The Walt Disney Company (DIS)

March/April 2020

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The Concerns

Coronavirus Impact

- *"Putting it all together, despite the fall in Disney's stock price to date, we think the combination of COVID-19 impacts and an ensuing recession will cause unprecedented pain here*." – MoffettNathanson
- Disney's overall business is put at major risk
  - Generates substantial cash flow from ESPN, which is based on affiliate fees and advertising. Cord cutting may accelerate, and there are currently no sports being played.
  - All of the theme parks are closed, until "further notice", at an est. $30m/ month in costs globally
  - Movie theaters are closed, film studios pushing back release dates by 6-12 months, halting production on new films and series
- Theme parks closed March 15, 2020 in US – DIS will continue paying employees until mid-April
  - Disney has 77k employees at WDW Orlando, 31k at Disneyland, and 17k in Paris
- Effective April 5th, all VPs will have their salaries reduced by 20%, SVPs 25%, EVPs 30%, Bob Iger forgoing 100%, and CEO Bob Chapek 50%

Coronavirus Impact on DIS: *Media Networks*

- Apparently, ESPN executives are *panicking* trying to figure out what to do given sports games have been postponed or cancelled
  - Long cancellations could be the final straw for cutting the cord, if live sports was such a large reason for keeping the expensive pay TV bundle
  - ESPN owns more sports rights than any media entity
  - ESPN makes about $11bn annually from ESPN and sister networks, charging around $9/month for all ESPN networks in affiliate fees
  - Also – earns about $2.75bn in advertising
  - If the remainder of the NBA season is canceled, ESPN will lose about $481m in ad revenue (about $306m post tax, to DIS)
- Canceled events:
  - March Madness – CBS/ Turner own the rights (not ESPN or DIS)
  - The Masters (Golf) – CBS
  - ESPN holds some large contracts with NFL, but that doesn't begin until Fall 2020 (Monday Night Football)
  - Olympics moved to 2021 – Comcast / NBC
  - MLB postponed – season is still in Spring Training, ESPN has rights
  - NBA Season – ESPN and Turner Sports have contracts

Coronavirus Impact on DIS: *Theme Parks*

- Disneyland – closing March 14th through TBA, as will the hotels
- Walt Disney World – closing March 15th - TBA
- Disney Cruise Line – suspending all departures from March 13th – TBA
- Shanghai Disneyland – closed on January 25, began reopening limited to some shops, dining, and experiences as long as go through health screening, show a Health QR code
- Tokyo Disneyland – late February, opening postponed from April 15 to mid-May 2020 or beyond
- Disneyland Paris – closed March 15th – closed indefinitely

- DIS already said Shanghai and Hong Kong are costing them about $130m/month to stay closed
- Moffett Nathanson (03/27/2020):
  - Anticipates closure at theme parks will stretch beyond March, at least into mid-April
  - A one month shut down at DIS 6 theme parks could result in a $1.4bn loss of revenue
  - Estimates $3.4bn loss in revenue in US theme parks due to Coronavirus + recession ($2bn impact on revenues)
  - Estimates the 6 international theme park closures will result in $900m in lost revenue, total $4.3bn
- JPM estimates a $1.5bn hit if DIS doesn't furlough employees, a $500m cost savings if they do

Coronavirus Impact on DIS: *Film Studio*

- Movie releases are being pushed back
  - Fast & Furious 9 – from May 2020 to April 2021 (11 months)
  - James Bond “No Time to Die” – from April 2020 to November 2020 (7 months)
  - Mulan (Disney) – TBA
  - Black Widow (Disney) - TBA
- Less people are going to movies, theaters likely to close temporarily
  - Pixar’s Onward likely impacted, despite strong ratings and reviews (*update*: DIS putting Onward on D+ April 3rd)
- Production of new movies halted
  - The Little Mermaid
  - Home Alone
  - Peter Pan & Wendy
  - Others….

