**The Walt Disney Company: Growing in the Era of Streaming Wars**

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## 1. Company Overview

The Walt Disney Co. is a diversified international family entertainment and media enterprise. It operates through the following segments: Media Networks, Parks & Resorts, Studio Entertainment and Consumer Products & Interactive Media.The Walt Disney was founded by Walter Elias Disney on October 16, 1923 and is headquartered in Burbank, CA.[1]

**Competence Characteristics**

- Excellent People Management
  - Empowering its employees by holding Traditions class before training sessions on technical skills[2]
  - Disney Institute
- Continued Growth and Diversification
  - **Disney+ streaming services (the focus of our pitch)**
  - New development for theme parks
- Effective Change Management
  - Successful Disney and Pixar Merger
  - Strategic Reorganization to prepare for upcoming streaming services[3]

**Business Model**

Disney builds its brand around its characters and stories. Its business model is summarized in the following flowchart:


**Management Structure**

[1] https://money.cnn.com/quote/profile/profile.html?symb=DIS
[2] https://hbr.org/sponsored/2018/02/how-disney-empowers-its-employees-to-deliver-exceptional-customer-service
[3] https://www.thewaltdisneycompany.com/walt-disney-company-announces-strategic-reorganization/

Divided into four primary business segments:

1. The Walt Disney Studio Entertainment
2. Disney Parks and Resorts
3. Media Networks
4. Consumer Products and Interactive Media

## 2. Competitor Analysis

### Universal Studios

The main competitor for Disney in the theme park market is Universal Studios. Each year, the Disney World attracts more than 50 million guests throughout its four theme parks. Though the Universal Studios only have 8 million visits per year, it keeps innovating, and this attendance number was boosted up by one million because of the addition of Harry Potter land last year. Considering the popularity of the Harry Potter lands, this number can potentially raise up to 10 million by the end of next year. The similarity between the two theme parks make Universal Studios a potential threat towards Disney. Both parks recreate scenes from their movies or cartoons with "character meet and greets". The parks also combine amusement facilities with movie scenes to offer immense experiences. Because of the different types of movies and cartoons, the Disney attracts more families with children at a relatively young age, while the Universal studio focuses on children at an older age and adults. The new Harry Potter land is taking away more attendances from the Disney Park over the last year more than any time before, which reveals the growing competitive advantage of the Universal Studios that is worth to be noticed by Disney.

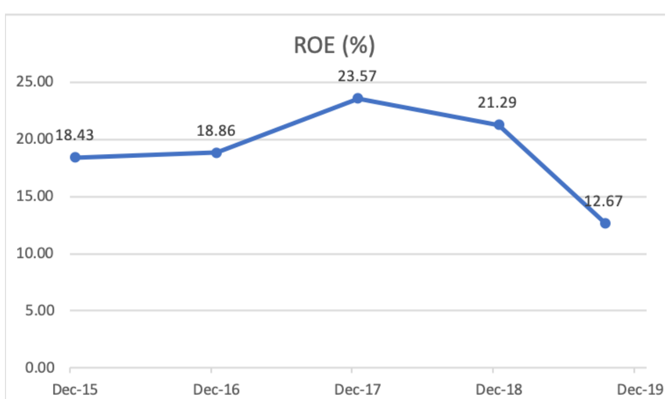
### Netflix

Disney plans to release their own streaming service, Disney+, in November. The platform would contain exclusive TV series such as Loki, Wanda Vision, Falcon and Winter Soldier, etc. This puts Disney in direct competition with Netflix. Netflix is the leading company in subscription-based streaming service. As of April 2019, Netflix had over 148 million paid subscriptions worldwide, including 60 million in the United States, and over 154 million subscriptions total including free trials. Netflix obviously take up a large part of market share in this industry, which could pose a potential threat for Disney to enter the market and grow its share. In terms of contents, Netflix's library of films and television series is more comprehensive, as Disney+ would only provide Disney-affiliated works such as the Marvel Cinematic Universe. Disney has announced to promote similar pricing scheme as Netflix to gain accelerated growth.

