



# Adam Zuercher

CEO & Chief Investment Officer,  
Hixon Zuercher Capital Management



# BEST IDEAS 2019, HOSTED BY MOI GLOBAL

DECEMBER 19, 2018



**Adam C. Zuercher, CPA/PFS, CFP®**  
*CEO & Chief Investment Officer*  
Hixon Zuercher Capital Management



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# HIXON ZUERCHER CAPITAL MANAGEMENT

- Founded in 2002 by Adam Zuercher and Tony Hixon
- Located in Findlay, Ohio
- \$135+ Million firm assets under management (AUM)
- GIPS verified

## Managed Strategies

- Focused Equity Portfolio (Large Cap US) - \$32 Million AUM\*
- Focused Equity Income Portfolio (Large Cap US / Dividend Growth) - \$29 Million AUM\*
- Small Cap Portfolio (Small Cap US) - \$1 Million AUM\*
- 6 Globally Diversified Mutual Fund Portfolios and Other Custom Strategies - \$73 Million AUM\*



# INVESTMENT TEAM



**Adam C. Zuercher, CPA, CFP®**  
*Chief Investment Officer, Portfolio Manager*

- The University of Toledo, Bachelor's Degree in Accounting (1999)
- Co-founded Hixon Zuercher in 2002



**Joshua W. Robb**  
*Associate Wealth Advisor, Equity Analyst*

- Huntington University, Bachelor's Degree in Business Management (2005)
- Joined Hixon Zuercher in 2013



**Anthony J. Hixon, CIMA®, RFC®**  
*Chief Operating Officer, Portfolio Manager*

- Ohio Northern University, Bachelor's Degree in Accounting (1999)
- Co-founded Hixon Zuercher in 2002 and joined full-time in 2003



**Austin A. Wilson**  
*Research Analyst*

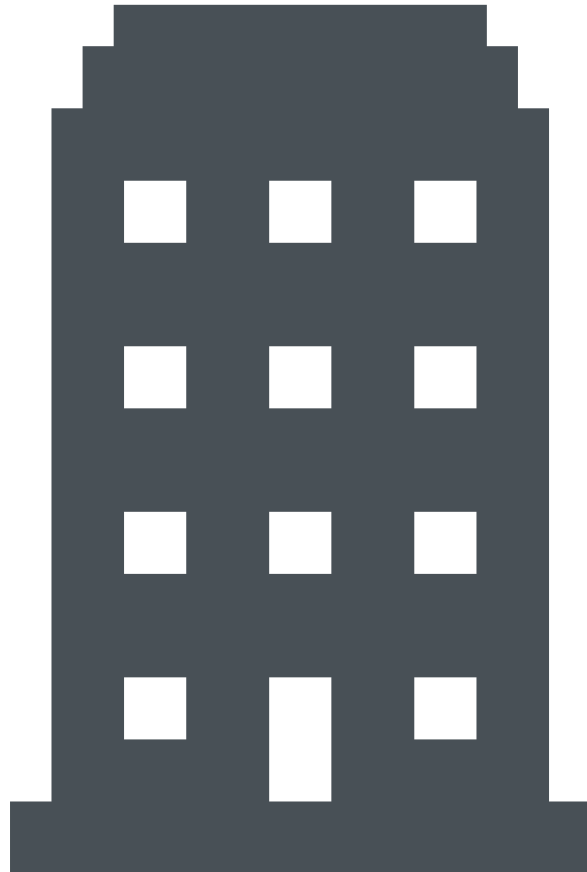
- The University of Findlay, Bachelor's Degree in Finance and International Business (2014)
- Joined Hixon Zuercher in 2018



## ADAM C. ZUERCHER, CPA, CFP®

- Adam has experience providing investment management and financial advisory services since 1999.
- Adam is co-founder, Chief Executive Officer, and Chief Investment Officer of Hixon Zuercher Capital Management. As Chief Investment Officer, he oversees investment research and the development and implementation of the firm's investment strategies.
- Adam serves as a co-Portfolio Manager and as chairman of the firm's Investment Committee.
- Adam is a graduate of The University of Toledo.
- 2017 & 2018 Investopedia Top 100 Most Influential Financial Advisor





# COMPANY OVERVIEW

THE WALT DISNEY COMPANY



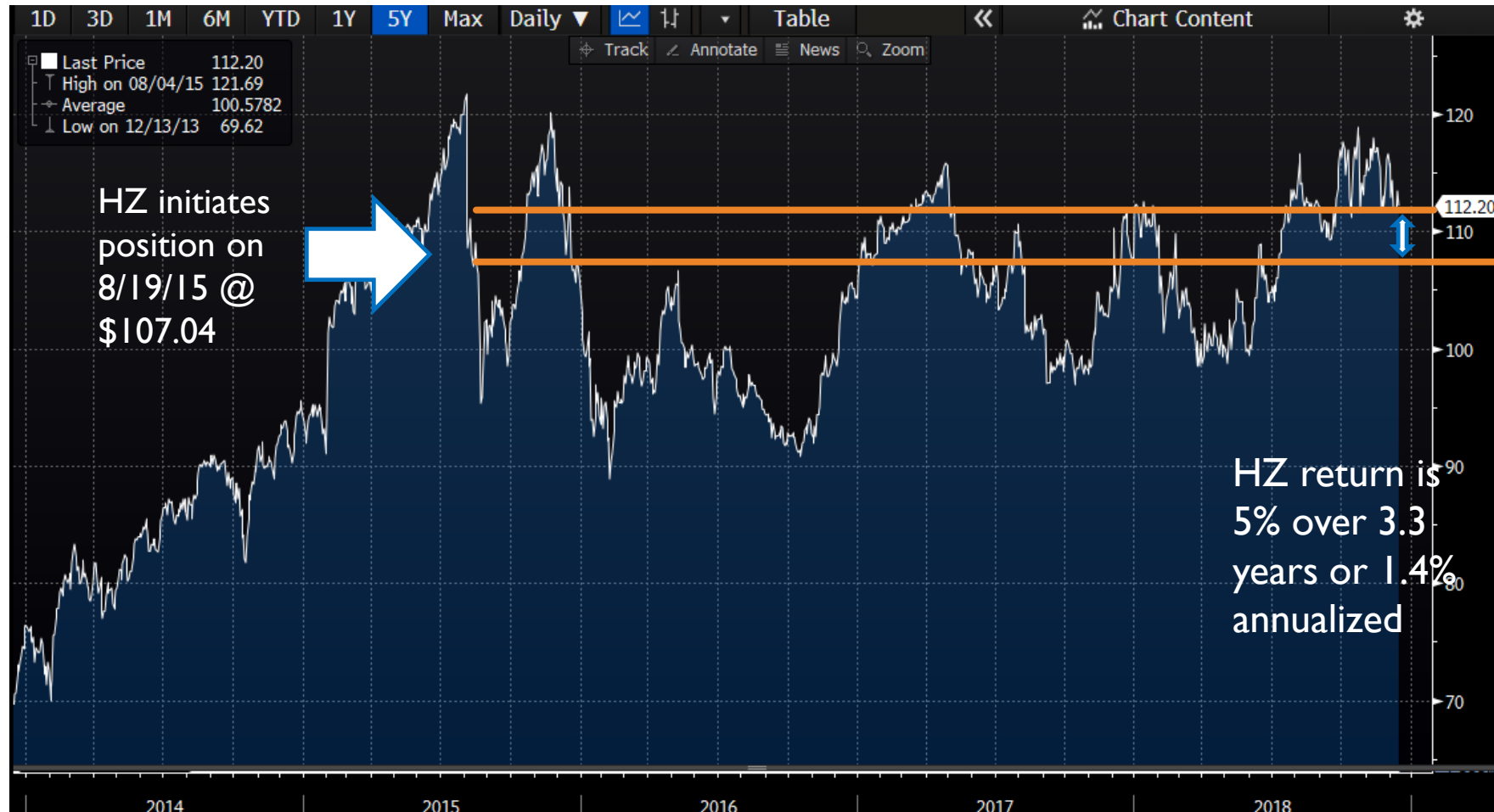
# DISNEY OVERVIEW

- Ticker: DIS (NYSE)
- Price: \$112.20\*
- Traded on the NYSE since 1957
- Founded in 1923
- Market Cap: \$167 billion\*
- CEO: Robert A Iger “Bob”
- Headquarters: Burbank, California
- Number of Employees: 201,000 worldwide as of September 29, 2018





