

FOXA, CBS, DISCA, VIAB, DIS: Updates Ahead of 3Q18 Earnings

Oct. 23, 2018

BOTTOM LINE: In this note we are modifying our financial models for video-centric media companies we cover, mostly leaving valuations and recommendations unchanged. Commentary on companies and the sector follows.

Ahead of 3Q18 earnings, we continue to see weak longer-term fundamentals for video-centric media owners. Cord shaving and cutting is eroding sub bases by around -2% annually, constraining affiliate fee growth. Viewing of video is still expanding, although mostly for newer SVOD services and YouTube. Advertising is relatively strong at the moment – meaning it's non-negative – but we think it continues to look weaker over longer time horizons as the large brands who dominate it are generally limiting growth or reducing spending. High-single digit pricing gains in the recent Upfronts won't flow through to revenues as a result. For similar reasons, advanced audience targeting initiatives will only slightly curtail the decline. By contrast, retransmission-consent-related fees, international content licensing and the D2C platforms are sources of growth, although the latter type of revenue will likely be much lower margin than traditional activities given needs to acquire and manage customer relationships while paying for the storage and physical delivery of content (an absence of net neutrality may be negative here, too). Content costs are also likely to cause higher spending as networks and OTT platforms find that they must increase their investments in original programming. Top-tier sports costs are going to rise at even higher rates – double digit annual increases, we think – given the unique value that this type of content has to traditional networks as well as to Facebook, Google and Amazon. If there is one positive trend at present, it is the strength of political advertising, helping station owners in battleground states in the upcoming election.

At a company specific trends and issues to monitor include the following:

- At Fox, we see a company positioning itself to be much more dependent on news-related programming and sports. While initiatives the company takes to improve those business are worth monitoring, our guess is that there will eventually be more M&A activity for the company, such as a deeper investment in the broadcasting business or possibly a recombination with News Corp in some form. For the present time the core business won't matter much to valuation as the bulk of its value remains tied up in the value of Disney stock and cash.
- At CBS, there have been managerial changes in the past couple of weeks as the interim CEO has appointed new (non-interim) heads of HR, corporate communications and a CFO. The changes are understandable in context of an organization that is looking to distance itself from the past and move itself forward. However, putting aside the merits of the individuals in those roles, the appointments are also unusual considering the interim nature of the CEO role at this time. Another wild card in governance and management relates to the changing of the interim Chairmanship of the overall company over the weekend. In the short term we don't think anything should get in the way of anticipated operating trends, but we are mindful that the company may yet go through further organizational changes, whether with the current team in place or another one.
- Discovery's stock has been holding up well as investor concerns around Discovery's future on vMVPDs have generally abated. However, those concerns always seemed overblown, and so recent announcements weren't particularly meaningful beyond the boost we now expect in next year's affiliate fee revenue expectations. Discovery should do well on the advertising front in the current quarter, especially as like-for-like share of ad impressions have grown significantly, driven both by viewing share gains and by increases in ad loads as well as general pricing increases. Generally, we still view Discovery's long-term position as weaker than owners of broadcast networks (whose positions we see as relatively more durable) but also recognize that its international activities should be viewed as a positive attribute for the company.
- Viacom faces many of the same negative issues impacting Discovery, but it under-invested in growth opportunities – especially on digital media – for a significant amount of time, and supported a non-profitable studio for an extended period as well. Its recent resumption of managerial normalcy and focus on opportunities to drive growth should support superior bottom line growth relative to peers over the medium term. A downside remains in the company's sub-optimal ownership structure, but upside probably exists for Viacom if that same ownership structure ultimately leads it to control CBS at some point in the future.
- With Disney we have incorporated into our model our first pass at crude assumptions around the revenue and profit impact from the launch of ESPN+, the Disney-branded streaming service and the consolidation of Hulu. There are many, many wild-cards to consider in these estimates, which are much better characterized as "starting assumptions." As a best guess, we think that Disney will manage these businesses for overall profit growth rather than for margins and that there will be significant costs incurred – especially in 2019 – in exchange for slightly faster long-term growth. The overall effect on our DCF-driven valuation is relatively neutral. Overall, while we continue to believe that Disney is the best positioned among peers on a strategic basis, on a relative basis vs. other companies we cover we continue to see the stock as relatively overvalued.

Accounting for these factors and changes in costs of capital, price targets and recommendations are mostly unchanged, with Hold ratings on CBS, Fox and Viacom and Sell ratings on Discovery and Disney.

VALUATION. We value companies on a DCF basis. Key variables include long-term costs of capital ranging from 12.4% for Discovery to 14.2% for Disney. Long-term growth rates range from 2.5% for Viacom to 5% for Disney.

RISKS. Risks to companies in the sector include the hit-driven nature of video production, threats to TV advertising and a pay TV slowdown.

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21ST CENTURY FOX (FOXA)
RATING: HOLD
(Previous: HOLD)
Target Price: \$45.00
(Previous: \$45.00)
Price(10/22/18):\$45.72

CBS (CBS)
RATING: HOLD
(Previous: HOLD)
Target Price: \$52.00
(Previous: \$53.00)
Price(10/22/18):\$56.80

DISCOVERY COMMUNICATIONS (DISCA)
RATING: SELL
(Previous: SELL)
Target Price: \$26.00
(Previous: \$26.00)
Price(10/22/18):\$33.38

VIACOM (VIAB)
RATING: HOLD
(Previous: HOLD)
Target Price: \$32.00
(Previous: \$32.00)
Price(10/22/18):\$33.00

WALT DISNEY (DIS)
RATING: SELL
(Previous: SELL)
Target Price: \$95.00
(Previous: \$95.00)
Price(10/22/18):\$118.27

Risks

Investors will need to consider the following among key risks to video-centric media owners.

Hit-driven nature of video production. Large studios and cable networks can diversify and balance their fortunes by virtue of producing a wide array of content. However, any studio is always at some risk of producing poorly received programming, and a series of flops can have the effect of deterring the best creative talent from working with a studio. This in turn can enhance risks of unfavorable trends for the studio, the core network and local affiliates.

Threats to TV advertising. Television is accurately characterized as “old media.” Many industry observers presume that anything old must be worse than that which is new and that declines will therefore be significant in the near-term. While we do forecast declines going forward, we do not expect them to be significant. However, if we are wrong on this revenue stream, network owners will face incremental risks.

Pay TV slowdown. To some degree we see risk to cable networks from MVPDs’ efforts to offer up packages of programming which are lower cost and may contain fewer of the “peripheral” networks that secured distribution over the last decade. We expect that cable operators will sacrifice some margin to pay up for programming, the bulk of the growth in their spending will likely go towards local broadcasters and cable programmers holding sports rights). To the extent that costs for this core programming could accelerate faster than expected or consumers exhibit reluctance to pay subscription rising subscription fees fall, distribution fees will face incremental risk.

