The company's debt/capital ratio hovers around 25%, which we think is reasonable. We're forecasting total debt/EBITDA to remain near 1.3 times through the end of fiscal 2018. We expect future cash flow allocation to be balanced among smaller acquisitions, share repurchases, and dividends.

Enterprise Risk

Disney's results could suffer if the company cannot adapt to the changing media landscape. Basic pay-television service rates have continued to increase, which could cause consumers to cancel their subscriptions or reduce their level of service. ESPN garners the highest affiliate fees of any basic cable channel and a decrease in pay-TV penetration would slow down revenue growth. The cost of sports rights may continue to skyrocket, putting pressure on margins. The company's ad-supported broadcast networks, along with the theme parks and consumer products, will suffer if the economy weakens. Making movies is a hit-or-miss business, which could result in big swings in profitability for the filmed entertainment segment.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. ROBERT A. IGER	CEO/Chairman of the Board/ Director,Director	1,137,483	11 May 2015	—
MR. ALAN N. BRAVERMAN	Senior Executive VP/Secretary/ General Counsel	135,614	27 Jul 2015	18,473
CHRISTINE M. MCCARTHY	CFO/Senior Executive VP	102,894	26 Jan 2015	—
THOMAS O. STAGGS	Chairman of the Board, Divisional/ COO	85,984	04 Feb 2015	—
MR. ROBERT W. MATSCHULLAT	Director	59,270	30 Jun 2015	—
MS. MONICA C. LOZANO	Director	56,110	30 Jun 2015	—
MR. AYLWIN B. LEWIS	Director	52,117	30 Jun 2015	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Mkt Idx	1.58	0.72	-87	31 Aug 2015
Fidelity® Contrafund® Fund	1.34	2.40	-191	31 Jul 2015
Vanguard Five Hundred Index Fund	1.08	0.91	222	31 Aug 2015
Vanguard Institutional Index Fund	0.99	0.91	72	31 Aug 2015
SPDR® S&P 500 ETF	0.87	0.92	22	23 Sep 2015
Concentrated Holders				
Fidelity® Select Multimedia Portfolio	0.11	24.69	25	31 Jul 2015
IKC Worldwide Opportunities	—	9.39	-2	30 Jun 2015
IKC Opportunities	—	8.87	—	30 Jun 2015
Natixis CGM Advisor Targeted Equity Fund	0.02	8.36	—	31 Jul 2015
Fidelity® Select Consumer Discret Port	0.05	8.27	—	31 Jul 2015

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Fidelity Management and Research Company	3.06	0.82	6,050	30 Jun 2015
Government Pension Fund of Norway - Global	0.90	0.14	3,798	31 Dec 2013
State Farm Insurance Companies 401(k) Savings Plan	0.17	1.54	3,098	31 Dec 2009
New Jersey Division of Pensions and Benefits	0.15	0.15	3,000	30 Jun 2010
ALLEGHANY CAPITAL Corp	0.11	7.53	1,885	30 Jun 2015
Top 5 Sellers				
State Street Global Advisors (Aus) Ltd	0.02	0.52	-14,420	22 Sep 2015
Wellington Management Company LLP	0.29	0.15	-4,803	30 Jun 2015
State Street Corp	3.80	0.79	-3,861	30 Jun 2015
MFS Investment Management K.K.	1.83	1.81	-2,759	30 Jun 2015
BlackRock Fund Advisors	2.71	0.76	-2,095	30 Jun 2015

Management 27 Jul 2015

While we place Disney's stewardship of shareholder capital as Standard, we believe that the current management team is in the upper end of the tier of its direct peers. Chairman and CEO Bob Iger began his tenure as CEO in October 2005 and chairman in March 2012 and is currently schedule to serve until June 2016. The recent elevation of Tom Staggs, former CFO and head of the parks business, to COO of the entire firm has widely been interpreted as positioning Staggs as the successor to Iger. While the loss of former CFO Jay Rasulo (and the loser of the successor decision) was expected, the company drew on its deep executive bench to promote Christine McCarthy to CFO. McCarthy has a long tenure with the firm and significant experience within the finance function at Disney as the firm's treasurer.

