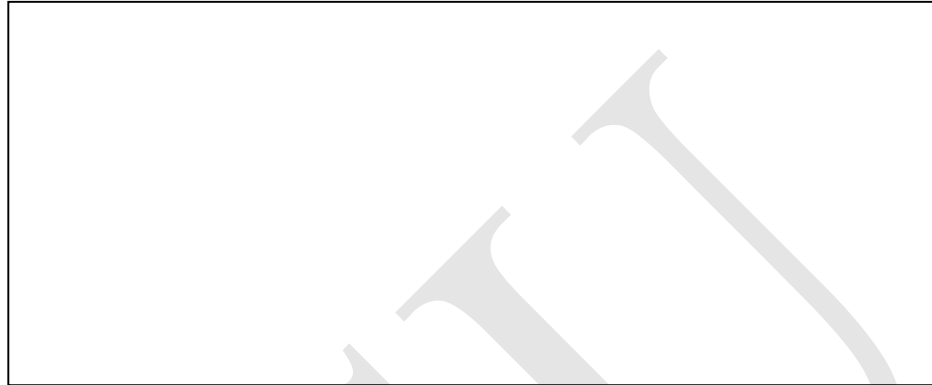

Henderson State University

**Walt Disney Co.
November 4, 2009**

Appendix

Investment Thesis
DIS Profile
Stock Chart
Business Synopsis
Products/Services
Internal Analysis
Headlines
Earnings Call Transcripts
Industry Analysis
Competitors
Valuation Tables
Summation

Investment Thesis



Walt Disney Co

(DIS \$27.52)

One Year Target Price: \$28.42

Opinion: Undervalued

Walt Disney Co. began as a cartoon studio in the 1923, and has since then grown into a global corporation that is one of the leaders in the diversified entertainment industry. There are four business segments that Disney, along with its subsidiaries and affiliates, where they maintain operations: media networks, parks and resorts, studio entertainment and consumer products. The Walt Disney Co. success is based heavily on the quality of creative content and the outstanding storytelling that the company was created upon.

“My only hope is that we never lose sight of one thing, that it was all started by a mouse.”
-Walt Disney

Henderson State

DIS Profile

General Information	
Ticker	DIS
Exchange	NYSE
Sector	Services
Industry	Entertainment-Diversified
Headquarters	Burbank, CA
Purchase Date	Na
Purchase Price/Shares	Na
Current Price	\$27.52
Book Value	\$18.847
52- Wk Low /High	\$15.14-31.06
52- Wk Change	-7.89%
52- Wk Relative	
Market Cap.	51.33 B
Shares Outstanding	1.86 B
Inst. Ownership	
Float	1.72 B
Average Volume (3m)	12,795,000
Short Interest	
Beta	1.15
EPS	0.52
PE Ratio	\$14.75
PEG Ratio	2.93
Dividend/Yield	0.35(1.30%)
IPO	

Estimates
SMF (rev, EPS, DCF)
• 1Q10E:
• 2010E:
• 2011E:
Consensus
• 1Q10E:
• 2010E:
• 2011E:
Guidance
• 2010E
– Rev
– Adj. EBITDA
– Option
–

Coverage
• Buys
– 6
• Holds
– 9
• Sells
– 3

Sources: yahoo.com, reuters.com, company documents

Stock Chart

HESU

Business Synopsis

Walt Disney Co. is currently active in four separate lines of business which attribute to their overall strategic plan.

Studio Entertainment:

The Walt Disney Studios is the foundation on which Disney was built, and at its heart are world-renowned animated features and live-action motion pictures. With the creation of Mickey Mouse and Snow White and the Seven Dwarfs, the world's first full-length animated feature, the Disney name quickly became synonymous with quality entertainment for the whole family. This includes these companies: Walt Disney Pictures, Touchstone Pictures, Hollywood Pictures, Miramax Films, Walt Disney Studios Motion Pictures International, Walt Disney Studios Home Entertainment, Disney Theatrical Productions, Disney Live Family Entertainment, Disney on Ice, Walt Disney Records, Hollywood Records, Lyric Street Records.