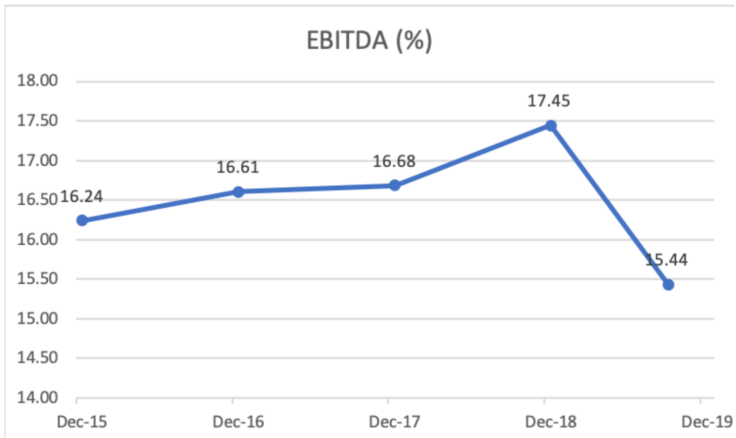
3. **Valuation Metrics/Financial Statement Analysis**

For all financial ratios, we got the data from the past four years, and the latest data came from September 2019. Below are our interpretations of the data.

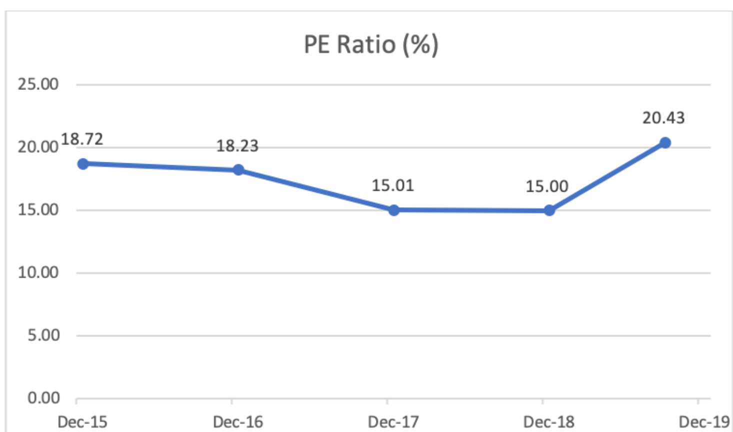

Over the years, Disney's market cap was relatively stable around 165 billion US dollar though slightly decreasing. It had a significant market cap boost in September 2019 because of the increase of its stock price. At an investor day in April 2019, Disney revealed ambitious targets for subscriber growth, the content on its services, and how long it will take the streaming business to turn a profit. Investors embraced the vision, boosting Disney shares 12% the day after the announcement, and this growth in stock prices contributed to the fast increase of market cap over the past six months.



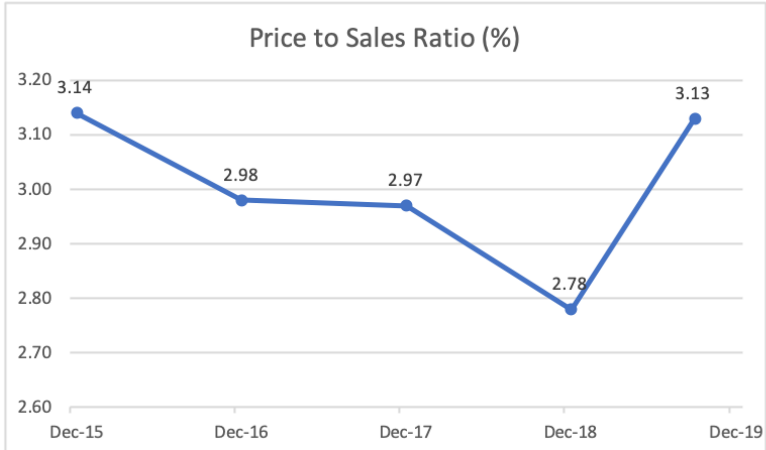
The ROW ratio of Disney was dropping over the past two year, it reached the lowest point in September 2019. However, this ROE is still around the average of the Entertainment industry (14%). This drop in ROE is still within acceptable range, and the company is still generating relatively efficiently.