Under Iger, Disney has embraced new technology and also reinvigorated its commitment to high-quality content. He understood the importance of animation to the company early in his tenure, purchasing Pixar, the computer animation studio, in 2006, and then resurrecting Disney's own studio. Beyond Pixar, the company has made significant investment in new technology/distribution including buying Club Penguin (an MMO for children) and Maker Studios (a network of YouTube channels). Iger also purchased two major content creators (Marvel and Lucasfilm) that expanded the demographics served by the company.

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Analyst Notes

Disney Posts Strong 3Q; Raising FVE to $134 With Star Wars and Shanghai on Horizon 04 Aug 2015

Disney reported another strong quarter, as fiscal third-quarter bottom-line results came in ahead of our and consensus expectations. We are maintaining our wide moat rating and raising our fair value estimate to $134, as we are increasing our estimates for 2016 and beyond to better reflect the impact of the Shanghai resort and Star Wars films.

Third-quarter revenue grew 5% over last year to $13.1 billion, in line with our estimate. The revenue growth occurred at all four of largest segments (media networks, studio entertainment, parks and resorts, and consumer products) as studio entertainment benefited from the second Avengers movie and Cinderella, which offset the tough comp of Captain America and Frozen a year ago. EBITDA increased 4% to $4.3 billion, slightly above our $4.2 billion estimate, as margins improved at three of four largest segments (studio entertainment, parks and resorts, and consumer products). EBITDA margin at media networks declined 20 basis points due to the impact of increased sport rights at ESPN. Consolidated adjusted operating income grew 8% year over year to $4.0 billion with a 30.2% margin.

Given the increased investor focus on ESPN due to recent media report concerning sub losses and talent drain, management understandably spent time on the call defending the channel and its value within the changing media landscape. CEO Bob Iger began by pointing out that 83% of pay TV households turned to ESPN in the first three months of the year and that the channel has license agreements with NFL, NBA, and MLB beyond 2020. He noted that sub losses recently discussed in the media were overblown. Management also continued to defend the value of the multichannel bundles. While we share the concerns around cord-cutting, we note that 96% of sports viewing is done live, providing some defense to the linear channel. Also, ESPN's broad multimedia presence and sport rights portfolio would allow the firm to offer an unbeatable OTT offering if necessary.

Another Strong Quarter for Disney; Company Continues to Adapt to Changing Media Landscape 05 May 2015

Disney posted yet another strong quarter, with fiscal second-quarter bottom-line results coming in ahead of our expectations. Management provided a deeper look into its strategy toward the evolving media landscape. We are maintaining our wide economic moat rating and $106 fair value estimate.

Given the ever-changing media landscape, management once again spent time on the call discussing the new landscape, and Disney's strategy for maximizing its opportunities within it. When approached by a new distributor, Disney will examine three key factors: strategic value, financial benefit, and benefit to consumers. While the first two factors are standard business variables, the third factor for Disney depends on the strength of the package in terms of content and the ability of consumers to navigate through the content. We concur with Disney's belief that better navigation results in increased consumption, as demonstrated by the continued relevance of TIVO and the popularity of Popcorn Time, a piracy app/ website.

In terms of specific deals, Disney decided to join the Sling TV bundle due to its lower cost and targeting of the 12 million broadband-only customers. For Sony Vue, management believed that the deal didn't financially make sense for the company. The more recent dispute with Verizon and its new skinny bundles centers on the carriage agreement between the companies and whether ESPN must be offered as part of the basic cable bundle. Both ESPN and Verizon have both publicly stated that the carriage agreement supports their respective positions, leading ESPN to sue Verizon. We believe that this dispute may take a while to resolve as both sides appear to be entrenched in their beliefs.