Parks and Resorts:

Disney's Parks and Resorts is not just home to Disney's beloved characters but the place "Where Dreams Come True." The segment traces its roots to 1952, when Walt Disney formed what is today known as Walt Disney Imagineering to build Disneyland Park in Anaheim, California. Other parks and Resorts: Walt Disney World Park, Disney Cruise Line, eight Disney Vacation Club resorts, Adventures by Disney, Disneyland Resort, Walt Disney World Resort, Tokyo Disney Resort, Disneyland Resort Paris, Hong Kong Disneyland.

Media Networks:

Media Networks comprise a vast array of broadcast, cable, radio, publishing and Internet businesses. Key areas include: Disney-ABC Television Group, ESPN Inc., Walt Disney Internet Group, ABC owned television stations, and a supporting headquarters group. Other areas in this category are: ABC Television Network, Disney Channels, ABC Family, SOAP net, and Radio Disney Network.

Consumer Products:

Disney merchandising began in 1929 when Walt Disney was approached by a businessman interested in placing Mickey Mouse on the cover of a children's writing tablet. Disney Consumer Products and affiliates (DCP) extend the Disney brand to merchandise ranging from apparel, toys, home décor and books and magazines to interactive games, foods and beverages, stationery, electronics and fine art. This is accomplished through DCP's various lines of business which include: Disney Toys, Disney Apparel, Accessories & Footwear, Disney Food, Health & Beauty, Disney Home and Disney Stationery. Disney Publishing Worldwide (DPW) is the world's largest publisher of children's books and magazines, reaching more than 100 million readers each month in 75 countries.

Disney Cruise Lines

Started in 1996, beginning its operations with the maiden voyage of Disney Magic, and has since added the Disney Voyage into the mix. Each boat reflects The Walt Disney Co. in the colors they portray and they numerous characters that are featured throughout the ships manufacturing. Each year over 500,000 individuals will be a part of a Disney cruise.

The Ships include such amenities as:

- Restaurants
- Shows
- Teen Areas
- The Studio Sea
- Musicals
- Movie Presentations

Source: Disney.com

Products/ Services

Disneyland & Disney World

These two facilities are globally known to be among the leaders in amusement parks. With the opening of these magical parks taking place in 1955 and 1966, the history of the Walt Disney legacy became larger than life, and helped the company grow to its giant status it maintains today.

These parks offer families a fun exciting environment where each member will be

able to enjoy every detail of the experience. Most well known areas:

- Magical Kingdom
- Animal Kingdom
- EPCOT
- Space Mountain

Disney Channel

Began in 1983, and is a child's/adolescence's channel which now broadcasts 24-hours a day. The channel has a very distinctive logo, featuring the Mickey Mouse ears. They have expanded their reign worldwide into Europe, Latin-America, Japan, the Middle East and Australia. With dozens of hit television show being shown by the network it provides a family friendly atmosphere for their viewers. Popular shows include:

- Hannah Montana
- The Suite life of Zach and Cody
- JONAS
- Wizards of Waverly Place
- That's So Raven

Radio Disney

Was introduced as part of the Disney Co. in 1996, and participates primarily with the individuals featured on the Disney channel television shows. Also they have begun to feature teen singing groups on the show over the past several year, that are affiliated with other Disney recording companies. Some of the most popular singers/actors that have appeared on

Radio Disney are:

- Miley Cyrus
- Hilary Duff
- Jonas Brothers
- Demi Lovato
- Raven-Symone

Valueline.com Safety Ranking: 1

Management:

- **Mr. Robert Iger, 57**
Chief Exec. Officer, Pres, Director and Member of Exec. Committee
- **Mr. Thomas Staggs, 47**
Chief Financial Officer, Principal Accounting Officer and Sr. Exec. VP
- **Ms. Christine M. McCarthy, 54**
Senior VP of Corp. Fin. & Real Estate

SWOT Analysis:

Strengths-

- **Diversified product and service portfolio**
- **Portfolio of well known brands**
- **Widespread cable networks**
- **Strong brand equity enjoyed by parks and resorts operations**
- **Large scale of operations**

Weaknesses-

Internal Analysis

Channel Checking:

