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COMPANY UPDATE / ESTIMATE CHANGE

The Walt Disney Company

DIS — NYSE — Long-term Buy-1

Good 3Q Results and a Smart Minority Stake Purchase. Reiterate LT Buy Rating.

Key Metrics

DIS - NYSE	(as of 8/9/16)		$96.67
2 Year Price Target			$120.00
52-Week Range			$86.25 - $120.65
Shares Outstanding (mil.) (basic)			1,621
Market Cap. ($ mil.)			$156,702
3-Mo. Average Daily Volume			7,624,709
Institutional Ownership			60%
Total Debt/(Total Debt + S.Equity) (6/16)			30%
ROE (TTM ended 6/16)			20%
Book Value/Share (6/16)			$29.70
Price/Book Value			3.3x
Annual Dividend & Yield		$1.42	1.5%
EBITDA Margin (TTM ended 6/16)			31%

EPS FY 9/30 (excludes nonrecurring items)

	2015	Prior 2016E	Curr. 2016E		Prior 2017E	Curr. 2017E
1Q	$1.27		$1.63	A	$1.63	$1.62
2Q	$1.23		$1.36	A	$1.51	$1.48
3Q	$1.45		$1.62	A	$1.73	$1.71
4Q	$1.20	$1.24	$1.20		$1.38	$1.34
Year	$5.15	$5.80	$5.81		$6.25	$6.15
P/E	18.8x		16.6x			15.7x

Note: Quarterly EPS figures may not add to annual figure due to rounding.

Revenue ($mm)

	2015	Prior 2016E	Curr. 2016E		Prior 2017E	Curr. 2017E
1Q	$13,391		$15,244	A	$15,750	$15,800
2Q	$12,461		$12,969	A	$13,950	$13,780
3Q	$13,101		$14,277	A	$14,790	$14,810
4Q	$13,512	$14,042	$13,910		$14,510	$14,510
Year	$52,465	$56,250	$56,400		$59,000	$58,900

Company Description: *The Walt Disney Company is a worldwide entertainment company engaged in animated and live-action film and television production, character merchandise licensing, consumer products retailing, book, magazine, and music publishing, television and radio broadcasting, cable television programming, and the operation of theme parks and resorts. Past acquisitions include ABC/ESPN (1995), Pixar (2006), Marvel Entertainment (2009) and Lucasfilm, Ltd (2012).*

Investment Highlights

- **We were pleased with Disney's fiscal 3Q results.** Total revenues rose 9% to a record $14.277 billion, $125 million above recent street consensus. In our opinion, major positive factors included results at the Parks & Resorts and Studio Entertainment segments.
- **Overall operating income rose 8%.** As expected, the Media Networks segment was impacted by higher programming costs and subscriber defections at ESPN. Studio Entertainment, boosted by home video sales of *Star Wars: The Force Awakens* and *Zootopia*, posted a 62% gain in operating income, with margin up 377 basis points. Diluted EPS excluding nonrecurring items were $1.62, up 12% from a year ago. The street consensus estimate was $1.61 and our estimate was $1.57.
- **Disney also made an announcement that we consider just as important, if not more so, than 3Q results.** Disney has made a $1 billion investment, representing a 33% stake, in BAMTech, a privately held technology services and direct-to-consumer video streaming company originally formed by Major League Baseball. Disney has the right to purchase 100% of BAMTech if it chooses. The strategic plan will initially include streaming of complementary ESPN-branded content, and potentially other content from Disney's many brands and businesses. We believe this new initiative has favorable near-term and long-term potential.
- **We maintain our LT Buy rating and our two-year price target of $120.** Our target is based on our latest earnings projections (after modest fine-tuning) and the business outlook, including what we consider conservative assumptions for ESPN and the industry's content distribution environment. Our price target represents a future valuation slightly above the current level and below an historical average. Our Suitability rating on DIS remains 1.

Note Important Disclosures on Pages 8-9.
Note Analyst Certification on Page 8.

