

Entertainment & Internet

Disney (Walt) Co. (DIS) – Hold

DIS: FY1Q13 Earnings Preview

The Walt Disney Company (DIS) will release 1Q13 earnings on Tuesday, February 5, 2013, after the market closes and will host a conference call at 5 pm ET to discuss results. The call in number for the call is (888) 771-4371, Passcode: 34061055#. In this report we update our FY13 estimates and introduce our FY13 quarterly estimates.

FY13 Estimate Revisions

We are raising our FY13 revenue and EPS estimates slightly for DIS, and shifting the profit mix. We are revising our estimates to reflect higher revenue and operating income in Parks and Resorts due to higher bookings at the Parks and hotels with non-discounted pricing. This combination is driving higher revenue estimates (up 0.8% vs our previous estimates) and Operating Income (up 2.1% vs our previous estimates).

We note that these revenue increases will be somewhat offset by lower revenue in Studio Entertainment, to reflect difficult y/y comparisons in home entertainment. FY1Q12 included the home video re-release of *The Lion King* as well as the release of *Cars 2*, while FY1Q13 included the release of *Brave* and the re-release of *Finding Nemo*, neither of which sold as well as the prior year's releases. This should result in lower revenue (down 0.8% from our previous estimates) and Operating Income (down 20% from our previous estimates).

We now expect DIS to report revenue of \$44.89B (up 6% y/y, 0.2% above our previous estimate), and Operating EPS of \$3.39 (up 10% y/y, \$0.01 above our previous estimate).

Rating

We maintain our HOLD rating and remain focused on DIS's capital allocation as discussed in our quarterly ROIC series entitled "DIS Quarterly ROIC Trends".

	FY	FY		FY	
	09/30/12 A	Old	New	Old	New
Rev. (MM)	\$42,278.0	\$44,805.9	\$44,890.1		
Growth	3.4%	6.0%	6.2%	0.0%	0.0%
Op. Mar.	23.2%		22.9%		
EPS: 1Q	0.80		0.77		
EPS: 2Q	0.58		0.75		
EPS: 3Q	1.01		1.06		
EPS: 4Q	0.68		0.81		
EPS: Year	3.08	3.38	3.39		
Growth	20.9%	9.8%	10.0%	0.0%	0.0%
P/E Ratio	13.9x	15.0x	14.9x	nm	0.0x

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

EPS Change

Market Data	
Price (01/11/13)	\$50.58
12-Month Price Target	N/A
52-Week range	\$52.97-38.40
Shares Out. (MM)	1,817.8
Market cap (MM)	\$91,941.8
Avg. daily volume (000)	8,630.8
Financial Data	
Total Debt/Cap.	24.5%
Price/LTM Rev.	2.2x
Tangible BVPS	\$6.51
Net Cash Per Share	(\$6.01)

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



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

EARNINGS SUMMARY

Figure A includes our quarterly estimates for FY13, and compares these to consensus estimates.

Figure A

Fiscal Year Sept 30:	1Q13E	2Q13E	3Q13E	4Q13E	2013E
Revenue Current (\$mm)	\$11,224	\$10,290	\$11,774	\$11,602	\$44,890
Previous (\$mm)	-	-	-	-	\$44,806
Consensus (\$mm)	\$11,230	\$10,370	NA	NA	\$44,900
EPS Current Operating	\$0.77	\$0.75	\$1.06	\$0.81	\$3.39
Previous	-	-	-	-	\$3.38
Consensus	\$0.77	\$0.75	NA	NA	\$3.41
P/E					15.0

Source: Needham & Company estimates, Yahoo Finance

FY1Q13 Estimates

We now expect DIS to report FY1Q13 Revenue of \$11.224B (up 4% y/y), Segment Operating Income of \$2.366B (down 3% y/y), and Operating EPS of \$0.77 (down 4% y/y). We expect DIS to report the following segment results:

- 1. Media Networks** is expected to report revenue of \$4.989B (up 4% y/y), and EBITA of \$1.23B (up 3% y/y). Further details regarding this division follow:
 - **Broadcasting** is expected to report revenue of \$1.514B (up 3% y/y), and EBITA of \$257mm (up 14% y/y). Results at this segment are expected to be driven by lower production and programming costs.
 - **Cable Networks** is expected to report revenue of \$3.474B (up 5% y/y), and EBITA of \$973mm (up 1% y/y). This segment is expected to see a continuation of challenged ratings y/y, but an improvement when compared to the prior quarter. Ad sales are expected to show positive results because of political ad spending in 1Q13. We expect to see ad sales pacing up modestly at ESPN as well as an increase in sports rights costs in the quarter due to renewed agreements with the Pacific 12, Big 12 and the addition of more teams to the SEC.
- 2. Parks & Resorts** is expected to report revenue of \$3.392B (up 8% y/y), and EBITA of \$600mm (up 9% y/y). Results in this segment are expected to be driven by higher bookings at the parks, in conjunction with non-discounted pricing, higher bookings on the cruise ships, and continued strong attendance at Cars Land at California Adventure. Results may be impacted by the quarter closing on 12/29/12 instead of 12/31, which could result in a shift of \$30mm to \$40mm of Operating Income into FY2Q13. We will continue to monitor rising Cap Ex spending at this division, given its impact on DIS's ROIC.
- 3. Studio Entertainment** is expected to report revenue of \$1.537B (down 5% y/y), and EBITA of \$223mm (down 46% y/y). DIS is expected to realize the results of a difficult comparison with 1Q12, which included the home entertainment re-release of *The Lion King* and the release of *Cars 2*, versus the current quarter which included the re-release of *Finding Nemo* and the release of *Brave*.
- 4. Consumer Products** is expected to report revenue of \$1B (up 6% y/y), and EBITA of \$328mm (up 5% y/y). Strength is expected to be driven by *The Avengers* and *Spiderman* as well as solid sales of *Cars* themed goods.
- 5. Interactive Media Group** is expected to report revenue of \$299mm (up 7% y/y), and an EBITA loss of \$15mm (up 46% y/y).