- *No Time To Die:* Release moved from April 10 to November 25
- *My Spy*: Release moved from March 13 to April 17
- *Peter Rabbit 2: The Runaway:* Release moved from April 3 to August 7
- *A Quiet Place Part II:* Release moved from March 18, new release date TBA
- *Fast Furious: F9:* Release moved from May 22, 2020 to April 2, 2021
- *The Lovebirds:* Release moved from April 3, new release date TBA
- *Blue Story:* Release moved from March 20, new release date TBA
- *Mulan:* Release moved from March 27, new release date TBA
- *The New Mutants:* Release moved from April 3, new release date TBA
- *Antlers:* Release moved from April 17, new release date TBA

Coronavirus Impact on DIS: *Film Studio* *(updated)*

- DIS made some substantial changes to their film line-up (as of 4/3/2020):
  - Moved Mulan back 4 months (this is surprising, seems too soon)
  - Eternals – now 2021
  - Dr. Strange – end 2021
  - Thor: Love & Thunder – 2022
  - Removed a Marvel title that was to be released in 2022
  - Indiana Jones - moved back a year, to 2022
- Artemis Fowl will go direct to Disney+

FREE GUY (20th) previously dated on 7/3/20 moves to 12/11/20

BOB'S BURGERS (20th) previously dated on 7/17/20 moves to 4/9/21

MULAN (Disney) is now dated on 7/24/20

JUNGLE CRUISE (Disney) previously dated on 7/24/20 moves to 7/30/21

THE FRENCH DISPATCH (Searchlight) previously dated on 7/24/20 moves to 10/16/20

BLACK WIDOW (Disney) is now dated on 11/6/20

THE ETERNALS (Disney) previously dated on 11/6/20 moves to 2/12/21

SHANG CHI AND THE LEGEND OF THE TEN RINGS (Disney) previously dated on 2/12/21 moves to 5/7/21

DOCTOR STRANGE IN THE MULTIVERSE OF MADNESS (Disney) previously dated on 5/7/21 moves to 11/5/21

THOR: LOVE AND THUNDER (Disney) previously dated on 11/5/21 moves to 2/18/22

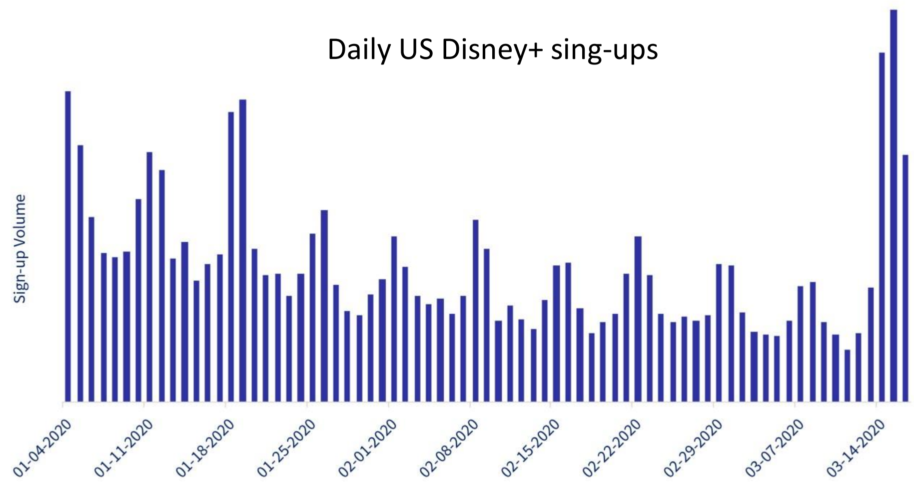
UNTITLED MARVEL (Disney) previously dated on 2/18/22 is removed from schedule

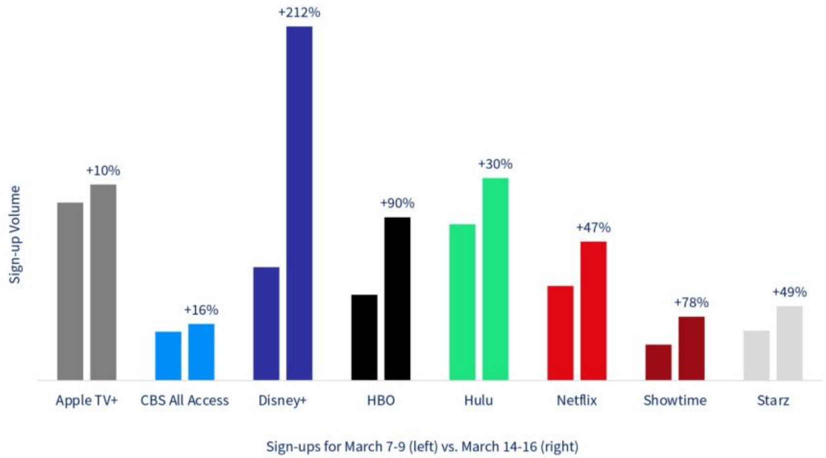
UNTITLED INDIANA JONES (Disney) previously dated on 7/9/21 moves to 7/29/22