While we expect Disney to continue to successfully execute and increase the top and bottom lines, we remain sensitive to valuation. The shares currently trade in 3-star territory and we'd wait for a larger discount to our fair value estimate before getting excited about investing.

Second-quarter revenue grew 7% over last year to $12.5 billion, in line with our estimate. The revenue growth at three of the four largest segments (media networks, parks and resorts, and consumer products) more than offset the decline at studio entertainment as second-quarter 2014 continued to include the oversized impact of Frozen. EBITDA increased 4% to $3.6 billion, above our $3.4 billion estimate, but segment EBITDA margin fell 100 bps to 29.1% as the improvement at parks and resorts and consumer products segments was outweighed by the declines at media networks and studio entertainment. EBITDA margin at media networks declined 470 basis points due to the impact of increased sports rights costs and production expenses at ESPN. Consolidated adjusted operating income grew 5% year over year to $3.3 billion with a 26.6% margin.

Walt Disney Co DIS (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
103.00 USD	134.00 USD	93.80 USD	180.90 USD	Medium	Wide	Stable	Standard	Entertainment

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in September

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	*6.1*	3.4	6.5	8.4	*6.5*	*6.7*	*5.6*
EBIT	*14.0*	13.9	6.6	22.1	*10.1*	*3.6*	*6.8*
EBITDA	*12.9*	12.8	7.3	18.8	*8.7*	*3.1*	*5.9*
Net Income	*16.2*	15.3	10.0	23.6	*12.0*	*3.9*	*7.3*
Diluted EPS	*19.4*	21.1	10.3	27.4	*16.7*	*9.9*	*11.8*
Earnings Before Interest, after Tax	*9.7*	23.0	2.2	5.2	*19.1*	*3.9*	*8.6*
Free Cash Flow	*29.4*	-3.9	68.2	34.1	*32.3*	*13.7*	*13.4*

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*21.9*	21.0	21.0	23.6	*24.5*	*23.7*	*24.4*
EBITDA Margin %	*26.6*	25.7	25.9	28.3	*28.9*	*27.9*	*28.5*
Net Margin %	*14.1*	13.2	13.7	15.6	*16.4*	*15.9*	*16.4*
Free Cash Flow Margin %	*8.5*	5.6	8.9	11.0	*13.7*	*14.6*	*14.9*
ROIC %	*13.9*	14.2	12.5	14.9	*15.1*	*15.4*	*16.5*
Adjusted ROIC %	*27.7*	29.6	24.6	28.8	*29.0*	*29.2*	*31.0*
Return on Assets %	*8.2*	7.7	7.9	9.1	*10.0*	*10.2*	*10.8*
Return on Equity %	*15.3*	14.7	14.4	16.6	*19.0*	*19.9*	*21.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.25*	0.26	0.24	0.25	*0.27*	*0.28*	*0.29*
Total Debt/EBITDA	*1.21*	1.32	1.23	1.07	*1.08*	*1.12*	*1.13*
EBITDA/Interest Expense	*12.03*	40.79	96.22	-100.93	*-1,074.02*	*-1,106.83*	*-1,186.24*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	0.99	1.06	—	—
Price/Earnings	19.0	20.6	*20.4*	*18.6*
EV/EBITDA	10.9	11.8	*12.3*	*11.9*
EV/EBIT	13.5	14.2	*14.5*	*14.0*
Free Cash Flow Yield %	5.7	4.3	*4.6*	*5.2*
Dividend Yield %	1.1	1.0	*0.9*	*1.0*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	8.6
Long-Run Tax Rate %	33.0
Stage II EBI Growth Rate %	10.0
Stage II Investment Rate %	35.7
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	33,686	15.8	20.50
Present Value Stage II	73,850	34.6	44.94
Present Value Stage III	106,184	49.7	64.61
Total Firm Value	**213,720**	**100.0**	**130.05**
Cash and Equivalents	3,421	—	2.08
Debt	-14,840	—	-9.03
Preferred Stock	—	—	—
Other Adjustments	2,575	—	1.57
Equity Value	**204,876**	**—**	**124.67**
Projected Diluted Shares	1,643		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
103.00 USD	134.00 USD	93.80 USD	180.90 USD	Medium	Wide	Stable	Standard	Entertainment