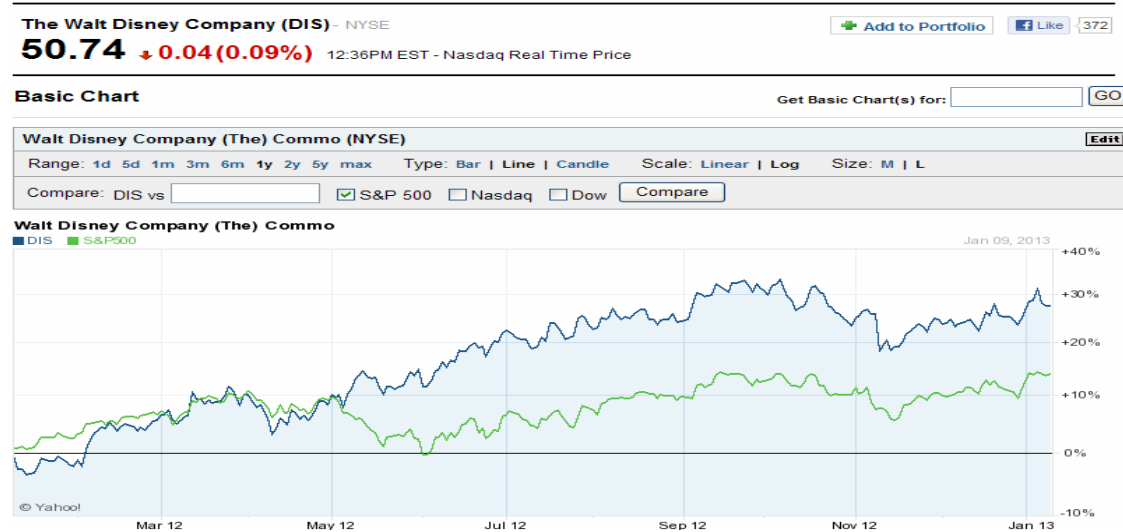
DETAILED 1Q13 QUARTERLY EARNINGS ANALYSIS

Table 1 includes our estimates for 1Q13, current and prior, vs 1Q12 actual results.

Table 1			
Disney: December Quarter Comparison, 12A vs 13E			
\$ and shares in millions, except per share data			
Revenue	12/31/11A	12/31/12E	Change
Broadcasting	\$1,470	\$1,514	3%
Cable Networks	\$3,309	\$3,474	5%
Media Networks	\$4,779	\$4,989	4%
Parks & Resorts	\$3,155	\$3,392	8%
Studio Entertainment	\$1,618	\$1,537	-5%
Consumer Products	\$948	\$1,009	6%
Interactive Media	\$279	\$299	7%
Total Revenue	\$10,779	\$11,224	4%
EBITA (After Stock Op. Exp.)			
Broadcasting	\$226	\$257	14%
Cable Networks	\$967	\$973	1%
Media Networks	\$1,193	\$1,230	3%
Parks & Resorts	\$553	\$600	9%
Studio Entertainment	\$413	\$223	-46%
Consumer Products	\$313	\$328	5%
Interactive Media	(\$28)	(\$15)	46%
Segment Op Inc (pre corp)	\$2,444	\$2,366	-3%
Corp & Other (inc. Stock Op. Exp.)	(\$252)	(\$200)	21%
Net Interest Expense	(\$90)	(\$91)	-1%
Restructuring and Impairment	(\$6)	\$0	NM
Equity in Income	\$145	\$100	-31%
Income Before Tax	\$2,241	\$2,175	-3%
Income Taxes (at 35%)	(\$720)	(\$750)	-4%
Minority Interest	(\$57)	(\$55)	4%
NI-Reported	\$1,464	\$1,370	-6%
Net Income-Operations	\$1,464	\$1,370	-6%
Operating EPS	\$0.80	\$0.77	-4%
Reported EPS	\$0.80	\$0.77	-4%
Avg Diluted Shares Out	1,824	1,780	-2%

Sources: Company Reports, Needham & Company estimates.

VALUATION



Source: Yahoo Finance

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

Table 2: DIS Valuation Summary & Conclusions		
2013E Valuation Multiples		Embedded Expectations Metrics
1	EV/Sales	2.2
2	EV/OIBDA	8.3
3	P/E	15.0
4	FCF/Share	\$3.03
5	EV/FCF	18.8
6	FCF Yield	6%
		7 Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 4.5%
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 4.5% 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 8.3x 2013E 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. **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

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. A new park in Shanghai was 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 4 years. In the media space, there is a 90% correlation between forward year returns on capital and share price. The extra capital spending slows DIS’s ROIC improvement.