CAPTAIN MARVEL 2 (Disney) is the updated title of previous **UNTITLED MARVEL** dated on 7/29/22, and moves to 7/8/22

Coronavirus Impact on DIS: *Disney+*

- Released Frozen 2 during spring break week, much earlier than expected (originally June 26, 2020)
- Releasing "Onward" on April 3rd, despite being a new release in theaters just ~ 6 weeks ago
- Saw very strong demand from March 24th Western Europe launch
- Other notes:
  - Comcast said there is a 38% increase from March 1st in streaming and web video consumption
  - Given this fact + kids are off from school and likely will miss the remainder of the school year, I imagine Disney+ is a must have for most family HHs
  - From March 16th to March 23rd, Disney saw a 212% increase in US sign ups (chart right)
  - Saw 3.1x the volume compared to weekend volume, which was 2.6x daily average for 2020





Coronavirus Impact on DIS: *Bond Offering*

- DIS went to the bond market twice so far for additional capital:
  - 3/20/2020 for $6.0bn
  - 3/26/2020 for C$1.3bn at 3.057% 7-year bonds
- DIS is paying WDW / DL cast members and employees until April 19th as of now
- Estimate that Disney theme parks (globally) are losing about $50m per day, as they have no attendance but continue paying employees

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit
3.350% Notes due 2025	$1,750,000,000	99.945%
Guarantee of the 3.350% Notes due 2025	—	—
3.700% Notes due 2027	$500,000,000	99.890%
Guarantee of the 3.700% Notes due 2027	—	—
3.800% Notes due 2030	$1,250,000,000	99.720%
Guarantee of the 3.800% Notes due 2030	—	—
4.625% Notes due 2040	$750,000,000	99.767%
Guarantee of the 4.625% Notes due 2040	—	—
4.700% Notes due 2050	$1,750,000,000	99.316%
Guarantee of the 4.700% Notes due 2050	—	—
Total	$6,000,000,000	—

Overall Concerns with DIS

- Cable Networks = 59% of FCFF
  - Advertising trends towards digital, is cyclical
  - Long term sports contracts set, but revenue from affiliate fees (50% of revenues) not sustainable
  - ESPN is most exposed to cord-cutting, as they earn a large portion of revenues from charging distributors based on Pay TV ecosystem subscribers, which have been declining last 5 years and may accelerate
- Long term contracts with sports leagues travels the value proposition of having sports rights to sports leagues, not DIS shareholders
- Theme Parks
  - Raising admission ticket prices 5%+ per year unsustainable (admissions = 30% revenues from Parks, Products, Experiences), especially during weak economy
  - Capital intensive (~20% capital intensity)
- Key man risk with Kevin Feige (has produced or co-produced all Marvel movies thus far)

Overall Concerns with DIS

- DIS assets - cable networks / ESPN, film (Marvel, Pixar, Disney), and theme parks – all have "peaked"
  - Cord cutting impacting ESPN, leagues demanding larger contracts knowing the importance of live sports to the overall bundle and advertising, yet ESPN subs declining, and ESPN is the largest monthly fee for distributors to carry
  - Marvel generated over $22bn globally at box office, but almost all of those characters are done, up and coming characters not as strong or well known
  - Theme park admission prices gouging people, eventually will have an impact in weaker economic times, or if it becomes unaffordable for the average visitor
  - Live sports rights will go down in value over time with rise of "e-sports"
- Disney+ / HULU / ESPN+ economics will not make up for the deterioration in the cable networks and broadcast business with cord-cutting
- CEO Bob Chapek has a spotty reputation – such as going way over budget in Shanghai, laying off workers in domestic parks due to overspending, Toy Story Land cut corners due to Shanghai budget issues, "normal" workers / cast members feeling unappreciated
- Leverage due to the FOX transaction (~ $57bn in gross debt)
- Film business is in a slow terminal decline, forced to raise prices to offset less volume growth (similar to Pay TV ecosystem)