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in September

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**42,278**	**45,041**	**48,813**	***51,988***	***55,474***
Cost of Goods Sold	23,468	25,034	26,420	*28,461*	*30,482*
Gross Profit	**18,810**	**20,007**	**22,393**	***23,527***	***24,992***
Selling, General & Administrative Expenses	7,960	8,364	8,489	*8,491*	*9,496*
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	1,987	2,192	2,364	*2,326*	*2,329*
Operating Income (ex charges)	**8,863**	**9,451**	**11,540**	***12,710***	***13,166***
Restructuring & Other Cash Charges	100	214	140	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**8,763**	**9,237**	**11,400**	***12,710***	***13,166***
Interest Expense	266	121	-137	*-14*	*-14*
Interest Income	763	505	709	*702*	*710*
Pre-Tax Income	**9,260**	**9,621**	**12,246**	***13,426***	***13,890***
Income Tax Expense	3,087	2,984	4,242	*4,451*	*4,584*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-491	-500	-503	*-464*	*-464*
(Preferred Dividends)	—	—	—	—	—
Net Income	**5,682**	**6,137**	**7,501**	***8,511***	***8,843***
Weighted Average Diluted Shares Outstanding	1,818	1,813	1,759	*1,689*	*1,597*
Diluted Earnings Per Share	**3.13**	**3.39**	**4.26**	***5.04***	***5.54***
Adjusted Net Income	5,587	6,146	7,599	*8,511*	*8,843*
Diluted Earnings Per Share (Adjusted)	**3.07**	**3.39**	**4.32**	***5.04***	***5.54***
Dividends Per Common Share	0.59	0.73	0.86	*0.96*	*1.08*
EBITDA	**10,750**	**11,429**	**13,688**	***15,036***	***15,496***
Adjusted EBITDA	**10,850**	**11,643**	**13,828**	***15,036***	***15,496***

Walt Disney Co DIS (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
103.00 USD	134.00 USD	93.80 USD	180.90 USD	Medium	Wide	Stable	Standard	Entertainment

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in September	2012	2013	2014	*Forecast* 2015	*Forecast* 2016
Cash and Equivalents	3,387	3,931	3,421	*3,479*	*3,954*
Investments	—	—	—	—	—
Accounts Receivable	6,540	6,967	7,822	*8,331*	*8,889*
Inventory	1,537	1,487	1,574	*1,696*	*1,816*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	2,245	1,724	2,359	*2,359*	*2,359*
Current Assets	**13,709**	**14,109**	**15,176**	***15,864***	***17,018***
Net Property Plant, and Equipment	21,512	22,380	23,332	*24,431*	*24,827*
Goodwill	25,110	27,324	27,881	*27,881*	*27,881*
Other Intangibles	5,015	7,370	7,434	*7,209*	*6,984*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	—	—	—	—	—
Long-Term Non-Operating Assets	9,552	10,058	10,363	*10,363*	*10,363*
Total Assets	**74,898**	**81,241**	**84,186**	***85,748***	***87,073***
Accounts Payable	6,393	6,803	7,595	*8,182*	*8,763*
Short-Term Debt	3,614	1,512	2,164	*2,382*	*2,382*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	2,806	3,389	3,533	*3,533*	*3,533*
Current Liabilities	**12,813**	**11,704**	**13,292**	***14,097***	***14,678***
Long-Term Debt	10,697	12,776	12,676	*13,794*	*14,912*
Deferred Tax Liabilities (Long-Term)	2,251	4,050	4,098	*4,098*	*4,098*
Other Long-Term Operating Liabilities	7,179	4,561	5,942	*5,942*	*5,942*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**32,940**	**33,091**	**36,008**	***37,931***	***39,630***
Preferred Stock	—	—	—	—	—
Common Stock	31,731	33,440	34,301	*34,301*	*34,301*
Additional Paid-in Capital	—	—	—	—	—
Retained Earnings (Deficit)	42,965	47,758	53,734	*60,624*	*67,749*
(Treasury Stock)	-31,671	-34,582	-41,109	*-48,359*	*-55,859*
Other Equity	-3,266	-1,187	-1,968	*-1,968*	*-1,968*
Shareholder's Equity	**39,759**	**45,429**	**44,958**	***44,598***	***44,223***
Minority Interest	2,199	2,721	3,220	*3,220*	*3,220*
Total Equity	**41,958**	**48,150**	**48,178**	***47,818***	***47,443***

