ACT II PARTNERS POSITION RATIONALE — Disney

Ticker	DIS	Disney	Type	Long
Last Update	1/16/18			

Primary Responsibility Analyst

Date Entered	12/31/19
Current Price	$144.63
Fully Diluted Shares Outstandi	1,808.000
Market Capitalization (in millions)	$ 261,491
Cash	11,687
Other	10,000
Total Debt	41,000
Total Enterprise Value	$ 300,804

Trading Information

52 Wk High	11/26/2019	#N/A Connect
52 Wk Low	1/3/2019	#N/A Connect
Beta		#N/A Connec
% Short / Float		#VALUE!
ADV		#N/A Connec
Dividend Yield		#VALUE!
YTD % Change		#N/A Connect

Fiscal Year Ended #N/A Connection

	2019	2020E	2021E	2022E
Revenue Estimates	$ 69,570.0	$ 81,250.0	$ 86,420.0	$ 92,200.0
% Growth	*NM*	*16.8%*	*6.4%*	*6.7%*
EBITDA Estimates	$ 22,344.0	$ 18,015.0	$ 20,221.0	$ 21,800.0
% Margin	*32.1%*	*22.2%*	*23.4%*	*23.6%*
% Growth	*NM*	*-19.4%*	*12.2%*	*7.8%*
FCF (EBITDA-Int-Tax-Capex)	#N/A Connect	$ 7,219.0	$ 9,900.0	#N/A Connection
% Growth	*NM*	*NM*	*37.1%*	*NM*
FD EPS DTC adj	NA	$7.50	$7.53	$8.39
% Growth	*NM*	*NM*	*0.4%*	*11.4%*
Street EPS reported	$5.77	$5.52	$6.10	$6.72
% Growth	*NM*	*-4.3%*	*10.5%*	*6.7%*
Current Multiples				
EV / Sales	4.3x	3.7x	3.5x	3.3x
EV / EBITDA	13.5x	16.7x	14.9x	13.8x
P / FCF	NM	36.2x	26.4x	NM
P / Earnings Adj	NM	19.3x	19.2x	17.2x
Street P/E	25.1x	26.2x	23.7x	21.5x

Estimates from: bloomberg

Target Multiple	2020 P/E	20x adj EPS+	
Implied Target Price		151+	~~#N/A Conn~~ 158 Analyst Price Target
% Upside from Current		*4.4%*	

DISNEY is the most diversified global entertianment company and a member of the DJIA . It recently acquired the non broadcast/RSN assets of 21st Century Fox, which will provide subtantial accretion, and has entered the direct to consumer streaming business in a major way with launch of Disney+; ESPN+ and majority (67%) ownership of Hulu. .

Other

Downside

Price	
$135.00	*-6.70%*

Opportunity

DIS+ launched Nov 12 with 10 mm subs day one. Acquisition of Fox non broadcast assets, including HULU, will solidify leadership in streaming markets and reduce dependency on ESPN to 15 %. $2 bill FOX 2nd year synergy guidance. DIS+ subs f20 may be double original expecations. Disney will become a larger international player with Star India, FOX's fastest growing operation. Fox deal gives DIS IP like Marvel X Men; Deadpool, Avatar for use beyond film, in parks, CP etc., and in television *Homeland, This is US, Modern Family* etc and significantly increases combined prodcution output.PF mix about one third each parks; media networks (ESPN,ABC, FX, Disney Channel),and filmstudio/Consumer products.Disney has unique brand identification and IP that gives it excellent chance of big success in new DTC-Disney+, Hulu, and ESPN

Valuation possibilities complex possibly offering upside potential based on DIS+. An historical 10% premium multiple of core ex DTC EPS of $7.50 (20x gets $150 per share) or DCF , or moving to f21 could get higher price. Street adj EPS figures rise to over $8 in f21 ex startup costs and FOX amort. **Multiple accretion possible from being a unique and underowned global large cap consumer stock member of DJIA.** Shares had gone nowhere for fears of cord cutting but jumped 20% at April 2019 analyst meeting where unveiled Disney+ and again on launch, with unparalleld content at lower than epxected $6.99 price, and belief Fox+DTC can change perception of DIS to the only major global diversified growth company.

