

Walt Disney Productions, June 1984

One of the best examples of service through people is Walt Disney Productions. . . . How Disney looks upon people, internally and externally, handles them, communicates with them, rewards them, is in my view the basic foundation upon which its five decades of success stand.

—Peters and Waterman, *In Search of Excellence*

In Search of Excellence didn't simplify enough! In the private or public sector, in big business or small, we observe that there are only two ways to create and sustain superior performance over the long haul. First, take exceptional care of your customers via superior service and superior quality. Second, constantly innovate. That's it. There are no alternatives in achieving long-term superior performance. Financial control is vital but one does not sell financial control.

—Peters and Austin, *A Passion for Excellence*

Ron Miller, president and chief executive officer of Disney Productions Inc., pondered the essence of his dilemma. For the past two and a half months, his company had been the subject of a takeover attempt by Saul Steinberg, a well-known raider. The attempt had started innocently enough with the announcement of the purchase of 6.3 percent of Disney's outstanding common stock. In subsequent announcements, Steinberg's holdings rose to 12.1 percent. When Steinberg announced his intention of acquiring 25 percent of Disney, Miller undertook a series of evasive actions, including the purchase of Arvida Corporation for \$200 million in common stock (3.33 million shares) and the attempted purchase of Gibson Greetings Inc. for \$310 million in stock. Just yesterday, June 11, 1984, Steinberg retaliated with a public tender offer for 49 percent of the company at \$67.50 per share if Disney completed its acquisition of Gibson Greetings and at \$72.50 per share without Gibson. Before the raid began, Disney stock was trading around \$50 per share.

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The senior executives at Disney were shocked at this turn of events. Consumers identified Disney with wholesome family entertainment more closely than they did any other corporation. The animated characters emerging from Disney were hallmarks of American culture. Millions of visitors delighted in the ingenuity of Disney theme parks, which business pundits cited as a model of excellence. The artistic creativity of Disney Productions was virtually a national resource. It was inconceivable to Miller that such an excellent company would be dismantled, or for that matter, raided in the first place.

There seemed to be two possible responses to the tender offer. The first was to fight the offer in the courts and media. However, Steinberg had shown himself to be very determined, so even a successful outcome would be costly. The other alternative would be to offer to repurchase Steinberg's shares. In fact, Steinberg was a notorious "greenmailer," who had been paid \$47 million by Quaker State Oil Company only that previous April. Steinberg was believed to own 4.2 million shares of Disney stock, which he had acquired at an average price of \$63.25 per share. Miller wondered what an appropriate repurchase price would be.

Businesses and Strategy

The origins of Disney Productions were described in the *1982 Annual Report*:

In July 1923, a young cartoonist named Walt Disney arrived in Hollywood, with drawing materials under his arm, \$40 in his pocket, and hopes that he could get started in the animated film business. Before boarding the train, he had known failure, disappointment, and even hunger. Waiting for him at Union Station in Los Angeles was his brother, Roy, who was to dedicate his life to helping make Walt's dreams come true. With a \$500 loan, they started their film business, working at home late at night with their wives, Lilly and Edna, working alongside them around a kitchen table . . . struggling to keep a tiny studio going. There was no instant success for them in this era of silent pictures, and every dime was plowed back into keeping the company running. In 1928 came the first real break. While the movie industry was still turning its back to the possibilities of sound, Walt produced *Steamboat Willie*, the first cartoon with sound. It also introduced a new star—Mickey Mouse. In the decades that followed, Walt became an extraordinary filmmaker, a motion picture innovator and pioneer. And the name "Walt Disney" became universally known as the symbol of the finest in family entertainment.¹

In 1984, the company described itself as a "diversified international company engaged in family entertainment and community development." In fiscal 1983, Disney had sales of \$1.3 billion on assets of \$2.38 billion (see **Exhibits 1 and 2**). The business activities of the company are in four

¹Walt Disney Productions, *1982 Annual Report*.

segments: theme parks, films, consumer products, and real estate development. The Disney strategy was to form these segments into interlocking pieces of a portfolio, each supporting the activities of another.

The entertainment and recreation segment included theme parks and resorts. For example, Disneyland Park consisted of seven principal areas or themes: Fantasyland, Adventureland, Frontierland, Tomorrowland, New Orleans Square, Main Street, and Bear Country. In each area were rides, attractions, restaurants, refreshment stands, and souvenir shops in keeping with the surrounding theme. Theme parks were located in Anaheim, California; Orlando, Florida; and Tokyo, Japan. A new theme park near Orlando (opened in October 1982), EPCOT (for Experimental Prototype Community of Tomorrow) introduced two new themes—Future World and World Showcase. Disneyland covered 344 acres in Anaheim and the Disney World complex in Orlando included 28,000 acres of land (twice the size of Manhattan), most of which was undeveloped. Even before the Arvida acquisition, analysts estimated Disney's raw-land holdings to be worth \$300-700 million. Disneyland was carried on the balance sheet at \$20 million, although its replacement value was estimated to be \$140 million. The company owned and operated hotels consisting of 400 units of vacation villas and 5,163 rooms in various locations. Management believed that its theme parks benefited substantially from its reputation in the entertainment business and from its other activities. There were 23 other major theme parks in the continental United States in 1984. Recently, theme parks in the South and Midwest had been sold for about two times operating income.