2. **Digital Disruption.** Hulu.com, in which DIS is a 30% owner, may be retraining consumers to watch for (essentially) free what they have historically bought as part of a \$70 per month bundle of TV programming.
3. **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.
4. **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

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, 2013E										
\$ and shares in millions, except per share data										
	12/31/12E	3/31/13E	6/30/13E	9/30/13E	2013E	Year/Year Change				
						13/12	13/12	13/12	13/12	13/12
Revenue										
Broadcasting	\$1,514	\$1,586	\$1,533	\$1,400	\$6,033	3%	4%	4%	4%	4%
Cable Networks	\$3,474	\$3,389	\$3,863	\$3,782	\$14,508	5%	7%	7%	7%	7%
Media Networks	\$4,989	\$4,975	\$5,396	\$5,182	\$20,541	4%	6%	6%	6%	6%
Parks & Resorts	\$3,392	\$3,160	\$3,751	\$3,733	\$14,035	8%	9%	9%	9%	9%
Studio Entertainment	\$1,537	\$1,256	\$1,594	\$1,508	\$5,894	-5%	6%	-2%	8%	1%
Consumer Products	\$1,009	\$722	\$839	\$990	\$3,560	6%	6%	13%	12%	9%
Interactive Media	\$299	\$177	\$194	\$189	\$859	7%	-1%	-1%	-1%	2%
Total Revenue	\$11,224	\$10,290	\$11,774	\$11,602	\$44,890	4%	7%	6%	8%	6%
Segment OIBDA (Bef Stock Option)										
Broadcasting	\$292	\$289	\$324	\$266	\$1,171	13%	9%	12%	15%	12%
Cable Networks	\$1,015	\$1,669	\$2,005	\$1,518	\$6,207	1%	8%	6%	7%	6%
Media Networks	\$1,308	\$1,958	\$2,329	\$1,784	\$7,378	3%	8%	7%	8%	7%
Parks & Resorts	\$930	\$567	\$934	\$834	\$3,265	7%	3%	-1%	1%	2%
Studio Entertainment	\$241	\$117	\$196	\$158	\$712	-44%	#####	-44%	66%	-12%
Consumer Products	\$348	\$179	\$221	\$280	\$1,027	5%	7%	0%	-3%	2%
Interactive Media	(\$11)	(\$85)	(\$75)	(\$35)	(\$206)	-54%	29%	####	-51%	4%
Segment OIBDA	\$2,816	\$2,736	\$3,605	\$3,020	\$12,177	-2%	14%	-1%	8%	4%
EBITA (After. Stock Option Exp)										
Broadcasting	\$257	\$254	\$299	\$231	\$1,041	14%	11%	12%	20%	14%
Cable Networks	\$973	\$1,627	\$1,970	\$1,475	\$6,045	1%	8%	6%	7%	6%
Media Networks	\$1,230	\$1,880	\$2,269	\$1,706	\$7,086	3%	9%	7%	9%	7%
Parks & Resorts	\$600	\$237	\$619	\$504	\$1,960	9%	7%	-2%	1%	3%
Studio Entertainment	\$223	\$100	\$159	\$141	\$623	-46%	NA	-49%	76%	-14%
Consumer Products	\$328	\$159	\$206	\$260	\$952	5%	7%	-2%	-3%	2%
Interactive Media	(\$15)	(\$90)	(\$80)	(\$40)	(\$225)	46%	-29%	-90%	47%	4%
EBITA (pre corp)	\$2,366	\$2,287	\$3,173	\$2,571	\$10,396	-3%	18%	-2%	10%	4%
Less: Amortization	(\$33)	(\$33)	(\$33)	(\$33)	(\$130)	NM	NM	NM	NM	NM
EBIT (pre corp)	\$2,334	\$2,254	\$3,140	\$2,538	\$10,266	-3%	18%	-2%	10%	5%
Corp & Other (Including Stock Op. Exp)	(\$200)	(\$200)	(\$220)	(\$220)	(\$840)	-21%	-22%	-20%	-29%	-23%
Net Interest Expense	(\$91)	(\$91)	(\$91)	(\$91)	(\$364)	1%	-4%	-2%	0%	-1%
Restructuring and Impairment	\$0	\$0	\$0	\$0	\$0					
Equity in Income	\$100	\$140	\$185	\$135	\$560	-31%	1%	9%	-23%	-11%
Income Before Tax	\$2,175	\$2,136	\$3,047	\$2,395	\$9,752	-3%	14%	1%	13%	5%
Income Taxes	(\$750)	(\$726)	(\$1,036)	(\$814)	(\$3,327)	4%	12%	4%	12%	8%
Minority Interest	(\$55)	(\$75)	(\$150)	(\$170)	(\$450)	-4%	-10%	-27%	16%	-8%
NI Before Extraordinary	\$1,370	\$1,335	\$1,861	\$1,410	\$5,976	-6%	17%	2%	13%	5%
Less: Gain Sale, Comp Plan Mod.	\$0	\$0	\$0	\$0	\$0					
Extraordinary Charges	\$0	\$0	\$0	\$0	\$0					
Net Income-Reported	\$1,370	\$1,335	\$1,861	\$1,410	\$5,976	-6%	17%	2%	13%	5%
Net Income-Operations	\$1,370	\$1,335	\$1,861	\$1,410	\$5,976	-6%	26%	2%	13%	7%
Diluted EPS-Reported	\$0.77	\$0.75	\$1.06	\$0.81	\$3.39	-4%	20%	5%	18%	8%
Diluted EPS-Operations	\$0.77	\$0.75	\$1.06	\$0.81	\$3.39	-4%	30%	5%	18%	10%
Avg Diluted Shares Out	1,780	1,770	1,760	1,750	1,765	-2%	-3%	-3%	-4%	-3%

