Second Quarter 2020 Earnings Financial Analysis

The Walt Disney Company

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2020 Q2 Earnings Report Analysis

The Walt Disney Company

- View David's financial analysis article on NavFile:
- https://www.navfile.com/center/the-walt-disney-company-financial-analysis-q2-2020
- 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 Q2 Earnings Report Overview
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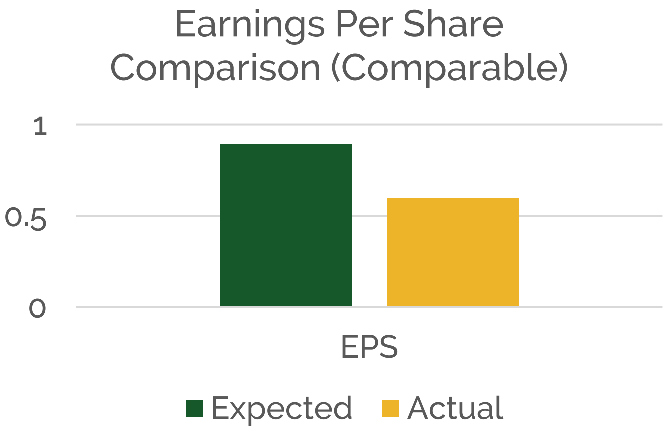
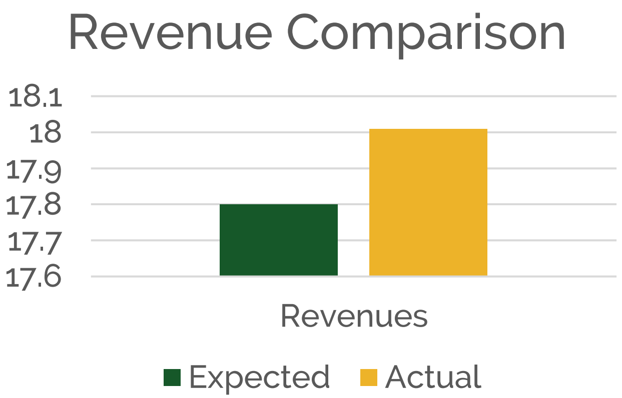
- Reported Earnings Per Share of $0.26. Net Income: $475 million.
- Comparable Results: $0.60 Earnings Per Share (EPS).
- Beat estimates of $0.89 EPS. 32.6% below expectations. (Data from CNBC).
- Revenues: $18.009 billion. Virtually inline with expectations.
- Analyst Expectations: $17.80 billion. (From CNBC).





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2020 Q2 Earnings Report Overview

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- Disney was greatly impacted by the economic shutdown that occurred at the end of the quarter.
- Parks, Experiences, and Products was severely impacted. The shutdown reduced operating income by $1 billion.
- Studio Entertainment was also greatly impacted as the company had to delay or alter distribution of its films.
- Media Networks had a good/OK quarter with revenue and operating income gains; however, the segment recorded lower viewership and lost live sports.
- Direct-to-Consumer & International had a good quarter based on revenue and subscriber gains.
- On May 4th the Disney+ subscriber base had grown to 54.5 million.
- Company lost $1.4 billion in operating income as result of the economic shutdown.
- The company's future is now dependent on when it will be able to fully restart operations.

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Overall Performance Review

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- Results were below estimates as the company was impacted by the shutdown.
- Parks, Experiences, and Products revenues were down 10% and operating income was down 58 %.
- Studio Entertainment revenues were up 18% and operating income was down 8 %.
- Media Networks had an OK to good quarter with revenues that were up 28 % and operating income up 7 %.
- Direct-to-Consumer and International had a good quarter with a 273% increase in revenues and 54.5 million Disney+ subscribers. Operating losses increased by 111%.
- The economic shutdown cost the company $1.4 billion.
- Based on a rough estimate, the firm may have lost $87.5 million per day (based on when the U.S. parks started closing down in March).

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Overall Performance Review

- Segment operating income was down 37%
- All segments, except, Direct-to-Consumer and International were impacted by the shutdown.
- Net income was down 91%.
- Comparable EPS down 63%, and regular EPS down 93%.