Catalysts

Upward sub figures or forecast by Wall Street and/or by the company of Disney+ long term sub/profit guidance.(60-90 mm global subs in 2024) Results of Euro launches Disney+ in March. Getting investors to focus on TAM and adjusting valuation for size and timing of new streaming invesment period losses at Disney+ Hulu and BamTEch, plus licencsing revenues foregone, (Hulu put/call with Comcast values it at $15/share in 2024 vs $4.40 now when still losing **$). Reiterate and enumerate Fox synergies and.ESPN+ .Hulu growth and P&L impact**. Continued box office strength f/20-Frozen2m Star Wars IX, 2 Pixar releases etc. Parks-new attraction (Star Wars Lands) at both Orlando and Disneyland. Hulu international launch. Growth in ABC retransmission and reverse compensation and Fox affiliate fees. Share repo likely in/after f20 with leverage down to 1.4 x

Where We Differ

DIS shares peaked with the 8/15/18 annc of slowdown in ESPN and had been in $100-110 trading range most of the time until 4/19 Disney+ meeting . **With earnings under pressure from DTC startup, current multiple appears high ..The question is whether the Street will look through the investment period and value DIS on "normalized" earnings, or on a SOTP basis, taking a per subcriber or rev multiple of loss buisnesses, like Netflix, which we think it is doing.** EPS understated because of such losses at Disney+ Hulu and BAM plus from forgoing licensing revenues to third parties. Also concern

Risks

Disappointing follow through on Disney+ momentum due to high churn as promo offers end (free to VZ unlimited subs for a year) after initial jump. DIS investment in new DTT services could be higher than expected and returns unknown while witholding product to NFLX etc will hurt short term. **Disappointing initial results at Fox assets could continue to lower EPS and synergy forecasts**. Will Street look through startup costs like they do with NFLX and value DTC on a per sub or rev multiple basis?

Cord cutting impact on cable/broadcast subscribers, esp to ESPN (down 3.5% f19) , FX, etc.

Continued declines at Hong Kong Disney bec political unrest.

Sports renewal costs-esp NFL in 2022.

Economic sensitivity/cyclical impact on advertising, parks attendance;

Movie volatility

Management change-retirement prospects for Iger.

ACT II PARTNERS POSITION RATIONALE — Viacom CBS

Ticker	VIAC	Viacom CBS	Type	

Date Entered		12/31/19
Current Price		$41.97
Fully Diluted Shares Outstand		563.000
Market Capitalization (in millions	$	23,629
Cash		-
Non consol-min int		1,066
Total Debt		14,792
Total Enterprise Value	$	39,487

Trading Information

52 Wk High	$53.71
52 Wk Low	$35.02
Beta	0.94
% Short / Float	*3.5%*
ADV	4,865,509
Dividend Yield	2.3%
YTD % Change	(0.0%)

	2019E	2020E	2021E
Revenue Estimates	$ 28,387.0	$ 29,900.0	$ 31,865.0
% Growth	*NM*	*5.3%*	*6.6%*
EBITDA Estimates	$ 5,927.0	$ 6,270.0	$ 6,753.0
% Margin	*20.9%*	*21.0%*	*21.2%*
% Growth	*NM*	*5.8%*	*7.7%*
FCF (EBITDA-Int-Tax-Capex)	$ 2,000.0	$ 2,567.0	$ 2,900.0
% Growth	*NM*	*28.4%*	*13.0%*
FD EPS	$5.31	$6.08	$6.80
% Growth	*NM*	*14.5%*	*11.8%*