Sources: Company Reports, Needham & Company estimates.

Table 4					
Disney: Annual Income Statement Projections, 2010A-2013E					
\$ and shares in millions, except per share data					
FYE 9/30:	2010A ⁽¹⁾	2011A	2012A	2013E	Annual '11-'13 CAGR
Revenue					
Broadcasting	\$5,687	\$5,837	\$5,815	\$6,033	1.7%
Cable Networks	<u>\$11,475</u>	<u>\$12,877</u>	\$13,621	<u>\$14,508</u>	6.1%
Media Networks	\$17,162	\$18,714	\$19,436	\$20,541	4.8%
Parks & Resorts	\$10,761	\$11,797	\$12,920	\$14,035	9.1%
Studio Entertainment	\$6,701	\$6,351	\$5,825	\$5,894	-3.7%
Consumer Products	\$2,678	\$3,049	\$3,252	\$3,560	8.1%
Interactive Media	\$761	\$982	\$845	\$859	-6.5%
Total Revenue	\$38,063	\$40,893	\$42,278	\$44,890	4.8%
Segment OIBDA (Bef Stock Option)					
Broadcasting	\$800	\$1,053	\$1,045	\$1,171	5.5%
Cable Networks	<u>\$4,634</u>	<u>\$5,412</u>	<u>\$5,868</u>	<u>\$6,207</u>	7.1%
Media Networks (1)	\$5,354	\$6,465	\$6,913	\$7,378	6.8%
Parks & Resorts	\$2,457	\$2,763	\$3,188	\$3,265	8.7%
Studio Entertainment	\$782	\$741	\$810	\$712	-1.9%
Consumer Products	\$755	\$879	\$1,007	\$1,027	8.1%
Interactive Media	(\$191)	(\$253)	(\$199)	(\$206)	
Segment OIBDA	\$9,299	\$10,848	\$11,719	\$12,177	5.9%
EBITA (After. Stock Option Exp)					
Broadcasting	\$659	\$913	\$915	\$1,041	6.8%
Cable Networks	<u>\$4,473</u>	<u>\$5,233</u>	\$5,704	<u>\$6,045</u>	7.5%
Media Networks	\$5,132	\$6,146	\$6,619	\$7,086	7.4%
Parks & Resorts	\$1,318	\$1,553	\$1,902	\$1,960	12.3%
Studio Entertainment	\$693	\$618	\$722	\$623	0.4%
Consumer Products	\$677	\$816	\$937	\$952	8.0%
Interactive Media	(\$234)	(\$308)	(\$216)	(\$225)	-14.5%
Segment Operating Income	\$7,586	\$8,825	\$9,964	\$10,396	8.5%
Corp & Other (Including Stock Op. Exp)	(\$720)	(\$892)	(\$1,095)	(\$840)	-3.0%
Net Interest Expense	(\$409)	(\$343)	(\$369)	(\$364)	3.0%
Gain on Sale	\$0	\$0	\$0	\$0	
Restructuring and Impair	(\$270)	(\$55)	\$133	\$0	
Equity in Income	<u>\$440</u>	<u>\$585</u>	<u>\$627</u>	<u>\$560</u>	-2.2%
Income Before Tax	\$6,627	\$8,055	\$9,260	\$9,752	10.0%
Income Taxes	(\$2,314)	(\$2,785)	(\$3,087)	(\$3,327)	9.3%
Minority Interest	<u>(\$350)</u>	<u>(\$451)</u>	(\$491)	<u>(\$450)</u>	-0.1%
NI Before Extraordinary	\$3,963	\$4,819	\$5,682	\$5,976	11.4%
Cumulative Effect of Acct.	\$0	\$0	\$0	\$0	
Net Income	\$3,963	\$4,839	\$5,682	\$5,976	11.1%
Diluted EPS-Before Acct.	\$2.03	\$2.52	\$3.13	\$3.39	15.8%
Diluted EPS-After Acct.	\$2.14	\$2.54	\$3.08	\$3.39	15.3%
Avg Diluted Shares Out ⁽³⁾	1,949	1,909	1,818	1,765	-3.9%

Sources: Company Reports, Needham & Company estimates.