Walt Disney Co DIS (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
103.00 USD	134.00 USD	93.80 USD	180.90 USD	Medium	Wide	Stable	Standard	Entertainment

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in September	2012	2013	2014	*Forecast 2015*	*Forecast 2016*
Net Income	6,173	6,636	8,004	*8,975*	*9,307*
Depreciation	1,784	1,992	2,063	*2,101*	*2,104*
Amortization	203	200	225	*225*	*225*
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	472	92	517	—	—
Other Non-Cash Adjustments	425	429	-757	—	—
(Increase) Decrease in Accounts Receivable	-108	-374	-480	*-509*	*-558*
(Increase) Decrease in Inventory	18	51	-81	*-122*	*-120*
Change in Other Short-Term Assets	-151	-30	-151	—	—
Increase (Decrease) in Accounts Payable	-608	367	536	*587*	*581*
Change in Other Short-Term Liabilities	-242	89	-96	—	—
Cash From Operations	**7,966**	**9,452**	**9,780**	***11,257***	***11,538***
(Capital Expenditures)	-3,784	-2,796	-3,311	*-3,200*	*-2,500*
Net (Acquisitions), Asset Sales, and Disposals	-975	-2,046	-7	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	—	166	-27	—	—
Cash From Investing	**-4,759**	**-4,676**	**-3,345**	***-3,200***	***-2,500***
Common Stock Issuance (or Repurchase)	-3,015	-3,500	-6,123	*-7,250*	*-7,500*
Common Stock (Dividends)	-1,076	-1,324	-1,508	*-1,621*	*-1,717*
Short-Term Debt Issuance (or Retirement)	—	-2,050	50	*218*	—
Long-Term Debt Issuance (or Retirement)	1,106	2,429	583	*1,118*	*1,118*
Other Financing Cash Flows	—	231	288	*-464*	*-464*
Cash From Financing	**-2,985**	**-4,214**	**-6,710**	***-7,999***	***-8,563***
Exchange Rates, Discontinued Ops, etc. (net)	-20	-18	-235	—	—
Net Change in Cash	**202**	**544**	**-510**	***58***	***475***

Walt Disney Co DIS (NYSE) | ★★★★

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103.00 USD	134.00 USD	93.80 USD	180.90 USD	Medium	Wide	Stable	Standard	Entertainment

