3rd Quarter 2020 Earnings Financial Analysis

The Walt Disney Company

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2020 Q3 Earnings Report Analysis
The Walt Disney Company

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- https://navfile.com/center/the-walt-disney-company-financial-analysis-q3-2020
- Additional materials are also on the website. Feel free to share!
- Presentation includes:
  - Earnings Report Overview
  - Performance Review
  - Key Segment Financial Review
  - Cash Flow Review
  - What To Watch
  - Summary

Note: David & NavFile are not affiliated with The Walt Disney Company and this is not a report generated by the company.

2020 Q3 Earnings Overview
The Walt Disney Company

- Reported Earnings Per Share of $(2.61) (negative). Net Income (loss): $(4.718) billion.
- Comparable Results: $0.08 Earnings Per Share (EPS).
- Beat estimates of $(0.64) EPS. 113% above expectations. (Data from CNBC).
- Revenues: $11.779 billion. 5% below expectations of $12.37 billion (CNBC).

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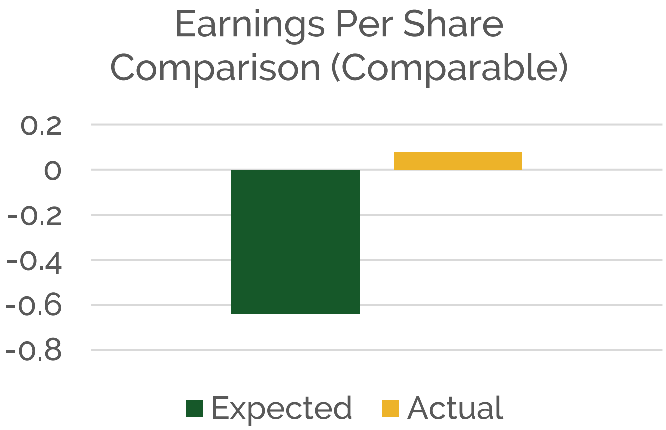

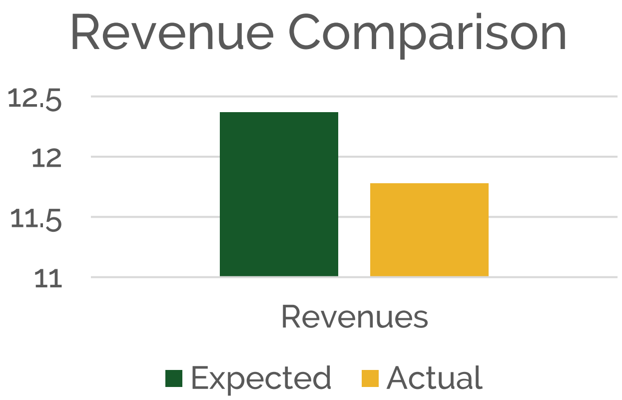

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2020 Q3 Earnings Report Overview
The Walt Disney Company

- Disney continued to be greatly affected by the COVID-19 situation. The company reported a loss for the quarter; however, was able to record a gain for comparable EPS.
- Parks, Experiences, and Products continued to be significantly impacted. The COVID-19 situation negatively impacted results by $3.5 billion.
- Studio Entertainment was also impacted as the company did not release any new films in the quarter and moved Mulan to distribution on Disney+.
- Media Networks had a good quarter with a large operating income gain of 48 percent; however, revenues declined by 2 percent, and the segment recorded lower viewership across some of its platforms.
- Direct-to-Consumer & International had another good quarter as it reached 100 million subscribers for all of its streaming services.
- The Disney+ subscriber base has grown to 60.5 million, a 6 million gain from the last report.
- The company lost $2.9 billion in operating income as a result of the COVID-19 situation.
- Disney has stabilized its operations and reduced expenses. It is in a position to capture any rebound in travel and the economy.

Overall Performance Review

The Walt Disney Company

Photo: David Aughinbaugh II

- Disney beat expectations for income based on the cost reduction activities that it has implemented.
- Parks, Experiences, and Products revenues were down 85%, and operating income was a loss of $1.960 billion.
- Studio Entertainment revenues were down 55%, and operating income was down 16%.
- Media Networks had a good quarter with revenues that down 2% and operating income up 48%.
- Direct-to-Consumer and International had a good quarter with a 2% increase in revenues, 100 million subscribers, and 60.5 million Disney+ subscribers. Operating losses increased by 26%.
- The COVID-19 shutdown cost the company $2.9 billion.
- Disney has over $23 billion of cash on hand and has stabilized its operations to reduce any losses.