Table 5

Disney: Target Price Calculation, 2014E-2023E

\$ and shares in millions, except per share data

Valuation Conclusions		% of Total
Sum of PV of Free Cash Flow ¹	\$54,378	48%
PV of Terminal Value Discounted at WACC ¹	\$63,130	55%
Value of Operations (WACC Method)	\$117,509	103%
Plus: Cash at 9/30/12	\$3,387	
Plus: Non-Consolidated Assets (From PMV)	\$4,600	
Less: Minority Interest (20% ESPN & Euro Dis)	(\$11,200)	
Less: Unfunded Retirement Liabilities	\$0	
Enterprise Value	\$114,296	100%
Less: LTD at 9/30/12	(\$14,311)	
Less: Lease Obligations	(\$4,750)	
Less: Preferred Stock Outstanding	\$0	
Less: Value of Options & Restricted Sk, After-tax	(\$5,400)	
Common Equity Value	\$89,835	79%
Fully Diluted Shares Out, 2013E	1,765	
DCF Value/Share	\$50.90	
Current Share Price @ 01/08/13	\$50.76	
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:	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CAGR '13-22E
OIBDA (after sk comp exp & corp):	\$12,177	\$12,725	\$13,297	\$13,896	\$14,521	\$15,175	\$15,857	\$16,571	\$17,317	\$18,096	\$18,910	4.5%
- Depreciation	(\$1,750)	(\$1,750)	(\$1,463)	(\$2,043)	(\$2,381)	(\$2,367)	(\$2,347)	(\$2,254)	(\$2,217)	(\$2,172)	(\$2,118)	
+ 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	\$10,977	\$11,525	\$12,385	\$12,403	\$12,690	\$13,357	\$14,061	\$14,867	\$15,650	\$16,474	\$17,342	
Cash Taxes (at 37%)	(\$1,647)	(\$4,264)	(\$4,582)	(\$4,589)	(\$4,695)	(\$4,942)	(\$5,202)	(\$5,501)	(\$5,791)	(\$6,096)	(\$6,417)	
Plus: Depreciation	\$1,750	\$1,750	\$1,463	\$2,043	\$2,381	\$2,367	\$2,347	\$2,254	\$2,217	\$2,172	\$2,118	
Plus: Sk Based Comp Exp	\$300	\$300	\$300	\$250	\$200	\$200	\$200	\$200	\$200	\$200	\$200	
Working Capital Change	(\$350)	(\$350)	(\$351)	(\$350)	(\$357)	(\$355)	(\$323)	(\$310)	(\$277)	(\$271)	(\$265)	
Less: Capital Spending	(\$3,000)	(\$2,927)	(\$2,925)	(\$2,918)	(\$2,977)	(\$2,959)	(\$2,934)	(\$2,817)	(\$2,771)	(\$2,714)	(\$2,647)	
FCF from Operations	\$8,030	\$6,034	\$6,289	\$6,838	\$7,242	\$7,668	\$8,149	\$8,693	\$9,228	\$9,765	\$10,331	6.2%
PV Discounted at WACC ²		\$6,034	\$5,785	\$5,786	\$5,636	\$5,490	\$5,366	\$5,266	\$5,142	\$5,004	\$4,870	
Sum of PV of Free Cash Flow											\$54,378	
Terminal Value of 2023E FCF ³											\$133,917	
PV of Terminal Value at WACC ²											\$63,130	
Discount Period		0	1	2	3	4	5	6	7	8	9	

² 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%
WACC	8.7%

$(RFR + (\text{Equity Risk Premium} \times \text{Beta})) \times \% \text{ Equity/Total Capital} + ((RFR + \text{Debt Spread}) \times (1-T) \times \% \text{ Debt/Total Capital})$

³ Calculation of Terminal Multiple (WACC Method)

WACC	8.7%
Long-term Nominal GDP Growth	1.0%
WACC-GDP Growth	7.7%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	13.0
EBITDA Terminal Multiple	7.1

Sources: Company Reports, Needham & Company estimates.

Table 6

Disney: Breakeven Discounted Cash Flow Valuation Calculation, 2014E - 2023E

\$ and shares in millions, except per share data

Valuation Conclusions	
Sum of PV of Free Cash Flow ¹	\$54,272
PV of Terminal Value Discounted at WACC ¹	\$63,130
Value of Operations (WACC Method)	\$117,402
Plus: Cash at 9/30/12	\$3,387
Plus: Non-Consolidated Assets (From PMV)	\$4,600
Less: Minority Interest (20% ESPN & Euro Dis)	(\$11,200)
Enterprise Value	\$114,189
Less: LTD at 9/30/12	(\$14,311)
Less: Lease Obligations	(\$4,750)
Less: Preferred Stock Outstanding	\$0
Less: Value of Options & Restricted Sk, After-tax	(\$5,400)
Common Equity Value	\$89,728
Fully Diluted Shares Out, 2013E	1,765
Breakeven DCF Value/Share	\$50.84
Current Share Price @ 1/8/2013	\$50.76
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)

