CIF Stock Recommendation Report (Fall 2012)

Company Name and Ticker: Walt Disney Co (DIS)

Section (A) Summary

<table>
<thead>
<tr>
<th>Recommendation Buy: Yes</th>
<th>No</th>
<th>Target Price: $62.00</th>
<th>Stop-Loss Price: $50.70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Price: $56.36</td>
<td>52 WK Hi: $56.58</td>
<td>52 WK Low: $40.88</td>
<td>EBO Valuation: $36.73</td>
</tr>
<tr>
<td>Morningstar (MS) Fair Value Est.: $60.00</td>
<td>MS FV Uncertainty: Medium</td>
<td>MS Consider Buying: $42.00</td>
<td>MS Consider Selling: $81.00</td>
</tr>
<tr>
<td>Next Fiscal Yr. End &quot;Year&quot;: 2013 &quot;Month&quot;: September</td>
<td>Last Fiscal Qtr. End: Less Than 8 WK: Y N</td>
<td>If Less Than 8 WK, next Earnings Ann. Date: May 6th 2013</td>
<td>Analyst Consensus Recommendation: Outperform</td>
</tr>
<tr>
<td>Forward P/E: 14.38</td>
<td>Mean LT Growth: 11.24%</td>
<td>PEG: 1.28</td>
<td>Beta: 1.2</td>
</tr>
<tr>
<td>% Inst. Ownership: 64.82%</td>
<td>Inst. Ownership- Net Buy: Y N</td>
<td>Short Interest Ratio: 3.6</td>
<td>Short as % of Float: 2%</td>
</tr>
</tbody>
</table>

Ratio Analysis

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Sector</th>
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<tbody>
<tr>
<td>P/E (TTM)</td>
<td>17.62</td>
<td>20.61</td>
</tr>
<tr>
<td>P/S (TTM)</td>
<td>2.3</td>
<td>8.13</td>
</tr>
<tr>
<td>P/B (MRQ)</td>
<td>2.39</td>
<td>1.05</td>
</tr>
<tr>
<td>P/CF (TTM)</td>
<td>12.13</td>
<td>15.32</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>1.38</td>
<td>1.15</td>
</tr>
<tr>
<td>Total Debt/Equity (MRQ)</td>
<td>42.54</td>
<td>59.58</td>
</tr>
<tr>
<td>Net Profit Margin (TTM)</td>
<td>14.22</td>
<td>1.8</td>
</tr>
<tr>
<td>ROA (TTM)</td>
<td>7.88</td>
<td>2.05</td>
</tr>
<tr>
<td>ROE (TTM)</td>
<td>14.31</td>
<td>5.47</td>
</tr>
</tbody>
</table>
**Investment Thesis**

Although Disney is trading very high, partially due to the market performing so well this Tuesday, I am going to be recommending a buy. I believe that Disney has the resources and assets to continue to grow. Disney’s two largest segments, Media Networks and Parks and Resorts showed increased revenues and net income in 2012 and the first quarter of 2013. ESPN and ABC are strong assets for Disney and are poised to continue growth. There is increased attendance at Disney’s parks and resorts as the economy grows, and as Disney continues to expand internationally. While their Studio Entertainment segment suffered in 2012, I believe that the acquisition of LucasFilms and the strong lineup of films opening this year will drive future growth in that segment. The Consumer Products segment is where Disney makes revenue from licensing agreements and selling products related to their other segments. Disney has always done exceedingly well in this division, employing strong brand protection. Their interactive segment, which contributes a very small amount of revenue, was not doing well in 2012, but already in 2013 has shown revenue growth. I recommended a buy but set the target price and stop loss price only 10% above and below the current trading price. I think Disney still has some steam left in its stock. They are a very trusted company and are headed by a very competent CEO, Robert Iger. I believe that revenues and earnings growth in 2013 make Disney a good buy for the CIF.

**Summary**

Provide brief summary of your analysis in each section that follows.

**Company Profile:** Disney is a diversified entertainment company that operates in five different business segments, with its three largest segments being Media Networks, Parks and Resorts, and Studio Films. They have many subsidiaries that operate under different names, such as ABC and ESPN. They also recently acquired LucasFilms.

**Fundamental Valuation:** The fundamental valuation yielded an EBO valuation of $36.73, and even when I played around with the sensitivity analysis was unable to get a value from reasonable numbers that was close to the current trading price.

**Relative Valuation:** The relative valuation was not a strong indicator either way towards bullish or bearish but leaned slightly towards the bearish side. Disney is a slightly pricey stock when compared to its closet competitors.

**Revenue and Earnings Estimates:** Disney has a history of beating analysts’ estimates when it comes to earnings, and analysts are predicting increases in EPS for this year. However Disney does seem to be about 50/50 in missing or beating analysts’ estimates on revenues.

**Analyst Recommendations:** There is mean rating from Reuters of 2.1 which indicates an outperform rating. Analysts are fairly bullish own this stock, and Morningstar just recently raised the fair value from $53.00 to $60.00

**Institutional Ownership:** There is a net decrease in institutional ownership, but it is not significant. There is only one investor who owns over 5% and that is the widow of Steve Jobs, who acquired the stock in his sale of Pixar to Disney in 2006.