# HISTORICAL PRICE CHART



As of 4pm on 12/14/2018



## FIVE AREAS OF BUSINESS



Media  
Networks



Parks and  
Resorts



Studio  
Entertainment



Consumer  
Products &  
Interactive  
Media



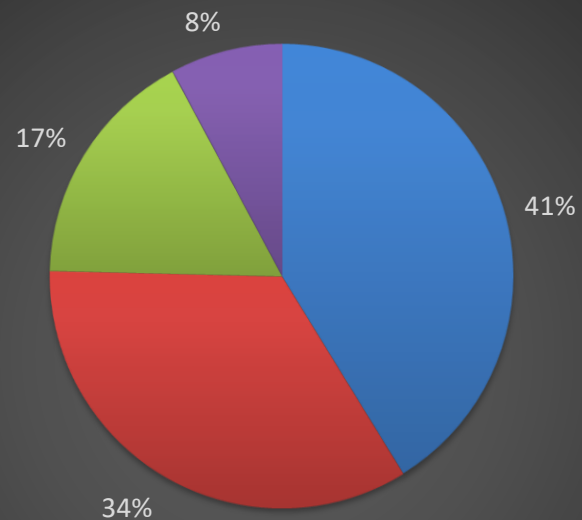
Streaming  
Services





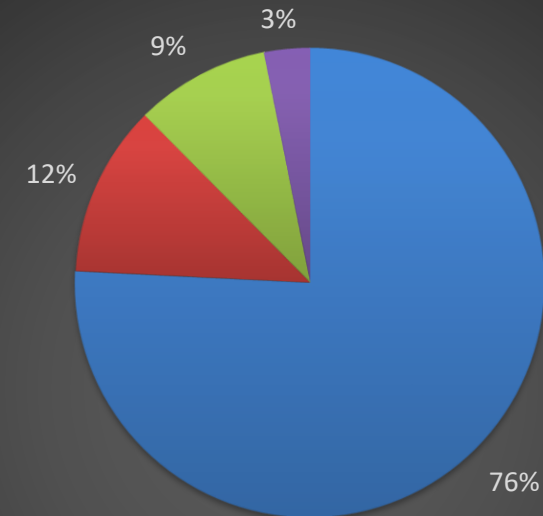
# REVENUE SOURCES

## 2018 Segment Revenue %



- Media Networks
- Parks and Resorts
- Studio Entertainment
- Consumer Products and Interactive Media

## 2018 Geographic Revenue %



- United States and Canada
- Europe
- Asia Pacific
- Latin America and Other

# I. MEDIA NETWORKS

41% OF 2018 REVENUE

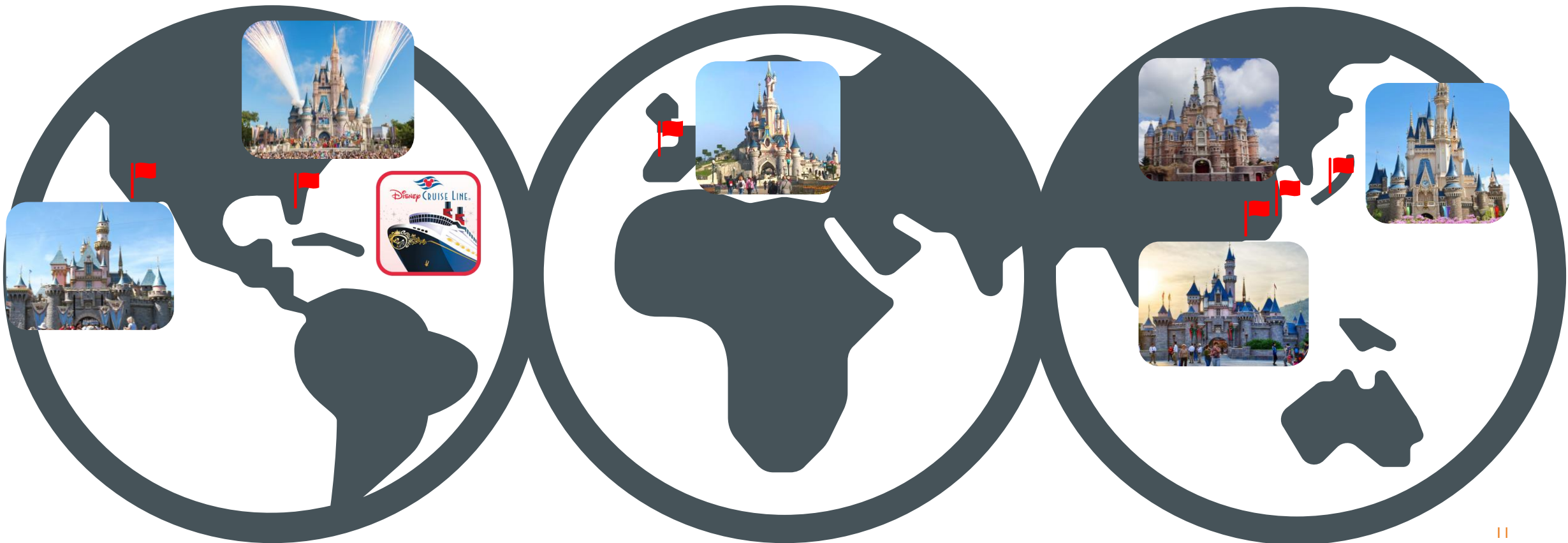


**HEARST**



## 2. PARKS AND RESORTS

34% OF 2018 REVENUE



# 3. STUDIO ENTERTAINMENT – CINEMA

17% OF 2018 REVENUE



# 3. STUDIO ENTERTAINMENT – TELEVISION

17% OF 2018 REVENUE



# 4. CONSUMER PRODUCTS & INTERACTIVE MEDIA

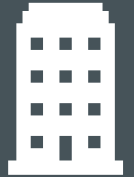
8% OF 2018 REVENUE





## 5. STREAMING SERVICES

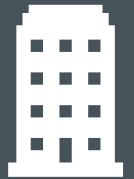




# HISTORY OF ACQUISITION

- **21<sup>st</sup> Century Fox – 2018; \$71.3 billion**
- **BAM – 2016-2017; \$2.58 billion**
- Sphero – 2014; unknown minority investment
- Marker Studios – 2014; \$500 million
- **Lucasfilm (Star Wars) – 2012; \$4.06 billion**
- UTV Software Communications – 2011; \$297 million
- Playdom – 2010; \$563 million
- Tapulous – 2010; undisclosed
- Wideload Games – 2010; undisclosed
- **Hulu – 2009; 30% purchase (to increase to 60% once Fox merger is completed)**
- **Marvel – 2009; \$4 billion (Saban Entertainment also joined Disney at this time)**
- Junction Point Studios – 2007; undisclosed
- Oswald the Lucky Rabbit – 2006; traded for the rights to sports broadcaster Al Michaels
- **Pixar – 2006; \$7.4 billion**
- Avalanche Software – 2005; undisclosed
- CrossGen – 2004; \$1 million
- The Muppets (and Bear in the Big Blue House) – 2004; \$75 million
- Baby Einstein – 2001; undisclosed (Sold to Kids II, Inc in 2013)
- Fox Family Worldwide (Freeform) – 2001; \$2.9 billion
- Infoseek – 1999; undisclosed
- Starwave – 1998; undisclosed
- **Capital Cities/ABC/ESPN – 1995; \$19 billion**
- Miramax – 1993; \$60 million

**Over \$100 billion in acquisitions in the last 25 years!**



# 21<sup>ST</sup> CENTURY FOX ACQUISITION

- Equal parts cash and stock, \$35.7 billion in cash and 343 million shares
- 99% of shareholders voted to approve deal this past July
- Fox retains Fox News, the Fox broadcasting network, FS I and newspapers like The Wall Street Journal, The New York Post, and The Sun in Britain
- Disney's integration plans include substantial layoffs
- The deal was approved quickly by US regulators and is now being reviewed by approval by foreign governments. Europe and China have approved.
- American antitrust regulators approved the deal on the condition that Disney would divest all of Fox's 22 regional sports networks, due to their controlling ownership in ESPN.
- The final deal is expected to be fully closed in early 2019.



**Total deal cost is \$71.3 billion**



# ECONOMIC TRENDS

WHAT TAILWINDS OR  
HEADWINDS MIGHT THE  
COMPANY FACE?



# ECONOMIC TRENDS – VIDEO STREAMING GROWTH

- The global video streaming market is set to grow from \$30.9 billion in 2015 to \$123.2 billion in 2024. That is ~17% CAGR!
- This rapid market growth can be contributed to a number of factors:
  - Rising number of online users
  - Technological advancements
  - Development of high-quality content
  - Increase in subscriptions for streaming options
- Consumers are using more and more online streaming services for both entertainment, and education. Growth in OTT (Over the Top) services and pay TV services is a major contributor for the market growth projected.
- Advances in modern smartphones, better internet connectivity, and growing popularity of content providers such as Netflix and Hulu are expected to reinforce the growth prospects positively.