21st Century Fox Income Statement

FOX INCOME STATEMENT In \$mm Except Per Share Data	CY14A	CY15A	CY16A	CY17A	1Q18A	2Q18A	3Q18E	4Q18E	CY18E	1Q19E	2Q19E	3Q19E	4Q19E	CY19E	CY20E	CY21E	CY22E	FY2016	FY2017	FY2018	FY2019
Revenues	32,585.0	26,497.0	28,062.0	29,351.0	7,420.0	7,941.0	7,079.3	8,632.6	31,072.9	7,686.5	8,194.9	7,396.0	8,920.3	32,197.6	34,337.7	35,009.0	36,587.2	27,326.0	28,500.0	30,400.0	31,593.3
* Growth	9.4%	-18.7%	5.9%	4.6%	-1.9%	17.7%	1.1%	7.4%	5.9%	3.6%	3.2%	4.5%	3.3%	3.6%	6.6%	2.0%	4.5%	-5.7%	4.3%	6.7%	3.9%
OpEx, SG&A and Cable Distribution Amortization	(25,531.0)	(20,011.0)	(20,945.0)	(22,734.0)	(5,526.0)	(6,032.0)	(5,249.5)	(6,950.6)	(23,758.1)	(5,654.0)	(6,188.4)	(5,477.1)	(7,144.0)	(24,463.5)	(26,201.8)	(26,555.0)	(27,693.7)	(20,729.0)	(21,327.0)	(23,368.0)	(24,042.5)
OBDA	7,054.0	6,486.0	7,117.0	6,617.0	1,894.0	1,909.0	1,829.8	1,682.0	7,314.8	2,032.5	2,006.5	1,918.9	1,776.3	7,734.1	8,135.9	8,454.0	8,893.5	6,597.0	7,173.0	7,032.0	7,550.8
* % of Revenue	21.5%	24.5%	25.4%	22.5%	25.5%	24.0%	25.8%	19.5%	23.5%	25.4%	24.5%	25.9%	19.9%	24.0%	23.7%	24.1%	24.3%	24.1%	25.2%	23.1%	23.9%
Less: Amortization of Cable Distribution Investments	(89.0)	(71.0)	(71.0)	(77.0)	(14.0)	(12.0)	(16.0)	(16.0)	(58.0)	(16.0)	(16.0)	(16.0)	(16.0)	(64.0)	(50.0)	(50.0)	(50.0)	(75.0)	(65.0)	(69.0)	(64.0)
Other Depreciation and Amortization	(1,046.0)	(517.0)	(542.0)	(567.0)	(145.0)	(155.0)	(145.0)	(145.0)	(590.0)	(151.0)	(151.0)	(151.0)	(151.0)	(604.0)	(636.0)	(664.0)	(688.0)	(530.0)	(553.0)	(584.0)	(592.0)
Operating Income	5,919.0	5,898.0	6,504.0	5,973.0	1,735.0	1,742.0	1,668.8	1,521.0	6,666.8	1,865.5	1,839.5	1,751.9	1,609.3	7,066.1	7,449.9	7,740.0	8,155.5	5,992.0	6,555.0	6,379.0	6,894.8
* % of Revenue	18.2%	22.3%	23.2%	20.4%	23.4%	21.9%	23.6%	17.6%	21.5%	24.3%	22.4%	23.7%	18.0%	21.9%	21.7%	22.1%	22.3%	21.9%	23.0%	21.0%	21.8%
Equity Earnings of Affiliates	991.0	322.0	(87.0)	(8.0)	(31.0)	(79.0)	(29.0)	7.0	(132.0)	(167.0)	(88.1)	(16.9)	20.2	(251.8)	168.1	339.0	361.0	(34.0)	(41.0)	(83.0)	(277.1)
Interest Expense, Net	(1,190.0)	(1,176.0)	(1,190.0)	(1,245.0)	(311.0)	(312.0)	(309.8)	(309.8)	(1,242.7)	(305.1)	(305.1)	(305.1)	(305.1)	(1,220.6)	(1,249.5)	(1,249.5)	(1,249.5)	(1,184.0)	(1,219.0)	(1,248.0)	(1,230.0)
Interest Income	34.0	32.0	40.0	37.0	10.0	10.0	11.0	11.0	42.0	11.0	11.0	11.0	11.0	44.0	48.0	50.0	50.0	38.0	36.0	39.0	44.0
Other, Net	5,093.0	(1,104.0)	(708.0)	(692.0)	(72.0)	(260.0)	0.0	0.0	(352.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(658.0)	(642.0)	(677.0)	0.0
Income From Continuing Operations	10,847.0	3,972.0	4,559.0	4,065.0	1,331.0	1,081.0	1,340.9	1,229.2	4,982.1	1,404.4	1,457.2	1,440.8	1,335.3	5,637.8	6,416.5	6,879.6	7,317.0	4,154.0	4,689.0	4,410.0	5,431.7
Income Tax Expense	(1,304.0)	(1,278.0)	(1,194.0)	199.0	(370.0)	(93.0)	(335.2)	(307.3)	(1,105.5)	(351.1)	(364.3)	(360.2)	(333.8)	(1,409.4)	(1,604.1)	(1,719.9)	(1,829.2)	(1,130.0)	(1,419.0)	364.0	(1,357.9)
* Income Tax as Percentage of Pre-Tax Income	12.0%	32.2%	26.2%	-4.9%	27.8%	8.6%	-25.0%	-25.0%	22.2%	-25.0%	-25.0%	-25.0%	-25.0%	25.0%	25.0%	25.0%	25.0%	27.2%	30.3%	-8.3%	25.0%
Income From Continuing Operations	9,543.0	2,694.0	3,365.0	4,264.0	961.0	988.0	1,005.7	921.9	3,876.6	1,053.3	1,092.9	1,080.6	1,001.5	4,228.3	4,812.4	5,159.7	5,487.7	3,024.0	3,270.0	4,774.0	4,073.8
(Loss) Income From Discontinued Operations	(6.0)	(49.0)	(10.0)	(26.0)	(18.0)	(5.0)	0.0	0.0	(23.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(8.0)	(44.0)	(12.0)	0.0
Net Income Attributable to Fox Shareholders - Basic	9,537.0	2,645.0	3,355.0	4,238.0	943.0	983.0	1,005.7	921.9	3,853.6	1,053.3	1,092.9	1,080.6	1,001.5	4,228.3	4,812.4	5,159.7	5,487.7	3,016.0	3,226.0	4,762.0	4,073.8
Less: Net Income Attributable to Noncontrolling Interests	(241.0)	(236.0)	(270.0)	(277.0)	(85.0)	(63.0)	(68.3)	(89.3)	(305.5)	(89.3)	(66.2)	(71.7)	(93.7)	(320.8)	(336.8)	(353.7)	(371.3)	(261.0)	(274.0)	(298.0)	(312.9)
Net Income Attributable to Fox Shareholders	9,296.0	2,409.0	3,085.0	3,961.0	858.0	920.0	937.5	832.6	3,548.1	964.0	1,026.8	1,009.0	907.8	3,907.5	4,475.6	4,806.0	5,116.4	2,755.0	2,952.0	4,464.0	3,760.9
Weighted Average Shares	2,207.8	2,035.8	1,881.5	1,853.8	1,858.0	1,863.0	1,863.0	1,863.0	1,861.8	1,863.0	1,863.0	1,863.0	1,863.0	1,863.0	1,861.8	1,863.0	1,861.8	1,944.8	1,856.0	1,857.3	1,863.0
Income From Continuing Operations to Fox Shareholders	4.21	1.21	1.64	2.15	0.47	0.50	0.50	0.45	1.92	0.52	0.55	0.54	0.49	2.10	2.40	2.58	2.75	1.42	1.61	2.41	2.02
Income Per Share Attributable to Fox Shareholders	4.21	1.18	1.64	2.14	0.46	0.49	0.50	0.45	1.91	0.52	0.55	0.54	0.49	2.10	2.40	2.58	2.75	1.42	1.59	2.40	2.02
Dividend Per Share	0.250	0.300	0.355	0.380	0.180	0.000	0.200	0.000	0.380	0.180	0.000	0.200	0.000	0.380	0.550	0.550	0.550	0.33	0.36	0.38	0.38
ADJUSTMENTS																					
Income From Continuing Operations	9,543.0	2,694.0	3,365.0	4,264.0	961.0	988.0	1,005.7	921.9	3,876.6	1,053.3	1,092.9	1,080.6	1,001.5	4,228.3	4,812.4	5,159.7	5,487.7	3,024.0	3,270.0	4,774.0	4,073.8
Less: Net Income Attributable to Noncontrolling Interests	(241.0)	(236.0)	(270.0)	(277.0)	(85.0)	(63.0)	(68.3)	(89.3)	(305.5)	(89.3)	(66.2)	(71.7)	(93.7)	(320.8)	(336.8)	(353.7)	(371.3)	(261.0)	(274.0)	(298.0)	(312.9)
Income From Continuing Operations Attributable to Stockholders	9,302.0	2,458.0	3,095.0	3,987.0	876.0	925.0	937.5	832.6	3,571.1	964.0	1,026.8	1,009.0	907.8	3,907.5	4,475.6	4,806.0	5,116.4	2,763.0	2,996.0	4,476.0	3,760.9
Impairment Charges	0.0	0.0	277.0	126.0	34.0	14.0	0.0	0.0	48.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	277.0	102.0	72.0	0.0
Equity Affiliate Adjustments (Gross)	(302.0)	20.0	341.0	296.0	17.0	126.0	30.0	30.0	203.0	30.0	30.0	30.0	30.0	120.0	120.0	120.0	120.0	376.0	292.0	254.0	120.0
Other, Net (Gross)	(5,071.0)	1,104.0	443.0	529.0	(17.0)	266.0	0.0	0.0	249.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	658.0	642.0	(677.0)	0.0
Adjusted Net Income	4,126.0	3,383.0	3,671.0	3,343.0	912.0	1,068.0	967.5	862.6	3,810.1	994.0	1,056.8	1,039.0	937.8	4,027.5	4,595.6	4,926.0	5,236.4	4,010.0	4,032.0	4,125.0	3,880.9
Adjusted Net Income Per Share	1.87	1.66	1.95	1.80	0.49	0.57	0.52	0.46	2.05	0.53	0.57	0.56	0.50	2.16	2.47	2.64	2.81	2.06	2.17	2.22	2.08