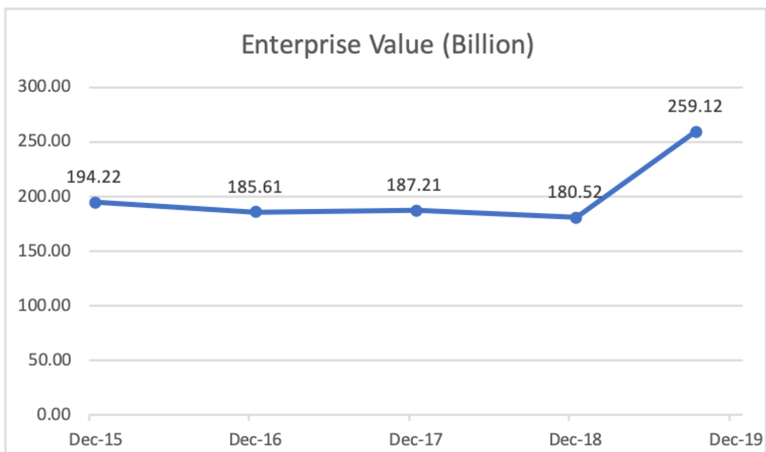

The EBITDA is increasing faster and faster from 16.24% to 17.45%. This shows excellent operational performances of Disney. By September 2019, the EBITDA growth rate already reached 15.44%. With a quarter left to go in 2019, this indicates a decent growth in 2019, and this ratio is very likely to go beyond the growth rate of 2018.



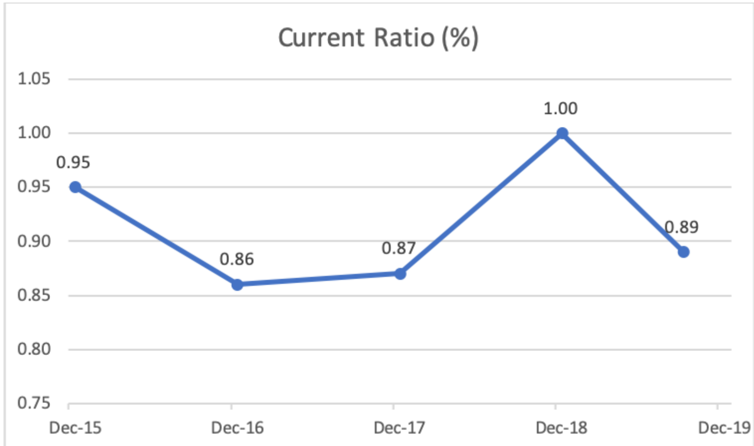

The PE ratio of Disney is 20.43% in September 2019, which reached the peak for Disney over the past four years. This reflects that investors expect higher earnings. With the launch of the new streaming service Disney+, the future growth of Disney is expected by investors, and they are confident in Disney's future revenue generation.



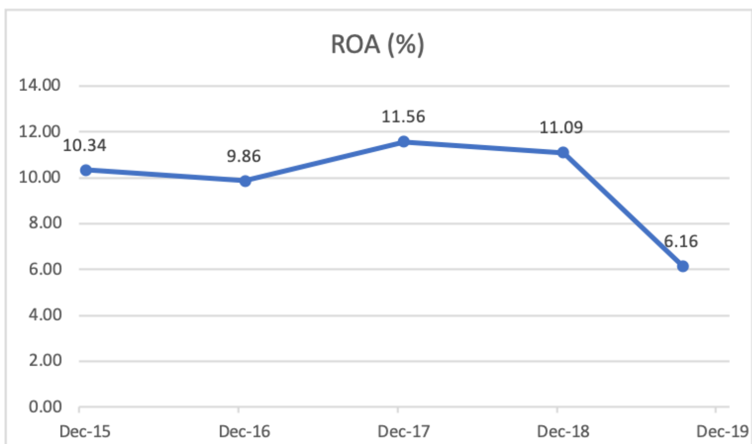

Price to sales ratio (PSR ratio) indicates how much investors paid for a share compared to the sales a company generated per share. The price to share ratio of Disney decreased from 2015 to 2018, but increased back to 3.13% in September 2019.




Enterprise value is an idealized estimate for the total price of buying a company's operations. It is calculated as the sum of the market values of the company's debt, preferred equity and common equity minus the value of cash and short-term investments. Comparing with the past three years, Disney’s enterprise value from Sep 2019 skyrocketed to 259.12 billion US dollar. This might reflect an increase in debt.




Current ratio is a liquidity ratio that shows a company's ability to pay its short term obligations or those due within one year. Disney's 2019 current ratio in September has seen 0.11 drop from its last year value of 1. However, this number is comparable to its 2015-2017 level. Since Disney is now in a growth phase by rolling out new services and adding new attractions, the slightly below 1 current ratio is acceptable.




ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits. Sadly, the ROA of Disney dropped from 11.09 to 6.16% in September 2019. However, considering the recent growth of Disney, a temporary drop of ROA is normal.

Source:

https://finance.yahoo.com/news/walt-disney-companys-nyse-dis-111800915.html

4. **Investment Opportunities**

**Disney+**: Recently, Disney has launched its own streaming service platform: Disney+. Bundled together with Hulu and ESPN (priorly acquired by Disney), Disney+ offers a whole new realm of exclusive entertainment contents from MCU.