**Short Interest:** The short interest for Disney has been decreasing in the last month and is around the same level as it was one year ago. However there days-to-cover has been consistently higher that two of its competitors.
**Stock Price Chart:** Disney has done very well in the last 3 months, 1 year and 5 year stock chart. They have in all of these time periods significantly outperformed the market and the sector, and generally are right there with competitors, if not outperforming them as well. There is not a competitor that has performed significantly better than Disney has. The technical analysis shows the same, there are no death crosses, and there doesn’t look to be any in the near future.
**Section (B)  Company Profile (two pages maximum)**

**Company Summary**

Walt Disney and Co. is a diversified entertainment company that operates in five business segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive. They are the third largest holding in the consumer discretionary sector with 6.37%. Media Networks includes Disney Channel, ABC, ABCFamily, AE and ESPN and makes much of it’s revenue from licensing and advertising. Parks and Resorts includes Disney theme parks and cruises and makes it’s revenue from admissions, sales of merchandise, food and beverage, hotel and cruise sales. The Studio entertainment segment generates revenues from distribution of films. In the last few years they have acquired Pixar, Marvel and most recently LucasFilms. Star Wars Episode 7 will open in 2015. Consumer Products makes revenue from licensing characters to third parties. The interactive segments generate revenue based on the sale of multi-platform gaming, online advertisement and sponsorship. Media Networks accounts for 45.97% of revenues, Parks and Resorts 30.55%, Studio Entertainment 13.77%, Consumer Products 7.7%, and Interactive 2%. Media Networks, Parks and Resorts, and Consumer products all grew in revenue from 2011 to 2012, while Studio Entertainment and Interactive decreased in revenue (Walt Disney 10-k 2012). In 2012 revenues increased by 3%, net income by 18% and diluted earnings per share were up 24%.

The company is headed by CEO and Chairman of the Board, Robert Iger, who has been CEO since 2006 and shown solid leadership of this legendary company. He is widely regarded as being an excellent leader and visionary. The company has a 51% interest in Disneyland Paris, a 40% interest in Euro Disneyland, and 48% in Hong Kong Disneyland (Walt Disney 10-k 2012). The two Disneylands in Tokyo are not owned by Disney, they have a licensing agreement. Disney has a 43% stake in Disneyland Shanghai, which is expected to open in 2015. About 20% of revenue for the parks and resorts segment in international and the remaining 80% is domestic.

**Business Model, Competition, Environment and Strategy**

Walt Disney has emerged from a cartoon business in the 1920’s to one of the largest diversified entertainment companies in the world. Walt Disney is a brand name that every child and adult in America can recognize, and protecting that brand is very important for Disney. They pride themselves on creativity and innovation and creating a family friendly environment. The
business model they operate is focused on diversification through the business segments they operate, and each segment has its own separate stream of revenue.

However some similarities run throughout the business, they operate in cyclical industries and when the overall economy is doing well Disney tends to follow suit, especially concerning their Parks and Resorts segments. The success of the studio segment largely depends on the success and popularity of the films that it produces, and that can fluctuate largely year to year based on their film lineup. The Media Segment, the largest segment of all, depends heavily on licensing and advertisement. The ABC Network and cable channels depend on the success of its shows to induce strong advertising revenue. It is very competitive to acquire contracts with sports leagues for ESPN, and that is a key driver of success for Disney.

While Disney is a respected and loved brand, it still operates in a very competitive environment. Comcast, News Corporation and Viacom are serious threats to Disney. They all operate media networks, and have their own portfolio of channels that directly compete with Disney. They all also have studios that compete with Disney in the film business. Comcast also has Universal Studios, which is the only direct competitor with Disney for Disneyland and Disneyworld (although here are other amusement parks that are competitors as well, Universal Studio is a theme park based around media attractions).

Disney’s strategy going forward is one of continued innovation and growth. They are expanding internationally in their Parks and Resorts Segment, and have just recently acquired LucasFilms. Disney has a history of acquiring strong companies such as Pixar and Marvel and will continue to search for growth through acquisitions.

**Revenue and Earnings History**

This information is available in Reuters.com, “Financials” tab. Copy/paste the quarterly revenue and earnings per share numbers for the most recent three years. Add the numbers over four fiscal quarters to get annual revenue and earnings. For the current fiscal year, go ahead add up as many quarters as are available. **NOTE:** revenue numbers are “in millions”.

**Revenue**

<table>
<thead>
<tr>
<th>Periods</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>10716.0</td>
<td>10779.0</td>
<td>11341.0</td>
</tr>
</tbody>
</table>
Discuss any pattern in revenue and earnings (e.g., increasing year over year; seasonal; etc.)

The revenue increased from 2011 to 2012 for each quarter and also the first quarter of 2013 was up from the first quarter of 2012. It seems that seasonally the second quarter yields the lowest revenues and the other three quarters typically are close to each other in terms of revenue. For earnings the same was true that from 2011 to 2012 the earnings for each quarter were up, however the earnings were down in the first quarter of FY 2013 from FY2012. They were $0.79 which beat analysts’ estimates by $.03 due to a stronger movie lineup, and rising attendance at its theme parks (Disney 10Q Q1 2013). This is predicted to be due to lower operating margins and rising sports costs and declining home video sales (barrons.com).
Section (C)  Fundamental Valuation (EBO)

Include the following here:

Copy/paste completed Fundamental Valuation (EBO) Spreadsheet

<table>
<thead>
<tr>
<th>IFS</th>
<th>PARAMETERS</th>
<th>FY1</th>
<th>FY2</th>
<th>Lng</th>
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</thead>
<tbody>
<tr>
<td>EPS Forecasts</td>
<td></td>
<td>3.44</td>
<td>3.88</td>
<td>3.88</td>
</tr>
<tr>
<td>Book value/share (last year)</td>
<td></td>
<td>22.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td></td>
<td>10.20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend Payout Ratio (POR)</td>
<td></td>
<td>19.21%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Next 5x Year-end</td>
<td></td>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Fy Mkt (1 to 12)</td>
<td></td>
<td>7.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target ROE (industry avg)</td>
<td></td>
<td>1.37%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please download and save this template to your own storage device

You only need to input values in cells highlighted in "yellow"