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Time Warner Inc TWX USA	0.71	20.6	15.4	13.3	13.2	9.9	9.3	22.2	14.4	12.9	2.9	2.4	2.5	2.6	2.0	1.9
Twenty-First Century Fox Inc FOXA USA	0.74	22.7	18.9	12.5	13.7	11.5	9.8	33.9	20.8	11.2	4.5	3.9	3.5	2.4	2.3	2.0
CBS Corp CBS USA	0.63	18.7	12.3	9.7	10.7	8.5	7.4	26.2	10.8	9.4	4.0	2.8	2.7	2.0	1.4	1.3
Viacom Inc VIAB USA	0.70	14.1	8.2	7.5	9.9	8.2	6.8	12.9	7.1	7.2	8.6	5.2	5.7	2.3	1.3	1.3
Average		19.0	13.7	10.8	11.9	9.5	8.3	23.8	13.3	10.2	5.0	3.6	3.6	2.3	1.8	1.6
Walt Disney Co DIS US	**0.77**	**20.6**	**20.4**	**18.6**	**11.8**	**12.3**	**11.9**	**23.4**	**21.6**	**19.2**	**3.4**	**3.9**	**3.9**	**3.1**	**3.3**	**3.1**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Time Warner Inc TWX USA	63,259 USD	9.5	11.1	11.8	23.0	26.4	27.8	14.1	15.9	18.0	5.8	6.1	6.8	1.6	2.0	2.1
Twenty-First Century Fox Inc FOXA USA	— USD	12.5	14.5	17.1	25.8	27.0	30.2	26.2	48.0	26.9	8.5	15.8	9.1	1.0	1.3	1.2
CBS Corp CBS USA	24,072 USD	12.6	14.6	16.8	22.4	26.7	30.8	16.0	24.2	28.9	5.4	7.0	8.5	1.0	1.6	1.7
Viacom Inc VIAB USA	23,117 USD	51.5	49.4	58.6	16.3	15.2	18.2	53.7	62.5	70.2	10.2	9.5	9.6	1.7	3.1	3.3
Average		21.5	22.4	26.1	21.9	23.8	26.8	27.5	37.7	36.0	7.5	9.6	8.5	1.3	2.0	2.1
Walt Disney Co DIS US	**84,186** USD	**14.9**	**15.1**	**15.4**	**28.8**	**29.0**	**29.2**	**16.6**	**19.0**	**19.9**	**9.1**	**10.0**	**10.2**	**1.0**	**0.9**	**1.0**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Time Warner Inc TWX USA	27,359 USD	-8.2	5.3	4.4	-11.1	17.8	6.9	10.1	10.6	15.3	65.0	-21.2	9.3	10.3	11.4	5.8
Twenty-First Century Fox Inc FOXA USA	31,867 USD	15.2	-9.0	-2.0	2.1	7.6	7.5	14.2	11.0	30.3	15.6	163.4	-30.1	33.3	18.1	-17.5
CBS Corp CBS USA	13,806 USD	-9.7	2.0	4.4	-9.3	-1.9	16.3	-4.4	10.3	27.4	-40.2	89.9	14.4	8.3	15.3	13.3
Viacom Inc VIAB USA	13,783 USD	-0.1	-1.7	3.3	5.0	-15.7	21.1	16.4	-1.3	10.1	-28.4	35.6	-2.5	9.6	7.4	13.6
Average		-0.7	-0.9	2.5	-3.3	2.0	13.0	9.1	7.7	20.8	3.0	66.9	-2.2	15.4	13.1	3.8
Walt Disney Co DIS US	**48,813** USD	**8.4**	**6.5**	**6.7**	**22.1**	**10.1**	**3.6**	**27.4**	**16.7**	**9.9**	**34.1**	**32.3**	**13.7**	**17.4**	**12.0**	**12.0**