Source: Pivotal Research, Company Reports

21st Century Fox Discounted Cashflow Model

FOX DISCOUNTED CASH FLOW MODEL					
In \$mm Except Per Share Data	CY18E	CY19E	CY20E	CY21E	CY22E
Net Income Less Share of Affiliates' Earnings	3,659.2	1,464.2	1,602.5	1,689.3	1,858.5
D&A	590.0	241.6	254.4	265.6	275.2
Capital Expenditures and Acquisitions	(670.0)	(325.0)	(350.0)	(375.0)	(400.0)
Changes in Debt	(274.0)	0.0	0.0	0.0	0.0
Stock Repurchases	0.0	0.0	0.0	0.0	0.0
Dividends	(481.0)	0.0	0.0	0.0	0.0
Equity Compensation	228.0	80.0	90.0	100.0	110.0
Other Changes in Cash Balances	584.4	(450.0)	(125.0)	(150.0)	(175.0)
Changes In Cash Flows	4,453.6	1,010.8	1,471.9	1,529.9	1,668.7
Interest Expense	1,242.7	1,220.6	416.0	416.0	416.0
Less: Tax Adjustment	(268.2)	(305.1)	(104.0)	(104.0)	(104.0)
• Assumed Tax Rate	21.6%	25.0%	25.0%	25.0%	25.0%
Unlevered Changes in Cash Flows	5,428.1	1,926.2	1,783.9	1,841.9	1,980.7
Sum of Future Cash Flows	5,658.4				
NPV of Terminal Value	13,782.6				
Value of Future Cash Flows	19,441.0				
Plus: Post-Transaction Close Cash and Equivalents	1,500.0				
Plus: Other Assets	68,577.5				
Enterprise Value	89,518.5				
Less: New Fox Debt	(6,500.0)				
2018E Common Equity Value	83,018.5				
Shares Outstanding 2018E	1,863.0				
Equity Value	45.00				
Current Equity Value	45.70				
2018E Equity Value Premium Vs. Current Price	-1.5%				
KEY ASSUMPTIONS					
Near-Term Discount Rate	12.4%				
Terminal EV / FCF Multiple	13.2x				
Long-Term Growth Rate	3.8%				
Long-Term Discount Rate	13.5%				

Source: Pivotal Research, Company Reports

CBS Income Statement

Data in Millions, except Per Share data, unless otherwise specified	FY16A	FY17A	1Q18A	2Q18A	3Q18E	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E	FY20E	FY21E	FY22E
Revenues	13,167	13,692	3,761	3,466	3,272	4,395	14,894	4,385	3,598	3,374	4,445	15,802	16,202	16,840	18,249
• Annual Growth	3.9%	4.0%	12.5%	6.4%	3.2%	12.1%	8.8%	16.6%	3.8%	3.1%	1.1%	6.1%	2.5%	3.9%	8.4%
Expenses:															
Operating, SG&A	(10,309)	(11,047)	(2,933)	(2,751)	(2,463)	(3,461)	(11,609)	(3,499)	(2,841)	(2,556)	(3,541)	(12,437)	(12,687)	(13,253)	(14,479)
• % of Revenues	78.3%	80.7%	78.0%	79.4%	75.3%	78.8%	77.9%	79.8%	79.0%	75.8%	79.7%	78.7%	78.3%	78.7%	79.3%
Depreciation and amortization	(237)	(222)	(56)	(56)	(63)	(70)	(245)	(65)	(65)	(68)	(75)	(273)	(290)	(305)	(320)
• % of Revenues	1.8%	1.6%	1.5%	1.6%	1.9%	1.6%	1.6%	1.5%	1.8%	2.0%	1.7%	1.7%	1.8%	1.8%	1.8%
Core Expenses	(10,546)	(11,269)	(2,989)	(2,807)	(2,526)	(3,531)	(11,853)	(3,564)	(2,906)	(2,623)	(3,616)	(12,710)	(12,977)	(13,558)	(14,799)
• % of Revenues	80.1%	82.3%	79.5%	81.0%	77.2%	80.4%	79.6%	81.3%	80.8%	77.8%	81.4%	80.4%	80.1%	80.5%	81.1%
Operating Income (Loss)	2,621	2,423	772	659	746	863	3,041	821	692	750	829	3,092	3,225	3,283	3,450
• % of Revenues	19.9%	17.7%	20.5%	19.0%	22.8%	19.6%	20.4%	18.7%	19.2%	22.2%	18.6%	19.6%	19.9%	19.5%	18.9%
Adjusted Operating Income (Loss)	2,621	2,423	781	659	746	863	3,050	821	692	750	829	3,092	3,225	3,283	3,450
• % of Revenues	19.9%	17.7%	20.8%	19.0%	22.8%	19.6%	20.5%	18.7%	19.2%	22.2%	18.6%	19.6%	19.9%	19.5%	18.9%
Interest Expense	(411)	(457)	(118)	(116)	(113)	(113)	(459)	(115)	(115)	(115)	(115)	(460)	(460)	(460)	(460)
Interest Income	32	64	17	14	17	19	67	10	10	10	10	40	60	60	60
Loss on Early Extinguishment of Debt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Items, Net	0	6	(11)	(24)	0	0	0	0	0	0	0	0	0	0	0
Earnings From Continuing Operations Before Income Taxes	2,479	2,432	660	533	651	770	2,614	716	587	645	724	2,672	2,825	2,883	3,050
Provision For Income Taxes	(771)	(690)	(137)	(113)	(159)	(192)	(600)	(172)	(141)	(155)	(174)	(641)	(678)	(692)	(762)
Equity in Earnings / Loss of Investee Companies, Net of Tax	(45)	(37)	(14)	(20)	(16)	8	(42)	(17)	(12)	(16)	8	(37)	(15)	(15)	0
Net Earnings From Continuing Operations	1,663	1,705	511	400	475	585	1,972	527	434	474	558	1,994	2,132	2,176	2,287
Net Earnings From Discontinued Operations, Net of Tax	177	86	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Earnings	1,840	1,791	511	427	475	585	2,006	527	434	474	558	1,994	2,132	2,176	2,287
Diluted EPS from Continuing Operations	3.71	4.19	1.32	1.05	1.25	1.55	5.18	1.40	1.15	1.26	1.48	5.29	5.65	5.77	6.07
Adj. Diluted EPS	4.11	4.40	1.34	1.12	1.25	1.55	5.27	1.40	1.15	1.26	1.48	5.29	5.65	5.77	6.07
Weighted average number of common shares outstanding:															
Basic weighted average number of common shares outstanding	444	407	382	378	377	373	378	373	373	373	373	373	371	371	371
Diluted weighted average number of common shares outstanding	448	407	386	381	379	377	381	377	377	377	377	377	377	377	377
Dividends per common share (in dollars per share)	0.66	0.72	0.18	0.18	0.18	0.18	0.72	0.18	0.18	0.18	0.18	0.72	0.72	0.72	0.72

Source: Pivotal Research, Company Reports

CBS Discounted Cashflow Model

CBS DISCOUNTED CASH FLOW MODEL					
In \$mm Except Per Share data	FY18E	FY19E	FY20E	FY21E	FY22E
Net Income Ex-Outdoor OI After Tax	2,005.6	1,993.7	2,131.9	2,175.8	2,287.2
D&A Ex-Outdoor	244.5	272.5	290.0	305.0	320.0
Change in Working Capital	(85.0)	(200.0)	(225.0)	(250.0)	(275.0)
Pension Contribution	0.0	0.0	0.0	0.0	0.0
Capital Expenditures / Acquisitions	(412.0)	(425.0)	(450.0)	(475.0)	(500.0)
Deferred Tax Benefits	0.0	0.0	0.0	0.0	0.0
Stock-Based Compensation	191.0	225.0	250.0	275.0	300.0
Changes in Long-Term Debt / CP	(309.0)	0.0	0.0	0.0	0.0
Stock Repurchases	(844.0)	0.0	0.0	0.0	0.0
Dividends	(140.0)	0.0	0.0	0.0	0.0
Other Changes in Cash Balances	(191.0)	0.0	0.0	0.0	0.0
Changes in Cash Flows	460.1	1,866.2	1,996.9	2,030.8	2,132.2
Interest Expense	459.0	460.0	460.0	460.0	460.0
Less: Tax Adjustment	(104.4)	(110.4)	(110.4)	(110.4)	(115.0)
• Assumed Tax Rate on Interest	23%	24%	24%	24%	25%
Unlevered Changes in Cash Flows	814.7	2,215.8	2,346.5	2,380.4	2,477.2
NPV of Future Cash Flows		2,045.4	1,999.4	1,872.3	1,798.6
Sum of Future Cash Flows	7,715.6				
NPV of Terminal Value	19,680.2				
• Terminal Value:	27,106.3				
Value of Future Cashflows	27,395.8				
Plus: 2018E Cash+Equivalents	745.1				
Plus: 2018E Other Assets (Real Estate)	1,000.0				
Value of Cashflows + Cash	29,140.9				
Less: 2018E Debt	(9,689.0)				
2018E Common Equity Value	19,451.9				
Shares Used In Valuation	377.0				
Equity Value 2018E (Per Share)	52.00				
Current Equity Value (Per Share)	56.98				
2018E Equity Value Premium	-9%				
Vs. Current Price					
KEY ASSUMPTIONS					
Near-Term Discount Rate	8.3%				
Terminal EV/FCF Multiple	12.7x				
Long-Term Growth Rate	4.0%				
Long-Term Discount Rate	14.2%				