# ECONOMIC TRENDS – THEME PARK GROWTH

- In 2017, global top 10 theme park companies reported total theme park attendance of 475.8 million, up 8.6% from 2016 where the same group reported attendance of 438.3 million.
- Chinese attendance grew by nearly 20% year-over-year.
  - China now generates about a quarter of the major operators’ overall attendance.
- Global attraction attendance at the major operators is now almost half a billion visits a year, and is more than double the attendance of all the major sport leagues in the world.



**TOP 10 THEME PARK GROUPS WORLDWIDE**

TEA THEMED ENTERTAINMENT ASSOCIATION | AECOM

RANK	GROUP NAME	% CHANGE	ATTENDANCE 2017	ATTENDANCE 2016
1	WALT DISNEY ATTRACTIONS	6.8%	150,014,000	140,403,000
2	MERLIN ENTERTAINMENTS GROUP	7.8%	66,000,000	61,200,000
3	UNIVERSAL PARKS AND RESORTS	4.4%	49,458,000	47,356,000
4	OCT PARKS CHINA	32.9%	42,880,000	32,270,000
5	FANTAWILD	21.7%	38,495,000	31,639,000
6	CHIMELONG GROUP	13.4%	31,031,000	27,362,000
7	SIX FLAGS INC.	2.3%	30,789,000	30,108,000
8	CEDAR FAIR ENTERTAINMENT COMPANY	2.4%	25,700,000	25,104,000
9	SEAWORLD PARKS & ENTERTAINMENT	-5.5%	20,800,000	22,000,000
10	PARQUES REUNIDOS	-1.1%	20,600,000	20,825,000
<b>TOP 10 ATTENDANCE GROWTH 2016-17</b>		<b>8.6%</b>	<b>475,767,000</b>	<b>438,267,000</b>



# MOAT ANALYSIS

WHAT PROTECTION DOES THE  
COMPANY HAVE?

# MOAT ANALYSIS – SUSTAINABLE COMPETITIVE ADVANTAGE



There are five ways that a business can build a sustainable competitive advantage:

- ✓ Creating real product differentiation through superior technology or features
- ✓ Creating perceived differentiation through a trusted brand or reputation
- ✓ Driving costs down and offering a similar product or service at a lower price
- ✗ Locking in customers by creating high switching costs
- ✓ Locking out competitors by creating high barriers to entry or high barriers to success





## MOAT ANALYSIS – KEY PATENTS



### Key Statistics:

5,997 Trademarks

1,709 Patents Granted

1,080 Patent Applications

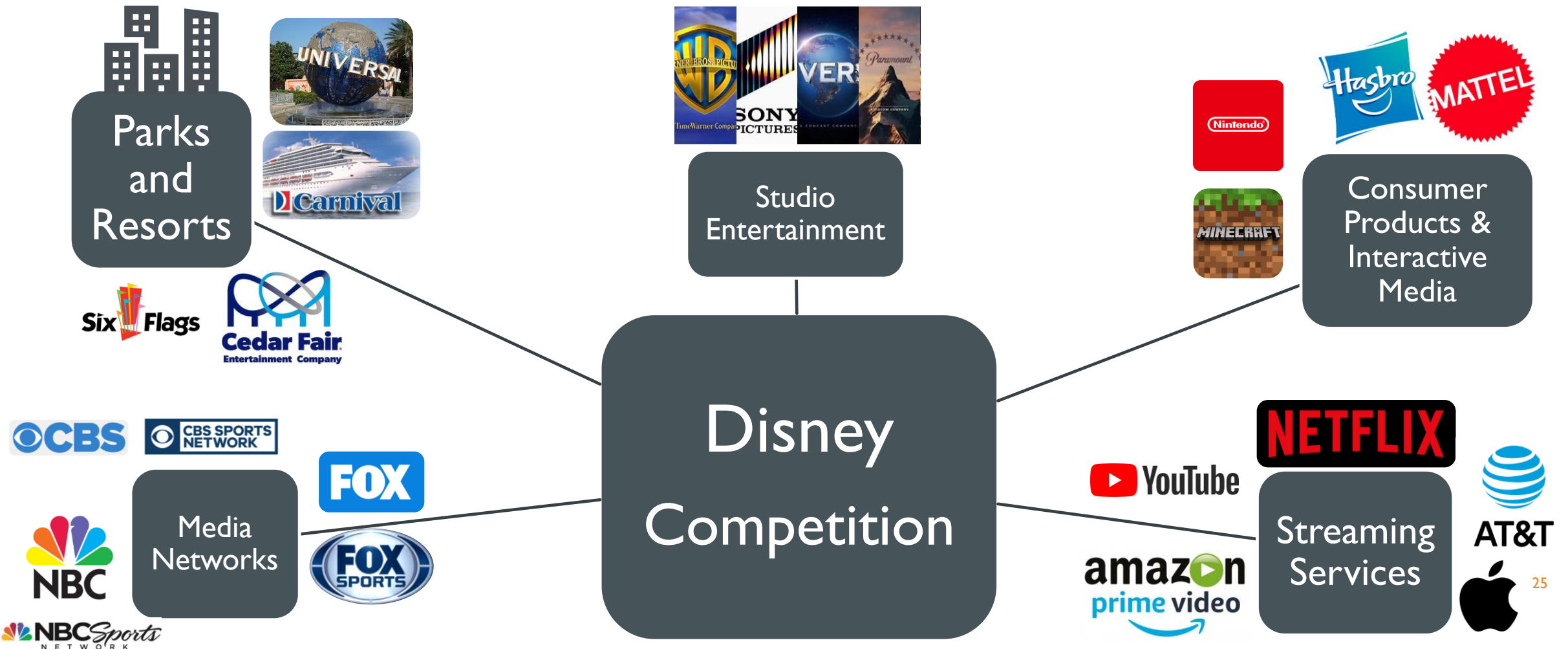


# COMPETITIVE LANDSCAPE

HOW DOES DISNEY STACK UP?



# COMPETITIVE LANDSCAPE





# THEME PARK DOMINANCE

- North American theme parks had a good year in 2017, with the top 20 up 2.3%, over 150 million visitors.
- In 2017, Walt Disney World's Magic Kingdom remained the world's most visited theme park, with more than 20 million visitors.
- China, while not yet the largest market, experienced the most growth in 2017, and is projected to be the largest theme park market in the world by 2020.
  - It bodes well for Disney that it has invested well in multiple locations.



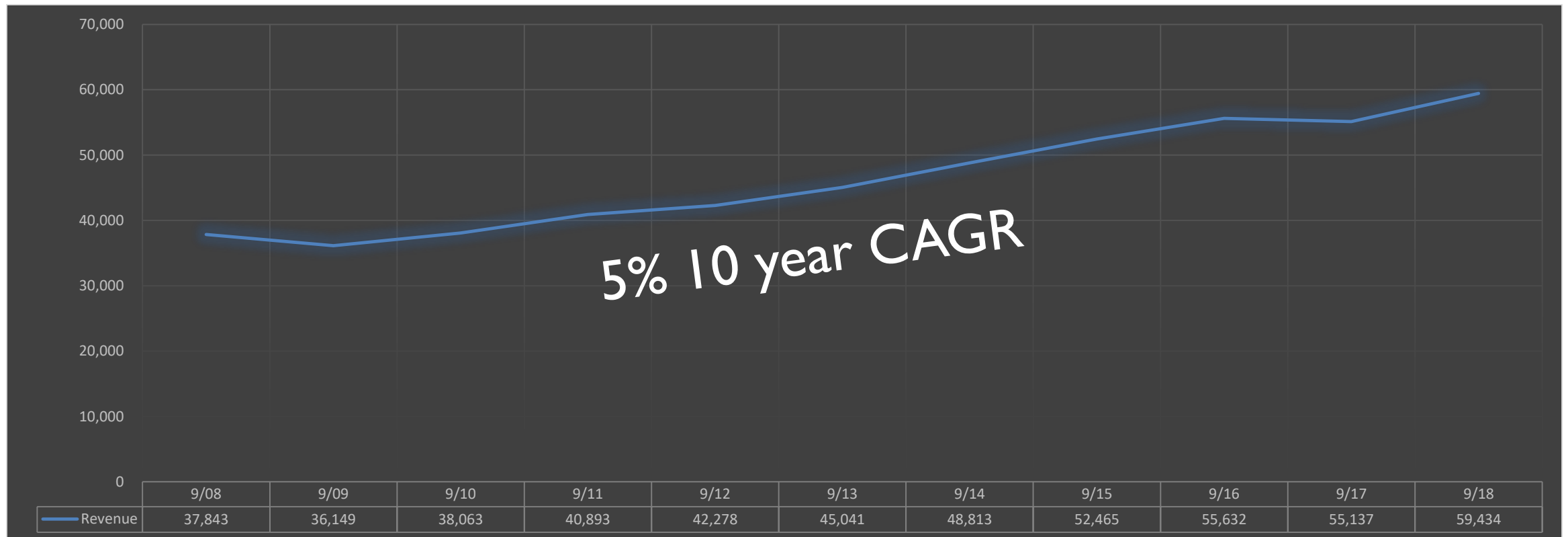


# FINANCIAL STATEMENTS

IS THE COMPANY  
FUNDAMENTALLY SOUND?