Walt Disney Co DIS (NYSE) | ★★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2014	2015(E)	2016(E)	EBITDA Margin % 2014	2015(E)	2016(E)	Operating Margin % 2014	2015(E)	2016(E)	Net Margin % 2014	2015(E)	2016(E)	Free Cash Flow Margin % 2014	2015(E)	2016(E)
Time Warner Inc TWX USA	3,660 USD	42.0	43.4	44.6	25.0	27.3	28.0	22.3	24.9	25.5	13.4	13.3	14.0	11.7	13.9	14.8
Twenty-First Century Fox Inc FOXA USA	3,521 USD	33.8	36.0	37.1	20.8	22.9	24.2	17.2	20.4	22.4	11.1	12.7	15.8	7.2	11.0	17.7
CBS Corp CBS USA	1,663 USD	40.2	40.5	42.2	23.6	22.7	25.0	21.5	20.7	23.1	12.1	11.9	13.9	7.7	12.8	14.1
Viacom Inc VIAB USA	2,399 USD	52.5	48.7	52.6	31.5	27.3	31.7	29.9	25.7	30.1	17.4	16.4	16.3	18.0	18.4	17.5
Average		42.1	42.2	44.1	25.2	25.1	27.2	22.7	22.9	25.3	13.5	13.6	15.0	11.2	14.0	16.0
Walt Disney Co DIS US	**7,599** USD	**45.9**	**45.3**	**45.1**	**28.3**	**28.9**	**27.9**	**23.6**	**24.5**	**23.7**	**15.6**	**16.4**	**15.9**	**13.3**	**15.5**	**16.3**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2014	2015(E)	2016(E)	Debt/Total Cap % 2014	2015(E)	2016(E)	EBITDA/Interest Exp. 2014	2015(E)	2016(E)	Total Debt/EBITDA 2014	2015(E)	2016(E)	Assets/Equity 2014	2015(E)	2016(E)
Time Warner Inc TWX USA	22,494 USD	91.9	92.6	97.7	47.9	48.1	49.4	5.4	5.9	6.3	3.3	2.8	2.7	2.6	2.6	2.7
Twenty-First Century Fox Inc FOXA USA	19,058 USD	109.4	110.6	117.3	52.3	52.5	54.0	5.9	5.5	5.9	2.9	2.9	2.7	3.1	2.9	3.0
CBS Corp CBS USA	6,530 USD	93.7	95.3	87.9	48.4	48.8	46.8	9.0	8.5	9.8	2.0	2.0	1.7	3.5	3.5	3.3
Viacom Inc VIAB USA	12,769 USD	343.3	404.9	446.5	77.4	80.2	81.7	7.0	5.6	6.6	2.9	3.7	3.1	6.2	7.0	7.6
Average		159.6	175.9	187.4	56.5	57.4	58.0	6.8	6.4	7.2	2.8	2.9	2.6	3.9	4.0	4.2
Walt Disney Co DIS US	**14,840** USD	**33.0**	**36.3**	**39.1**	**24.8**	**26.6**	**28.1**	**-100.9**	**-1,074.0**	**-1,106.8**	**1.1**	**1.1**	**1.1**	**1.9**	**1.9**	**2.0**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2014	2015(E)	2016(E)	Current Ratio 2014	2015(E)	2016(E)	Quick Ratio 2014	2015(E)	2016(E)	Cash/Short-Term Debt 2014	2015(E)	2016(E)	Payout Ratio % 2014	2015(E)	2016(E)
Time Warner Inc TWX USA	57,572 USD	2.97	1.12	1.32	1.68	1.54	1.54	1.50	1.35	1.35	2.34	0.94	0.91	29.0	30.5	28.0
Twenty-First Century Fox Inc FOXA USA	56,626 USD	2.39	3.96	3.51	1.74	2.39	2.22	1.39	2.01	1.85	6.78	34.54	33.87	17.6	10.6	15.2
CBS Corp CBS USA	19,434 USD	0.76	0.43	0.88	1.39	1.33	1.42	1.16	1.10	1.19	21.40	2.21	4.29	21.6	18.3	16.3
Viacom Inc VIAB USA	17,634 USD	2.27	4.22	3.93	1.33	1.23	1.21	1.12	1.05	1.03	55.56	1.90	1.68	22.6	24.5	25.3
Average		2.10	2.43	2.41	1.54	1.62	1.60	1.29	1.38	1.36	21.52	9.90	10.19	22.7	21.0	21.2
Walt Disney Co DIS US	**173,849** USD	**1.94**	**2.06**	**2.48**	**1.14**	**1.13**	**1.16**	**1.02**	**1.01**	**1.04**	**1.58**	**1.46**	**1.66**	**20.1**	**19.1**	**19.4**