The rest of the spreadsheet is calculated automatically

Please read "Guidelines for Fundamental Valuation Profile Spreadsheet" file carefully

<table>
<thead>
<tr>
<th></th>
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<tbody>
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<td>Long-term EPS Growth Rate (Ltg)</td>
<td>0.1124</td>
<td>0.1124</td>
<td>0.1124</td>
<td>0.1124</td>
<td>0.1124</td>
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<td></td>
<td></td>
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<tr>
<td>Forecasted EPS</td>
<td>3.44</td>
<td>3.88</td>
<td>4.32</td>
<td>4.80</td>
<td>5.34</td>
<td>5.94</td>
<td>6.61</td>
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<tr>
<td>Reg. of year BV/Sh</td>
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<td>24.85</td>
<td>27.99</td>
<td>31.48</td>
<td>35.36</td>
<td>39.67</td>
<td>44.47</td>
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<tr>
<td>Implied ROE</td>
<td>0.156</td>
<td>0.154</td>
<td>0.155</td>
<td>0.151</td>
<td>0.150</td>
<td>0.149</td>
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<td></td>
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<tr>
<td>ROE (Reg. ROE from EPS forecasts)</td>
<td>0.156</td>
<td>0.156</td>
<td>0.154</td>
<td>0.153</td>
<td>0.151</td>
<td>0.150</td>
<td>0.149</td>
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<td>0.118</td>
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<td>Abnormal ROE (ROE-K)</td>
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<td>0.053</td>
<td>0.052</td>
<td>0.050</td>
<td>0.048</td>
<td>0.047</td>
<td>0.046</td>
<td>0.046</td>
<td>0.031</td>
<td>0.015</td>
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<td>growth rate for B</td>
<td>0.000</td>
<td>0.126</td>
<td>0.126</td>
<td>0.125</td>
<td>0.123</td>
<td>0.122</td>
<td>0.121</td>
<td>0.120</td>
<td>0.118</td>
<td>0.093</td>
<td>0.083</td>
<td>0.070</td>
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<td>Compound growth</td>
<td>1.000</td>
<td>1.126</td>
<td>1.208</td>
<td>1.426</td>
<td>1.601</td>
<td>1.797</td>
<td>2.014</td>
<td>2.256</td>
<td>2.499</td>
<td>2.737</td>
<td>2.963</td>
<td>3.172</td>
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<td>growth*AROE</td>
<td>0.053</td>
<td>0.060</td>
<td>0.065</td>
<td>0.071</td>
<td>0.078</td>
<td>0.085</td>
<td>0.093</td>
<td>0.093</td>
<td>0.093</td>
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<td>0.093</td>
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<tr>
<td>required rate (k)</td>
<td>0.103</td>
<td></td>
<td>0.103</td>
<td>0.103</td>
<td>0.103</td>
<td>0.103</td>
<td>0.103</td>
<td>0.103</td>
<td>0.103</td>
<td>0.103</td>
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<tr>
<td>Compound discount rate</td>
<td>1.103</td>
<td>1.326</td>
<td>1.541</td>
<td>1.758</td>
<td>1.973</td>
<td>2.182</td>
<td>2.391</td>
<td>2.596</td>
<td>2.792</td>
<td>2.989</td>
<td>3.182</td>
<td>3.375</td>
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<tr>
<td>dvy. payout rate (k)</td>
<td>0.192</td>
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<tr>
<td>Add to P/B</td>
<td>PV (growth*AROE)</td>
<td>0.105</td>
<td>0.090</td>
<td>0.085</td>
<td>0.080</td>
<td>0.075</td>
<td>0.070</td>
<td>0.065</td>
<td>0.060</td>
<td>0.055</td>
<td>0.050</td>
<td>0.045</td>
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<tr>
<td>Cmn/P/B</td>
<td>1.05</td>
<td>1.10</td>
<td>1.15</td>
<td>1.20</td>
<td>1.25</td>
<td>1.30</td>
<td>1.35</td>
<td>1.40</td>
<td>1.45</td>
<td>1.50</td>
<td>1.55</td>
<td>1.60</td>
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<tr>
<td>Add Return</td>
<td>0.47</td>
<td>0.48</td>
<td>0.49</td>
<td>0.50</td>
<td>0.51</td>
<td>0.52</td>
<td>0.53</td>
<td>0.54</td>
<td>0.55</td>
<td>0.56</td>
<td>0.57</td>
<td>0.58</td>
</tr>
<tr>
<td>beyond current yr</td>
<td>(Assume this yr's AROE forever)</td>
<td>0.31</td>
<td>0.15</td>
<td>0.09</td>
<td>0.05</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total P/B</td>
<td>(P/B if no stop est. this period)</td>
<td>1.52</td>
<td>1.58</td>
<td>1.62</td>
<td>1.66</td>
<td>1.71</td>
<td>1.75</td>
<td>1.79</td>
<td>1.83</td>
<td>1.87</td>
<td>1.91</td>
<td>1.95</td>
</tr>
<tr>
<td>Implied price</td>
<td>34.38</td>
<td>35.78</td>
<td>36.23</td>
<td>37.67</td>
<td>38.63</td>
<td>39.60</td>
<td>40.57</td>
<td>41.55</td>
<td>42.53</td>
<td>43.52</td>
<td>44.50</td>
<td>45.48</td>
</tr>
</tbody>
</table>

Check:
| Reg. BV/Sh | 22.08 | 24.86 | 27.99 | 31.48 | 35.36 | 39.67 | 44.47 | 49.81 | 55.18 | 60.43 | 65.43 | 70.03 |
| Implied EPS | 3.44 | 3.88 | 4.32 | 4.80 | 5.34 | 5.94 | 6.61 | 6.64 | 6.50 | 6.19 | 5.70 | 5.02 |
| Implied EPS growth | 0.128 | 0.112 | 0.112 | 0.112 | 0.112 | 0.112 | 0.112 | 0.112 | 0.112 | 0.112 | 0.112 | 0.112 |

