Third Quarter 2019 Earnings Financial Analysis

The Walt Disney Company

Analyst: David Aughinbaugh II
NavFile Center

2019 Q3 Earnings Report Analysis
The Walt Disney Company

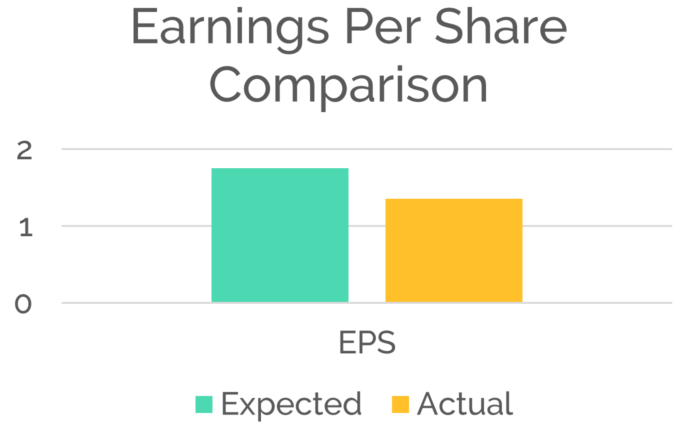
- Read David's financial analysis article on NavFile: https://www.navfile.com/center/the-walt-disney-company-financial-analysis-q3-2019
- Further materials are also on the website. Feel free to share.
- Presentation includes:
  - Earnings Report Overview
  - Performance Review
  - Key Segment Financial Review
  - Cash Flow Review
  - What To Watch
  - Summary

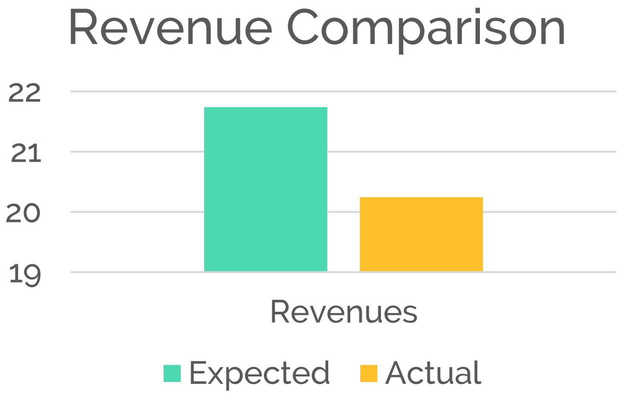
Note: David & NavFile are not affiliated with The Walt Disney Company and this is not a report generated by the company.

2019 Q3 Earnings Report Overview

The Walt Disney Company

- Reported Earnings Per Share of $0.79. Net Income: $1.437 billion.
- Comparable Results: $1.35 Earnings Per Share (EPS).
- Missed estimates of $1.75 EPS. 22.9% below expectations. (Data from Reuters).
- Revenues: $20.245 billion. 6.8% below expectations.
- Expectations: $21.740 billion. (From Reuters).





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2019 Q3 Earnings Report Overview

The Walt Disney Company

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- Mixed Quarter that missed expectations.
- 21st Century Fox integrations caused expenses to rise significantly.
- Direct-to-Consumer & International: larger losses.
- Parks & Resorts had lower attendance.
- Media Networks & Studio Entertainment had good results.

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Overall Performance Review

The Walt Disney Company

Photo: David Aughinbaugh II

- A rare earnings miss for Disney.
- Parks, Experiences, & Consumer Products was week (Parks). Domestic Parks saw a decline in operating income.
- Increased expenses as a percentage of revenue. 86.4% Vs. 74.2% 2018 Q3.
- 21st Century Fox and Hulu integration weighed down earnings.

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Overall Performance Review

- Segment operating income declined by 5%.
- Signs of weakness in Parks & Resorts globally.
- Media Networks did well: Cable Networks.
- Studio Entertainment: Movie line-up provided solid results.
- Comparable EPS down 28%, and regular EPS down 59%.

Key Segment Financial Review

Media Networks

The Walt Disney Company

- Operating income up 7% and revenues up 21%. $2.136 billion & $6.713 billion respectively.
- Cable Networks revenues up 24% & income up 15% to $4.464 billion & $1.637 billion.
- 21st Century Fox and ESPN helped to support results. Saw increased affiliate and ad revenue.
- Broadcasting: week point again. Income down 17%.
- Lower sales and network advertising revenue at Broadcasting. Lower viewership across Cable and Broadcasting.

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Key Segment Financial Review

Parks, Experiences, and Consumer Products

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- Mixed results: revenues up 7 percent & income up 4% from 2018 Q3.
- Consumer Products & Disneyland Paris had positive results.
- Consumer Products saw increased performance due to Toy Story licensing.
- Domestic parks experienced a decline in operating income.
- The performance of Asian resorts were not mentioned.
- Company had lower attendance at its domestic parks & Disneyland Paris.

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Key Segment Financial Review

Studio Entertainment

- Solid quarter: Revenues up 33% and income up 13% ($3.836 billion & $792 million).
- Firm had a good movie line-up that performed well at the box office.
- 21st Century Fox's *Dark Phoenix* week performance weighed on the segment.
- Home entertainment and TV/SVOD was also down.

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Key Segment Financial Review

Direct-To-Consumer & International

- Revenues increased 367% and operating losses increased by 229% ($3.858 billion & $827 million).
- Increase in operating losses was due to the inclusion of Hulu and increased costs for their streaming services platform.
- Preparing to launch Disney+.
- International channels had higher financial performance; however, Star India was down.

Cash Flow Review

For the 9 Months Ending 6/29/2019

- Cash flows declined by 59% from last year.
- Cash flows (continuing ops): $4.266 billion.
- Free Cash Flow: $699 million.
- Free Cash Flow declined by 90% or $6.479 billion.
- Increased taxes from Fox spin-off, lower segment operating income, and increased interest payments.
- Free Cash Flow affected by increased investments in parks, resorts, & other property (up 9.3%)

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What to Watch

- Expenses & 21st Century Fox costs.
- Parks & Resorts: will performance stabilize or will there continue to be a decline in attendance?
- The launch of Disney+: a crucial moment for the future of the company. Direct-to-Consumer & International performance.

Photo: The Walt Disney Company

Summary: 3^{rd} Quarter 2019

- Mixed quarter. Missed analyst estimates.
- Increased expenses as a result of the 21^{st} Century Fox integration.
- Direct-to-Consumer & International had increased losses.
- Parks and Resorts had concerning results with Domestic Parks recording an operating loss. Attendance down.
- Media Networks: solid results.
- Studio Entertainment: performance was positive.
- Disney+ launch at the end of the year is a crucial event.

Data Sources

- The Walt Disney Company 2019 Q3 Earnings Report: https://www.thewaltdisneycompany.com/wp-content/uploads/2019/08/q3-fy19-earnings.pdf
- Reuters The Walt Disney Financial Highlights: https://www.reuters.com/finance/stocks/financial-highlights/DIS
- All of the sources were accessed during 8/2019.

Thank You

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