The television

Headlines

- [Disney Promotes Ross to Serve as Chairman of Studios Division](#)
(Tue 9:18am)
- [Disney's Miramax to trim film slate; 50 jobs](#)
AP (Fri, Oct 2)
- [Disney museum opens honoring man behind the mouse](#)
AP (Thu, Oct 1)
- [Disney museum opens honoring man behind the mouse](#)
AP (Thu, Oct 1)
- [Disney Publishing launches Disney Digital Books](#)
at MarketWatch (Tue, Sep 29)
- [Disney Builds Its Brand with D23 Expo](#)
at BusinessWeek (Mon, Sep 14)
- [Disney to expand Fantasyland at Walt Disney World](#)
at Reuters (Sat, Sep 12)
- [Disney Launches Nationwide Environmental Science Competition for the Classroom, Disney's Planet Challenge](#)
Business Wire (Wed, Sep 9)
- [Disney to Buy Marvel for \\$4 Billion](#)
at BusinessWeek (Tue, Sep 1)

Earnings Call Transcripts

Source: yahoo-finance.com

The Disney brand continues to differentiate us in the global marketplace. Our business strategy with its emphasis on creativity, technology, and international expansion to grow shareholder value is working. And we have proven our commitment to making our operations more efficient while preserving quality. We do see signs of economic stabilization but the pace and strength of recovery remains uncertain and we are managing accordingly.

Studio Entertainment

At our movie studio, UP is an artistic triumph and a big commercial success around the world with many important international markets yet to open, and we are very enthusiastic about our upcoming animated films, The Princess and the Frog and Toy Story 3. Like UP, these films embody the strengths of classic Disney movies -- solid storytelling, memorable characters, wonderful artistry, and heartfelt emotion.

Media Networks

Our media networks also performed well during the quarter, despite the tough economic environment. ESPN maintains its strong appeal across multiple platforms, solidifying its status as the number one media destination for sports fans. And Disney Channel delivered impressive ratings growth during the quarter and continues to find and develop new talent and creative franchises that benefit many of our businesses.

Parks and Resorts

Our parks and resorts have clearly been impacted by the weak economy. We've sought to sustain attendance through a number of promotions that offer great value to families and we've sought to reduce costs while continuing to offer an exceptional guest experience. And over 3 million people signed up to enjoy our birthday at our parks through what will you celebrate? Campaign.

Throughout this period, we've been mindful of the need to invest in our future while sticking to the strategic priorities we've followed over the last three years. I am pleased to say we've concluded an agreement to expand Hong Kong Disneyland, adding unique and compelling attractions that we believe will draw more visitors and keep them staying longer.

Henderson State

Earnings Call Transcripts

Work is also well underway on the expansion of Disney's California Adventure, on our two new cruise ships, and on our Hawaiian resort. We are also pursuing new opportunities. After a successful test in Chicago, ESPN is aggressively expanding local coverage to serve sports fans in several major cities, including New York, Los Angeles, and Dallas.

At parks and resorts, our promotional activities helped drive strong attendance at our domestic parks despite the challenging environment. The promotions also resulted in higher room and admissions discounting which, together with softer guest spending, impacted our operating income in Q3.

Attendance at our domestic parks was up 3%, helped by the favorable timing of the Easter break. Walt Disney World attendance was flat to prior year while Disneyland was up 10%. We estimate that the Easter shift added approximately 3 percentage points to our combined domestic parks attendance.

Consumer Products

At our consumer products segment, the economy continues to impact our licensing and Disney Store results. The difficult environment, coupled with very tough comparisons in our tween properties, High School Musical and Hannah Montana, resulted in Q3 earned licensing royalties being down by approximately 14% versus the prior year. Our results at Disney Stores North America reflected a full quarter of operations compared to the prior Q3, which only included two months of ownership.

Overall Performance

As we stated in the past, the economic downturn does not change our fundamental strategy. We are striving to closely manage our costs and will continue to do so. At the same time, we are focused on executing against our long-term strategy and identifying opportunities to invest in high quality branded content and initiatives with strong potential to grow our diverse set of businesses around the world.