**Expanding middle classes in emerging market**: As middle classes in emerging markets expand, it will create larger potential markets for Disney. The company is already seeing this in India, where household earnings are increasing by a compound annual growth rate of 10%. Disney projects that there will be 1 billion video screens in the country by 2023 -- a prime market for the company's entertainment offerings.

**New Gaming Tech**: As gaming technologies like virtual reality emerges and develops, Disney could develop their own game based on their rich contents. Such games would greatly improve user experience and open a new market full of opportunities for Disney.

**"Cross-Pollination"**: the company also "cross-pollinates" by taking an idea and developing multiple streams of income from that idea. For example, Disney turns its animated movies into live-action movies, as it did with *Aladdin* and *Dumbo*. And it develops rides at its theme parks based on its popular movies, including the *Star Wars* and *Toy Story* franchises. Every hit movie has in the future could eventually be monetized in several other ways.

Source:
https://www.fool.com/investing/2019/06/18/12-reasons-to-buy-disney-stock-and-never-sell.aspx

5. **Investment Risk**

2018 to 2019 have been record-breaking for Disney, but it comes with signs of concerns. Although Disney has achieved unprecedented box office successes on *Avengers: Infinity*, *Avengers: Endgame*, and *Toy Story 4*, it is worth noting that these films were all produced by acquired studios, not Disney's own. Movies that were actually produced by Disney's studio were a mix of successes and failures. Movies like *Aladdin* and *The Lion King* have proven to market favorites, but others like *Mary Poppins Returns* and *The Nutcracker and the Four Realms* were hardly very successful. If Disney cannot match up with its acquired studios' level of success, it is very possible that Disney's identity will be diluted in the future.

Investors seem to remain positive about Disney's stock at the moment, especially after Disney+ came out two days ago, when we saw Disney's stock price skyrocketed. However, the new streaming service will not guarantee Disney's continued success. Investors should look out for whether Disney's original programming will continue to match its superfans' expectations, as the release of Disney+ will definitely mean a content explosion on Disney's characters and stories. Now that *Avengers: Endgame* and *Toy Story 4*, which were huge market hits, have concluded, what new content will Disney offer to sustain its attraction to Millenials and Gen Z audiences? Disney's future will depend on its ability to generate new stories and characters that become market hits. And the company should be mindful of how much they rely on past contents for profits.

The last source of concern investors should take note of is the streaming war. Because of people's reduced preference for cables and companies' need to seek out new revenue streams, media and tech giants in the country are all rushing into the realm of online streaming services. The Wall Street Journal pointed out an average consumer is likely to subscribe to only 3.6 streaming services. With so many players in the market and more to come, the question is whether Disney+ and Hulu (another streaming service under Disney) will retain customers. In addition, Disney+ is set to break even in 2024. Whether this lack of profits will be a concern for Disney is yet to be found out.

Source:
https://www.wsj.com/articles/the-great-streaming-battle-is-here-no-one-is-safe-11573272000
https://www.slashfilm.com/disney-problems-2019/
https://www.wsj.com/articles/can-kevin-mayer-deliver-the-future-of-disney-11573272027?mod=article_inline

6. **Final Recommendation**

The stock of Disney is overvalued. From the valuation metrics, the ROE and ROA ratio of Disney were continuously dropping since 2017, which indicates an inefficient company management, and diminishing revenue generating ability. Also, the company's enterprise value skyrocketed to 259.12 billion in 2019, which indicates an increase in financial leverage and debt. Despite all valuation metrics that indicates a poor internal operation of the firm, the stock price of the firm still increases and the PE ratio of the firm reached the peak in September 2019. This shows that investors were confident in Disney's future growth. This confidence came from the recent Disney+ channel. However, with many strong competitors in the video streaming market like Hulu and Netflix, whether Disney+ can retain its customers is not clear and yet to find out.

Given the above analysis, we expect that the value of Disney stock will go down. We wouldn't recommend a long position in the stock. However, we will propose a trading idea that may profit from our prediction. Our unit portfolio is the following (we can always scale):
Sell short 1 share of stock (get spot price = 146.9), long 10 American put options with maturity 8 days, strike price 147 and spot price 1.88. Suppose the stock price at maturity falls to 141. Then our net profit at maturity would be: 146.9-8*1.88-141+8*(147-141) = 38.86. Notice the magnitude of our profit compared to the current stock price.