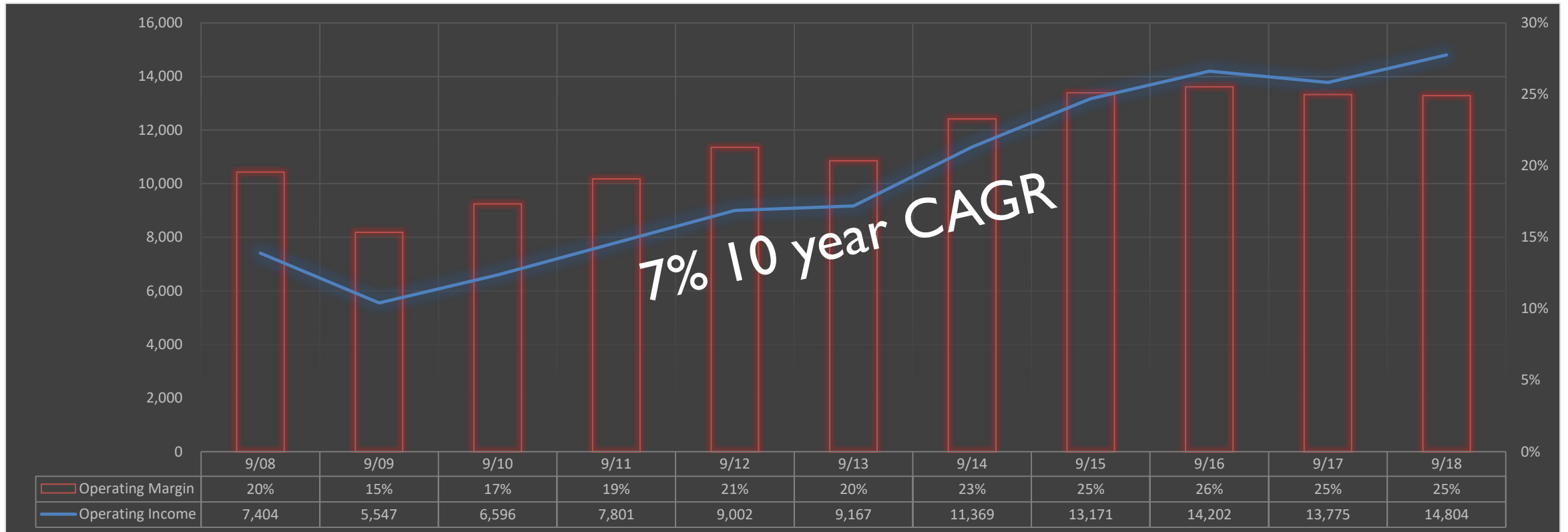


# THE INCOME STATEMENT – REVENUE





# THE INCOME STATEMENT – OPERATING INCOME





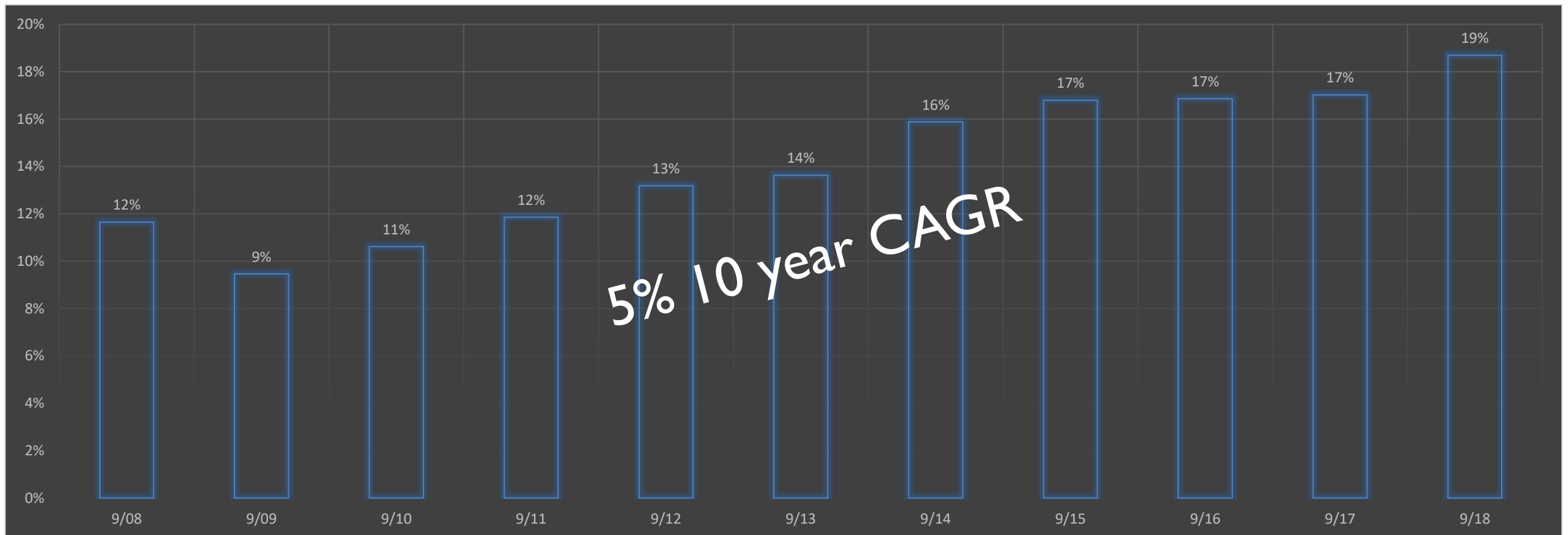
# THE INCOME STATEMENT – EARNINGS PER SHARE