Source: seekingalpha.com

Industry Analysis

Industry Statistics

Market Capitalization:	52 B
Price / Earnings:	NM

Monetary Policy Indicator: 9 of 10

Sector Rotation: 41 of 98

Momentum Indicator: +1.7

Source: yahoo.com, stockcharts.com

Industry Analysis/ Ratios

Valuation Ratios

	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	16.38	16.19	0.40	40.59
P/E High - Last 5 Yrs.	25.72	14.81	0.06	24.41
P/E Low - Last 5 Yrs.	8.01	2.54	0.01	6.16
Beta	1.08	1.28	0.80	1.41
Price to Sales (TTM)	1.44	1.71	0.11	1.86
Price to Book (MRQ)	1.47	1.67	0.51	3.09
Price to Tangible Book (MRQ)	11.91	3.98	0.73	6.03
Price to Cash Flow (TTM)	10.20	6.59	2.25	14.46
Price to Free Cash Flow (TTM)	18.27	23.85	2.69	17.26
% Owned Institutions	--	--	--	--

Dividends

	Company	Industry	Sector	S&P 500
Dividend Yield	1.26	0.98	0.01	1.52
Dividend Yield - 5 Year Avg.	0.81	1.04	1.37	2.81
Dividend 5 Year Growth Rate	--	19.55	4.86	9.23
Payout Ratio(TTM)	0.00	14.18	0.46	85.73

Growth Rates

	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	-6.93	1.73	-9.25	-5.59
Sales (TTM) vs TTM 1 Yr. Ago	-4.29	4.59	-4.60	-1.84

Industry Analysis/ Ratios

Sales - 5 Yr. Growth Rate	6.94	8.95	10.26	16.03
EPS (MRQ) vs Qtr. 1 Yr. Ago	-23.14	-47.18	-51.82	-19.10
EPS (TTM) vs TTM 1 Yr. Ago	-26.93	--	--	--
EPS - 5 Yr. Growth Rate	28.62	15.04	-2.66	0.64
Capital Spending - 5 Yr. Growth Rate	8.51	19.21	12.84	20.24

Financial Strength

	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	1.19	1.24	0.44	0.77
Current Ratio (MRQ)	1.34	1.37	0.57	0.92
LT Debt to Equity (MRQ)	36.60	42.24	19.07	151.65
Total Debt to Equity (MRQ)	39.93	48.02	34.21	236.25
Interest Coverage (TTM)	1,880.75	293.83	0.26	23.92

Profitability Ratios

	Company	Industry	Sector	S&P 500
Gross Margin (TTM)	15.55	37.47	3.23	25.35
Gross Margin - 5 Yr. Avg.	16.29	36.14	26.52	24.96
EBITD Margin (TTM)	18.88	--	--	--
EBITD - 5 Yr. Avg.	20.38	13.83	13.22	14.54
Operating Margin (TTM)	15.07	-10.31	-0.63	--
Operating Margin - 5 Yr. Avg.	16.55	9.18	7.20	20.01
Pre-Tax Margin (TTM)	15.07	-9.14	-0.82	6.41

Industry Analysis/ Ratios

Pre-Tax Margin - 5 Yr. Avg.	16.55	10.59	7.46	19.72
Net Profit Margin (TTM)	9.61	-7.41	-0.70	5.31
Net Profit Margin - 5 Yr. Avg.	10.78	6.69	5.58	13.97
Effective Tax Rate (TTM)	36.26	15.80	0.72	17.35
Effective Tax Rate - 5 Yr. Avg.	34.84	31.79	27.93	28.21

Efficiency Ratios

Management Effectiveness

	Company	Industry	Sector	S&P 500
Return on Assets (TTM)	5.53	-2.73	-0.49	3.51
Return on Assets - 5 Yr. Avg.	6.42	4.47	6.05	4.99
Return on Investment (TTM)	6.65	-3.04	-0.87	4.79
Return on Investment - 5 Yr. Avg.	8.05	5.90	9.84	6.33
Return on Equity (TTM)	9.46	-7.96	-1.61	8.40
Return on Equity - 5 Yr. Avg.	12.04	7.82	11.60	14.76

Industry Analysis/ Ratios

Efficiency

	Company	Industry	Sector	S&P 500
Revenue/Employee (TTM)	238,180	968,229	9,250,466	480,654
Net Income/Employee (TTM)	22,880	22,782	-332,922	34,042
Receivable Turnover (TTM)	6.73	3.97	1.83	6.92
Inventory Turnover (TTM)	27.17	10.20	1.58	5.36
Asset Turnover (TTM)	0.58	0.50	0.14	0.45

