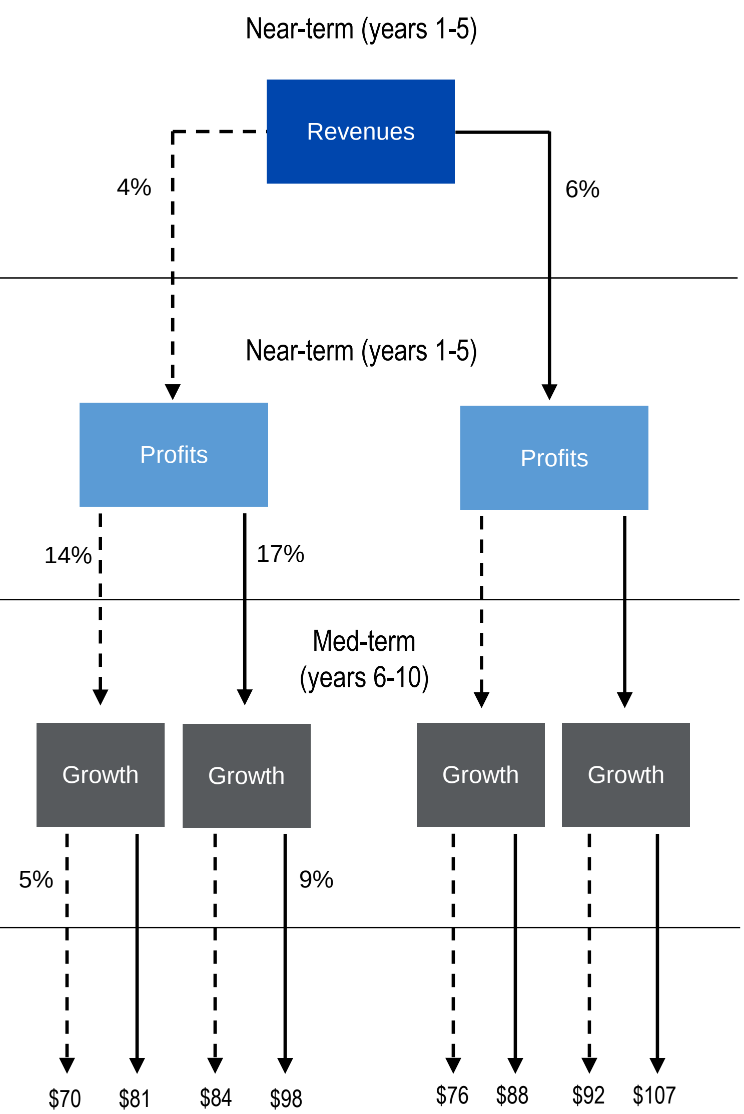
Valuation Waterfall

Revenue Growth
The last 10 years, DIS has grown at a 6%+ average pace, thanks to some notable studio hits and steady growth in its largest segment, broadcast media (anchored by ESPN). Best-case reflects optimism re: Star Wars and Marvel franchises, plus expansion at Disney resorts overseas. Worst-case reflects effect of possible economic contraction and uncertainties related to streaming services. Bob Iger to retire in 2018.

Profitability
Average profitability over the last few years has been up significantly thanks to operating leverage in Disney's studio business with hits like Frozen, Star Wars, and Captain America. We are giving the company the benefit of the doubt and projecting best-case profitability over the next five years to be higher than at any time historically. Worst-case profitability represents the trailing 5-year average in 2014.

Medium-Term Cash Flow Growth
Disney has done a wonderful job at investing its owners' profits over the past 10 years (a period in which Iger took over CEO from Eisner), and Free Cash Flow to Owners have increased at an average rate of around 9%. We think that Disney could repeat this rapid growth in the medium-term and set that as our best-case growth rate. Our worst-case growth rate represents our assumptions for nominal US GDP growth in a New Normal environment.

Fair Value Range
Our fair value range extends from $70 to $107 / share and has an average value of all valuation scenarios of $87 / share, below today's share price of around $98. All our valuation scenarios but one (the best | best | best scenario) lie at or below the present stock price. We have not identified any scenarios as more or less likely than others. Those invested directly in DIS might consider shifting that allocation to a more undervalued stock.



Methodology

Framework Investing analyses focus on three main valuation drivers: revenue growth, profitability, and medium-term cash flow growth. We estimate a best- and worst-case scenario for each of these drivers resulting in a total of $2^3 = 8$ fair value scenarios based on discounted cash flow methodology. Profitability is measured by Owners' Cash Profit (OCP) margin. We use a discount rate of 10% for large capitalization stocks. A wide spread of lowest and highest fair values indicates a firm whose value is uncertain. Risk depends on the stock price's relationship to the valuation range.

Best-case scenarios are represented with a solid line; worst-case scenarios, with a dotted one.