Key Segment Financial Review
Parks, Experiences, and Products

- Revenues down 10% & income down 58% to $5.543 billion & $639 million.
- The segment was severely impacted by the economic shutdown.
- As a result of the shutdown, the segment lost $1 billion in income.
- Before the closure of the parks and resorts, the firm's guest spending and traffic was on track to be higher than last year.
- Disney did not provide more detailed info on the performance of its parks and resorts.
- The company's product division had lower results due to lower income from games and merchandise licensing.
- The comparison of a sale of rights to a video game, lower royalties from *Kingdom Hearts III*, lower minimum guarantee shortfall recognition, lower revenue from Mickey and Minnie and Avengers merchandise were behind the declines at Products.

Key Segment Financial Review
Studio Entertainment

- The segment was affected by the economic shutdown.
- Revenues were up 18% to $2.5 billion and operating income decreased 8 % to $466 billion.
- Film impairments, lower theatrical distribution and stage play results were behind the declines.
- Increase in bad debt expense. The release of the film Onward was impacted.
- There was growth in TV/SVOD as sales to Disney+ were positive for the quarter.
- 21st Century Fox's movies and businesses recorded a loss again; however TV/SVOD distribution was profitable.

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Key Segment Financial Review
Media Networks

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- Had an okay to good quarter despite being affected by the shutdown.
- Revenues were up 28% to $7.3 billion and operating income was up 7% to $2.4 billion.
- Cable Networks revenues up 17% & income up 1% to $4.4 billion & 1.8 billion.
- Operating income increased due to the combination of 21^{st} Century Fox in the results.
- ESPN was impacted by higher production and programming costs and lower advertising revenue again.
- Increase in rates for College Football Playoffs and other college sports.
- Lower viewership = decline in advertising revenue, once again.
- Increased affiliate revenue due rise in rates.
- Disney Channel domestic and Freeform had lower results. Disney Channel: lower affiliate revenue & higher marketing costs. Freeform: higher programming cost, lower ad revenue, & higher marketing costs.
- Broadcasting revenues up 49% and operating income up 53%. $2.8 billion & $397 million respectively.
- Consolidation of 21^{st} Century Fox caused income to rise. Legacy operations were up also. Higher affiliate revenue and lower programming and production costs.
- Equity in the Income of the Investees (A+E operations) was down 2% to $179 million (only accounting for Media Networks portion).

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Key Segment Financial Review

Direct-To-Consumer & International

- Revenues increased 273% and operating losses increased by 111% ($4.1 billion & $812 million).
- Increase in operating losses was due costs of the continued launch of Disney+.
- 33.5 million Disney+ subscribers at quarter end.
- 54.5 million subscribers on 5/4/2020.

Cash Flow Review

For Q1 2020

- Cash flows declined by 19.4% from last year.
- Cash flows (continuing ops): $3.157 billion.
- Free Cash Flow: $1.910 billion.
- Free Cash Flow decreased by 30% or $810 million.
- Investments in parks, resorts, and other property increased by $52 million to $1.247 billion (4.4% increase.

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Future Analysis What to Watch

- When will Disney get back to normal operations?
- Company is most likely using millions of dollars per day just to stay afloat.
- If most of the company's ops remain closed, the financial effects will strain the firm's resources.
- The main focus is get operations back to where they were before the shutdown.
- Company could be in a very challenging situation if the shutdown lasts for a many more months.

Photo: The Walt Disney Company

Summary: 1st Quarter 2020

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- Disney was greatly harmed by the economic shutdown.
- Parks, Experiences and Products will be the division to watch as it is the most vulnerable and lost $1 billion from the shutdown.
- Studio Entertainment is second segment to watch as it has also been greatly affected by the shutdown.
- Media Networks did well in the quarter; however, can that continue in light of the shutdown?
- Direct-to-Consumer and International continued to gain ground; however, the continued losses will not help the firm in the near term. Also, can the division handle an economic downturn?
- The Walt Disney Company will continue to perform poorly until they are able to return to normal operations.

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Data Sources

- The Walt Disney Company 2020 Q2 Earnings Report: https://thewaltdisneycompany.com/app/uploads/2020/05/q2-fy20-earnings.pdf
- CNBC – Analyst Expectations: https://www.cnbc.com/2020/05/05/disney-dis-q2-2020-earnings.html
- The Walt Disney Company 2020 Q2 Earnings Conference Call: https://thewaltdisneycompany.com/app/uploads/2020/04/q2-fy20-earnings-transcript.pdf
- All the sources were accessed during 5/2020.

Thank You

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