\$ per share



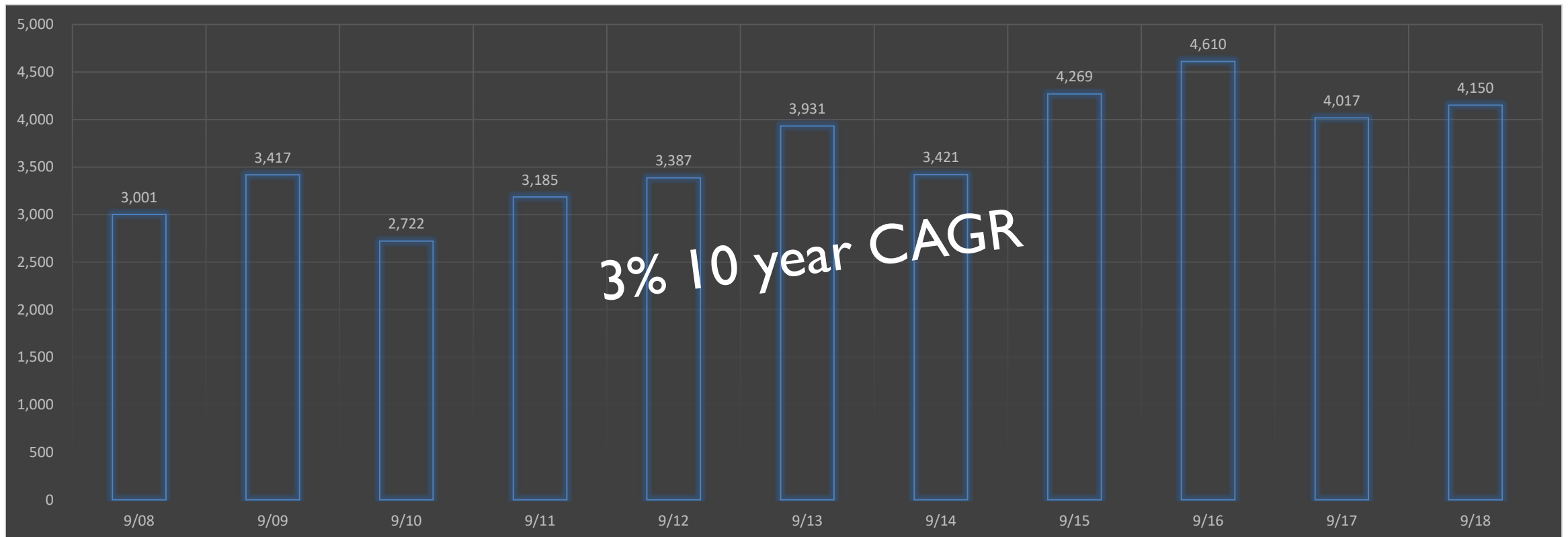
# THE INCOME STATEMENT – NET MARGIN



% of revenue



# THE BALANCE SHEET – CASH



\$ millions



# THE BALANCE SHEET – LONG TERM DEBT



\$ millions

# STATEMENT OF CASH FLOWS – CAPITAL EXPENDITURES



\$ millions



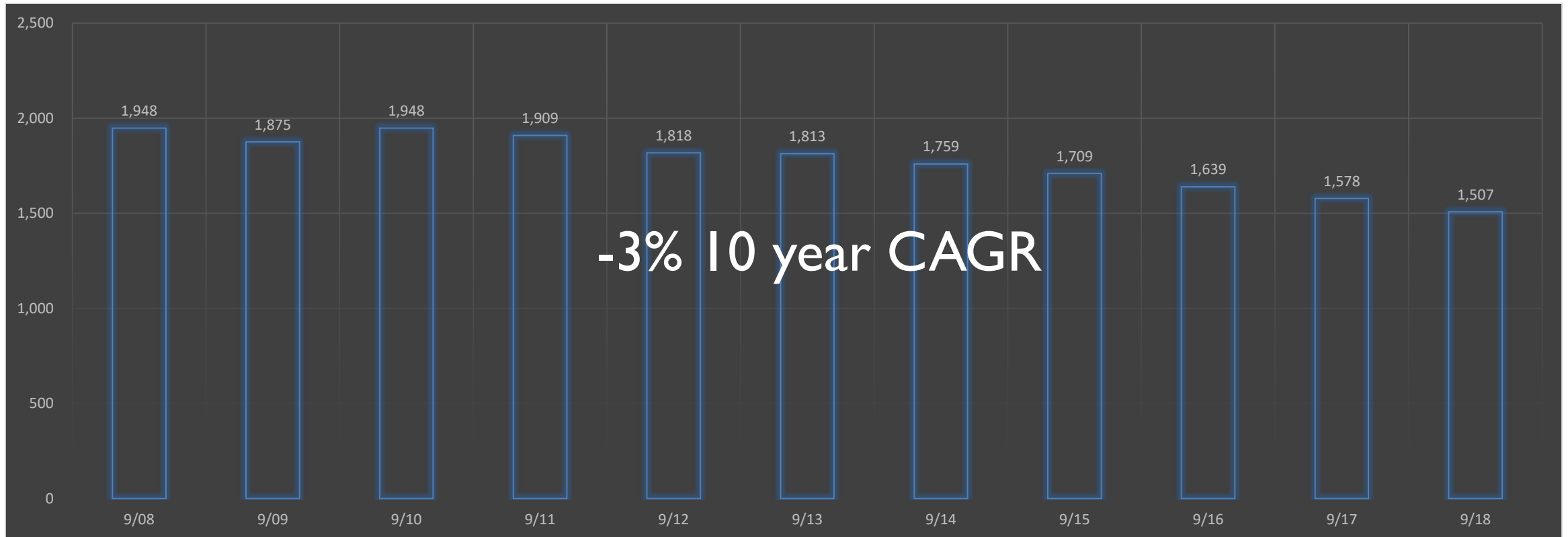
# STATEMENT OF CASH FLOWS – FREE CASH FLOW



\$ millions



# DILUTED SHARES OUTSTANDING



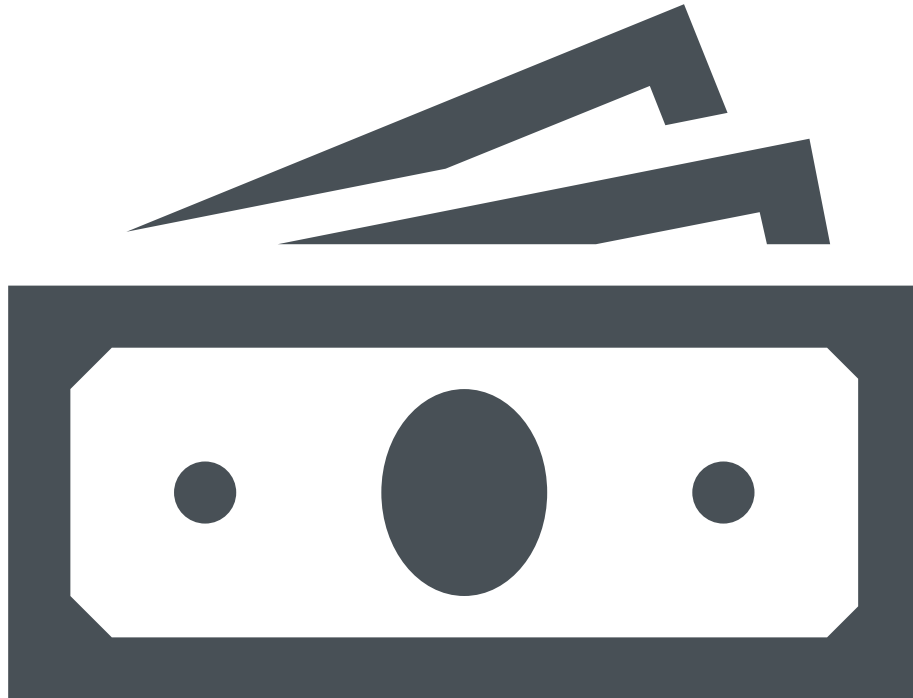
\$ millions



# DIVIDENDS PER SHARE



\$ per share

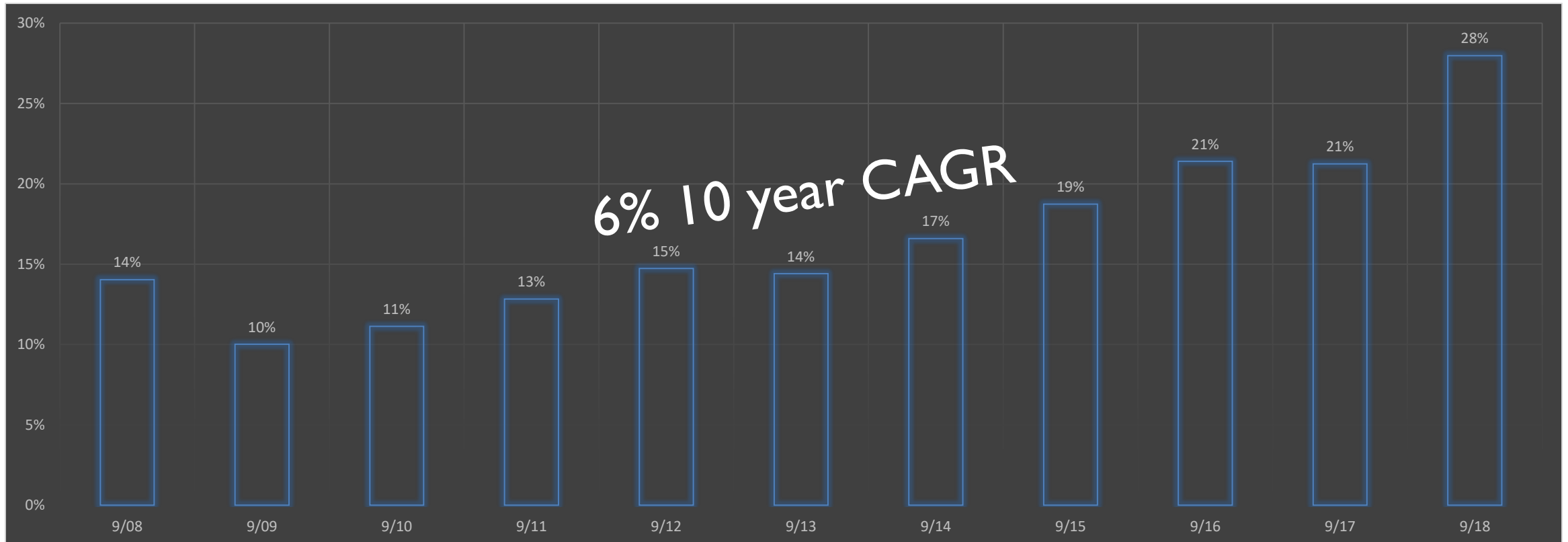


## PROFITABILITY MEASURES

IS THE COMPANY GENERATING  
RETURNS?