Concerns & Discussions

Concerns:		Slide Page
Coronavirus could bankrupt DIS (Disney)	→	14
Coronavirus impact on EPSN / no sports could accelerate cord-cutting	→	43+
Coronavirus fears would change consumer behavior around attending largely gathered locations like theme parks	→	15
Coronavirus impact on ESPN could hurt relationships / affiliate fee terms with distributors	→	Not enough info. on these contracts

Concerns & Discussions

Concerns:		Slide Page
Cord-Cutting Will Destroy the Pay TV Bundle, ESPN is most exposed	→	66
Sports Rights continue to rise astronomically + long-term deals + ESPN sub losses = potential major losses	→	48+
CEO Bob Chapek ≠ Bob Iger / Abrupt transition was oddly timed	→	181
Unknown Economics of Disney+, Hulu, ESPN+	→	171

Concerns & Discussions

Concerns:	Slide Page
Box Office for Disney has "peaked"	118
Theme Parks won't do well in a recession; sky high one day park passes an issue for the "average potential visitor"	139
Botched 21CF Acquisition Integration	TBD; 21CF film has underperformed thus far, but still TBD

Concern: Coronavirus impact could BK DIS

Concern:

Coronavirus could bankrupt DIS (Disney)

- As of E 2019, DIS had $6.8bn in cash
- They also have a revolver capacity of $12.25bn ($0 balance)
- Only $2.4bn in bond maturities in fiscal 2020
- Moody's believes things will begin to open at the end of Q2 2020
- 80% of DIS capex is theme parks, pretty much all of it can be deferred, delayed, postponed (~ $4bn)
- Film production costs on hold
- Operating costs at theme parks, Disney retail stores, cruise lines on hold
- Less/none food & beverage purchases at theme parks, cruises
- DIS will still pay, as of now, for employees. SG&A was $11.5bn in fiscal
- Temporary mitigation with revenues for Disney+ and Hulu growing slightly quicker than anticipated, due to large increases in streaming viewership during the "quarantine" period
- Theme parks have some working capital, as visitors pay in advance. Season passes will be extended, not refunded. Unexpired tickets while closed will be extended through Dec. 15, 2020, not refunded.

Moody's note 3/19/2020

New York, March 19, 2020 -- Moody's Investors Service ("Moody's") assigned an A2 rating to The Walt Disney Company's (Disney) proposed notes offering. The senior unsecured notes will be pari passu with the company's existing senior unsecured indebtedness and will be guaranteed by TWDC Enterprises 18 Corp., a subsidiary of Disney. Proceeds will be used for general corporate purposes, which Moody's believes will include strengthening liquidity and could include paying down outstanding commercial paper balances or fund upcoming debt maturities. The rating outlook for Disney is stable.

"This transaction will help assure that Disney has significant liquidity to help carry it through this "black swan" cycle caused by the spread of COVID-19", stated Neil Begley, Moody's Seior Vice President. The company has a total of $12.25 billion of revolver capacity, which is presently undrawn except to backstop its outstanding commercial paper, which may be reduced with the use of proceeds from this transaction. The company also has a sizable cash balance which can also be used to meet commercial paper maturities if they cannot be rolled over or bond maturities which total $2.4 billion in fiscal 2020. Moody's believes that the bank facilities will be more than adequate to meet all the company's needs at this time and this transaction will only bolster the company's solid liquidity position which is important financial insurance since the crises duration and economic knock-on effects are still unknown. Moody's also expects the company will endeavor to control costs and delay capital expenditures. Lower profitability should result in significantly lower taxes for fiscal 2020 as well.