Inputs (provide below input values used in your analysis)

2.69 + 1.2 (6.31)

EPS forecasts (FY1 & FY2): 3.44 & 3.88

Long-term growth rate: 11.24%

Book value /share (along with book value and number of shares outstanding):

- Book value: 39,759
- # of shares outstanding: 1,800
- Book value / share: 22.0833

Dividend payout ratio: 19.21%
Next fiscal year end: 2013
Current fiscal month: 3
Target ROE: 7.17%

Output
Above normal growth period chosen: 2015
EBO valuation (Implied price from the spreadsheet): $36.73

I choose the above normal growth period of 2015 due to the continuation of growth in the three largest business segments for Disney. They continue to expand their parks and resorts internationally, and have just acquired LucasFilms, and the first Star Wars movie will be in theatres in 2015. Their media networks division has been growing and ESPN is doing especially well and this is the largest segment of their business.

Sensitivity Analysis
EBO valuation would be (you can include more than one scenario in each of the following):
$39.60 if changing above normal growth period to 2018
$38.28 if changing growth rate from mean (consensus) to the highest estimate 16.1
$34.10 if changing growth rate from mean (consensus) to the lowest estimate 3
$48.46 if changing discount rate to 8%
$36.73 if changing target ROE to 12%

The fundamental valuation for Disney was a bearish signal. It indicates that Disney is fundamentally overvalued at this point. Even when playing around with the numbers I could not get it close to the current trading price. Disney does seem to be trading high right now and this valuation confirms that it might be an expensive stock.
Section (D)  Relative Valuation

Copy/paste your completed relative valuation spreadsheet here

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Name</th>
<th>Mkt Cap</th>
<th>Current Price</th>
<th>Mean FY2 Earnings Estimate (next fiscal year)</th>
<th>Forward P/E</th>
<th>Mean LT Growth Rate</th>
<th>PEG</th>
<th>P/B</th>
<th>ROE</th>
<th>Value</th>
<th>P/S</th>
<th>P/CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>NVS/A</td>
<td>News Corporation</td>
<td>$69,332,34</td>
<td>$20.49</td>
<td>$1.96</td>
<td>14.89</td>
<td>10.18%</td>
<td>0.98</td>
<td>2.41</td>
<td>6.42%</td>
<td>0.38</td>
<td>1.94</td>
<td>12.47</td>
</tr>
<tr>
<td>VIAB</td>
<td>Viacom Inc</td>
<td>$29,655,40</td>
<td>$59.55</td>
<td>$5.38</td>
<td>11.07</td>
<td>13.61%</td>
<td>0.81</td>
<td>4.13</td>
<td>22.65%</td>
<td>0.18</td>
<td>2.24</td>
<td>11.88</td>
</tr>
<tr>
<td>CMCSA</td>
<td>Comcast Corp</td>
<td>$104,808,10</td>
<td>$40.38</td>
<td>$2.70</td>
<td>14.96</td>
<td>16.05%</td>
<td>0.93</td>
<td>2.16</td>
<td>9.17%</td>
<td>0.24</td>
<td>1.68</td>
<td>5.88</td>
</tr>
<tr>
<td>CBS</td>
<td>CBS Corp</td>
<td>$27,398,24</td>
<td>$43.78</td>
<td>$3.39</td>
<td>12.91</td>
<td>12.02%</td>
<td>1.07</td>
<td>2.69</td>
<td>-14.29%</td>
<td>-0.19</td>
<td>1.94</td>
<td>12.78</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Implied Price based on:</th>
<th>P/E</th>
<th>PEG</th>
<th>P/B</th>
<th>Value</th>
<th>P/S</th>
<th>P/CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>$57.79</td>
<td>$42.79</td>
<td>$55.34</td>
<td>$96.89</td>
<td>$47.42</td>
<td>$56.48</td>
</tr>
<tr>
<td>Low</td>
<td>$42.95</td>
<td>$35.47</td>
<td>$49.60</td>
<td>$60.80</td>
<td>$40.23</td>
<td>$26.63</td>
</tr>
<tr>
<td>Median</td>
<td>$53.95</td>
<td>$41.71</td>
<td>$58.56</td>
<td>$53.99</td>
<td>$46.94</td>
<td>$55.14</td>
</tr>
</tbody>
</table>

I originally had planned to use SixFlags as a competitor to account for the 30.55% of revenue that comes from their parks and resorts segment, but they had no ROE on Reuters or Morningstar for 2009 and 2008 so I was unable to enter a 5-year average for ROE. However I choose News Corporation and Viacom due to their presence in television. Viacom owns Nickelodeon which is a direct competitor with Disney and ABCFamily. They also own other cable networks that include MTV, BET, Comedy Central and Spike. They also operate in filmed entertainment under the name Paramount Pictures. News Corporation owns Fox and all the channels under Fox, including Fox Sports Network which is a competitor to ESPN. News Corp also has a film segment operating under Fox Filmed Entertainment. These two companies are the closet competitors to Disney, given their presence in television as well as movies. I also choose to use Comcast and CBS as competitors. CBS operates in the television markets, with the main channel being CBS. Comcast is a competitor to Disney because it has a business segment of cable networks that include NBC, MSNBC, and Telemundo. It also has separate segments for filmed entertainment (Universal Pictures) and theme parks (Universal Studios).