Source: Pivotal Research, Company Reports

Discovery Communications Income Statement

DISCOVERY COMMUNICATIONS INCOME STATEMENT																		
In \$mm Except Per Share Data																		
	FY13A	FY14A	FY15A	FY16A	FY17A	1Q18A	2Q18A	3Q18E	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E	FY20E	FY21E	FY22E
Revenues:																		
Distribution	2,536	2,842	3,068	3,213	3,474	1,051	1,186	1,237	1,185	4,660	1,266	1,223	1,276	1,222	4,987	5,153	5,256	5,431
Advertising	2,739	3,089	3,004	2,970	3,073	1,012	1,563	1,473	1,673	5,721	1,390	1,561	1,469	1,673	6,093	6,088	6,047	6,029
Other	260	334	322	314	326	244	96	103	154	597	80	86	112	168	446	659	517	735
Total Revenues	5,535	6,265	6,394	6,497	6,873	2,307	2,845	2,814	3,012	10,978	2,736	2,870	2,857	3,063	11,526	11,899	11,819	12,195
* Growth	23.4%	13.2%	2.1%	1.6%	5.8%	43.0%	63.0%	70.4%	61.6%	59.7%	18.6%	0.9%	1.5%	1.7%	5.0%	3.2%	-0.7%	3.2%
Costs and Expenses:																		
Costs of revenues, excluding depreciation and amortization	(1,689)	(2,124)	(2,343)	(2,432)	(2,656)	(1,060)	(995)	(1,092)	(1,187)	(4,334)	(1,180)	(1,035)	(1,135)	(1,235)	(4,585)	(4,978)	(4,913)	(5,316)
Selling, general and administrative	(1,586)	(1,692)	(1,669)	(1,690)	(1,768)	(609)	(687)	(723)	(715)	(2,734)	(573)	(555)	(618)	(592)	(2,338)	(2,151)	(2,147)	(2,233)
Depreciation and amortization	(276)	(329)	(330)	(322)	(330)	(193)	(410)	(600)	(600)	(1,803)	(600)	(600)	(600)	(600)	(2,400)	(2,200)	(2,000)	(1,800)
Restructuring and impairment charges	(16)	(90)	(50)	(58)	(1,402)	(241)	(187)	(200)	(200)	(828)	0	0	0	0	0	0	0	0
Gains on dispositions	19	31	(17)	63	(4)	0	84	0	0	84	0	0	0	0	0	0	0	0
Total Costs and Expenses	(3,548)	(4,204)	(4,409)	(4,439)	(6,160)	(2,103)	(2,195)	(2,615)	(2,702)	(9,614)	(2,353)	(2,190)	(2,354)	(2,426)	(9,323)	(9,330)	(9,061)	(9,349)
* Growth	34.8%	18.5%	4.9%	0.7%	38.8%	86.8%	96.9%	114.7%	0.0%	56.1%	11.9%	-0.2%	-10.0%	-10.2%	-3.0%	0.1%	-2.9%	3.2%
Operating Income	1,987	2,061	1,985	2,058	713	204	650	199	310	1,363	383	680	503	636	2,202	2,569	2,759	2,846
* Growth	7.1%	3.7%	-3.7%	3.7%	-65.4%	-58.1%	3.2%	-54.0%	-137.0%	91.2%	87.8%	4.6%	152.6%	105.3%	61.6%	16.7%	7.4%	3.2%
* Margin	35.9%	32.9%	31.0%	31.7%	10.4%	8.8%	22.8%	7.1%	10.3%	12.4%	14.0%	23.7%	17.6%	20.8%	19.1%	21.6%	23.3%	23.3%
Interest expense, net	(306)	(328)	(330)	(353)	(475)	(177)	(196)	(190)	(185)	(748)	(185)	(185)	(185)	(185)	(740)	(740)	(740)	(740)
Loss on extinguishment of debt	0	0	0	0	(54)	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (expense) income, net	44	14	(96)	(34)	(321)	(44)	(87)	10	(15)	(106)	23	23	13	15	73	75	78	80
Income/Continuing Operations Before Income Taxes	1,725	1,747	1,559	1,671	(137)	(17)	367	19	140	509	221	517	331	466	1,535	1,904	2,096	2,186
Provision for income taxes	(659)	(610)	(511)	(453)	(176)	20	(123)	(5)	(38)	(146)	(55)	(129)	(83)	(117)	(384)	(476)	(524)	(546)
* Tax Rate	38.2%	34.9%	32.8%	27.1%	-128.5%	117.6%	33.5%	27.0%	27.0%	28.7%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Income/Continuing Operations, Net of Taxes	1,066	1,137	1,048	1,218	(313)	3	244	14	102	363	165	388	248	350	1,151	1,428	1,572	1,639
(Loss) income from discontinued operations, net of taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	1,066	1,137	1,048	1,218	(313)	3	244	14	102	363	165	388	248	350	1,151	1,428	1,572	1,639
Net income attributable to noncontrolling interests	(2)	2	(14)	(24)	(24)	(11)	(28)	(45)	(50)	(134)	(55)	(63)	(48)	(53)	(218)	(240)	(270)	(300)
Net Income Attributable to DCI	1,064	1,139	1,034	1,194	(337)	(8)	216	(31)	52	229	110	326	201	297	934	1,188	1,302	1,339
Stock dividends to preferred interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income Available to DCI stockholders	1,064	1,139	1,034	1,194	(337)	(8)	216	(31)	52	229	110	326	201	297	934	1,188	1,302	1,339
* Growth	12.8%	7.0%	-9.2%	15.5%	-128.2%	-103.7%	-42.2%	-114.2%	-104.6%	-168.0%	-1480.0%	50.7%	-747.6%	469.6%	307.4%	27.3%	9.6%	2.8%
Income/Share/Continuing Ops to DCI Stockholders:																		
Diluted	1.47	1.66	1.58	1.96	(0.58)	(0.01)	0.30	(0.04)	0.07	0.33	0.16	0.46	0.28	0.42	1.31	1.67	1.83	1.88
* Growth	18.9%	12.4%	-4.9%	24.2%	-129.9%	-103.6%	-52.6%	-114.4%	-103.7%	-157.1%	-1280.4%	50.7%	-747.6%	469.6%	292.6%	27.3%	9.6%	2.8%
Adjusted EPS																		
Diluted	1.62	1.84	1.75	2.13	2.24	0.16	0.66	0.59	0.71	2.17	0.72	1.02	0.84	0.98	3.56	3.71	3.65	3.57
* Growth	-----	14.0%	-5.1%	22.0%	5.0%	-61.7%	-3.4%	36.3%	50.0%	-3.1%	357.0%	53.6%	43.3%	38.8%	64.0%	4.1%	-1.4%	-2.4%
Weighted Average Shares Outstanding:																		
Diluted	722	687	656	610	576	609	712	712	712	686	712	712	712	712	712	712	712	712
Adjusted OIBDA	2,398	2,494	2,398	2,413	2,531	697	1,214	999	1,110	4,020	983	1,280	1,103	1,236	4,602	4,769	4,759	4,646
* OIBDA Margin	43.3%	39.8%	37.5%	37.1%	36.8%	30.2%	42.7%	35.5%	36.9%	36.6%	35.9%	44.6%	38.6%	40.4%	39.9%	40.1%	40.3%	38.1%
* Growth	14.5%	4.0%	-3.8%	0.6%	4.9%	15.6%	69.3%	73.8%	74.5%	58.8%	41.0%	5.4%	10.4%	11.4%	14.5%	3.6%	-0.2%	-2.4%

Source: Pivotal Research, Company Reports

Discovery Communications Discounted Cashflow Model

DISCOVERY COMMUNICATIONS DISCOUNTED CASH FLOW MODEL					
In \$mm Except Per Share Data	FY18E	FY19E	FY20E	FY21E	FY22E
Net Income	229.2	933.7	1,188.2	1,302.3	1,339.3
D&A	1,803.0	2,400.0	2,200.0	2,000.0	1,800.0
Change in Working Capital	(20.0)	0.0	0.0	0.0	0.0
Capital Expenditures / Acquisitions	(8,699.0)	(265.0)	(300.0)	(335.0)	(370.0)
Stock-Based Compensation	79.0	70.0	80.0	90.0	100.0
Changes in Debt	(196.0)	0.0	0.0	0.0	0.0
Stock Repurchases	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Post-Scripps Restructuring	0.0	0.0	0.0	0.0	0.0
Other Changes in Cash Balances	(577.0)	(350.0)	(400.0)	(450.0)	(500.0)
Changes in Cash Flows	(7,380.8)	2,788.7	2,768.2	2,607.3	2,369.3
Interest Expense	748.0	740.0	740.0	740.0	740.0
Less: Tax Adjustment	(375.2)	(185.0)	(185.0)	(185.0)	(185.0)
Unlevered Changes in Cash Flows	(7,008.0)	3,343.7	3,323.2	3,162.3	2,924.3
NPV of Future Cash Flows		3,127.6	2,907.7	2,588.1	2,238.7
Sum of Future Cash Flows	10,862.0				
NPV of Terminal Value	24,886.9				
Value of Future Cashflows	35,748.9				
Plus: 2018E Cash+Equivalents	(71.8)				
Plus: Other Assets	300.0				
Value of Cashflows + Cash	35,977.1				
Less: 2018E Debt	(17,129.0)				
2018E Common Equity Value	18,848.1				
Shares Outstanding 2018E	712.0				
Equity Value 2018E (Per Share)	26.00				
Current Equity Value (Per Share)	32.98				
2018E Equity Value Premium	-21%				
Vs. Current Price					
KEY ASSUMPTIONS					
Near-Term Discount Rate	6.9%				
Long-Term Growth Rate	3.0%				
Long-Term Discount Rate	13.5%				