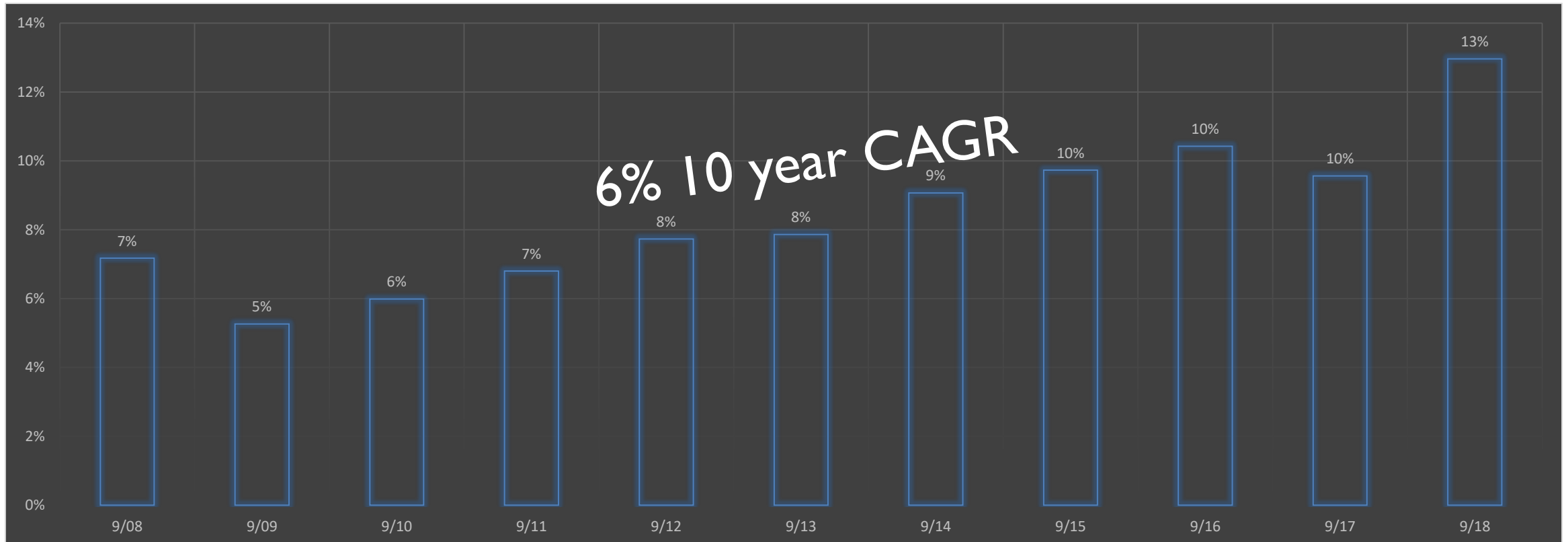


# PROFITABILITY MEASURES – RETURN ON EQUITY

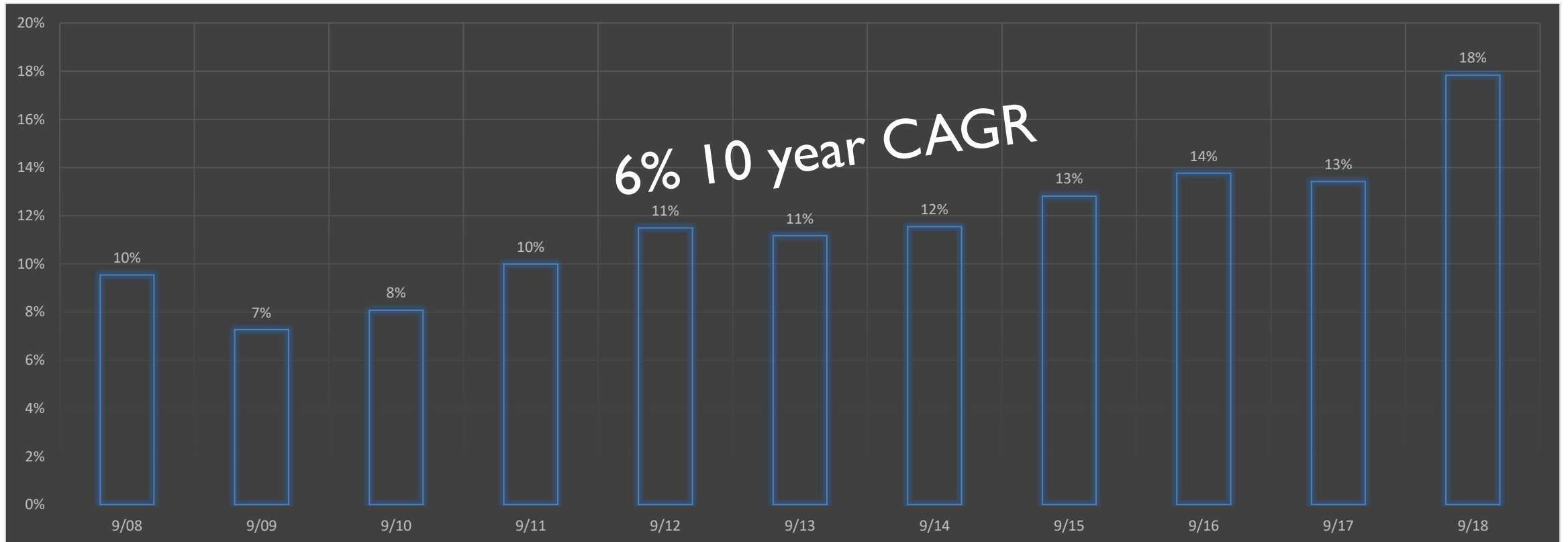




# PROFITABILITY MEASURES – RETURN ON ASSETS



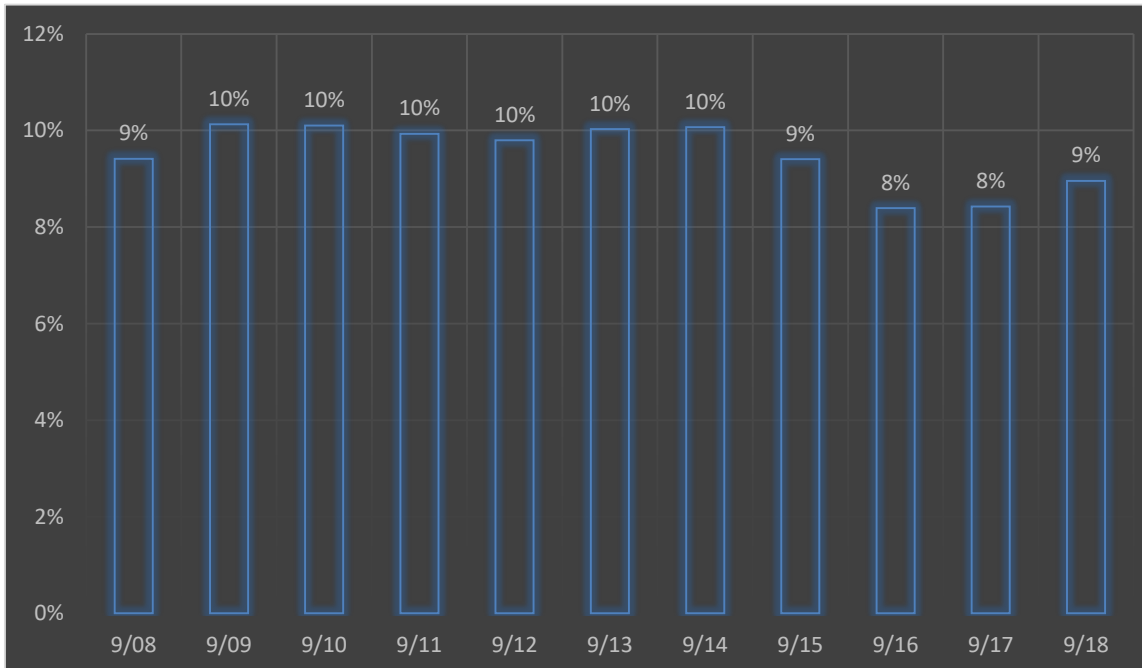
# PROFITABILITY MEASURES – RETURN ON INVESTED CAPITAL