In film entertainment, the company produced films for release under its own label as well as the Touchstone label, a brand oriented toward an adult audience. The company's film library consisted of 25 full-length animated features in color, 123 full-length live-action features, 8 "true-life adventure" feature films, and over 500 other shorter films. Certain films proved to be an enduring source of cash, as indicated by the billings of *Snow White* over the years, given in **Exhibit 3**. The company produced the television series *Wonderful World of Disney* from 1961 through 1981. The Disney Channel, a new venture into pay television, provided 19 daily hours of entertainment through cable-system operators. **Exhibit 4** provides an overview of the competitors in the cable-programming-services industry. Finally, the company marketed 114 films and cartoon titles to the home-entertainment market, principally for use with video recorders. The company's studios included 44 acres in Burbank, California, and a ranch of 691 acres outside Burbank.

Real estate or community development was conducted through the company's new subsidiary, Arvida Corporation, acquired on June 6, 1984. Whereas Arvida was not a factor in the performance predating the takeover bid, it now represented a significant asset in the valuation of the company. Arvida owned or controlled the development of 17,334 acres of land in Florida, Georgia, and California.

In the area of consumer products, the company licensed the name Walt Disney, its animated characters, literary properties, songs, and music to manufacturers, publishers, and retailers. Historically, the returns in the consumer products segment were quite high. For instance, in 1978 this segment gave a pretax return on assets of 179 percent.

Overall, Miller wrote in the *1983 Annual Report*, “We expect our company to flourish because we have created unique value along with competitive and strategic advantage in the marketplace.”

Financial Performance

In contrast to the upbeat optimism of management, consumers, and business pundits, securities analysts and some journalists were less enthusiastic. The performance of Walt Disney Productions in the aggregate is given in **Exhibits 5** and **6**. **Exhibit 7** disaggregates corporate performance by business segment.

The lukewarm financial appraisal was motivated by worsening performance in the film and theme-park segments. In 1979, films accounted for 20 percent of pretax earnings and gave a pretax return on assets of 56 percent; in 1983, this segment lost \$33 million. This disappointment was attributable to losses in the pay-TV start-up operation, a \$20-million write-off for a new-release film, *Something Wicked This Way Comes*, and cancellation of *Wonderful World of Disney* on CBS, which caused a decline of \$16 million in TV revenues. Losses in this segment were not surprising, analysts contended, because only two out of ten films in general did better than break even. Indeed, the film-entertainment industry showed highly volatile operating performance (see **Exhibit 8**). But, as the market shares presented in **Exhibit 9** suggest, some competitors were better positioned to withstand industry volatility than others. Industry observers also noted the large latent values in the studios’ film libraries (see **Exhibit 10**). Recent events in the industry were viewed as attempts to exploit these values: (1) Taft Broadcasting’s purchase of QM Productions and Worldvision in 1979; (2) HBO’s purchase of Filmways in 1982; and (3) purchase of Columbia Pictures by Coca Cola in 1982.

The theme-park performance was similarly lackluster. Disney’s attendance growth had been low or zero over the preceding decade, though as recently as 1978 the entertainment and recreation segment had shown a pretax return on assets of 15.7 percent. For the industry in general, attendance over those ten years had grown at about 5 percent annually, but the benefits of this growth were diluted by inflation and narrowing margins (see **Exhibit 11**). The debuts of Disney World and EPCOT center had boosted attendance to a new level, but attendance dropped 8 percent in the final quarter of 1983 and another 19 percent in the first quarter of 1984. Analysts felt that, with 25 major theme parks in competition for an aging population (see **Exhibit 12**), demand was thoroughly saturated and park attendance would grow no more than 5 percent per year—one-third the rate of the 1970s. Indeed, a major question in analysts’ minds was why Disney had chosen to grow the theme-park segment as aggressively as it had. The initial cost estimate of Disney World/EPCOT Center had been \$600 million; six years later, the cost had risen to \$1.9 billion. One analyst commented, “The increment to the theme parks’ operating earnings from Disney’s . . . investment probably did not exceed \$80 million before taxes. After charging itself with taxes, Disney is left with about \$45

million. That represents less than a 4 percent return on EPCOT. If Disney had invested in Treasury Bills it could have done better.”²