Exhibit 1
3Q Fiscal 2016 - Business Highlights (grouped by operating segment)

Positives	Negatives
Cable Networks (part of ***Media Networks***)	
• Higher affiliate revenues at ESPN from contractual rate increases • Higher ad revenues at ESPN due mainly to a 7-game NBA championship series	• Drop in subscribers at ESPN • Higher programming costs at ESPN • Lower equity income from ownership stake in A&E Television Network due to lower ad revenues • Decreased profit at Disney Channels • Foreign currency translation effect
Broadcasting (part of ***Media Networks***)	
• Affiliate revenue growth from contractual rate increases • Higher income from program sales	• Write-downs related to programming • Lower network ad revenues due in part to lower ratings • Increased loss from equity stake in Hulu
Parks & Resorts	
• Increased guest spending at the domestic parks • Increase in average ticket prices at theme parks and cruise line businesses • Lower labor and marketing costs • Stronger results at Hong Kong Disneyland Resort	• Lower domestic attendance • Lower attendance at Disneyland Paris • Pre-opening expenses from Shanghai Disney Resort • Tough comparison related to impact of Easter holiday (in 2Q this year vs. 3Q last year)
Studio Entertainment	
• Strong home video results from *Star Wars: The Force Awakens* and *Zootopia* • Increased theatrical results from entire 3Q slate of movies vs. year ago slate	• Unfavorable foreign currency translation impact
Consumer Products & Interactive Media	
• Strong merchandise licensing from *Star Wars* and *Finding Dory* franchises • Benefit of discontinuing *Disney Infinity* game/toy	• Lower results at Disney Stores • Tough licensing comparison to *Frozen* merchandise a year ago

Source: The Walt Disney Company and Hilliard Lyons   Note: September fiscal year

Additional comments on 3Q results. We were pleased with Disney's fiscal 3Q results. We had modest expectations for the Media Networks segment due to existing challenges of programming costs (live sports rights) and recent subscriber losses at ESPN. The company has been busy strategizing and forging relationships with partners to position ESPN favorably in the future, including making a recent equity investment in a video streaming company (see discussion on page 4). Results at the Broadcasting segment, which includes the ABC television network, came in below our expectation due to overall lower ratings and some programming write-downs.

On the positive side, we liked the Parks & Resorts segment's 8% operating income gain and margin improvement despite the costly opening of Shanghai Disney Resort in the quarter. Management is quite pleased with the new Shanghai resort and its June debut, and feels it can be a significant contributor to company profits in the coming years. Studio Entertainment had a great quarter, as expected, with home video sales of *Star Wars: The Force Awakens* and *Zootopia* leading the way to considerably higher revenues, operating income, and operating margin for the segment.

Exhibit 2
Consolidated Statements of Income (figures in millions except percentages and per share data)

	Quarter Ended			Nine Months Ended		
	7/2/16	6/27/15	% chg.	7/2/16	6/27/15	% chg.
Revenues:						
Cable Networks	$4,200	$4,140	1.4%	$12,676	$12,336	2.8%
Broadcasting	1,706	1,628	4.8%	5,355	5,102	5.0%
Media Networks	5,906	5,768	2.4%	18,031	17,438	3.4%
Parks & Resorts	4,379	4,131	6.0%	12,588	11,801	6.7%
Studio Entertainment	2,847	2,040	39.6%	7,630	5,583	36.7%
Consumer Prod. & I'active Media	1,145	1,162	(1.5%)	4,241	4,131	2.7%
	14,277	13,101	9.0%	42,490	38,953	9.1%
Operating Income:						
Cable Networks	2,090	2,078	0.6%	5,300	5,132	3.3%
Broadcasting	282	300	(6.0%)	783	842	(7.0%)
Media Networks	2,372	2,378	(0.3%)	6,083	5,974	1.8%
Parks & Resorts	994	922	7.8%	2,599	2,293	13.3%
Studio Entertainment	766	472	62.3%	2,322	1,443	60.9%
Consumer Prod. & I'active Media	324	348	(6.9%)	1,541	1,437	7.2%
	4,456	4,120	8.2%	12,545	11,147	12.5%
Income Before Taxes and Noncontrol. Interests	4,183	3,962	5.6%	11,987	10,644	12.6%
Less: Taxes	1,471	1,323	11.2%	4,089	3,533	15.7%
Net Income	2,712	2,639	2.8%	7,898	7,111	11.1%
Less: N.I. Attrib. to Noncontrol. Int.	(115)	(156)	(26.3%)	(278)	(338)	(17.8%)
N.I. Attrib. to Walt Disney Co.	$2,597	$2,483	4.6%	$7,620	$6,773	12.5%
Diluted EPS, as reported	$1.59	$1.45	9.7%	$4.63	$3.95	17.1%
Adjustments:						
Restructuring/Impairment	$0.03	$0.00		$0.05	$0.00	
Other Expense (Income)	$0.00	$0.00		($0.07)	$0.00	
Diluted EPS Excluding Items	**$1.62**	**$1.45**	**11.8%**	**$4.61**	**$3.95**	**16.6%**
Avg. Diluted Shares Outst.	1,631	1,711	(4.7%)	1,647	1,714	(3.9%)
Operating Margins:			**bp chg.**			**bp chg.**
Cable Networks	49.76%	50.19%	(43)	41.81%	41.60%	21
Broadcasting	16.53%	18.43%	(190)	14.62%	16.50%	(188)
Media Networks	40.16%	41.23%	(106)	33.74%	34.26%	(52)
Parks & Resorts	22.70%	22.32%	38	20.65%	19.43%	122
Studio Entertainment	26.91%	23.14%	377	30.43%	25.85%	459
Consumer Prod. & I'active Media	28.30%	29.95%	(165)	36.34%	34.79%	155
Total	31.21%	31.45%	(24)	29.52%	28.62%	91
As a % of Total Revenues:						
Selling, Gen., Admin. & Other Exp.	16.14%	16.04%	11	15.22%	15.70%	(48)
N.I. Attrib. to Walt Disney Co.	18.19%	18.95%	(76)	17.93%	17.39%	55
Tax Rate	35.17%	33.39%	177	34.11%	33.19%	92