# PROFITABILITY MEASURES – ECONOMIC VALUE ADDED

## WACC

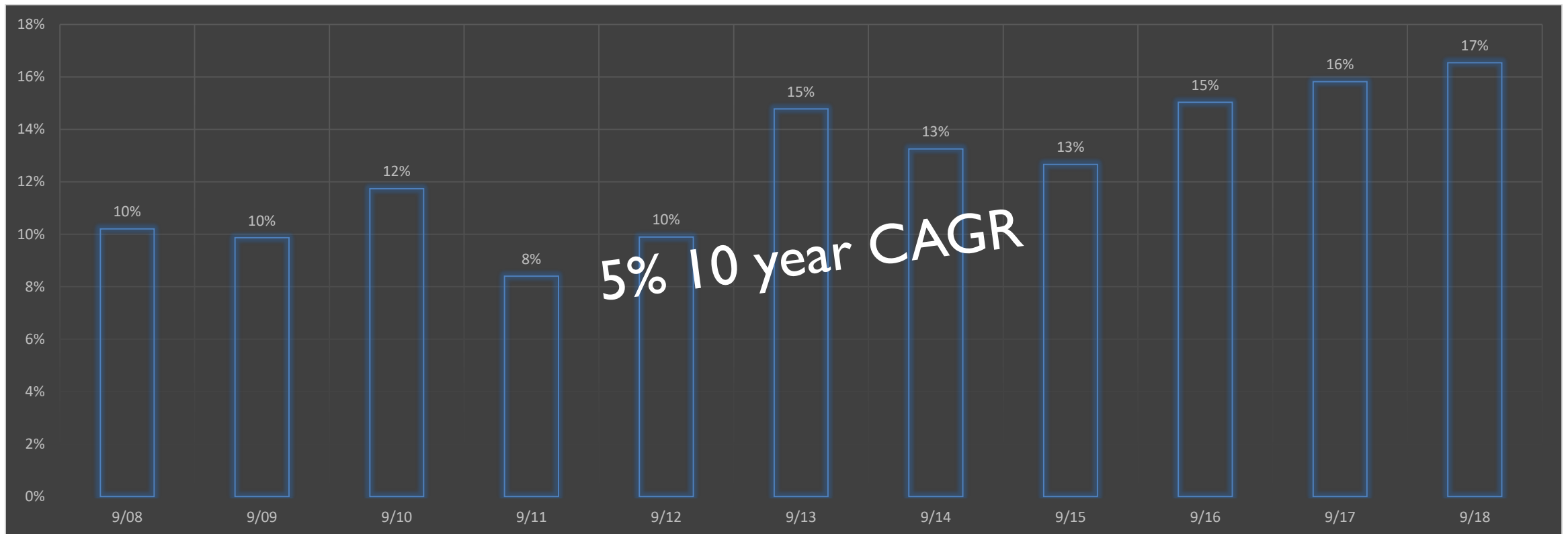


## EVA





# PROFITABILITY MEASURES – FREE CASH FLOW TO SALES





# MANAGEMENT

THE LEADERSHIP OF THE  
COMPANY



## MANAGEMENT - CEO

- Robert A Iger “Bob” has served as Chairman and Chief Executive Officer since March 2012 and has been CEO since 2005.
- Prior Disney positions:
  - President and Chief Operating Officer
  - President of Walt Disney International
- Outside Experience:
  - From 1974 to 1998, Mr. Iger held a series of increasingly responsible positions at ABC, Inc. and its predecessor Capital Cities/ABC, Inc.,
- Mr. Iger has been a Director of the Company since 2000.
- Mr. Iger holds enough company stock that his goals are aligned with those of shareholders
  - Over 1 million shares of company stock representing over \$100 million, or about 0.1% of outstanding shares



Board member outside Disney at:



Bloomberg  
Philanthropies



# MANAGEMENT – BOARD OF DIRECTORS

## Board Members

- Robert A Iger "Bob" - Chairman - Since 2012
- Aylwin B Lewis - Independent Director - Since 2004
- John S Chen - Independent Director - Since 2004
- Fred Horst Langhammer - Independent Director - Since 2005
- Susan E Arnold - Independent Director - Since 2007
- Maria Elena Lagomasino "Mel" - Independent Director - Since 2015
- Mark G Parker - Independent Director - Since 2016
- Mary T Barra - Independent Director - Since 2017
- Safra A Catz - Independent Director - Since 2018
- Francis A Desouza - Independent Director - Since 2018
- Michal B Froman "Mike" - Independent Director - Since 2018

## Summary Highlights

- ✓ Independent Board of Directors, except Chief Executive Officer
- ✓ BoD reviews CEO performance and compensation regularly
- ✓ BoD with CEO evaluates performance of principal senior executives
- ✓ Responsible for CEO and other management succession planning
- ✓ Director compensation determined annually
- ✓ Directors expected to own company stock worth 5x Board retainer to align with shareholder interests
- ✓ Board reviewed annually for composition and independence, access to information, responsiveness to shareholders, maintenance of standards of conduct and company guidelines



# MANAGEMENT – BOARD OF DIRECTORS

## Compound Annual Growth Rate while on BoD

Board Members	Revenue	EPS	Free Cash Flow
Robert A Iger "Bob" - Chairman - Since 2012	5%	14%	7%
Aylwin B Lewis -Retired Potbelly Chairman & CEO - Since 2004	5%	14%	9%
John S Chen - Executive Chair and CEO of BlackBerry Ltd - Since 2004	5%	14%	9%
Fred Horst Langhammer - Chairman of Global Affairs at Estee Lauder Companies Inc - Since 2005	5%	14%	11%
Susan E Arnold - Operating Executive of The Carlyle Group - Since 2007	5%	12%	9%
Maria Elena Lagomasino "Mel" - CEO and Managing Partner of WE Family Offices - Since 2015	2%	7%	5%
Mark G Parker - President and CEO of Nike Inc - Since 2016	2%	8%	6%
Mary T Barra - Chairman and CEO of General Motors Company - Since 2017	7%	22%	11%
Safra A Catz - CEO of Oracle Inc - Since 2018	12%	39%	20%
Francis A Desouza - CEO of Illumina Inc - Since 2018	12%	39%	20%
Michal B Froman "Mike" - Vice Chairman and President for Strategic Growth at Mastercard Inc - Since 2018	N/A	N/A	N/A



# MANAGEMENT – KEY EXECUTIVE COMPENSATION

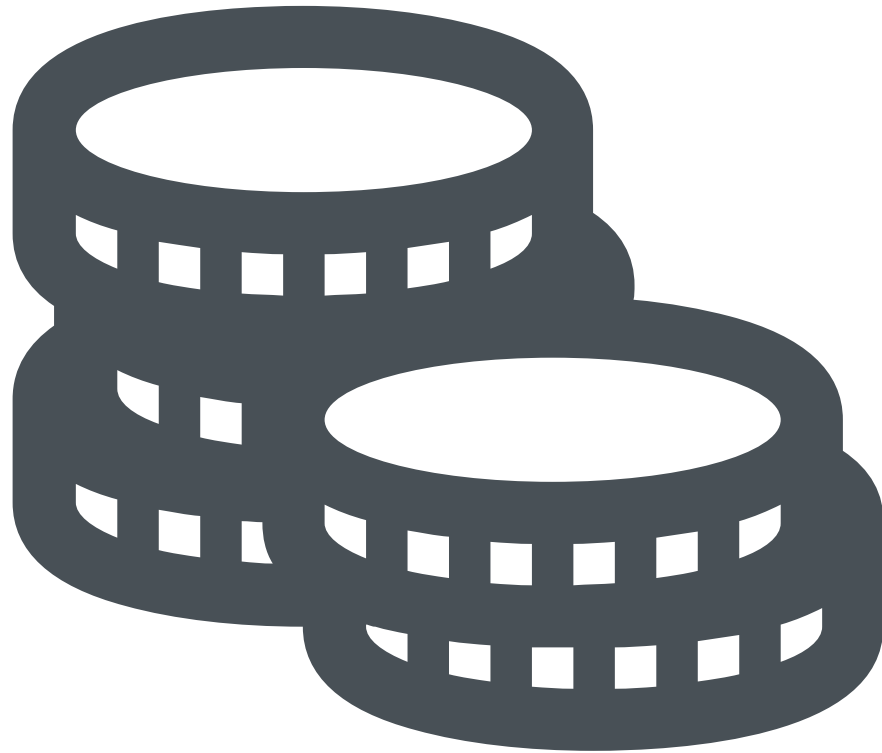
Robert A Iger "Bob" – Chief Executive Officer

Year	Salary	Restricted Stock Award	Securities Options	Other*	Total
2013	\$2,500,000	\$8,804,278	\$8,478,239	\$11,538,538	\$31,321,055
2014	\$2,500,000	\$8,943,204	\$8,339,396	\$26,714,418	\$46,497,018
2015	\$2,548,077	\$8,862,741	\$8,419,823	\$25,082,973	\$44,913,614
2016	\$2,500,000	\$8,828,117	\$8,454,674	\$24,099,605	\$43,882,396
2017	\$2,500,000	\$8,984,191	\$8,298,322	\$16,501,167	\$36,283,680

Year	Salary	Restricted Stock Award	Securities Options	Other*	Total
2013	\$5,338,862	\$12,651,352	\$10,798,250	\$19,884,333	\$48,672,797
2014	\$5,522,481	\$13,295,454	\$11,139,423	\$38,346,662	\$68,304,020
2015	\$6,767,808	\$14,423,494	\$12,031,865	\$43,114,754	\$76,337,921
2016	\$7,450,769	\$15,926,488	\$13,186,882	\$44,365,461	\$80,929,600
2017	\$7,562,308	\$16,082,740	\$13,030,362	\$30,527,493	\$67,202,903

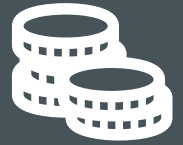
- Robert A Iger "Bob" – Chief Executive Officer
- Christine M Mccarthy – SVP and Chief Financial Officer
- Alan N Braverman – SVP, General Counsel and Secretary
- Kevin A Mayer – SVP and Chief Strategy Officer
- Mary Jayne Parker – SVP and Chief Human Resources Officer

\*Other consists of Non-Equity Compensation and Other Compensation



# VALUATION

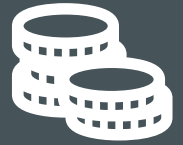
SO WHAT'S IT WORTH?



