



ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

Walt Disney Co. (NYSE: DIS: BUY)

Target Price: \$129

Joseph Bonner, CFA

5/11/2016

Results

- Missed consensus EPS by \$0.04.
 - Disney does not provide forward guidance.
 - The quarter was negatively impacted by year-over-year timing differences between quarters which affected both the Media Networks and Parks divisions.
 - Disney is down 5% in pre-market trading
- Consolidated results were actually fine with 11% EPS growth off of 4% revenue growth in the quarter.
- Media Networks operating income was up 9% year over year as segment margin expanded by 350 basis points.
- Parks and Resorts operating income was up 10% year over year as domestic-segment margin expanded by 300 basis points; foreign margin was negatively impacted by Shanghai Disney Resort opening costs.
- The Studio division was a standout again with operating income up 27% as margin expanded 90 basis points.
- Disney closed down its Infinity videogame business and took a \$147 million charge in the quarter.

Outlook

- While the market is concerned about ESPN losing value in new “skinny bundles,” Disney is in talks with a number of over-the-top distributors about inclusion in their bundles. Disney provided some color that Dish’s Sling service actually had an uptick in subscriber acquisition after the inclusion of ESPN. Disney and Verizon also settled their dispute over Verizon’s new channel package.
- Parks and Resorts will open Shanghai Disney resort in June and is planning to build two more cruise liners. Near term, domestic bookings are up 5% but the June quarter segment operating income will be \$90 million softer due to the move of the Easter holiday into the March quarter this year.
- The Disney Studio is far ahead of the industry with 29% domestic theatrical box office share so far in 2016 and Disney’s first summer blockbuster hit “Captain America: Civil War” was only just released last weekend.

Recommendation

- We have a BUY on Disney to a target price of \$129.

DISCLAIMER

This Note reflects the current thinking of an Argus analyst anticipating or responding to corporate earnings reports or other news relevant to covered companies. This Note may be an initial, real-time response to developments that are expected to impact stocks under coverage; as such, it does not imply that the information in it is correct as of any time after its preparation or that there has been no change in the business, financial condition, prospects, creditworthiness or status of a covered company. The views or opinions expressed in this Note are subject to change pending further analysis. This Note is produced and copyrighted by Argus, and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This Note is not an offer to sell or a solicitation of an offer to buy any security. The information presented in this Note is for general information only and does not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this Note. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this Note constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions and opinions than those represented in this Note, and all opinions are reflective of judgments made on the original date of publication. Those reports may reflect the different assumptions, views and analytical methods of the analysts who prepared them and Argus is under no obligation to ensure that other reports are

brought to the attention of any recipient of this Note or to update or keep current the information contained in other reports so that such information is consistent with, or not contrary to, the information contained in this Note. Argus Research is an independent investment research provider and is not a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. None of our research is attributable to Argus Investors' Counsel, a registered investment adviser and the asset management arm of Argus Research. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock.
