

Investment Memorandum: Assessing Value in The Walt Disney Company's (NYSE: DIS) Stock

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To: Prospective Investors

From: Mr. Eshaan Arora

Executive Summary

This memorandum presents an independent valuation of The Walt Disney Company (NYSE: DIS), one of the world's most recognized entertainment companies. Our discounted cash flow (DCF) analysis, using conservative assumptions, indicates that Disney's intrinsic value is approximately **\$50.55 per share**, significantly below its current trading price of **\$118.86 per share**.

Rather than uncovering undervaluation, this analysis highlights the extent of Disney's current market premium and underscores the need for investors to critically assess whether the company's brand strength, intellectual property, and strategic catalysts can sustain growth sufficient to justify its market valuation.

Company Overview

Founded in 1923, Disney operates across four primary business segments:

- **Media Networks and Direct-to-Consumer Streaming** (Disney+, ESPN, Hulu, ABC)
- **Parks, Experiences, and Products**
- **Studio Entertainment** (Pixar, Marvel, Lucasfilm, 20th Century Studios, Walt Disney Animation)
- **Consumer Products**

Disney's mission remains centered on delivering unparalleled storytelling, brand-driven experiences, and diversified global content.

Key Strengths

- **Market Leadership:** Disney commands unparalleled global brand recognition and a unique portfolio of intellectual property that anchors its dominance in entertainment.
- **Financial Recovery:** Recent years have shown improving operating income and free cash flow, aided by post-pandemic recovery in parks and cost discipline in streaming.
- **Content & Experiences Ecosystem:** Disney's ability to monetize franchises across film, streaming, theme parks, and merchandise strengthens customer loyalty and cash flow durability.
- **Management Initiatives:** Ongoing strategic reviews, including ESPN's restructuring and potential asset spin-offs, signal management's willingness to adapt to shifting industry dynamics.

Investment Thesis

Valuation Gap

Our base-case DCF estimates intrinsic equity value at **\$91.7 billion**, or **\$50.55 per share**, compared to a current market capitalization exceeding **\$210 billion**. This suggests Disney trades at **~135% above intrinsic value**. The divergence is explained by a relatively high **weighted average cost of capital (10.27%)**, conservative reinvestment efficiency, and an assumption that Disney's **return on invested capital converges to its cost of capital** by terminal year.

Growth Catalysts (Market View)

Despite our conservative valuation, investors may point to potential catalysts that could justify the market premium:

- **Streaming Profitability:** Improved economics at Disney+ and Hulu could reduce near-term losses and expand long-run margins.
- **ESPN Restructuring:** Potential partnerships, spin-offs, or direct-to-consumer acceleration could unlock shareholder value.
- **Parks Expansion:** International parks and experiential offerings continue to be growth drivers, particularly in Asia.
- **Brand Leverage:** Disney's IP pipeline (Marvel, Star Wars, Pixar) remains unmatched, providing consistent revenue opportunities.

Risk/Reward Profile

- **Base-case DCF:** ~\$50/share (significant downside risk if market expectations reset).
- **Optimistic scenario (WACC ~8.5%, modest excess returns):** ~\$70–85/share.

- **Current market price (~\$119/share):** Reflects strong investor confidence in catalysts and excess return durability.

Risks and Mitigants

Risk Factor	Discussion	Mitigants
Intense Market Competition	Streaming is highly competitive (Netflix, Amazon, Apple).	Disney's unique content IP and global reach support pricing power.
Regulatory Challenges	Global content and park operations subject to regulatory shifts.	Active compliance and regional partnerships reduce exposure.
Economic Cyclicity	Parks and discretionary media spending are tied to consumer cycles.	Diversified revenue streams and brand-driven demand provide resilience.
High Leverage	~\$49B in debt limits flexibility.	Strong cash flows and investment-grade credit rating mitigate default risk.

