

Chris Lovisone  
lovisone@rice.edu

## Walt Disney Company NYSE:DIS

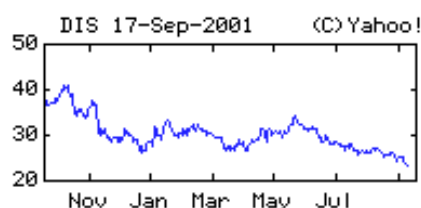
**Sell**

September 19th, 2001 S&P Sector - Consumer Discretionary

Industry – Entertainment

### MARKET DATA

Price	\$18.40
52 wk range	\$18.40-\$41.94
Price Target	\$17.83
Shares Out:	2.1 billion
Market Cap:	40.269 billion
Beta	0.84
Book Value/share	\$11.85
P/S (ttm)	1.59
P/E (ttm)	96.73



### COMPANY OVERVIEW— FROM YAHOO! FINANCE

The Walt Disney Company, together with its subsidiaries, is a diversified world-wide entertainment company with operations in five business segments: Media Networks; Studio Entertainment, which produces live-action and animated motion pictures, television animation programs, musical recordings and live stage plays.; Parks & Resorts; Consumer Products, which licenses the Company's characters and other intellectual property for use in connection with merchandise and publications and publishes books and magazines; and the Internet Group (formerly known as GO.com).

### INVESTMENT CONCLUSION

- ❑ Sell 375 shares of DIS.

### SUMMARY

- ❑ DCF valuation of \$17.83 / share: Based on management continuing to lower future estimates. 4Q earnings have been lowered from \$.18 to \$.15. 2002E earnings have been lowered from \$.89 to \$.86.
- ❑ DIS is continuing cost control measures that have helped their earnings outcomes thus far this year. DIS' Theme Park Division has performed better than expected; however, with the recent attacks on the U.S. its Theme Park Division is expected to take a hit in the future. During 1991, another period of a heightened degree of terrorism, the Theme Park Division's operating income was down 30%.
- ❑ DIS' revenues received from advertising have continued to decrease during the economic slowdown. This will continue until consumer spending increases.

### INDUSTRY INSIGHT

#### News & Trends

The advertising revenues for the media industry will continue to decrease until the economy shows signs of a turnaround. As consumer spending increases advertising revenues within the media industry will follow.

The theme park/entertainment industry will continue to see a decrease in attendance levels. Attendance levels have been down 3%-5% for the year, and with the recent terrorist events, this is expected to get worse. In 1991 during heightened terrorist concerns operating income for DIS was down 30%, there is no reason not to expect this same trend.

**INVESTMENT HIGHLIGHTS****Overall Effect on  
Wright Fund**

The Wright Fund will benefit from selling its worst performer YTD in the consumer discretionary segment. DIS is down over 18% YTD and makes up 12% of the consumer discretionary sector.

**Rationale & Risks**

DIS' decreases in advertising revenues due to the weak economy will continue. As long as production and consumer spending are at a low advertising revenues for the company will continue to decrease. Coupled with the recent terrorist attacks, its Theme Park Division should take a similar downturn in operating income as it did during terrorist threats and scares in 1991. All of these concerns will lead to a continuing slide in overall company earnings.

**Recent Results  
& Guidance****Recent Quarter (3Q 2001):**

- EPS of \$.23 beat consensus by \$0.03, flat yoy
- Revenue down 1% (to \$5.975 billion) yoy, segment operating income down 7% (\$1.122 billion) yoy
- Broadcasting reported revenues of \$1.321, down 12% yoy
- Cable Networks revenues up 7% yoy (to \$814 million), but below estimates of \$851 million
- Theme Parks revenues were \$1.942 billion, flat yoy. Operating income declined 1% to \$560 million
- Studio Entertainment revenues of \$1.342 billion were up 8% yoy.
- Consumer Products revenues were \$518 million, down 3% yoy.
- The Internet Group revenues declined 17% yoy to \$38 million.

**Targets:**

- 4Q revenue estimates down to \$5.994 billion from \$6.107, from previous year \$6.327.
- 4Q EPS unchanged at \$.79 given the \$.03 upside in 3Q.
- 2002 revenue estimate of \$26.763 billion down from \$27.094 billion.
- 2002 full year EPS estimate of \$.86 down from \$.89.