Source: Pivotal Research, Company Reports

Viacom Income Statement

VIACOM INCOME STATEMENT		In \$mm Except Per Share Data																										
	CY13A	CY14A	CY15A	CY16A	CY17A	CY1Q18A	CY2Q18A	CY3Q18E	CY4Q18E	CY18E	CY1Q19E	CY2Q19E	CY3Q19E	CY4Q19E	CY19E	CY20E	CY21E	CY22E	FY11A	FY12A	FY13A	FY14A	FY15A	FY16A	FY17A	FY18E	FY19A	
Revenues	13,677	13,930	13,078	12,658	13,012	3,148	3,237	3,376	3,067	12,649	3,219	3,320	3,469	3,144	13,152	13,479	13,836	14,226	14,914	13,887	13,794	13,783	13,268	12,488	13,263	12,834	13,094	
• Growth	3.2%	1.8%	-6.1%	-3.2%	2.8%	-3.3%	-3.8%	1.7%	0.5%	-1.3%	2.2%	2.6%	2.7%	1.9%	2.4%	2.5%	2.7%	2.8%	11.7%	-6.9%	-0.7%	-0.1%	-3.7%	-5.9%	6.2%	-3.2%	2.0%	
Expenses																												
Operating Expenses and SG&A	(9,346)	(9,617)	(9,634)	(9,795)	(10,224)	(2,452)	(2,419)	(2,655)	(2,239)	(9,765)	(2,550)	(2,555)	(2,620)	(2,300)	(10,024)	(10,363)	(10,671)	(10,951)	(10,789)	(9,750)	(9,628)	(9,411)	(9,728)	(9,535)	(10,441)	(9,829)	(9,963)	
Depreciation and amortization	(239)	(213)	(222)	(222)	(220)	(55)	(51)	(56)	(56)	(217)	(57)	(57)	(57)	(57)	(226)	(235)	(242)	(247)	(271)	(226)	(237)	(217)	(221)	(223)	(215)	(225)		
Restructuring	(93)	0	0	0	0	(185)	(15)	0	(56)	0	0	0	0	0	0	0	0	0	(144)	0	(93)	0	(206)	(206)	(237)	(200)	0	
Asset impairment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(43)	0	0	0	0	0	
Total Expenses	(9,678)	(9,830)	(9,856)	(10,017)	(10,444)	(2,692)	(2,485)	(2,711)	(2,294)	(9,982)	(2,606)	(2,611)	(2,677)	(2,356)	(10,250)	(10,598)	(10,913)	(11,198)	(11,204)	(9,986)	(9,958)	(9,701)	(10,156)	(9,962)	(10,901)	(10,244)	(10,188)	
• Growth	1.2%	1.6%	0.3%	1.6%	4.3%	-7.9%	-5.1%	-1.1%	-2.6%	-4.4%	-3.2%	5.1%	-1.3%	2.7%	2.7%	3.4%	3.0%	2.6%	12.0%	-10.9%	-0.3%	-2.6%	4.7%	-1.9%	9.4%	-6.0%	-0.5%	
Gain on asset sale	0	0	0	0	127	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	127	0	0	
Operating Income	3,999	4,100	3,222	2,641	2,568	456	752	666	793	2,866	612	709	792	788	2,901	2,881	2,923	3,028	3,710	3,901	3,836	4,082	3,112	2,526	2,489	2,591	2,906	
• Growth	8.6%	2.5%	-21.4%	-18.0%	-2.8%	37.3%	0.8%	-5.6%	10.8%	11.8%	34.3%	-5.7%	19.0%	-0.6%	1.2%	-0.7%	1.5%	3.6%	10.8%	5.1%	-1.7%	6.4%	-23.8%	-18.8%	-1.5%	4.1%	12.2%	
• Operating Margin	29.2%	29.4%	24.6%	20.9%	19.7%	14.5%	23.2%	19.7%	25.7%	22.3%	19.0%	21.3%	22.8%	25.1%	22.1%	21.4%	21.1%	21.3%	24.9%	28.1%	27.8%	29.5%	23.5%	20.2%	18.8%	20.2%	22.2%	
Interest expense, net	(503)	(626)	(652)	(617)	(609)	(143)	(138)	(138)	(138)	(557)	(138)	(138)	(138)	(138)	(552)	(550)	(550)	(550)	(412)	(417)	(464)	(615)	(657)	(616)	(618)	(566)	(552)	
Gain on sale of equity investment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Equity in net earnings (losses) of investee companies	32	76	100	69	69	2	2	3	3	9	3	30	3	3	40	42	44	46	40	12	41	58	102	87	81	8	39	
Loss on extinguishment of debt	0	(11)	(18)	0	11	0	0	0	0	0	0	0	0	0	0	0	0	0	(87)	(25)	0	(11)	(18)	0	(14)	25	0	
Other items, net	99	(29)	(15)	(6)	(26)	(28)	(9)	(10)	0	(47)	0	0	0	0	0	0	0	0	(6)	(1)	106	(11)	(36)	(7)	(274)	(50)	0	
Earnings/Continuing Ops Before Income Taxes	3,627	3,510	2,636	2,067	2,307	287	607	520	657	2,271	478	601	657	653	2,389	2,373	2,417	2,524	3,245	3,470	3,519	3,503	2,503	1,950	2,212	2,007	2,393	
• Growth	(11.14)	(1,047)	(480)	(421)	(177)	(23)	(93)	(130)	(164)	(410)	(119)	(150)	(164)	(163)	(597)	(593)	(604)	(631)	(1,062)	(1,085)	(1,070)	(1,050)	(501)	(519)	(293)	(288)	(508)	
• Effective Tax Rate	31%	30%	18%	20%	8%	8%	15%	25%	25%	18%	25%	25%	25%	25%	25%	25%	25%	25%	32.7%	31.3%	30.4%	30.0%	20.0%	26.1%	13.2%	14.4%	25.0%	
Net Earnings/Continuing Operations	2,513	2,463	2,156	1,666	2,130	264	514	390	493	1,861	358	451	493	490	1,792	1,780	1,813	1,893	2,183	2,385	2,449	2,453	2,002	1,471	1,919	1,719	1,795	
Discontinued operations, net of tax	(9)	0	2	0	0	-10	0	0	0	0	0	0	0	0	0	0	0	0	(32)	(364)	(12)	(1)	0	2	0	12	0	
Net Earnings (Viacom-Noncontrolling Interests)	2,504	2,463	2,156	1,668	2,130	274	514	390	493	1,861	358	451	493	490	1,792	1,780	1,813	1,893	2,151	2,021	2,437	2,452	2,002	1,473	1,919	1,731	1,795	
• Growth	(43)	(75)	(79)	(35)	(52)	(8)	(3)	(15)	(14)	(40)	(7)	(8)	(20)	(13)	(48)	(50)	(53)	(55)	(15)	(40)	(42)	(72)	(48)	(35)	(48)	(42)	(49)	
Net Earnings Attributable to Viacom	2,461	2,388	2,077	1,633	2,078	266	511	375	479	1,821	351	443	473	477	1,744	1,730	1,760	1,838	2,136	1,981	2,395	2,380	1,922	1,438	1,871	1,689	1,746	
• Growth	10.4%	-5.2%	-20.2%	-26.0%	45.5%	119.8%	-23.6%	-44.3%	-10.8%	-18.5%	32.1%	-15.2%	26.1%	-0.4%	6.2%	-0.8%	1.8%	4.4%	38.0%	-7.3%	20.9%	-0.6%	-19.2%	-25.2%	30.1%	-9.7%	3.4%	
Amounts attributable to Viacom:																												
Discontinued operations, net of tax	2,481	2,345	1,871	1,383	2,010	256	511	375	479	1,621	351	443	473	477	1,744	1,730	1,760	1,838	2,146	2,345	2,407	2,392	1,922	1,438	1,871	1,677	1,746	
• Growth	(9)	(1)	0	2	5	-10	11	0	0	21	0	0	0	0	0	0	0	0	(10)	(364)	(12)	(1)	0	2	3	23	0	
Net Earnings From Continuing Operations	2,472	2,344	1,871	1,385	2,015	266	522	375	479	1,642	351	443	473	477	1,744	1,730	1,760	1,838	2,136	1,981	2,395	2,380	1,922	1,438	1,871	1,689	1,746	
Diluted Earnings Per Share Attributable to Viacom:																												
Continuing operations	5.14	5.44	4.67	3.48	5.02	0.64	1.29	0.93	1.19	4.07	0.87	1.10	1.17	1.18	4.32	4.29	4.36	4.56	3.59	3.69	4.84	5.41	4.73	3.61	4.67	4.19	4.33	
Discontinued operations	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.01)	(0.02)	0.00	0.01	0.01	0.02	0.00		
Net Earnings Per Share	5.14	5.44	4.67	3.48	5.02	0.66	1.29	0.93	1.19	4.07	0.87	1.10	1.17	1.18	4.32	4.29	4.36	4.56	3.57	3.68	4.82	5.41	4.73	3.62	4.68	4.22	4.33	
• Growth	20.6%	5.9%	-14.2%	-25.5%	44.1%	118.0%	-23.7%	-44.5%	-11.0%	-18.8%	31.9%	-15.2%	26.1%	-0.4%	6.2%	-0.8%	1.8%	4.4%	40.7%	2.8%	31.1%	12.2%	-12.4%	-23.6%	29.3%	-9.9%	2.7%	
Weighted Average Number of Common Shares Outstanding:																												
Basic	472	424	399	397	401	403	403	403	403	403	403	403	403	403	403	403	403	403	587	531	496	432	402	397	400	403	403	
Diluted	481	431	401	398	402	403	403	403	403	403	403	403	403	403	403	403	403	403	594	538	495	440	406	398	401	403	403	
Dividends declared per share of Class A and Class B common stock	1.18	1.29	1.53	1.25	0.80	0.20	0.20	0.20	0.20	0.80	0.20	0.20	0.20	0.20	0.80	0.80	0.80	0.80	0.80	1.03	1.15	1.26	1.46	1.45	0.80	0.80	0.80	
Adjusted Operating Income	4,105	4,124	3,800	2,641	2,712	641	767	666	793	2,866	612	709	792	788	2,901	2,881	2,923	3,028	3,724	3,901	3,942	4,125	3,920	2,732	2,743	2,791	2,906	
• Adjusted Operating Income Margin	30.0%	29.6%	29.1%	20.9%	20.8%	20.4%	23.7%	19.7%	25.7%	22.3%	19.0%	21.3%	22.8%	25.1%	22.1%	21.4%	21.1%	21.3%	25.0%	28.1%	28.6%	29.9%	29.9%	21.9%	20.7%	21.7%	22.2%	
• Growth	11.5%	0.5%	-7.9%	-30.5%	2.7%	4.7%	-4.7%	15.2%	10.6%	5.7%	-4.5%	-7.6%	19.0%	-0.6%														