From the top panel

Discuss whether your stock and its competitors have very different multiples. Point out if any of the five stocks have multiple that is far off from the others. Make an attempt to explain why (you would want to read analyst research report in Morningstar Direct; you should also look for
Disney appears to have fairly similar multiples as its competitors, not including 5 year ROE average. All the forward P/E’s are in the range of 11.07 – 14.96 and Disney is in the middle of that range, which gives implied prices both lower and higher than Disney’s current price. The range for the Peg seems to be a little larger; from .81 to 1.28, and Disney has the largest PE, which makes the implied prices for this metric lower for Disney. The price to book multiples are all in a very close range from 2.16 to 2.69, discounting the outlier of Viacom’s 4.13. Disney once again lands in the middle of the range, and has implied prices both lower and higher than what it is trading at right now. The range for P/S is not exceedingly large from 1.68 2.33, but once again Disney finds itself at the more expensive end, having low implied prices from this metric. For P/CF, discounting Comcast, we see a small range of 11.88 to 12.78 with Disney in the middle. There is an outlier of Comcast who has a P/CF of 5.88 indicating this is a heap stock in this regard. Overall the multiples don’t seem to have very many outliers and all lie in reasonable range of one another with a few exceptions.

From the bottom panel

Discuss the various implied prices of your stock derived from competitors’ (“comparables”) multiples. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain why (HINT: is that because that particular valuation metrics is not very relevant for the industry? Do you best to provide convincing arguments).

The prices from the different valuation metrics seem to be fairly consistent with one another. I think this is because the ranges from the different metrics were generally small. The lower prices were generally in the $40s and the higher prices in the high $50’s or low $60’s for each metric, with the exception of the value ratio, but since some competitors had negative ROE’s this was normal.

For each valuation metrics, Compare the current price and 52-week high /low of your stock to the High-low range derived from multiples of its competitors.

The high/low range for forward P/E is fairly close to the 52 week low of $40.88 and 52 week high of $56.48. The low is $42.95 and the high is $58.03, so just a little higher than the 52 week range on both side, with the current price just a little lower than the high value for forward P/E.

The PEG ratio’s implied prices are a more bearish signal. The low is lower than the 52 week low, and the high is lower than the current trading price/52 week high. The high is only $46.86, which is only a little higher than the 52 week low. This indicates Disney is overpriced in this area compared to its competitors.
The P/B ratio has a higher range than some of the other implied prices. Its low is $49.60 and the high is $94.84, which is significantly higher than both the current price/52 week high. The low is higher than the 52 week low, but not as high as the current price. This is a bullish indicator for Disney, indicating they are cheap compared to their competitors in terms of what investors are paying per every dollar of book value.

The value ratio is almost discountable because a competitor has a negative ROEs over the last 5 years. The low is clearly a negative number of -$48.59 and can be discounted. The high is once again much higher than the current price/52 week high with an implied price of $96.89 (this is actually the highest value of any implied prices).

The P/S ratio has a high/low range of $40.23 - $53.64. The low is right around the 52-week low but the high is slightly lower than the current trading price/52-week high.

The P/CF ratio has a high/low range of $26.63 - $57.88, the low is much lower than the 52-week low for Disney, but the high was only a dollar higher than the current trading price/52 week high.

Among the valuation metrics analyzed, which ones do you think are most relevant as a valuation tool for your stock?

Among the valuation metrics analyzed I think forward P/E is a good ratio to look at. Although Disney is a well-established company, I do believe they are continuing to grow in all their acquisitions and growth, especially abroad. This is also true of their competitors so I feel it is appropriate.

Overall the relative valuation was slightly bearish for Disney. They are not clearly overvalued or undervalued, but I think this valuation does indicate they are perhaps a bit pricey of a stock compared to some of it’s closet competitors, only one of the median implied prices was above what Disney is currently trading at right now.
Section (E)  Revenue and Earnings Estimates

Copy/Paste the “Historical Surprises” Table from Reuters.com, “Analysts” tab (include both revenue and earnings; make note that revenues might be in “millions”)

Historical Surprises

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

<table>
<thead>
<tr>
<th>Estimates vs Actual</th>
<th>Estimate</th>
<th>Actual</th>
<th>Difference</th>
<th>Surprise %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES (in millions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter Ending Dec-12</td>
<td>11,210.10</td>
<td>11,341.00</td>
<td>130.91</td>
<td>1.17</td>
</tr>
<tr>
<td>Quarter Ending Sep-12</td>
<td>10,921.50</td>
<td>10,782.00</td>
<td>139.52</td>
<td>-1.28</td>
</tr>
<tr>
<td>Quarter Ending Jun-12</td>
<td>11,298.20</td>
<td>11,088.00</td>
<td>210.18</td>
<td>-1.86</td>
</tr>
<tr>
<td>Quarter Ending Mar-12</td>
<td>9,563.77</td>
<td>9,629.00</td>
<td>65.23</td>
<td>0.68</td>
</tr>
<tr>
<td>Quarter Ending Dec-11</td>
<td>11,181.20</td>
<td>10,779.00</td>
<td>402.20</td>
<td>-3.60</td>
</tr>
<tr>
<td><strong>Earnings (per share)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter Ending Dec-12</td>
<td>0.76</td>
<td>0.79</td>
<td>0.03</td>
<td>3.82</td>
</tr>
<tr>
<td>Quarter Ending Sep-12</td>
<td>0.68</td>
<td>0.68</td>
<td>0.00</td>
<td>0.09</td>
</tr>
<tr>
<td>Quarter Ending Jun-12</td>
<td>0.92</td>
<td>1.01</td>
<td>0.09</td>
<td>9.34</td>
</tr>
<tr>
<td>Quarter Ending Mar-12</td>
<td>0.55</td>
<td>0.58</td>
<td>0.03</td>
<td>4.96</td>
</tr>
<tr>
<td>Quarter Ending Dec-11</td>
<td>0.71</td>
<td>0.80</td>
<td>0.09</td>
<td>11.95</td>
</tr>
</tbody>
</table>

Review recent trends in company’s reported revenue and earnings, and discuss whether (1) the company has a pattern of “surprising” the market with numbers different from analysts’ estimates; (2) Were they positive(actual greater than estimate) or negative (actual less than...
estimate) surprises? (3) Were surprises more notable for revenue or earnings? (4) Look up the stock chart to see how the stock price reacted to the “surprises. NOTE: Reuters does not put the sign on the surprise. You need to put a “negative” sign when it is a negative surprise.