Estimates from: Bloomberg

Current Multiples	2019E	2020E	2021E	S&P 500 (3221)
EV / Sales	1.4x	1.3x	1.2x	2.2x
EV / EBITDA	6.7x	6.3x	5.8x	12.5x
P / FCF	11.8x	9.2x	8.1x	*12,3x*
P / Earnings	7.9x	6.9x	6.2x	18.5x

Target Multiple	2020 EBITDA	7.0x
Implied Target Price		$49.79
% Upside from Current		*18.6%*

Bloomberg analyst av $48

Viacom/ CBS recently merged to become the largest broadcaster (the television network and stations); a large cable programmer (Showtime); own streaming services (CBS All Access, Pluto TV), one of largest cable network companies (Nickelodeon, MTV, VHI, Comedy Central, BET UK CHannel 5); and studio operator (Paramount Pictures) .Sumner Redstone's NAI owns 80%

Downside	Price	
	$38.00	*-9.50%*

Opportunity

Viacom/CBS is the cheapest stock in Entertaiment despite good growth forecast. Shares retreated on the merger for fear of a lower multiple beecause of Viacom's cable networks, and a proxy statement indicating heavy upfront investment in new services, which will delay an acceleration of free cash flow . **The company projects $500 million in synergies in the recent merger, which may be low and excludes revenue synergies**-the most obvious being the ability to get better carriage and fees for Viacom networks in CBS's renewals. The Company has 50% of its contracts with pay operators coming upthis year,and 30% of reverse comp contracts with its affiliates. **The company also projects substantial growth in streaming from CBS All Access and Showtime:from 8 million subscribers now to 25 million by 2022.** Despite investment in its own streaming services, **CBS/Viacom will be one of the largest "arms dealers" in selling its rapidly increasing television production by CBS and Paramount to 3rd parties**, as it has recently done with Netflix and the upcoming HBO Max. **In broadcasting, the owned television stations should show a large increase in political dollars in 2020.**

While the network industry is showing declining ratings, upfront selling has been strong with rates compensating because of the lack of mass media alternatives for brands, and dollar sales are up.

At Viacom's cable networks, the Company recently showed an increase in both advertising and affiliate fees, the first time in six years. One of the major factors has been its industry lead in its advanced data platform, allowing targeted advertising to compenate for the decline in live viewing ratings. 20% of revenues are now from targeted advertising.CEO Bob Bakish has been responsible for turning around Paramount from $500 mm in losses to a profit, and the purhcase of Pluto TV, an ad based streaming service which is growing 75%. Both former companies are also expanding abroad.

Catalysts

The company recently announced a resumption of share repurchases, funded in part by the sale of assets including its headquarters building (Black Rock) part of which it will lease back. **We believe the company will announce an increase in synergy guidance, perhaps on the Q4 earnings call.** Further disttribution of Viaacom networks on streaming services by pakcaging them with CBS-they currently lack distribution on HuluTV and You Tube which we believe will happen in 2020.

We belived as a medium sized player **the Company could eventually be a takeover candidate.**

Where We Differ

Viacom/CBS has been victim to the concerns over cord cutting and the secular shift of advertising to the Internet, but it is being insulated to some degree by the need for mass distirbution by brands and its sports and news content; the ability to sell targeted advertising at Viacom, and the reduced concentration on advertising, which now represents less than half the revenues. Showtime continues to grow as do its streaming services. The Company's rising status in production of content to third parties and the value of its library of both television shows and motion pictures is not appreciated. With $10 billion in original content production, it represents the second largest in the industry to Netlfix.

Risks

A new NFL contract beginning in 2023 could be negotiated next year, and prices are likley to double unlesst he games are split up further, which seems possible with ABC entering the bidding.

Accelearting declines in subscribers and ratings may not be fully offset by streaming services and advanced advertising.

Interim invsetments in new streaming services may be larger than expected.

Redstone family control limits public views/options.

FB + GOOGL – 85% of online advertising