Viacom Discounted Cashflow Model

VIACOM DISCOUNTED CASH FLOW MODEL					
In \$mm Except Per Share data	FY18E	FY19E	FY20E	FY21E	FY22E
Net Income	1,642.0	1,743.9	1,729.6	1,760.1	1,837.7
D&A	217.0	226.0	235.0	242.0	247.0
Change in Working Capital	(23.0)	(225.0)	(250.0)	(275.0)	(300.0)
Capital Expenditures / Acquisitions	(302.0)	(310.0)	(330.0)	(345.0)	(360.0)
Deferred Tax Benefits	118.0	0.0	0.0	0.0	70.0
Stock-Based Compensation	55.0	55.0	62.0	69.0	76.0
Changes in Long-Term Debt	(100.0)	0.0	0.0	0.0	0.0
Stock Repurchases	0.0	0.0	0.0	0.0	0.0
Dividends	(161.0)	0.0	0.0	0.0	0.0
Other Changes in Cash Balances	(282.0)	0.0	0.0	0.0	0.0
Changes in Cash Flows	<u>1,164.0</u>	<u>1,489.9</u>	<u>1,446.6</u>	<u>1,451.1</u>	<u>1,570.7</u>
Interest Expense	557.0	552.0	550.0	550.0	550.0
Less: Tax Adjustment	(100.6)	(138.0)	(137.5)	(137.5)	(137.5)
• Assumed Tax Rate on Interest	18%	25%	25%	25%	25%
Unlevered Changes in Cash Flows	<u>1,620.3</u>	<u>1,903.9</u>	<u>1,859.1</u>	<u>1,863.6</u>	<u>1,983.2</u>
NPV of Future Cash Flows		1,762.1	1,592.5	1,477.5	1,455.3
Sum of Future Cash Flows	6,287.5				
NPV of Terminal Value	14,377.1				
Value of Future Cashflows	20,664.5				
Plus: 2018E Cash+Equivalents	1,558.0				
Plus: Other Assets	<u>800.0</u>				
Value of Cashflows + Cash	23,022.5				
Less: 2018E Debt	<u>(10,088.0)</u>				
2018E Common Equity Value	12,934.5				
Shares Outstanding 2018E	403.3				
Equity Value 2018E (Per Share)	32.00				
Current Equity Value (Per Share)	33.25				
2018E Equity Value Premium Vs. Current Price	-4%				
KEY ASSUMPTIONS					
Near-Term Discount Rate	8.0%				
Terminal EV/FCF Multiple	16.8x				
Long-Term Growth Rate	2.5%				
Long-Term Discount Rate	14.2%				

Source: Pivotal Research, Company Reports

Walt Disney Income Statement

WALT DISNEY INCOME STATEMENT In \$mm Except Per Share Data	CY12A	CY13A	CY14A	CY15A	CY16A	CY17A	1Q18A	2Q18A	3Q18A	4Q18E	CY18E	1Q19E	2Q19E	3Q19E	4Q19E	CY19E	CY20E	CY21E	CY22E	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Total Revenues	42,840.0	46,009.0	49,895.0	54,318.0	55,172.0	55,704.0	14,548.0	15,228.0	14,057.4	15,659.3	59,492.7	21,520.8	22,888.9	20,902.0	23,443.3	88,755.0	96,749.3	105,310.9	115,267.3	48,813.0	52,465.0	55,632.0	55,137.0	59,184.4	80,971.0
* Growth	4.6%	7.4%	8.4%	8.9%	1.6%	1.0%	9.1%	7.0%	10.0%	2.0%	6.8%	47.9%	50.3%	48.7%	49.7%	49.2%	9.0%	8.8%	9.5%	8.4%	7.3%	6.0%	-0.9%	7.3%	36.8%
Total Costs and Expenses	(34,077.0)	(35,986.0)	(37,812.0)	(40,313.0)	(41,097.0)	(41,744.0)	(10,511.0)	(11,304.0)	(10,866.6)	(12,953.7)	(44,735.2)	(16,290.8)	(18,102.3)	(16,795.0)	(18,843.9)	(70,022.0)	(75,421.4)	(81,007.5)	(88,459.6)	(37,273.0)	(39,241.0)	(68,770.0)	(71,287.0)	(44,239.6)	(63,231.8)
Operating Income	8,763.0	10,023.0	12,083.0	14,005.0	14,075.0	13,960.0	4,037.0	3,924.0	3,190.8	3,605.7	14,757.5	5,240.0	4,786.5	4,107.1	4,599.5	18,733.0	21,327.9	24,303.4	26,807.7	11,540.0	13,224.0	15,534.0	13,723.0	14,944.8	17,739.2
* % of Revenue	20.5%	21.8%	24.2%	25.8%	25.5%	25.1%	27.7%	25.8%	22.7%	23.0%	24.8%	24.3%	20.9%	19.6%	19.6%	21.1%	22.0%	23.1%	23.3%	23.6%	25.2%	27.9%	24.9%	25.3%	21.9%
Restructuring and Impairment Charges	(94.0)	(233.0)	(121.0)	(134.0)	(75.0)	(113.0)	(13.0)	0.0	0.0	0.0	(13.0)	(125.0)	(125.0)	(125.0)	(125.0)	(500.0)	0.0	0.0	0.0	(140.0)	(53.0)	(500.0)	(98.0)	(28.0)	(375.0)
Other Expense, Net	137.0	39.0	(37.0)	0.0	78.0	41.0	0.0	0.0	0.0	41.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(31.0)	0.0	0.0	78.0	41.0	0.0
Interest Income / (Expense), Net	(351.0)	(114.0)	(84.0)	(83.0)	(335.0)	(262.0)	(143.0)	(143.0)	(146.9)	(146.9)	(579.8)	(345.0)	(553.1)	(553.1)	(553.1)	(2,004.2)	(2,031.2)	(1,681.2)	(1,481.2)	23.0	(117.0)	(260.0)	(385.0)	(508.9)	(1,598.0)
Equity in the Income of Investees	592.0	817.0	827.0	1,076.0	570.0	245.0	6.0	73.0	(25.0)	50.0	104.0	150.0	150.0	150.0	150.0	600.0	630.0	661.5	694.6	854.0	814.0	926.0	320.0	97.0	500.0
Income Before Income Taxes	9,047.0	10,532.0	12,668.0	14,864.0	14,235.0	13,808.0	3,928.0	3,854.0	3,018.9	3,508.8	14,309.7	4,920.0	4,258.4	3,579.0	4,071.4	16,828.8	19,926.7	23,283.7	26,021.1	12,246.0	13,868.0	14,868.0	13,788.0	14,545.9	16,266.2
Income Taxes	(2,957.0)	(3,430.0)	(4,324.0)	(5,346.0)	(4,867.0)	(2,457.0)	(813.0)	(795.0)	(739.6)	(738.8)	(3,084.5)	(1,033.2)	(894.3)	(751.6)	(855.0)	(3,534.0)	(4,184.6)	(5,355.3)	(6,505.3)	(4,242.0)	(5,016.0)	(5,078.0)	(4,422.0)	(1,619.6)	(3,415.9)
* Tax Rate	32.7%	32.6%	34.1%	36.0%	34.2%	17.8%	20.7%	20.6%	24.5%	21.0%	21.6%	21.0%	21.0%	21.0%	21.0%	20.9%	21.0%	23.0%	26.0%	34.6%	36.2%	34.2%	32.1%	11.1%	21.0%
Net Income	6,090.0	7,102.0	8,344.0	9,518.0	9,368.0	11,351.0	3,115.0	3,059.0	2,279.3	2,771.9	11,225.2	3,886.8	3,364.2	2,827.4	3,216.4	13,294.7	15,742.1	17,928.5	19,515.8	8,004.0	8,852.0	9,790.0	9,366.0	12,926.3	12,853.3
Less: Net Income to Non-Controlling Interests	(490.0)	(508.0)	(501.0)	(438.0)	(378.0)	(427.0)	(178.0)	(143.0)	(108.2)	(45.0)	(472.2)	22.0	57.0	310.0	150.0	539.0	(200.0)	(225.0)	(250.0)	(503.0)	(470.0)	(399.0)	(386.0)	(477.2)	344.0
Net Income to Walt Disney Company	5,600.0	6,594.0	7,843.0	9,080.0	8,990.0	10,924.0	2,937.0	2,916.0	2,173.1	2,726.9	10,753.0	3,908.8	3,421.2	3,137.4	3,366.4	13,833.7	15,542.1	17,703.5	19,265.8	7,501.0	8,382.0	9,391.0	8,980.0	12,449.1	13,194.3
* Growth	12.7%	17.8%	18.9%	15.8%	-1.0%	21.5%	23.0%	23.2%	24.4%	-38.3%	-1.6%	33.1%	17.3%	44.4%	23.4%	28.6%	12.3%	13.9%	8.8%	22.2%	11.7%	12.0%	-4.4%	38.6%	6.0%
Earnings Per Share Excluding Items Affecting Comparability and Excluding Non-Controlling Interests																									
Basic	3.13	3.69	4.55	5.56	5.56	7.04	1.84	1.88	1.46	1.83	6.93	2.13	1.87	1.71	1.84	7.54	8.47	9.65	10.50	4.31	4.95	5.76	5.74	8.29	7.55
Diluted	3.09	3.65	4.50	5.51	5.55	7.03	1.85	1.87	1.45	1.82	6.92	2.12	1.86	1.70	1.83	7.51	8.44	9.62	10.46	4.26	4.90	5.72	5.70	8.27	7.52
Weighted Average Common Shares Outstanding																									
Basic	1,788.5	1,788.5	1,724.5	1,682.0	1,615.5	1,550.8	1,510.0	1,491.0	1,491.0	1,491.0	1,550.8	1,834.0	1,834.0	1,834.0	1,834.0	1,834.0	1,834.0	1,834.0	1,834.0	1,740.0	1,693.5	1,629.0	1,568.0	1,501.0	1,748.3
Diluted	1,811.6	1,806.8	1,742.3	1,697.0	1,620.5	1,555.0	1,503.0	1,498.0	1,498.0	1,498.0	1,555.0	1,841.0	1,841.0	1,841.0	1,841.0	1,841.0	1,841.0	1,841.0	1,841.0	1,759.0	1,709.3	1,639.0	1,578.0	1,505.0	1,755.3
Dividends Declared Per Share	0.75	0.86	1.15	1.32	1.54	1.62	-	0.90	-	0.97	1.86	-	1.03	-	1.11	2.14	2.46	2.83	3.26	0.86	1.81	1.42	1.56	1.74	2.00