Disney does have a history of surprising the market, but not by huge amounts. All the surprises for revenues are less than 4%. The highest surprise is for earnings from the quarter ending Dec 2011 and was a surprise of 11.96%. While Disney has mixed negative and positive surprises for revenue, they consistently have shown positive surprises in earnings. Although not shown here they did beat earnings estimates by .03 for the first quarter of FY2013, with $0.79 per share. This was higher than analysts’ estimates but down one penny from the first quarter of 2012, however CEO Robert Iger, does not believe this will dampen the earnings for the rest of 2013 going forward.

Copy/paste the “Consensus Estimates Analysis” Table from Reuters.com, “Analysts” tab (include both revenue and earnings)

## Consensus Estimates Analysis

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

<table>
<thead>
<tr>
<th></th>
<th># of Estimates</th>
<th>Mean</th>
<th>High</th>
<th>Low</th>
<th>1 Year Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES (in millions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter Ending Mar-13</td>
<td>25</td>
<td>10,475.40</td>
<td>10,846.90</td>
<td>10,285.00</td>
<td>10,152.00</td>
</tr>
<tr>
<td>Quarter Ending Jun-13</td>
<td>25</td>
<td>11,760.10</td>
<td>12,416.20</td>
<td>11,399.00</td>
<td>11,686.60</td>
</tr>
<tr>
<td>Year Ending Sep-13</td>
<td>28</td>
<td>45,165.00</td>
<td>46,520.10</td>
<td>44,003.00</td>
<td>44,960.30</td>
</tr>
<tr>
<td>Year Ending Sep-14</td>
<td>28</td>
<td>47,934.80</td>
<td>49,689.00</td>
<td>46,825.00</td>
<td>47,380.90</td>
</tr>
</tbody>
</table>
### Earnings (per share)

<table>
<thead>
<tr>
<th>Period</th>
<th>Earnings</th>
<th>Mar-13</th>
<th>Jun-13</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter Ending Mar-13</td>
<td>27</td>
<td>0.76</td>
<td>0.82</td>
<td>0.69</td>
<td>0.74</td>
</tr>
<tr>
<td>Quarter Ending Jun-13</td>
<td>27</td>
<td>1.07</td>
<td>1.14</td>
<td>1.00</td>
<td>1.04</td>
</tr>
<tr>
<td>Year Ending Sep-13</td>
<td>29</td>
<td>3.44</td>
<td>3.66</td>
<td>3.37</td>
<td>3.39</td>
</tr>
<tr>
<td>Year Ending Sep-14</td>
<td>30</td>
<td>3.88</td>
<td>4.12</td>
<td>3.70</td>
<td>3.83</td>
</tr>
</tbody>
</table>

### LT Growth Rate (%)

| LT Growth Rate (%) | 9 | 11.26 | 16.10 | 3.00  | 13.46 |

### Sales

<table>
<thead>
<tr>
<th>Sales</th>
<th>Q 3-13</th>
<th>Q 6-13</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.55%</td>
<td>5.58%</td>
<td>3%</td>
<td>3.66%</td>
</tr>
<tr>
<td></td>
<td>1.82%</td>
<td>3.07%</td>
<td>2.57%</td>
<td>2.32%</td>
</tr>
</tbody>
</table>

### Earnings

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Q 3-13</th>
<th>Q 6-13</th>
<th>FY 13</th>
<th>FY 14</th>
<th>LT growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.89%</td>
<td>6.54%</td>
<td>6.4%</td>
<td>6.19%</td>
<td>42.98%</td>
</tr>
<tr>
<td></td>
<td>9.21%</td>
<td>6.54%</td>
<td>2.03%</td>
<td>4.64%</td>
<td>73.36%</td>
</tr>
</tbody>
</table>

Review the range and the consensus of analysts' estimates. (1) Calculate the % difference of the “high” estimate from the consensus (mean); (2) Calculate the % (negative) difference of the “low” estimate from the consensus; (3) Are the divergent more notable for the current or out-quarter, FY1 or FY2, revenue or earnings? (4) Note the number of analysts providing LT growth rate estimate. It that roughly the same as the number of analysts providing revenue and earnings estimates?
The more divergent tend to be for the difference between the mean and the low estimate. Except for two occasions they were larger differences than for the mean and the high. For sales the more divergent is for the out-quarter while for earnings it is for the in quarter. For FY1 versus FY2 the percent differences seem to be closer together and with fewer patterns. Also the divergent tend to be more notable for the earnings than the revenues. The percent differences for the long term growth rate are, or course, much more divergent than any of the other numbers. This could be largely attributed to the smaller number of analysts providing LT growth rate estimates, as well as it being a harder number to predict accurately.