Source: The Walt Disney Company Note: September fiscal year

BAMTech minority stake. We are bullish on Disney's recent $1 billion purchase of a 33% stake in BAMTech. While the investment (which is planned to come in two payments of $500 million each) is expected to result in minor near-term earnings dilution, the long-term implication is significantly positive, in our view. BAMTech will become a key partner in the delivery and support of streaming video and other digital products from Disney, ABC, and ESPN, as well as future digital initiatives across the entire company.

BAMTech will collaborate with ESPN to launch and distribute a new ESPN-branded multi-sport subscription streaming service in the future. The direct-to-consumer service will feature content provided by both BAMTech and ESPN, and include live regional, national and international sporting events. Current content on ESPN's traditional channels will not appear on the new subscription streaming service. More details about the new service will be announced in the months ahead. In the longer term, we believe this new initiative with BAMTech could lead to a blueprint as to how the existing suite of ESPN channels could be delivered on an "over the top" (OTT) basis direct to consumers.

Financial condition. We consider Disney's overall leverage and liquidity to be at healthy levels for a major media conglomerate. At the end of fiscal 3Q, cash and equivalents were $5.227 billion. Total debt stood at $20.441 billion, about 30% of total capitalization. Shareholders' equity was $48.146 billion.

For the fiscal nine-month period, operating cash flow was $9.386 billion, up 24% from a year ago. After $3.691 billion in capital spending (most at the Parks & Resorts segment), free cash flow rose 26% to $5.695 billion.

During 3Q, the company repurchased 15.2 million shares for $1.5 billion, equating to an average purchase price of under $99 per share. During the fiscal nine-month period, the company repurchased 65 million shares for approximately $6.6 billion, representing an average purchase price of just over $101 per share. Given recent price weakness in DIS shares and the company's history of repurchases, we believe buyback activity will continue in the current quarter and into fiscal 2017.