FYE 9/30:	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	Required LT Growth Rate
OIBDA (after sk comp exp & corp):	\$12,177	\$12,725	\$13,297	\$13,896	\$14,521	\$15,175	\$15,857	\$16,571	\$17,317	\$18,096	\$18,910	4.5%
- Depreciation	(\$1,750)	(\$1,463)	(\$1,463)	(\$2,043)	(\$2,381)	(\$2,367)	(\$2,347)	(\$2,254)	(\$2,217)	(\$2,172)	(\$2,118)	
+ 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	\$10,977	\$11,811	\$12,385	\$12,403	\$12,690	\$13,357	\$14,061	\$14,867	\$15,650	\$16,474	\$17,342	
Cash Taxes (at 37%)	(\$4,061)	(\$4,370)	(\$4,582)	(\$4,589)	(\$4,695)	(\$4,942)	(\$5,202)	(\$5,501)	(\$5,791)	(\$6,096)	(\$6,417)	
Plus: Depreciation	\$1,750	\$1,463	\$1,463	\$2,043	\$2,381	\$2,367	\$2,347	\$2,254	\$2,217	\$2,172	\$2,118	
Plus: Sk Based Comp Exp	\$300	\$300	\$300	\$250	\$200	\$200	\$200	\$200	\$200	\$200	\$200	
Working Capital Change	(\$350)	(\$350)	(\$351)	(\$350)	(\$357)	(\$355)	(\$323)	(\$310)	(\$277)	(\$271)	(\$265)	
Less: Capital Spending	(\$3,000)	(\$2,927)	(\$2,925)	(\$2,918)	(\$2,977)	(\$2,959)	(\$2,934)	(\$2,817)	(\$2,771)	(\$2,714)	(\$2,647)	
FCF from Operations	\$5,615	\$5,928	\$6,289	\$6,838	\$7,242	\$7,668	\$8,149	\$8,693	\$9,228	\$9,765	\$10,331	6.4%
PV Discounted at WACC ²		\$5,928	\$5,785	\$5,786	\$5,636	\$5,490	\$5,366	\$5,266	\$5,142	\$5,004	\$4,870	
Sum of PV of Free Cash Flow											\$54,272	
Terminal Value of 2023E FCF ³											\$133,917	
PV of Terminal Value at WACC ²											\$63,130	
Discount Period		0	1	2	3	4	5	6	7	8	9	

² 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%
WACC	8.7%
$(RFR + (Equity Risk Premium \times Beta)) \times \% Equity/Total Capital + ((RFR + Debt Spread) \times (1-T)) \times \% Debt/Total Capital$	

³ Calculation of Terminal Multiple (WACC Method)

WACC	8.7%
Long-term Nominal GDP Growth	1.0%
WACC-GDP Growth	7.7%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	13.0
EBITDA Terminal Multiple	7.1

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		2013E
Market-Based Enterprise Value ¹		\$100,665
2013E Sales (From Annual Projections)		\$44,890
EV/Sales		2.2
Market-Based Enterprise Value ¹		\$100,665
2013E OIBDA (From Annual Projections)		\$12,177
EV/OIBDA		8.3
Target Price		NA
Target Price EV/2014 OIBDA		NA
Current Price	1/8/13	\$50.76
2013E EPS (From Annual Projections)		\$3.39
P/E Ratio		15.0
¹ Calculation of Market-Based Enterprise Value		
Year End 9/30:		2013E
Current Share Price	01/08/13	\$50.76
Fully Diluted Shares Out		1,765
Market Capitalization		\$89,591
Less: Excess Cash		(\$3,387)
Less: Non-Consolidated Assets		(\$4,600)
Plus: Unfunded Retirement Liabilities		\$0
Plus: Debt at 6/30/12		\$14,311
Plus: Lease Obligations		\$4,750
Plus: Preferred Stock Outstanding		\$0
Plus: Options & Warrants Outstanding		\$5,400
Market-Based Enterprise Value		\$100,665
Sources: Company Reports, Needham & Company estimates.		

Table 8		
Disney: Free Cash Flow Valuation Metrics		
\$ and shares in millions, except per share data		
Valuation Conclusions		2013E
FCF/Share ²		\$3.03
Current Price	1/8/13	\$50.76
FCF Yield		6%
FCF ²		\$5,351
2013E OIBDA (From Annual Projections)		\$12,177
FCF Conversion Rate (FCF/OIBDA)		44%
Market-Based Enterprise Value ¹		\$100,665
FCF ²		\$5,351
EV/FCF		18.8
Net Debt/OIBDA		0.9
Net Debt		\$10,924
Net Debt/Market Cap		12.2%
² Calculation of Free Cash Flow		
Year End 9/30:		2013E
EBITDA		\$12,177
Plus: Option Exercise Proceeds		\$500
Less: Cash Interest Expense		(\$364)
Minority Interest		\$450
Less: Preferred Dividends		\$0
Less: Cash Taxes		(\$4,061)
Less: Change in Working Capital		(\$350)
Less: Capital Spending		(\$3,000)
Free Cash Flow		\$5,351
Less: Dividends		(\$1,320)
Free Cash Flow After Dividends		\$4,031
Shares Outstanding		1,765
FCF/Share		\$3.03
FCF/Share After Dividends		\$2.28
Sources: Company Reports, Needham & Company estimates.		