Disney’s stock price reflected this softened performance. As recently as April 1983, shares had traded at \$84.38. Then, in November 1983, Disney announced a 17 percent drop in quarterly earnings. In response, the share price dropped from \$62.38 to \$47.50. Richard Simon, an analyst at Goldman Sachs, wrote:

Disney stock . . . has not been a growth vehicle for four years. We do not believe theme park earnings will grow rapidly and think that fiscal 1983’s operating earnings of \$197 million was a higher plateau achieved because of EPCOT; nor do we believe the consumer product line is a dynamic growth area. As we have stated in the past, a more positive investment stance must be based on a turn in the company’s film business and pay TV channels, both extremely risky endeavors.³

Simon estimated the firm’s asset value per share at about \$75, and forecast fiscal 1984 earnings per share to be \$3.25; the current P/E was 15.

The stock price began to recover in January 1984, but for reasons unknown to the company. A newspaper column on the subject of this recovery is reproduced in **Exhibit 13**.

Question of Leadership

Some analysts doubted that this declining performance was temporary, and pointed to the lack of creative leadership after the death of Walt Disney, in 1966. One former executive said, “If there were projects under discussion, people would say, ‘Walt wouldn’t do that.’” And Dennis Forst, a securities analyst with Bateman Eichler, said, “Walt was a real genius. He was running the company 15 years after his death.”⁴

²“Problems in Walt Disney’s Magic Kingdom,” *Business Week* (March 12, 1984): 51. This estimate assumes an accrual-based investment of \$1.125 billion; on a cash-based investment of \$1.9 billion, the after-tax return on EPCOT would have been 2.4 percent.

³Richard P. Simon, “Walt Disney Productions,” *Investment Research* (Goldman Sachs & Company, November 17, 1983): 1–2.

⁴Tom Nicholson, “Saving the Magic Kingdom,” *Newsweek* (October 4, 1984): 44.

Business Week noted:

Change will not come easily at Disney, partially because so many of its key executives worked under the founder that a Walt Disney cult developed. . . . Until recently, it appeared that new ventures were undertaken only if Walt had conceived them or if they seemed like projects he would have approved.⁵

The Repurchase Proposal

As Miller pondered the question of whether to repurchase Steinberg's holdings of Disney stock, he considered what price would be appropriate. (**Exhibit 14** presents the time series of Disney's stock price over the past seven months.) He also wondered whether paying greenmail would be fair to other shareholders. And finally, he wondered whether—and, if so, how—this episode should change the management policies of the company.⁶

⁵“Problems in Walt Disney's Magic Kingdom,” *Business Week* (March 12, 1984): 50.

⁶Disney's beta was .90. In June 1984, the average yield-to-maturity of one-year Treasury bonds was 12.08 percent. The average difference between the return on the market portfolio and the risk-free rate was 8.6 percent.

Exhibit 1

WALT DISNEY PRODUCTIONS, JUNE 1984

Consolidated Statement of Income, Capital Expenditures, Depreciation, and Assets
(dollar amounts in thousands, except per-share data)