Copy/paste the “Consensus Estimates Trend” Table from Reuters.com, “Analysts” tab (include both revenue and earnings)

Consensus Estimates Trend
Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>1 Week Ago</th>
<th>1 Month Ago</th>
<th>2 Month Ago</th>
<th>1 Year Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES (in millions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter Ending Mar-13</td>
<td>10,475.40</td>
<td>10,475.40</td>
<td>10,387.10</td>
<td>10,355.30</td>
<td>10,152.00</td>
</tr>
<tr>
<td>Quarter Ending Jun-13</td>
<td>11,760.10</td>
<td>11,760.10</td>
<td>11,749.10</td>
<td>11,714.60</td>
<td>11,686.60</td>
</tr>
<tr>
<td>Year Ending Sep-13</td>
<td>45,165.00</td>
<td>45,165.00</td>
<td>44,945.90</td>
<td>44,897.70</td>
<td>44,960.30</td>
</tr>
<tr>
<td>Year Ending Sep-14</td>
<td>47,934.80</td>
<td>47,934.80</td>
<td>47,639.20</td>
<td>47,599.50</td>
<td>47,380.90</td>
</tr>
</tbody>
</table>

Earnings (per share)
Review recent trend of analysts’ consensus (mean) estimates on revenue and earnings. (1) Are the consensus estimates trending up, down, or stay the same? (2) Is the trend more notable for the near- or out- quarter, FY1 or FY2, revenue or earnings?

The consensus estimates are trending up for revenues, in all the time frames the estimates have increased from one year ago to today. The same can be said for the earnings estimates. There is not a single case of any estimate decreasing for either revenue or earnings. The trend is not more notable for near or out quarter, FY1 or FY2 or revenue or earnings. The numbers have all trended up in roughly the same amounts. This is a bullish signal that analysts have become more confident over the last year.

Copy/paste the “Estimates Revisions Summary” Table from Reuters.com, “Analysts” tab (include both revenue and earnings)

<table>
<thead>
<tr>
<th>Estimates Revisions Summary</th>
<th>Last Week</th>
<th>Last 4 Weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Of Revisions:</td>
<td>Up</td>
<td>Down</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarter Ending Mar-13</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Quarter Ending Jun-13</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Review the number of analysts revising up or down their estimates (both revenue and earnings) in the last and last four weeks. (1) Note whether there are more up or down revisions; (2) are the revisions predominantly one directional? (3) Any notable difference last week versus last four weeks, revenue versus earnings?

There were no up or down revisions over the last week. There are in general more up revisions than down revisions. This is true in all cases except for the revenues for the quarter ending June 2013. In this quarter for earnings, the number of up revisions was still higher than down revisions but less notably so. There are no notable difference between revenues and earnings.

<table>
<thead>
<tr>
<th>Revision Date</th>
<th>Upgrade or Downgrade</th>
<th>Current Recommendation</th>
<th>Previous Recommendation</th>
<th>Firm</th>
<th>Last Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>The most recent revision date</td>
<td>Upgrade</td>
<td>Buy</td>
<td>Hold</td>
<td>Riley</td>
<td>3 weeks ago</td>
</tr>
</tbody>
</table>
The earliest revision date in the last two months

This is a good sign for Disney, that they had one analyst change from hold to buy, however it was by an analyst who seems to update somewhat frequently, last revision was only 3 weeks ago.

You will need to incorporate what you see here with Morningstar’s analyst research report (you can access Morningstar Direct at the Financial Markets Lab.) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?

I do believe that Disney will be able to beat analyst estimates. They had a very strong 2012, and after the first quarter in 2013 they are poised for continued growth. They have recently acquired LucasFilms and will be starting work on the seventh star wars film to come out in 2015, this in addition to the acquisitions of Pixar and Marvel in earlier years. In 2013 they will release Monster University (a companion film to Monsters Inc), Lone ranger starring Johnny Depp, The Great an Powerful Oz, and Iron Man 3. They have had higher profit margins from the ABC Broadcast unit as well as their theme parks (Barrons.com). With growing attendance and profits from their resorts and the growth of their media empire they should be able to beat estimates. Some concerns for Disney going forward are the decreasing home video sales due to companies like Netflix and Redbox and online piracy. Also rising sports costs for ESPN could hurt earnings going forward. The other large concern is that the market already has factored the potential growth into the stock price and it won’t increase in value very much in the near future.
Section (F)  Analysts' Recommendations

Copy/paste the “Analyst Recommendations and Revisions” Table from Reuters.com, “Analysts” tab. NOTE: Make sure you copy the entire table including the “Mean Rating” at the bottom of the table.

Analyst Recommendations and Revisions

<table>
<thead>
<tr>
<th>1-5 Linear Scale</th>
<th>Current</th>
<th>1 Month Ago</th>
<th>2 Month Ago</th>
<th>3 Month Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) BUY</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>(2) OUTPERFORM</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>(3) HOLD</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>(4) UNDERPERFORM</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>(5) SELL</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>No Opinion</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Mean Rating 2.10 2.10 2.17 2.19

Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish? How many different ratings out
of the five possible ones did the company receive currently, one, two, and three months ago? Is there a notable trend of opinion convergence or divergence? Is what you see here consistent to comments in Morningstar analyst’s research report as well as various online financial sites you had researched on?

**NOTE**: On a Five-point scale, Reuters assigns “1” to “Buy”, the most bullish recommendation, and “5” to “Sell”, the most bearish recommendation. Some other online sites have opposite scale, with their “1” being the most bearish and “5” being the most bullish recommendations.

There are very few changes in analyst’s opinions over the last three months. There is a slight decrease in the five-point scale assigned by Reuters from 2.19 to 2.1, which is a bullish indicator. One less analyst recommends a hold, and one less recommends underperforms. There have been no changes in the 8 analysts who recommend a buy or the 10 that recommend an “outperform”. However the largest amount of analysts, 11, recommends a hold for this company. This scale suggests outperform which is consistent with what I have seen on Morningstar and other sites.
Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or bearish indication of future stock price movement.