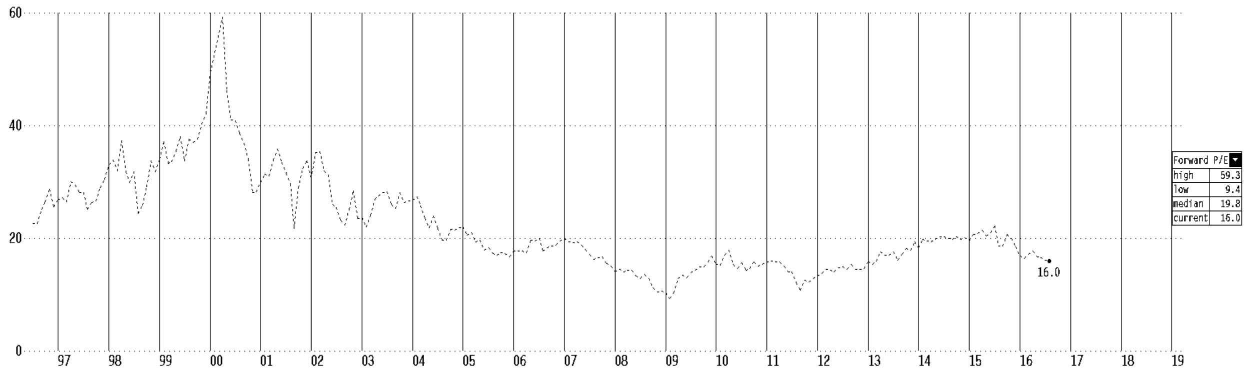
Earnings outlook. We have updated our financial model to reflect fiscal 3Q results and an updated outlook for Disney's various businesses. Changes to our FY16 outlook include a slight overall revenue increase, though a modest reduction at Media Networks, and slight increase in operating income. This leads to a $0.01 increase in our diluted EPS estimate to $5.81, or 13% above the FY15 figure. Our annual EPS estimate reflects a lowered 4Q outlook, mostly related to the Media Networks segment and initial dilution from the BAMTech minority stake purchase.

We have also made minor revisions to our FY17 outlook. These include lowered revenue and operating income estimates at Media Networks, but higher figures at Studio Entertainment. Along with tweaking to other line items, our FY17 EPS estimate is reduced by $0.10 to $6.15, representing 6% growth from our FY16 estimate.

In the longer term, our forecast includes mid single-digit revenue gains, modestly improving profit margins, operating leverage, and share repurchases. We believe this could result in upper single-digit growth in EBITDA and low double-digit growth in earnings per share. We believe acquisitions are likely, but have not factored any in our financial forecast.

Valuation. Given solid company fundamentals and relatively clean earnings, we believe a price/earnings approach to valuation is most appropriate. DIS shares are currently trading at 16.6x our FY16 EPS estimate and 15.7x our FY17 estimate. As noted in Exhibit 3 on the following page, the median forward multiple on DIS over the past twenty years is about 20x. Over a more recent five year period, the median is 17x.

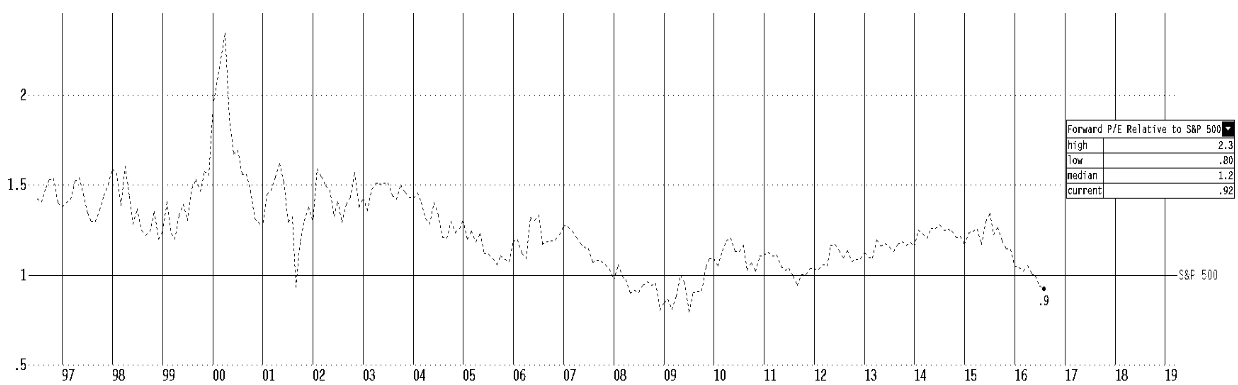
Exhibit 3
Historical Forward Price/Earnings multiple



Source: Baseline Note: September fiscal year

As noted in Exhibit 4 below, DIS is currently trading just below a market multiple, or 0.9x the forward multiple on the S&P 500. The stock has not traded at a discount to the market multiple very often in its recent history. Over the past twenty years, the median multiple has been 1.2x, with a high of 2.3x and a low of 0.8x.