## Recent Annual Financials (from MSN Investor)

Annual Income Statement (Values in Millions)	Sep-00	Sep-99	Sep-98	Sep-97	Sep-96
Sales	25,402.00	23,402.00	22,976.00	22,473.00	18,739.00
Cost of Sales	17,890.00	16,392.00	15,207.00	13,203.00	11,462.00
Gross Operating Profit	7,512.00	7,010.00	7,769.00	9,270.00	7,277.00
Selling, General & Admin. Expense	105	196	236	367	309
Other Taxes	0	0	0	0	0
EBITDA	7,407.00	6,814.00	7,533.00	8,903.00	6,968.00
Depreciation & Amortization	4,664.00	3,779.00	3,754.00	4,958.00	3,944.00
EBIT	2,743.00	3,035.00	3,779.00	3,945.00	3,024.00
Other Income, Net	0	0	0	0	41
Total Income Avail for Interest Exp.	3,191.00	2,926.00	3,779.00	4,080.00	2,540.00
Interest Expense	558	612	622	693	479
Minority Interest	107	0	0	0	0
Pre-tax Income	2,633.00	2,314.00	3,157.00	3,387.00	2,061.00
Income Taxes	1,606.00	1,014.00	1,307.00	1,421.00	847
Special Income/Charges	448	-109	0	135	-525
Net Income from Cont. Operations	920	1,300.00	1,850.00	1,966.00	1,214.00
Net Income from Discont. Oper.	0	0	0	0	0
Net Income from Total Operations	920	1,300.00	1,850.00	1,966.00	1,214.00
Normalized Income	472	1,409.00	1,850.00	1,831.00	1,739.00
Extraordinary Income	0	0	0	0	0
Income from Cum. Eff. of Acct. Chg.	0	0	0	0	0
Income from Tax Loss Carryforward	0	0	0	0	0
Other Gains (Losses)	0	0	0	0	0
Total Net Income	920	1,300.00	1,850.00	1,966.00	1,214.00

## Recent Annual Financials (from MSN Investor)

Annual Cash Flow (in Millions)	Sep-00	Sep-99	Sep-98	Sep-97	Sep-96
<b>Cash Flow from Operating Activities</b>					
Net Income (Loss)	920	1,300.00	1,850.00	1,966.00	1,214.00
Depreciation and Amortization	4,664.00	3,779.00	3,754.00	4,958.00	3,944.00
Deferred Income Taxes	231	-20	0	292	-78
Operating (Gains) Losses	-220	57	-75	-150	300
Extraordinary (Gains) Losses	0	0	0	0	0
<b>Change in Working Capital</b>					
(Increase) Decr. in Receivables	205	376	-664	-386	-426
(Increase) Decr. in Inventories	65	103	-46	-6	-95
(Increase) Decr. in Other Curr. Assets	183	-165	179	-169	-75
(Decrease) Incr. in Payables	-16	477	218	566	-455
(Decrease) Incr. in Other Curr. Liabs.	402	-319	-101	-7	274
Other Non-Cash Items	0	0	0	0	22
Net Cash from Cont. Operations	6,434.00	5,588.00	5,115.00	7,064.00	4,625.00
Net Cash from Discont. Operations	0	0	0	0	0
<b>Net Cash from Operating Activities</b>	<b>6,434.00</b>	<b>5,588.00</b>	<b>5,115.00</b>	<b>7,064.00</b>	<b>4,625.00</b>
<b>Cash Flow from Investing Activities</b>					
<b>Cash Flow Provided by:</b>					
Sale of Property, Plant, Equipment	0	0	0	0	0
<b>Sale of Short Term Investments</b>	207	202	238	31	409
<b>Cash Used by:</b>					
Purchase of Property, Plant, Equipmt.	-2,047.00	-2,453.00	-2,527.00	-1,922.00	-1,745.00
Purchase of Short Term Investments	-82	-39	-13	-56	-18
Other Investing Changes Net	-1,849.00	-3,020.00	-3,363.00	-3,954.00	-12,110.00
<b>Net Cash from Investing Activities</b>	<b>-3,770.00</b>	<b>-5,310.00</b>	<b>-5,665.00</b>	<b>-5,901.00</b>	<b>-13,464.00</b>
<b>Cash Flow from Financing Activities</b>					
<b>Cash Flow Provided by:</b>					
Issuance of Debt	1,117.00	2,306.00	1,830.00	2,437.00	13,560.00
Issuance of Capital Stock	482	204	184	180	85
<b>Cash Used for:</b>					
Repayment of Debt	-3,235.00	-2,482.00	-1,212.00	-4,078.00	-4,872.00
Repurchase of Capital Stock	-166	-19	-30	-633	-462
Payment of Cash Dividends	-434	0	-412	-342	-271
Other Financing Charges, Net	0	0	0	1,312.00	0
<b>Net Cash from Financing Activities</b>	<b>-2,236.00</b>	<b>9</b>	<b>360</b>	<b>-1,124.00</b>	<b>8,040.00</b>
Effect of Exchange Rate Changes	0	0	0	0	0
Net Change in Cash & Cash Equivalents	428	287	-190	39	-799
Cash at Beginning of Period	414	127	317	278	1,077.00
Free Cash Flow	3,953.00	3,135.00	2,176.00	4,800.00	2,609.00

## CHARTS / TECHNICAL