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Overall Performance Review

- Segment operating income was down 72%
- Parks, Experiences, and Products reported negative operating income.
- Net income was negative $4.718 billion.
- Comparable EPS down 94%, and regular EPS went into negative territory.

Key Segment Financial Review

Parks, Experiences, and Products

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- Revenues down 85% & income down 214% to negative territory ($983 billion & $(1.960) billion respectively).
- The segment was significantly impacted by the COVID-19 shutdown.
- As a result of the shutdown, the segment lost $3.5 billion in income.
- Most of its parks and resorts were closed. Shanghai Disney Resort reopened, and Hong Kong Disneyland Resort reopened and then closed.
- Walt Disney World Resort reopened after the quarter and has contributed positively to the company. Guest demand has been lower than expected.
- Licensing and retail down for the quarter. Disney Stores were closed.

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Key Segment Financial Review
Studio Entertainment

- The segment was impacted by the closures of movie theaters.
- Revenues down 55% to $1.738 billion and operating income decreased 16% to $668 million.
- Cost savings from not having to produce and distribute movies allowed the company to minimize income declines.
- TV/SVOD distribution was up. Sales to Disney+: *Star Wars: The Rise of Skywalker and Onward*.
- No new movies were released in the quarter.
- *Mulan* will be released on Disney+ for $29.99.

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Key Segment Financial Review
Media Networks

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- It was a good quarter for Media Networks. Operating income was up double digits.
- Revenues were down 2% to $6.562 billion and operating income was up 48% to $3.153 billion.
- Cable Networks revenues down 10% & income up 50% to $4.034 billion & $2.459 billion.
- Reductions in costs allowed Cable to post a sharp increase in income. Lower programming and production costs.
- ESPN was up on deferral of rights for NBA and MLB games. Increase in affiliate revenue and decline in subscribers.
- FX Networks was up on lower programing and marketing costs.
- Broadcasting revenues up 12% and operating income up 55%. $2.528 billion & $477 million respectively.
- Lower programing costs, increased affiliate revenue, higher program sales, and lower marketing costs helped Broadcasting with its 55% rise in income.
- Equity in the Income of the Investees (A+E operations) was up 13% to $217 million. Higher income from A+E and lower marketing and programming costs.
- Lower programming and marketing costs help with the increased income.

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Key Segment Financial Review

Direct-To-Consumer & International

- Revenues increased 2% and operating losses increased by 26% ($3.969 billion & $706 million).
- Increase in operating losses was mostly due costs of launching Disney+ (continued).
- 60.5 million Disney+ subscribers right before the conference call.
- 100 million subscribers for all its services.
- ESPN+ was up on subscriber growth and income from UFC programming.
- Star was up due to lower programming expenses.

Cash Flow Review

For Q3 2020

- Cash flows were positive compared to negative $1.748 billion last year.
- Cash flows (continuing ops): $1.162 billion.
- Free Cash Flow: $454 million.
- Free Cash Flow increased from a negative $2.925 billion last year.
- Investments in parks, resorts, and other property declined by $469 million to $708 million (39.8% decrease.

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Future Analysis What to Watch

- Will parks and resorts continue to rebound?
- Company has stabilized operations.
- Disney can capitalize on any return of guests to Walt Disney World Resort.
- Will the fall and winter bring more guests to its parks?
- Will the company be able to open its other park?
- If operations continue to be restarted, then the company will be in good shape.

Photo: The Walt Disney Company

Summary: 3rd Quarter 2020

The Walt Disney Company

- Disney has a tough quarter; however, has stabilized ops.
- Parks, Experiences and Products recorded a loss for the quarter. A rebound from this segment will be key for the company.
- Studio Entertainment was able to cushion its operating income decline through cost reductions and higher TV/SVOD results.
- Media Networks did well in the quarter and was supported by lower programming and marketing costs.
- Direct-to-Consumer and International reached 100 million subscribers and Disney+ 60.5 million. Continued growth.
- Disney was also impacted by a large impairment cost due it closing some international channels.
- The Walt Disney Company has cut costs and is ready to capture a rebound in travel at Walt Disney World.

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Data Sources

- The Walt Disney Company 2020 Q3 Earnings Report: https://thewaltdisneycompany.com/app/uploads/2020/08/q3-fy20-earnings.pdf
- CNBC – Analyst Expectations: https://www.cnbc.com/2020/08/04/disney-dis-q3-2020-earnings.html
- The Walt Disney Company 2020 Q3 Earnings Conference Call: https://thewaltdisneycompany.com/app/uploads/2020/08/q3-fy20-earnings-transcript.pdf
- All the sources were accessed during 8/2020.

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Thank You

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