Table 9

Laura Martin's Coverage List - Valuation Analysis and Earnings Estimates

\$ and shares in millions, except where noted & per share data

													01/08/13		
Ticker	Rating	Market Cap (\$B)	Break-even DCF	EV (\$B)	EV/ '13 Sales	EV/ '13 EBITDA	2013 P/E	'12-'13		Target Price	Current Price	Target/ Current			
								EPS Growth	PEG Ratio						
Online Content															
1 AOL, Inc.	BUY	\$2.8	0%	\$3	1.4	7.6	19.7	11%	1.8	\$40	\$29.70	35%			
2 Bankrate, Inc.	BUY	\$1.3	8%	\$2	3.2	12.0	23.3	3%	7.2	\$15	\$13.05	15%			
3 Demand Media, Inc.	HOLD	\$0.9	3%	\$1	2.0	7.2	19.6	25%	0.8	NA	\$9.31				
4 Facebook	BUY	\$79.8	20%	\$71	10.9	18.0	44.8	382%	0.1	\$33	\$29.06	14%			
5 Pandora Media	BUY	\$1.6	28%	\$2	3.1	207.4	880.3	-302%	NM	\$13	\$10.14	28%			
6 TripAdvisor, Inc.	BUY	\$6.5	9%	\$6	6.7	14.7	23.6	24%	1.0	\$51	\$44.72	14%			
7 Yahoo!	BUY	\$23.9	-1%	\$6	1.4	3.2	16.9	3%	6.5	\$26	\$19.66	32%			
Offline Content															
8 CBS	BUY	\$24.8	5%	\$33	2.1	8.6	13.3	10%	1.3	\$40	\$37.52	7%			
9 Discovery Communications	HOLD	\$25.8	8%	\$29	6.0	12.5	20.3	24%	0.8	NA	\$67.85				
10 Disney	HOLD	\$89.6	5%	\$101	2.2	8.3	15.0	10%	1.5	NA	\$50.76				
11 Madison Square Garden	BUY	\$3.6	10%	\$4	2.9	13.3	37.2	42%	0.9	\$55	\$46.23	19%			
12 NewsCorp	BUY	\$60.9	4%	\$60	1.7	8.1	14.9	24%	0.6	\$27	\$26.13	3%			
13 Scripps Networks Interactive	BUY	\$9.0	6%	\$10	4.0	8.2	15.5	13%	1.2	\$74	\$59.10	25%			
14 Time Warner Inc	HOLD	\$48.9	6%	\$68	2.3	9.2	13.7	14%	1.0	NA	\$50.15				
15 Viacom	BUY	\$30.7	4%	\$39	2.8	9.2	12.0	9%	1.4	\$63	\$57.04	10%			
Content-Adjacent Value Drivers															
16 Nielsen Company BV	HOLD	\$11.4	6%	\$18	3.1	10.5	24.8	15%	1.6	NA	\$31.19				
17 Synacor	HOLD	\$0.2	3%	\$0	1.1	7.4	15.6	153%	0.1	NA	\$5.42				
18 Time Warner Cable	BUY	\$30.1	1%	\$53	2.4	6.4	14.0	19%	0.7	\$115	\$96.36	19%			
Income Statement			Balance Sheet				FCF Data				Dividends				
	Revenue	EBITDA	EPS	Net Debt	Debt/ OIBDA	Debt Rating	WACC	FCF	FCF/ Share	FCF Yield	Dividend/ Share	Div. Yield	Conflicts Disclosure		
	2013E	2013E	2013E												
1 AOL, Inc.	\$2,137	\$383	\$1.51	(\$867)	(2.3)	BBB-	11%	\$308	\$3.33	11%	\$0.00	NA	B		
2 Bankrate, Inc.	\$480	\$126	\$0.56	\$123	1.0	B	12%	\$35	\$0.35	3%	\$0.00	NA	B		
3 Demand Media, Inc.	\$433	\$123	\$0.47	(\$113)	(0.9)	B	11%	\$80	\$0.88	9%	\$0.00	NA	B		
4 Facebook	\$6,500	\$3,939	\$0.65	(\$10,452)	(2.7)	BBB	11%	\$1,565	\$0.57	2%	\$0.00	NA	B,G		
5 Pandora Media	\$423	\$9	(\$0.10)	(\$58)	(6.6)	BBB-	10%	\$23	\$0.14	1%	\$0.00	NA	B		
6 TripAdvisor, Inc.	\$951	\$434	\$1.90	(\$134)	(0.3)	BBB-	10%	\$374	\$2.58	6%	\$0.00	NA	B,G		
7 Yahoo!	\$4,413	\$2,011	\$1.16	(\$8,413)	(4.2)	A-	10%	\$1,331	\$1.10	6%	\$0.00	NA	B,G		
8 CBS	\$15,758	\$3,775	\$2.83	\$6,880	1.8	BBB-	10%	\$2,577	\$3.91	10%	\$0.48	1.3%	B		
9 Discovery Communications	\$4,823	\$2,321	\$3.34	\$3,728	1.6	BBB	9%	\$1,307	\$3.44	5%	\$0.00	NA	B,G		
10 Disney	\$44,890	\$12,177	\$3.39	\$10,924	0.9	A	9%	\$5,351	\$3.03	6%	\$0.75	1.5%	B		
11 Madison Square Garden	\$1,297	\$283	\$1.24	(\$207)	(0.7)	BBB-	9%	(\$113)	(\$1.45)	-3%	\$0.00	NA	B,G		
12 NewsCorp	\$34,878	\$7,343	\$1.75	\$5,750	0.8	BBB+	10%	\$3,537	\$1.52	6%	\$0.17	0.7%	B,G		
13 Scripps Networks Interactive	\$2,490	\$1,203	\$3.81	\$998	0.8	BBB+	9%	\$703	\$4.61	8%	\$0.48	0.8%	B		
14 Time Warner Inc	\$30,186	\$7,375	\$3.65	\$16,688	2.3	BBB	9%	\$2,634	\$2.70	5%	\$1.04	2.1%	B		
15 Viacom	\$13,713	\$4,245	\$4.75	\$7,301	1.7	BBB+	9%	\$2,094	\$3.90	7%	\$1.10	1.9%	B,G		
16 Nielsen Company BV	\$5,912	\$1,754	\$1.26	\$6,355	3.6	BBB-	10%	\$877	\$2.40	8%	\$0.00	NA	B		
17 Synacor	\$154	\$23	\$0.35	(\$39)	(1.7)	B	11%	\$8	\$0.28	5%	\$0.00	NA	B,C,D,G,J		
18 Time Warner Cable	\$22,251	\$8,248	\$6.86	\$23,210	2.8	BBB	10%	\$2,381	\$7.61	8%	\$2.24	2.3%	B		