A summary of today's action follows:

Assignments:

..Issuer: Walt Disney Company (The)

....Backed Senior Unsecured Regular Bond/Debentures, Assigned A2

RATINGS RATIONALE

Disney's A2 rating is supported by its diverse business segments, strong brands and robust free cash flow generation. Its portfolio of iconic brands and franchises positions the company well as the industry transitions from traditional linear to direct-to-consumer. While Disney's leverage will be temporarily higher than what Moody's considers acceptable for the company's 'A' rating because of its acquisition of Twenty-First Century Fox's entertainment assets and temporary business disruptions due to the spread of COVID-19, Disney's management remains committed to its historically conservative financial policy, and Moody's still expects the company to reduce leverage back in line with its historical norm over the next few years.

Moody's had expected Disney's adjusted debt-to-ebitda leverage to be 2.25x by the end of calendar 2022. However, given the steep business disruptions the company is facing due to COVID-19, assuming disruption through the end of the second calendar quarter, and then a gradual ramp up of theme park and cruise operations, Moody's believes leverage will be about 2.75x by the end of 2022 (2.4x without the Hulu adjustment of $5.775 billion). This will add between six months and a year to the time the company will need to return its balance sheet to credit metrics consistent with its current A2 long-term debt ratings.

The stable outlook reflects our view that Disney will continue to reinvest in its businesses to sustain its competitive position and cash flows, and manage its credit profile commensurate with the A2 long-term debt rating. The outlook also reflects our assumption that Disney will suspend share repurchases until leverage is reduced to under 2.25x including Moody's adjustments and including the put/call agreement between the company and Comcast for the acquisition of Comcast's Hulu stake in 2024.

Concern: Coronavirus Impact Visitors Long Term

Concern:

Coronavirus fears would change consumer behavior around attending largely gathered locations like theme parks

- Think terrorism concerns would provoke more fears (due to large crowds):
  - Attendance fell 40% at US DIS parks in first weeks following 9/11
  - 30% decline a year later from international visitors
  - 6% decline a year later in US parks visitors (all due to int'l)
  - Revenue in Q4 2001 (-17%) at theme parks
- Unless there are spikes in deaths of younger adults, and especially children, coinciding with a lack of "nothing can be done if we get the virus", unlikely this will impact consumer behavior long-term
- Think people recognize this as a one-off crazy situation that shouldn't impact normal living behaviors once things "return to normal"

My belief: no impact on US theme park visitor trends due to fears, short term impact on cruise lines (<2 yrs.), likely some (1-2 years) pain around Asian parks – HK & Shanghai

WDW News Today
@WDWNT

Current crowds at the Magic Kingdom for tonight's showing of Happily Ever After... #DisneyWorld

7:41 PM · Mar 15, 2020 · Twitter Web App

Day prior to closing!

Concern: Contractual Programming Obligations

- DIS has ~ $50bn in programming obligations
  - $43.9 bn related to sports programming rights – college football, NBA, NFL, UFC, MLB, Cricket, US Open Tennis, Boxing, PGA Championship and various soccer rights
  - $8.9bn is sports programming commitments
- Other obligations of $13bn
  - 3 new cruise ships
  - Employment agreements, obligations to actors, personalities, producers

	Payments Due by Period				
(in millions)	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Borrowings (Note 9)[(1)]	$ 65,888	$ 10,398	$ 10,021	$ 6,516	$ 38,953
Operating lease commitments (Note 15)	5,931	982	1,519	939	2,491
Capital lease obligations (Note 15)	549	19	39	33	458
Sports programming commitments (Note 15)	43,940	8,878	15,613	9,315	10,134
Broadcast programming commitments (Note 15)	6,474	2,599	2,277	946	652
Total sports and other broadcast programming commitments	50,414	11,477	17,890	10,261	10,786
Other[(2)]	12,918	3,210	3,292	2,218	4,198
Total contractual obligations[(3)]	$ 135,700	$ 26,086	$ 32,761	$ 19,967	$ 56,886

Walt Disney

Overview

“Businesses That Can Thrive, but Withstand Uncertainty”

High Quality		
Pricing Power	Limited Competition	Only Universal (Comcast)truly competes with theme parks, NFLX with streaming, no competition in theatrical release, and ESPN has more sports rights than anyone else
	Brand Affinity / Superiority	ESPN = dominant for sports; Disneyland / Disney World = bucket list item for most parents; Marvel / Pixar / Lucasfilm global powerhouses
Barriers to Entry	Network Effects / Ecosystem	Film content drives more merchandise sales, attendance and investment at theme parks, virtuous marketing for future film releases, and helps brand association with Disney+
	Regulatory	Getting permits for theme parks takes time
	Capital Intensive + Time	Theme parks / Cruise spends about $4bn on capex, and a new park takes about 3-4 years to build
	Intellectual Property	In order to drive high ROIC and pricing power, the strongest theme park brands are those associated with incredible IP - only Universal and Disney offer this globally. This IP enhances excitement for future film releases.