Exhibit 4
Historical Relative Forward Price/Earnings multiple (relative to S&P 500)



Source: Baseline Note: September fiscal year

Opinion. We believe overall strong fundamentals (acknowledging some work to be done at Media Networks) have resulted in 12 consecutive quarters of double-digit adjusted EPS growth. We believe future growth potential from Lucasfilm/*Star Wars*, Shanghai Disney Resort, Pixar, Marvel and other assets, as well as expanded distribution methods for ESPN, could support a valuation above the current level and closer to historical averages. We note DIS traded at 22x expected forward earnings in calendar 2015.

As with many media companies, cash flow and related valuation measures can be useful. Enterprise Value divided by EBITDA focuses on the implied total value of a company (market capitalization plus net debt) relative to its cash flow generating ability and is commonly used in analysis of media companies. On this measure, DIS currently trades at 9.8x our updated estimate of FY16 EBITDA and 9.2x our FY17 estimate. Over the past ten years, we believe DIS shares have typically traded at forward EBITDA multiples in the 8x-12x range.

We believe DIS shares can move higher in the coming years on the basis of overall higher revenues, cash flows, and earnings. Based on current challenges with the cable industry, we believe a Long-term Buy rating is most appropriate. This rating is based on a recommended investment time frame of two years. Not only does this give the company time to address the aforementioned challenges, it also captures a period that should include realized potential from projects such as Shanghai Disney Resort and annual output from Lucasfilm/*Star Wars* (original saga and spin-off movies).

Our rating on DIS remains Long-term Buy and our two-year price target remains $120 per share. We consider this target conservative and believe a higher figure could be justified, pending the fiscal 4Q profit outcome.

The projected outlook supporting our price target includes a relatively strong earnings year in FY16 (13% EPS growth), followed by below-average growth in FY17 (6% EPS growth) due in part to the tough comparison that could exist. For the company's FY18 year, we expect a return to double-digit EPS growth due in part to the planned release of the next original film in the *Star Wars* saga (December 2017).

Our two-year price target assumes a P/E multiple of 16.3x applied to our FY19 EPS estimate of $7.35, slightly above the current multiple of 15.7x on our FY17 EPS estimate. We believe this level—still well below the twenty-year median of 20x—is appropriate given the company's major growth vehicles ahead, overall strong fundamentals, improving overall margins, and our projection of low double-digit long-term earnings growth, yet also remaining mindful of the ESPN subscriber issue and potential currency fluctuations. Additionally, our two-year target represents an EV/EBITDA multiple of 9.5x using our FY19 EBITDA estimate; this compares to the current 9.2x multiple on our FY17 EBITDA estimate. Annualized total return potential based on our target, the current dividend, and the current stock price is nearly 13%. We typically require expected double-digit returns on investments in DIS, with consideration given to the company's blue-chip nature and our view of the stock as a core holding.

Suitability. Our Suitability rating on DIS is 1 on a 1-to-4 scale (1=most conservative, 4=most aggressive). This is based on factors such as the company's size, diversification, operating history, and financial strength. We consider DIS a core holding in equity portfolios.

Risks. Factors that could impact business conditions and operating results, and therefore impede achievement of our price objective, include adverse geopolitical events, contraction in leisure travel, a soft advertising market, weak domestic or international economies, low demand for the company's products and services, potentially dilutive acquisitions or strategic investments, and various other factors that could impact consumers' discretionary spending habits. In addition, planned CEO succession in 2018 following the retirement of Bob Iger represents a major event and therefore represents a unique risk factor, in our view.