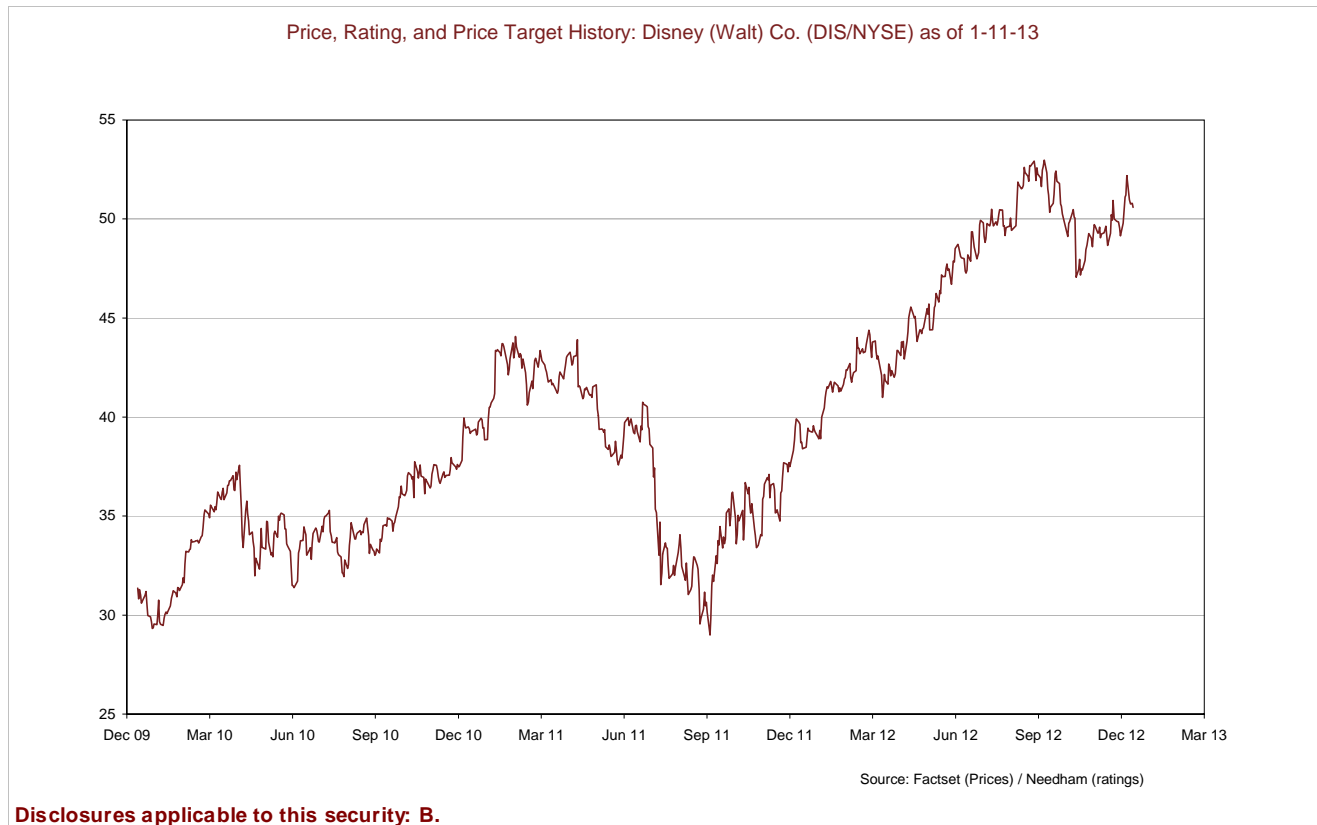
Sources: Needham research, Company documents, FirstCall, Yahoo Finance.

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Hold	35	5
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Rating Suspended	0	0
Restricted	<1	0
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