# VALUATION – COMPANY MULTIPLE COMPARISON

Current vs 5Yr Average Historical Multiple						5Yr Historical Multiple Range			Implied @ Hist Avg	
Metric	Current	Hist Avg	Diff	# SD	3M Trend	Low	Range	High	Hist Avg	Price (USD)
<b>Current Price</b>							● Current ◆ Hist Avg			<b>112.20</b>
● BF EV/EBITDA	10.3x	10.6x	-3%	-0.4		9.1x		12.8x	10.6x	115.99
● <b>BF P/E</b>	<b>15.6x</b>	17.2x	-10%	-0.8		13.1x		21.7x	17.2x	<b>124.08</b>
● BF EV/EBIT	12.1x	12.3x	-2%	-0.2		10.5x		14.6x	12.3x	114.32
● BF EV/Rev	2.9x	3.2x	-8%	-1.1		2.8x		4.0x	3.2x	123.48
● LF P/BV	3.5x	3.7x	-6%	-0.6		2.7x		4.6x	3.7x	119.41





# VALUATION – PEER MULTIPLE COMPARISON

## Analysis of DIS US Multiples - Premium to Comps

						3M	6M	1Yr	2Yr	5Yr
Current vs 5Yr Average Historical Premium						5Yr Historical Premium Range			Implied @ Hist Avg	
Metric	Current	Hist Avg	Diff	# SD	3M Trend	Low	Range	High	Multiple	Price (USD)
<b>Current Price</b>							● Current ◆ Hist Avg			112.20
11) BF EV/EBITDA	10%	9%	1%	0.2		-10%		25%	10.2x	110.74
12) BF P/E	26%	25%	2%	0.1		-5%		51%	15.4x	110.74
13) BF EV/EBIT	2%	7%	-4%	-0.7		-9%		23%	12.6x	117.61
14) BF EV/Rev	-7%	-2%	-6%	-0.7		-25%		14%	3.1x	120.09
15) LF P/BV	-9%	-9%	0%	0.0		-35%		15%	3.4x	111.71

9) View All Comps Below

## Summary of Current Multiples

Name	2Y Corr↓	Mkt Cap (USD)	BF EV/EBITDA	BF P/E	BF EV/EBIT	BF EV/Rev	LF P/BV▲
1) Walt Disney Co/The		167.03B	10.3x	15.6x	12.1x	2.9x	3.5x
Current Premium to Comps Mean			10%	26%	2%	-7%	-9%
Mean (Including DIS US)		70.55B	9.4x	12.3x	11.8x	3.2x	3.8x
2) Twenty-First Century Fox Inc	0.56	90.82B	13.8x	23.1x	15.2x	3.2x	4.4x
3) CBS Corp	0.54	17.99B	7.9x	8.3x	8.5x	1.8x	7.2x
4) Discovery Inc	0.42	19.44B	8.3x	8.0x	11.5x	3.4x	2.4x
5) Viacom Inc	0.40	11.64B	6.7x	6.6x	7.2x	1.5x	1.6x



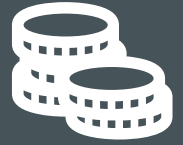
# VALUATION – DISNEY CURRENT BUSINESS

## Disney Current Business:

Model Assumptions			
Forecast Years:		10	
Terminal Growth Rate		3.00%	
Override Default Benchmark			
Shares Outstanding		1.489	
Years for Hist. Multiple Calculation		5	
Free Cash Flow to Firm:		Value	Per Share
<b>Present Value of FCF:</b>		79,572	53.5
<b>Terminal Value:</b>			
<input type="radio"/> Perpetual Growth	<b>5y Avg</b>	102,473	68.8
<input checked="" type="radio"/> P/E	18.78	153,961	103.4
<input type="radio"/> EV/EBITDA	11.56	128,178	86.1
<input type="radio"/> P/FCF	20.33	119,130	80.0
<b>Firm Intrinsic Value</b>		<b>233,533</b>	<b>156.9</b>
<b>Value of Equity</b>		233,533	<b>156.87</b>
Current Price			112.30
<b>Upside/Downside</b>			<b>39.69%</b>

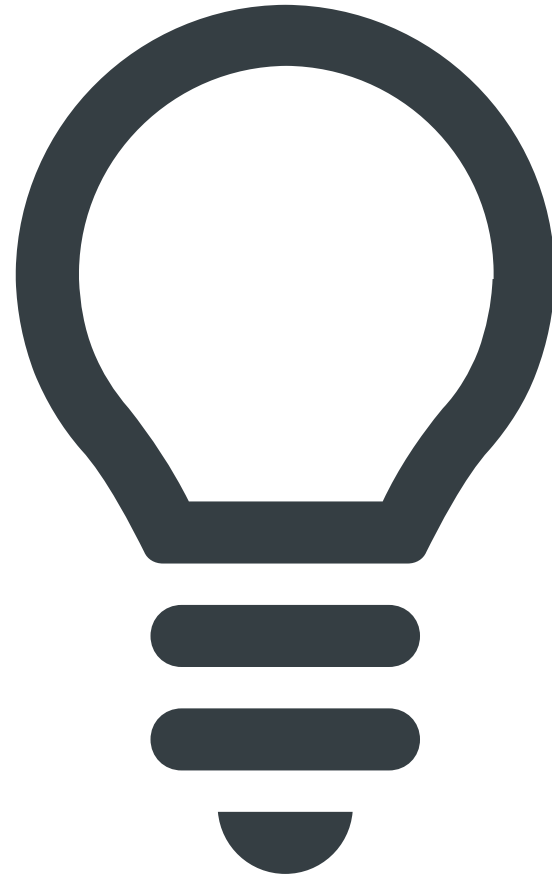
## Current Business Assumptions

- Revenue growth of 5% Y-O-Y
- Gross margin tied to 2018 actuals
- Effective tax rate of 21%
- CAPEX tied to 2018 % of revenue
- Dividends increased 5% per share per year
- Share repurchases at rolling 5 year average
- 5 year historical P/E ratio
- Price calculated at actual shares outstanding (to be conservative)



# VALUATION – DISNEY+

	<u>Bear</u>	<u>Base/Bear</u>	<u>Base</u>	<u>Base/Bull</u>	<u>Bull</u>
Price/earnings ratio	20.0	27.5	35.0	42.5	50.0
Initial subscribers	5M	10M	15M	20M	20M
Subscriber growth	10%	10%	15%	20%	20%
Per user monthly pricing	\$6	\$7	\$8	\$9	\$10
<b>Disney+ value per share</b>	<b>\$1.90</b>	<b>\$5.51</b>	<b>\$16.26</b>	<b>\$41.65</b>	<b>\$52.08</b>
Disney value per share	\$156.89	\$156.89	\$156.89	\$156.89	\$156.89
<b>Total</b>	<b>\$158.79</b>	<b>\$162.40</b>	<b>\$173.15</b>	<b>\$198.54</b>	<b>\$208.97</b>
<i>% undervalued</i>	<i>41%</i>	<i>45%</i>	<i>54%</i>	<i>77%</i>	<i>86%</i>



CONCLUSION



# STOCK CHART





# CONCLUSION

- Disney has a diverse business with proven segments that have stood the test of time.
- The company is positioned well for growth with upcoming and continued efforts in streaming.
- The company's history and current state of mergers and acquisitions has helped accelerate growth and will propel it into the future.
- The company will benefit greatly from tailwinds from economic trends for streaming service and theme park growth.
- It is hard to deny that Disney has entrenched itself as the global entertainment leader and earned itself a wide economic moat.
- While it certainly has competition, Disney does not have competition with the same diverse business model, or total scale that it does. It stands out amongst its peers.
- Fundamentally, the company is growing in a healthy way in every metric, figures that will only be bolstered once the 21<sup>st</sup> Century Fox acquisition is completed and Disney+ is up and running.
- The company is generating great returns on equity, assets, and invested capital for the company and shareholders alike, in excess of its WACC.
- Company leadership, from Bob Iger to the Board of Directors, has proven to be a very effective team.
- By our measures, the company is undervalued as it stands, but drastically undervalued when Disney+ potential growth is factored in.

**These factors combine to make Disney our best idea of 2019 (and beyond)!**



Q&A

THANK YOU!