On a net basis there is a slight decrease in institutional ownership of -1.55% of shares over the last 3 months. I would say this is not too significant of a decrease for a company that has such
large trading volume. However I was surprised that they only have institutional ownership of 64.82%.

The Laurene Powell Jobs Trust holds 7.2% of Disney, but has no apparent intention to influence control over Disney (Bloomberg.com). The shares were originally held by Steve Jobs who gained such a large percent when he sold his animation firm Pixar to Disney in exchange for $7.01 billion in stock. When he died it passed to his widow Laurene Powell. I don’t think this is either a bearish or bullish indicator, but of course if she decided to liquidate the shares it would drive Disney’s share price down.
Section (H)  Short Interest (two pages)

From http://www.nasdaq.com/ (NASDAQ’s website)

Copy/paste or enter the data in the following table. You also need to copy/paste the chart to the right.

Copy/paste or type the information from “short interest” table. You will start from the most recent release date, and go back for a year (some stocks may not have data go back for a year)

Copy/paste the chart to the right of the “short interest” table, immediately follow the table below

NOTE: You are encouraged to look at the short interest information for two of the companies’ closest competitors. This will help gauge whether the sentiment indicated in the short interest statistics is company specific or industry-wide.
<table>
<thead>
<tr>
<th>Settlement Date</th>
<th>Short Interest</th>
<th>Avg Daily Share Volume</th>
<th>Days To Cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/15/2013</td>
<td>36,408,032</td>
<td>11,166,943</td>
<td>3.250340</td>
</tr>
<tr>
<td>1/31/2013</td>
<td>37,856,964</td>
<td>9,100,442</td>
<td>4.159904</td>
</tr>
<tr>
<td>1/15/2013</td>
<td>35,955,534</td>
<td>8,634,494</td>
<td>4.154174</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>35,858,137</td>
<td>8,827,293</td>
<td>4.052190</td>
</tr>
<tr>
<td>12/14/2012</td>
<td>38,717,552</td>
<td>7,106,047</td>
<td>5.448536</td>
</tr>
<tr>
<td>11/30/2012</td>
<td>38,650,722</td>
<td>7,733,453</td>
<td>4.997861</td>
</tr>
<tr>
<td>11/15/2012</td>
<td>36,567,704</td>
<td>12,870,215</td>
<td>2.841266</td>
</tr>
<tr>
<td>10/31/2012</td>
<td>35,911,615</td>
<td>8,412,713</td>
<td>4.258732</td>
</tr>
<tr>
<td>10/15/2012</td>
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## News Corporation

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<td>Days To Cover</td>
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Complete the following table with information from the “share statistics” table.

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<th>Avg Vol (3 month)</th>
<th>Avg Vol (10 day)</th>
<th>Shares Outstanding</th>
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<table>
<thead>
<tr>
<th>Shares Short (Most recent date)</th>
<th>Short Ratio (Most recent date)</th>
<th>Short % of Float (Most recent date)</th>
<th>Shares Short (2 weeks prior)</th>
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<tbody>
<tr>
<td>36.41 million</td>
<td>3.6</td>
<td>2%</td>
<td>37.86 billion</td>
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Based on the short interest statistics and its recent trend, how is the market sentiment on the stock? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?

Short interest is at relatively the same level it was a year ago for Disney, with days to cover at 3.26. However the short interest has been decreasing since mid-December. This trend of decreasing since December seems consistent with it’s two main competitors Viacom and News Corporation, but their days to cover are considerably lower at the moment than Disney. 1.69 for Viacom and 1.5 for News Corporation (nasdaq.com). However at one point last year Viacom’s days to cover reached almost 30. Short ratio for News Corp is 1.5 and short % of float is 2% (finance.yahoo.com). Short ratio for Viacom is 1.4 and short % of float is .7%. When comparing Disney’s short interest statistics to it’s competitors it is a bearish indicator. They have the highest days-to-cover of the three, the highest short ratio and tied for highest short % of float with News Corp.
Section (I)  Stock Charts

A three months price chart
Copy/paste the “3 Mos.” stock chart here

A one year price chart
Copy/paste the “1 Yr” stock chart here

A five year price chart
Copy/paste the “5 Yrs.” stock chart here
In the three month price chart Disney has outperformed the sector, the S&P, and two of it’s closet competitors with a very impressive return of around 25%. The one year price chart shows that Disney and it’s competitors have been outperforming the market and the sector by a sizable amount. Its has been very close to it’s competitors, being slightly outperformed by News Corp, but it slightly outperformed Comcast. In the five-year price chart Disney has outperformed the market and the sector as well as CBS and News Corp, but Comcast outperformed Disney just barley. These stock charts shows that recently and in the long run Disney has had impressive returns, almost always beating not only the market and the sector but it’s competitors as well. This is a bullish signal, except for the fear that they won’t be able to continue this in the future.

**Additional price chart**

If you have other stock charts, feel free to copy/paste here
Discuss what you observe from the stock charts. This should include comparing your stock to competitors, sector, and SP500 over the three different time horizons.

The technical analysis is a positive sign for Disney. In the chart that shows the 50 day moving average and the 200 day moving average the 50 day moving average is above the 200 day moving average since January of 2012, and since then there have been no crosses. In the chart that shows the 10 day moving average and the 50 day moving average there was one death cross, followed shortly thereafter with a golden cross, and since then the 10 day moving average has been consistently above the 50 day moving average. Also the RSI seems to be around 60 in both charts and while this isn’t a sign that Disney is undersold, it doesn’t raise any alarms about it being oversold either.
Sources

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Morningstar.com
Finance.Yahoo.com
Msn.money.com
Cnn.money.com
Nasdaq.com
CNBC.com
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http://online.barrons.com/article/SB50001424052748704372504578287851971375548.html