Research Methodology for Valuing Companies

Components of Our Methodology
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies

Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

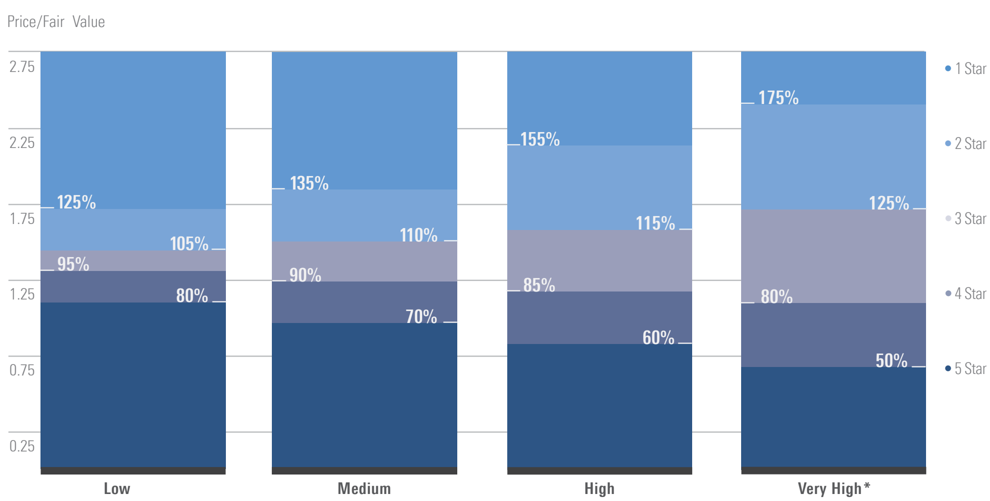
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands

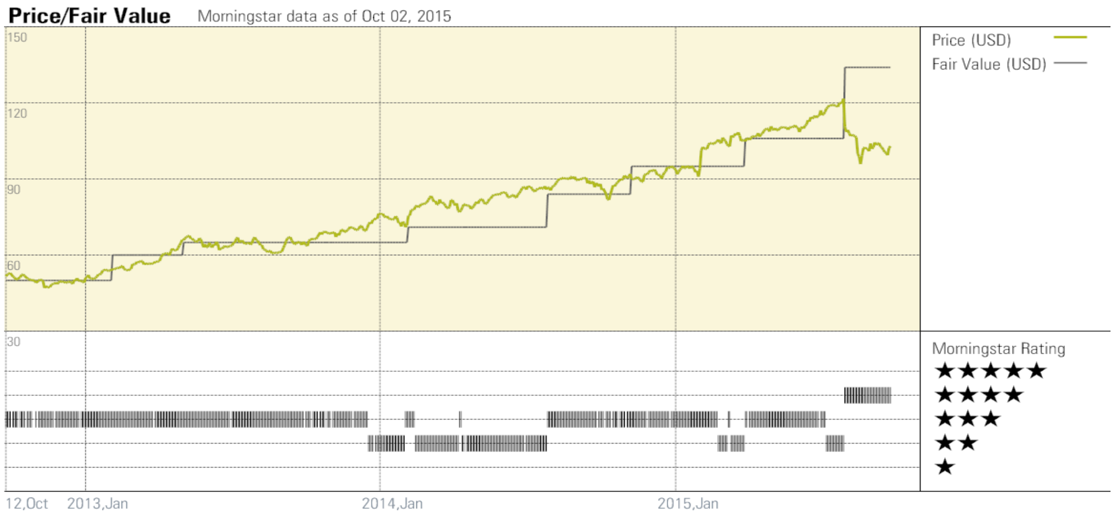


* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Walt Disney Co DIS (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
103.00 USD	134.00 USD	93.80 USD	180.90 USD	Medium	Wide	Stable	Standard	Entertainment



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Walt Disney Co DIS (NYSE) | ★★★★

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