Source: Pivotal Research, Company Reports

Walt Disney Discounted Cashflow Model

WALT DISNEY DISCOUNTED CASH FLOW MODEL					
In \$mm Except Per Share Data	CY18E	CY19E	CY20E	CY21E	CY22E
Net Income	10,753.0	13,833.7	15,542.1	17,703.5	19,265.8
D&A	2,983.0	3,472.0	3,546.0	3,637.0	3,698.0
Capital Expenditures and Acquisitions	(6,352.5)	(5,228.0)	(5,629.8)	(5,993.5)	(6,367.8)
Changes in Debt	(682.0)	0.0	0.0	0.0	0.0
Stock Repurchases	(2,264.0)	0.0	0.0	0.0	0.0
Dividends	(2,603.4)	0.0	0.0	0.0	0.0
Equity Compensation	402.0	422.1	443.2	465.4	488.6
Other Changes in Cash Balances	145.7	(450.6)	(524.1)	(598.1)	(673.7)
Changes In Cash Flows	2,381.8	12,049.2	13,377.5	15,214.3	16,411.0
Interest Expense	700.8	2,164.2	2,231.2	1,931.2	1,781.2
Less: Tax Adjustment	(152.2)	(454.5)	(468.5)	(444.2)	(445.3)
• Assumed Tax Rate	21.7%	21.0%	21.0%	23.0%	25.0%
Unlevered Changes in Cash Flows	2,930.4	13,758.9	15,140.1	16,701.3	17,746.9
Beginning of Period Cash + Cash Equivalents	4,677.0				
End of Period Cash + Cash Equivalents	7,071.8				
Net Changes in Cash Flows	2,394.8				
Sum of Future Cash Flows	50,415.5				
NPV of Terminal Value	173,706.9				
Value of Future Cash Flows	224,122.3				
Plus: 2018E Cash and Equivalents	7,071.8				
Plus: 2018E Other Assets	14,756.9				
Enterprise Value	245,951.0				
Less: 2018E Debt, Net Debt from Fox	(73,173.0)				
2018E Common Equity Value	172,778.0				
Shares Outstanding 2018E + New Shares to Fox Shareholders	1,841.0				
Equity Value	95.00				
Current Equity Value	118.00				
2018E Equity Value Premium Vs. Current Price	-19.5%				
KEY ASSUMPTIONS					
Near-Term Discount Rate	9.4%				
Terminal EV / FCF Multiple	16.3x				
Long-Term Growth Rate	5.0%				
Long-Term Discount Rate	12.4%				

Source: Pivotal Research, Company Reports

Appendix: Important Disclosures

Analyst Certification

I, Brian W. Wieser, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and their securities. I further certify that I have not received and will not receive direct or indirect compensation related to specific recommendations or views contained in this research report.

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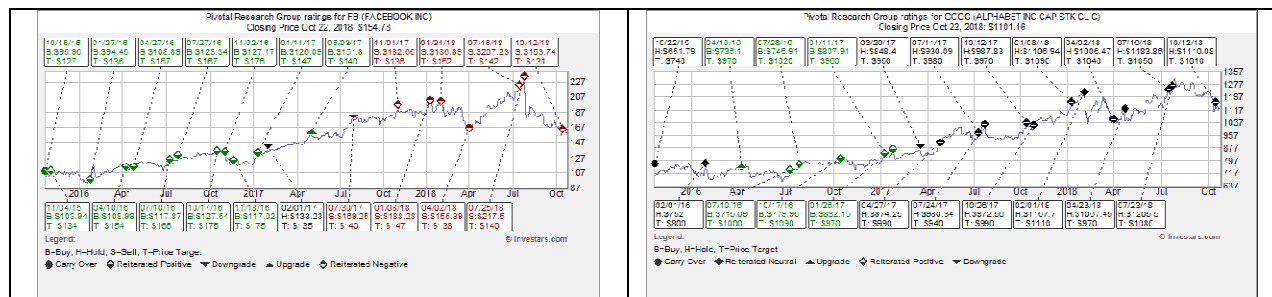
HOLD: The security is expected to have an absolute return of between plus and minus 15%.