Valuation

- **PV of 10-Year FCFF:** \$56.7 billion
- **PV of Terminal Value:** \$84.7 billion
- **Enterprise Value:** \$141.4 billion
- **Equity Value (post options):** \$91.7 billion
- **Intrinsic Value/Share:** \$50.55
- **Market Price:** \$118.86
- **Implied Premium:** ~135%

Conclusion

This analysis indicates that Disney's stock currently trades at a substantial premium to intrinsic value under conservative assumptions. For long-term investors, this presents a challenging entry point unless one believes that:

- Disney can sustain excess returns beyond 10 years,

- The company's WACC is materially lower than 10%, or
- Strategic catalysts (e.g., ESPN restructuring, streaming profitability) unlock value faster than modeled.

Without those conditions, our DCF suggests Disney may be overvalued. Investors should weigh carefully whether market optimism aligns with their own risk tolerance and view of Disney's competitive advantage sustainability.

Appendix A: Financial Statements

A1. Base Year Financials (LTM ending Sept 30, 2024)

Item	Value (USD mm)
Revenues	94,535
EBIT (Operating Income)	13,974
EBIT Margin	14.78%
Effective Tax Rate	22%
Marginal Tax Rate	24%
Cash & Marketable Securities	5,367
Book Value of Debt	48,743
Minority Interest	4,826
Common Equity (Book)	100,696
Shares Outstanding (mm)	1,813.75
Current Stock Price (USD)	118.86

A2. Cost of Capital (WACC) Inputs

Component	Market Value (USD mm)	Weight	Cost	After-Tax Cost
Equity	215,582	82.8%	11.59%	11.59%
Debt	44,913	17.2%	5.18%	3.94%
Preferred	–	0%	–	–
WACC	–	100%	–	10.27% → 8.66% (terminal)

A3. Forecast Assumptions

Assumption	Value
Revenue Growth (Year 1)	5.0%
Revenue Growth (Years 2–5)	4.0%
Revenue Growth (Terminal)	4.3%
EBIT Margin (Year 1)	11.5%
EBIT Margin (Terminal)	16.5%
Sales-to-Capital Ratio (Years 1–5)	0.90
Sales-to-Capital Ratio (Years 6–10)	1.50

A4. Valuation Outputs

Metric	Value (USD mm)
PV of 10-Year FCFF	56,683
PV of Terminal Value	84,700
Enterprise Value (Operating Assets)	141,383
+ Cash	5,367
– Debt	48,743
– Minority Interests	4,826
– Options Outstanding (BS Value)	1,497
Equity Value (to Common)	91,684
Shares Outstanding (mm)	1,813.75
Intrinsic Value / Share (USD)	50.55
Market Price / Share (USD)	118.86
Premium to Intrinsic Value	~135%

Appendix B: Sensitivity Analysis — Valuation as % of Market Price

WACC	Intrinsic Value/Share (\$)	Value as % of Price
8.0%	\$61.30	51.6%

8.5%	\$58.75	49.5%
9.0%	\$56.30	47.4%
9.5%	\$54.00	45.5%
10.0%	\$51.70	43.5%

Appendix C: Due Diligence Documents

- Disney Annual Report:
<https://thewaltdisneycompany.com/app/uploads/2025/01/2024-Annual-Report.pdf>
- Investor Presentation: <https://thewaltdisneycompany.com/app/uploads/2024/11/Q4-FY24-Earnings-Presentation.pdf>
- Recent Earnings Call Transcript:
<https://thewaltdisneycompany.com/app/uploads/2025/08/q3-fy25-earnings-transcript.pdf>
- Financial Statements:
https://otp.tools.investis.com/clients/us/the_walt_disney_company/SEC/sec-outline.aspx?FilingId=17970414&Cik=0001744489&PaperOnly=0&HasOriginal=1
- FFCF DCF Analysis Performed by Mr. Arora: <https://eshaanarora.com/disney-analysis.html>

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