Exhibit 5

Income from Continuing Operations (figures in millions except percentages and per share data)

	FY17E	% chg.	FY16E	% chg.	FY15	% chg.	FY14	% chg.
Revenues:								
Cable Networks	$18,000	5.6%	$17,040	2.8%	$16,581	9.7%	$15,110	4.5%
Broadcasting	7,150	3.8%	6,890	3.1%	6,683	10.6%	6,042	2.4%
Media Networks	25,150	5.1%	23,930	2.9%	23,264	10.0%	21,152	3.9%
Parks & Resorts	18,175	6.3%	17,100	5.8%	16,162	7.0%	15,099	7.2%
Studio Entertainment	9,250	(1.9%)	9,430	28.0%	7,366	1.2%	7,278	21.7%
Cons. Prod. & I'active Media	6,325	6.5%	5,940	4.7%	5,673	7.4%	5,284	14.4%
	58,900	4.4%	56,400	7.5%	52,465	7.5%	48,813	8.4%
Operating Income:								
Cable Networks	7,380	5.7%	6,985	2.9%	6,787	4.9%	6,467	6.9%
Broadcasting	1,000	5.8%	945	(6.1%)	1,006	17.8%	854	10.8%
Media Networks	8,380	5.7%	7,930	1.8%	7,793	6.4%	7,321	7.4%
Parks & Resorts	3,700	9.8%	3,370	11.2%	3,031	13.8%	2,663	20.0%
Studio Entertainment	2,600	(7.0%)	2,795	41.7%	1,973	27.4%	1,549	134.3%
Cons. Prod. & I'active Media	2,200	8.6%	2,025	7.5%	1,884	28.0%	1,472	N/A
	16,880	4.7%	16,120	9.8%	14,681	12.9%	13,005	21.3%
Corporate & Other Activities	(680)	3.0%	(660)	2.6%	(643)	5.2%	(611)	15.1%
Nonrecurring Charges	0		(80)		(53)		(140)	
Other Income (Expense)	0		0		0		(31)	
Net Interest Inc. (Exp.)	(245)	8.9%	(225)	92.3%	(117)	N/A	23	N/A
Pre-tax Earnings Excluding Nonrecurring Items	15,955	5.3%	15,155	9.3%	13,868	13.2%	12,246	27.3%
Less: Taxes	5,425	5.3%	5,153	2.7%	5,016	18.2%	4,242	42.2%
Less: Minority Interests	510	2.0%	500	6.4%	470	(6.6%)	503	0.6%
Net Income	$10,020	5.5%	$9,502	13.4%	$8,382	11.7%	$7,501	22.2%
Diluted EPS:								
As Reported	$6.15	6.4%	$5.78	17.8%	$4.90	15.0%	$4.26	26.0%
Excluding Nonrecur. Items	**$6.15**	**5.8%**	**$5.81**	**12.8%**	**$5.15**	**19.2%**	**$4.32**	**27.4%**
Avg. Diluted Shares Outst.	1,630	(0.9%)	1,645	(3.7%)	1,709	(2.8%)	1,759	(3.0%)
EBITDA	$18,800	6.2%	$17,700	9.5%	$16,170	11.8%	$14,458	19.0%
Operating Margins:								
Cable Networks	41.00%		40.99%		40.93%		42.80%	
Broadcasting	13.99%		13.72%		15.05%		14.13%	
Media Networks	33.32%		33.14%		33.50%		34.61%	
Parks & Resorts	20.36%		19.71%		18.75%		17.64%	
Studio Entertainment	28.11%		29.64%		26.79%		21.28%	
Cons. Prod. & I'active Media	34.78%		34.09%		33.21%		27.86%	
Total	28.66%		28.58%		27.98%		26.64%	
As a % of Total Revenues:								
EBITDA	31.92%		31.38%		30.82%		29.62%	
Corporate & Other Activities	1.15%		1.17%		1.23%		1.25%	
Tax Rate	34.00%		34.00%		36.17%		34.64%	

Note: EBITDA represents segment operating income less corporate expenses plus depreciation & amortization

Source: Company reports and Hilliard Lyons estimates Note: September fiscal year

Additional information is available upon request.

Prices of other stocks mentioned:	21st Century Fox Inc. (partial owner of Hulu) - FOX - $26.18 Comcast Corp. (partial owner of Hulu) - CMCSA - $66.90 Time Warner Inc. (partial owner of Hulu) - TWX - $79.16

Analyst Certification

I, Jeffrey S. Thomison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

The author of this report or members of his household have a long position in the common stock of The Walt Disney Company, but may not engage in buying or selling contrary to the recommendation.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	37	31%	14%	86%
Hold/Neutral	70	59%	3%	97%
Sell	12	10%	0%	100%

As of 8 August 2016

Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings reflect a two to three year time period.

Other Disclosures

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