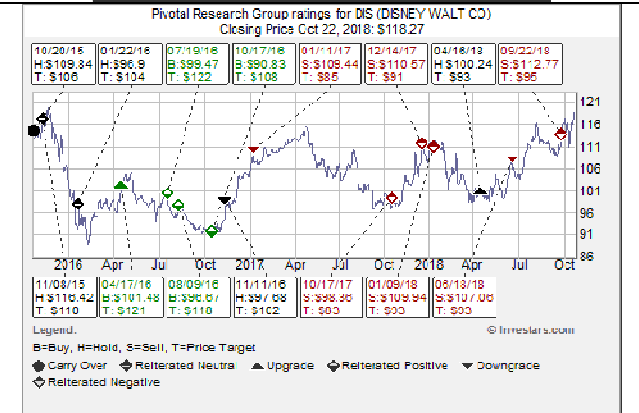
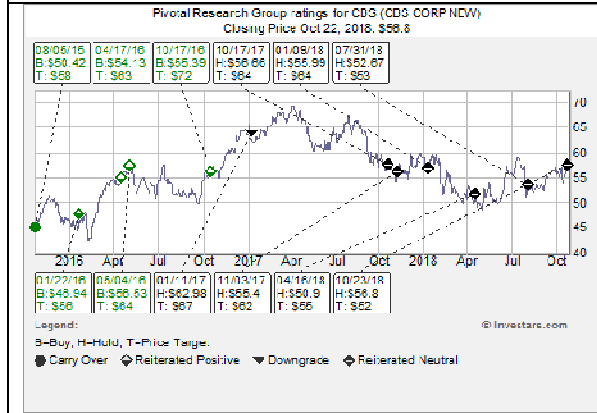
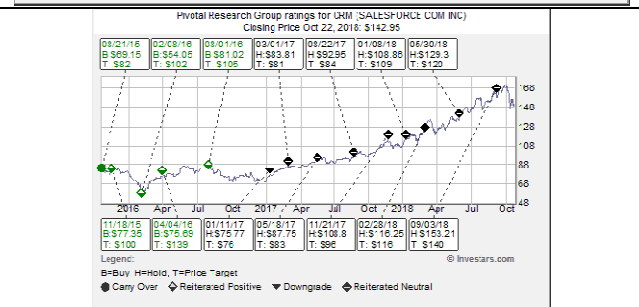
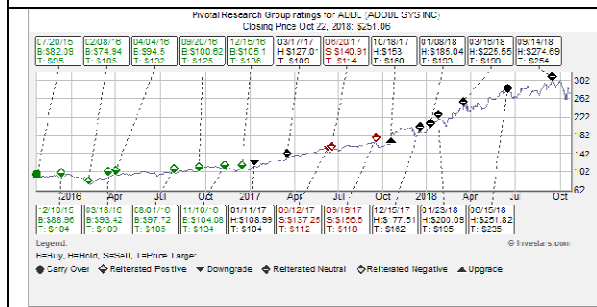
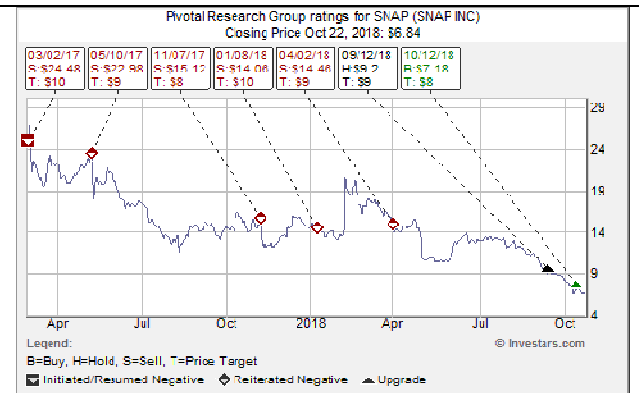
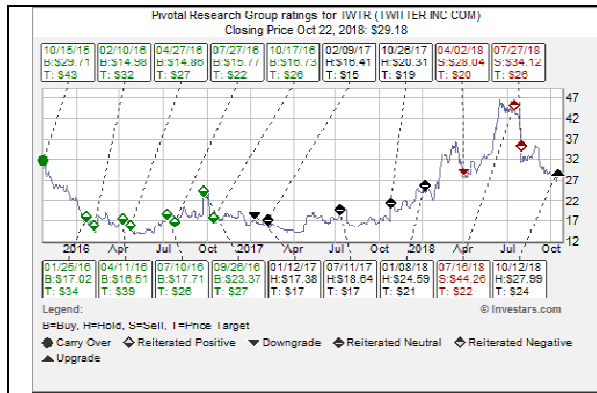
SELL: The security is expected to have an absolute return less than minus 15%.

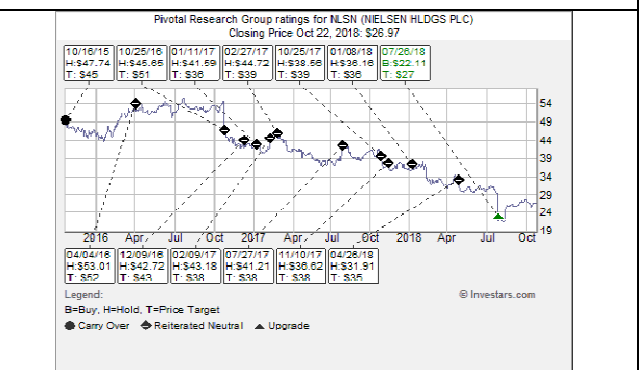
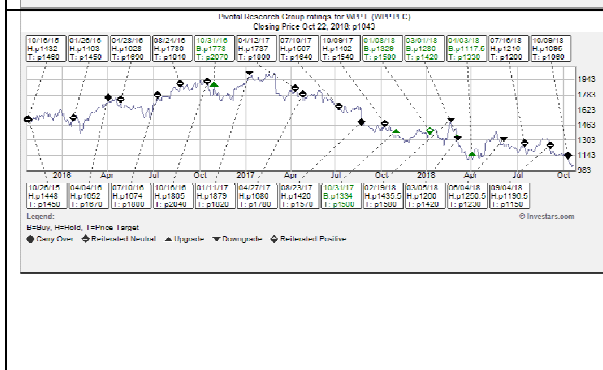
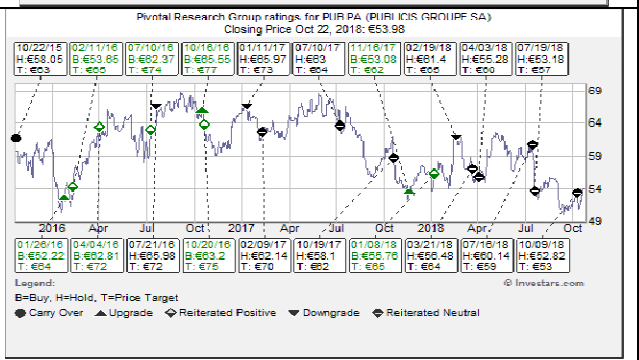
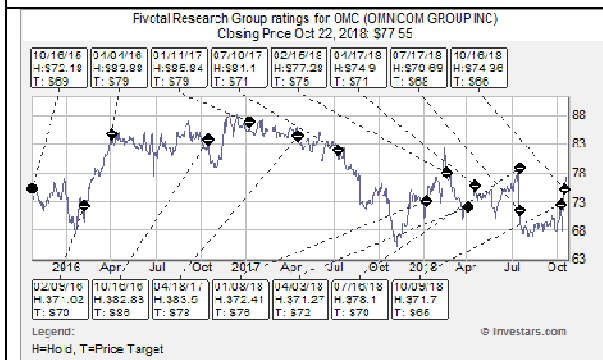
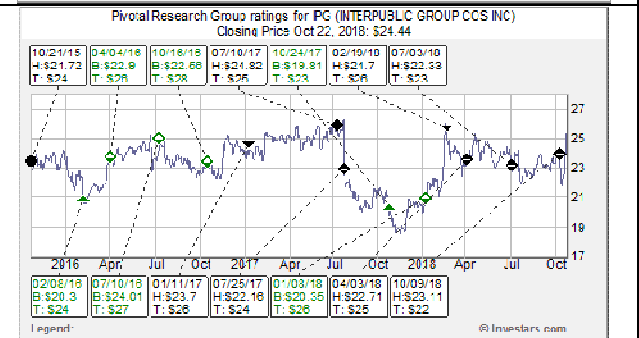
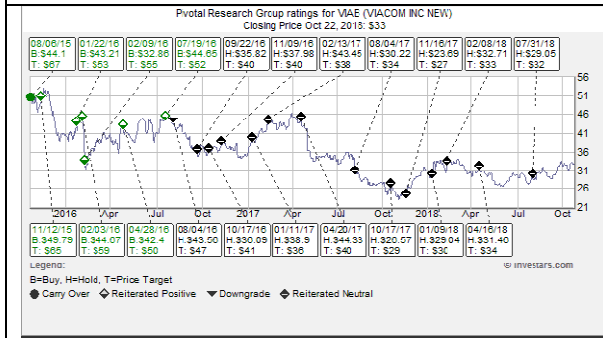
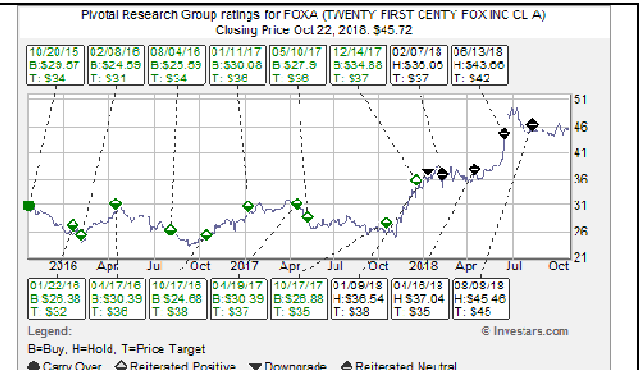
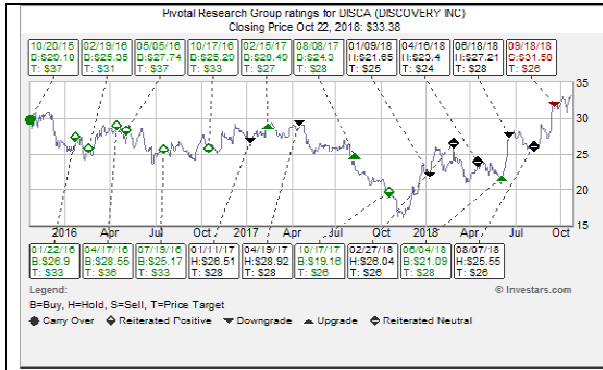
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Price Chart and Target Price History







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