Source: reuters.com

HENDERSON STATE

Industry Analysis/ Ratios

HESU

Competitors

DIRECT COMPETITOR COMPARISON

	<u>DIS</u>	<u>CBS</u>	<u>NWS</u>	<u>TWX</u>	<u>Industry</u>
Market Cap:	52.47B	8.21B	N/A	36.13B	713.00M
Employees:	150,000	25,920	N/A	87,000	7.51K
Qtrly Rev Growth (yoy):	-6.90%	-11.40%	N/A	-8.80%	5.10%
Revenue (ttm):	35.73B	13.07B	N/A	45.80B	30.42B
Gross Margin (ttm):	15.55%	34.20%	N/A	42.14%	42.14%
EBITDA (ttm):	7.16B	1.89B	N/A	13.17B	4.70B
Oper Margins (ttm):	15.55%	10.02%	N/A	18.81%	18.48%
Net Income (ttm):	3.17B	-12.37B	N/A	-13.38B	N/A
EPS (ttm):	1.688	-18.410	N/A	-11.534	N/A
P/E (ttm):	16.72	N/A	N/A	N/A	43.72
PEG (5 yr expected):	2.98	31.99	N/A	1.91	4.16
P/S (ttm):	1.44	0.61	N/A	0.78	1.42

CBS = CBS Corporation

NWS = News Corporation

TWX = Time Warner Inc.

Industry = Entertainment - Diversified

Valuation Tables

HESU

Valuation Tables

DCF Model	
Beta	1.15
Valueline Safety Rating	1
Expected Growth (EPS)	12.0%
Projected Growth & Dividend Yield	10.5%
Required Rate Return	11.7%
Projected Future P/E	15
Annualized HPR	12.92%
PV of Future Price	28.04
Recommendation	Undervalued

Sources: valueline.com, yahoo.com

Valuation Tables

P/E Sensitivity					
Present Value	Price 2014	P/E 2014	EPS 2014	HPR 2014	Annual Return
16.82	30.06	9.0	3.34	1.18	3.20%
20.56	36.74	11.0	3.34	1.42	6.87%
24.30	43.42	13.0	3.34	1.65	10.07%
28.04	50.10	15.0	3.34	1.89	12.92%
31.78	56.78	17.0	3.34	2.13	15.49%
35.52	63.46	19.0	3.34	2.37	17.84%
39.26	70.14	21.0	3.34	2.60	20.01%

Earnings Sensitivity					
Present Value	Price 2014	P/E 2014	EPS 2014	HPR 2014	Annual Return
23.00	41.10	15.0	2.74	1.57	9.00%
24.68	44.10	15.0	2.94	1.68	10.37%
26.36	47.10	15.0	3.14	1.79	11.68%
28.04	50.10	15.0	3.34	1.89	12.92%
29.72	53.10	15.0	3.54	2.00	14.11%
31.40	56.10	15.0	3.74	2.10	15.24%
33.08	59.10	15.0	3.94	2.21	16.33%

Summation

Why Buy Disney?

- They continue to maintain a high competitive advantage over their rivals with the broad product lines they provide to consumers.
- With the current acquisitions Disney has been involved with lately (Marvel and Wideload Games) they will produce higher profits in the long term.

Why not to buy Disney?

- The risk associated with Disney is relatively high with the current PEG Ratio being 3.03.
- With the required rate of return that we would need to be profitable sitting at 11.70%, the expected annualized return would only yield 12.92% not resulting in a significant increase.
- With the expected price to earnings ratio being 15.0, Disney would have to nearly triple the current EPS of 1.688 to profit.
- In relation to its stock chart, Disney is almost reaching two standard deviations above the median at +1.7.
- Their RSI is above 60.29, and continues moving higher towards the 70.0 indicator, indicating a sell.
- Disney's current market capitalization is 52.47B, showing it is a large cap company which would not have a high payoff for the risk associated with the company at this time.

If we own: Hold

If we don't own: Don't Buy