Higher margins than comps, more pricing power across (Disney+, ESPN, theme parks, cruise ships, distribution agreement with theater chains) leading to high free cash flow

“A Good but not Great Business”

Business Quality "Question Marks"		
Item	Segment	Notes
Cost Structure	Theme Parks	Theme parks have a ~30% EBIT margin, but they maintain this through continual price increases of admission, food, and merchandise. Without the ability to pass through pricing, DIS theme parks margin will stumble.
	ESPN	ESPN signs long term (5-15 year+) sports rights contracts, which are often 30-50%+ higher than the previous one. The cost structure depends on subscriber and pricing growth, both of which are under-pressure over the last few years due to Pay TV secular headwinds.
	Hulu / Disney+	Both are expected to spend ~$3bn - $4bn over the next few years, which they are able to due to their other businesses cash flow generation. In a recession (or pandemic), the other businesses suffer due to their cyclicality, which may hurt spending/ marketing on the DTC businesses.
Capital Intensive	Theme Parks	Average ~ 20% of revenues over the last few years, largely due to expansions, new projects, and upgrades. Far more than the ~11-13% comps spend on normal capex. CapEx nearly ~2x more than Depreciation.
Industry Headwinds	ESPN	Pay TV subs in declines, puts immense pressure on the networks with long-term fixed sports rights contracts.
	Media Networks	Pay-TV, in the traditional sense, is in secular decline. Media networks are ~ 50% of FCFF. Furthermore, TV advertising is no longer a growth business, may seem a slow decline due to less "viewership" going forward
Cyclical	Advertising	ESPN / ABC / Hulu depends heavily on advertising revenues, which drop off during recessions, as companies cut back of ad spending.
	Theme Parks	DIS theme parks are the most expensive in the world, at ~ $125/day for a one day ticket to WDW / DL in the US. Given that attendance is often done in multiples (families), the ability to fork over $2k - $4k for a few days is not as affordable for many families during a recession.

Disney: Owning Some of the World's Greatest Franchises

List of Highest Grossing Media Franchises Ever					
#	Franchise	Inception	Total Revenue $	Original Media	Owner
1	Pokemon	1996	$ 95	Video Game	Nintendo / Pokemon
2	Hello Kitty	1974	$ 86	Cartoon Character	Sanrio
3	Winnie The Pooh	1924	$ 76	Book	Disney
4	Mickey Mouse & Friends	1928	$ 74	Animated Character	Disney
5	Star Wars	1977	$ 70	Film	Lucasfilm / Disney
6	Anpanman	1973	$ 60	Manga	Froebel-kan
7	Disney Princess	2000	$ 47	Animated Series	Disney
8	Jump Comics	1968	$ 40	Manga	Shueisha
9	Super Mario	1981	$ 38	Video Game	Nintendo / Pokemon
10	Marvel MCU	2008	$ 35	Film	Disney / Sony
11	Harry Potter	1997	$ 32	Books	JK Rowling / AT&T
12	Transformers	1984	$ 30	Animated Series	Takara Tomy / Hasbro
13	Spider-Man	1962	$ 29	Comic Book	Disney / Sony
14	Batman	1939	$ 28	Comic Book	DC / AT&T
15	Gundam	1979	$ 26	Anime	Sunrise
Source: Wikipedia					

Walt Disney

The Walt Disney Company (DIS)

Walt Disney (DIS)		
Stock Price	$	95.00
S/O		1,817.00
Market Cap	$	172,615
Cash	$	6,833
Investments	$	3,312
ST Debt	$	10,018
LT Debt	$	38,057
New Debt	$	6,500
NC Interest	$	9,029
Other Liability	$	-
Total Debt	$	63,604
Net Debt	$	53,459
Enterprise Value	$	226,074

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