| | Year Ended September 30 | | |
|---|-------------------------|-------------------|-------------------|
| | <u>1983</u> | <u>1982</u> | <u>1981</u> |
| Revenues | | | |
| Entertainment and recreation | \$1,031,202 | \$ 725,610 | \$ 691,811 |
| Motion pictures | 165,458 | 202,102 | 196,806 |
| Consumer products and other | <u>110,697</u> | <u>102,538</u> | <u>116,423</u> |
| Total revenues | <u>1,307,357</u> | <u>1,030,250</u> | <u>1,005,040</u> |
| Costs and Expenses of Operations | | | |
| Entertainment and recreation | 834,324 | 592,965 | 562,337 |
| Motion pictures | 198,843 | 182,463 | 162,180 |
| Consumer products and other | <u>53,815</u> | <u>54,706</u> | <u>65,859</u> |
| Total costs and expenses of operation | <u>1,086,982</u> | <u>830,134</u> | <u>790,376</u> |
| Operating Income (Loss) Before Corporate Expenses | | | |
| Entertainment and recreation | 196,876 | 132,645 | 129,474 |
| Motion pictures | (33,385) | 19,639 | 34,626 |
| Consumer products and other | <u>56,882</u> | <u>47,832</u> | <u>50,564</u> |
| Total operating income before corporate expenses | <u>220,375</u> | <u>200,116</u> | <u>214,664</u> |
| Corporate Expenses (Income) | | | |
| General and administrative | 35,554 | 30,957 | 26,216 |
| Design projects abandoned | 7,295 | 5,147 | 4,598 |
| Interest expense (income) - net | <u>14,066</u> | <u>(14,781)</u> | <u>(33,130)</u> |
| Total corporate expenses (income) | <u>56,915</u> | <u>21,323</u> | <u>(2,316)</u> |
| Income before Taxes on Income | 163,460 | 178,793 | 216,980 |
| Taxes on income | <u>70,300</u> | <u>78,700</u> | <u>95,500</u> |
| Net Income | <u>\$ 93,160</u> | <u>\$ 100,093</u> | <u>\$ 121,480</u> |
| Earnings per Share | <u>\$2.70</u> | <u>\$3.01</u> | <u>\$3.72</u> |
| Capital Expenditures | | | |
| Entertainment and recreation | \$ 287,940 | \$ 645,632 | \$ 344,361 |
| Motion pictures | 1,845 | 2,794 | 4,040 |
| Consumer products and other | 222 | 66 | 277 |
| Corporate | <u>1,195</u> | <u>273</u> | <u>110</u> |
| Depreciation Expense | | | |
| Entertainment and recreation | 88,059 | 40,078 | 37,338 |
| Motion pictures | 1,643 | 1,517 | 1,200 |
| Consumer products and other | 135 | 118 | 155 |
| Corporate | <u>347</u> | <u>204</u> | <u>193</u> |
| Identifiable Assets | | | |
| Entertainment and recreation | 2,018,787 | 1,808,731 | 1,141,657 |
| Motion pictures | 180,201 | 146,337 | 157,106 |
| Consumer products and other | 37,381 | 34,129 | 39,239 |
| Corporate | <u>\$ 144,826</u> | <u>\$ 113,619</u> | <u>\$ 272,007</u> |

Source: Form 10-K filed with the Securities and Exchange Commission by the company for 1983.

Exhibit 2

WALT DISNEY PRODUCTIONS, JUNE 1984

Consolidated Balance Sheet
(dollar amounts in thousands)

| | <u>Year Ended September 30</u> | |
|---|--------------------------------|--------------------|
| | <u>1983</u> | <u>1982</u> |
| ASSETS | | |
| Current Assets | | |
| Cash | \$18,055 | \$13,652 |
| Accounts receivable | 102,847 | 78,968 |
| Income taxes refundable | 70,000 | 41,000 |
| Inventories | 77,945 | 66,717 |
| Film production costs | 44,412 | 43,850 |
| Prepaid expenses | <u>19,843</u> | <u>18,152</u> |
| Total current assets | 333,102 | 262,339 |
| Film Production Cost--Non-Current | 82,598 | 64,216 |
| Property, Plant and Equipment, at cost | | |
| Entertainment attractions, buildings and equipment | 2,251,297 | 1,916,617 |
| Less accumulated depreciation | <u>(504,365)</u> | <u>(419,944)</u> |
| | 1,746,932 | 1,496,673 |
| Construction and design projects in progress | | |
| Epcot Center | 70,331 | 120,585 |
| Other | 37,859 | 39,601 |
| Land | <u>16,687</u> | <u>16,379</u> |
| Other Assets 1,871,809 | 1,673,238 | |
| | 93,686 | 103,022 |
| | <u>\$2,381,195</u> | <u>\$2,102,816</u> |
| LIABILITIES AND STOCKHOLDERS= EQUITY | | |
| Current Liabilities | | |
| Accounts payable, payroll and other accrued liabilities | \$187,641 | \$240,753 |
| Taxes on income | <u>50,557</u> | <u>26,560</u> |
| Total current liabilities | 238,198 | 237,313 |
| Long-Term Borrowings (including commercial paper of \$118,200 and \$200,000) | 346,325 | 315,000 |
| Other Long-Term Liabilities and Non-Current Advances | 110,874 | 94,739 |
| Deferred Taxes on Income and Investment Credits | 285,270 | 180,980 |
| Stockholders Equity | | |
| Preferred shares, no par | | |
| Authorized--5,000,000 shares, none issued | | |
| Common shares, no par | | |
| Authorized--75,000,000 shares | | |
| Issued and outstanding--34,509,171 and 33,351,482 shares | 661,934 | 588,250 |
| Retained earnings | <u>738,594</u> | <u>686,534</u> |
| | <u>1,400,528</u> | <u>1,274,784</u> |
| | <u>\$2,381,195</u> | <u>\$2,102,816</u> |

Exhibit 3

WALT DISNEY PRODUCTIONS, JUNE 1984

Annual Revenue from *Snow White*
(in millions of dollars)

| <u>Year</u> | <u>Revenue</u> |
|-------------|----------------|
| 1937 | \$10.00 |
| 1944 | 4.0 |
| 1952 | 5.0 |
| 1958 | 6.5 |
| 1965 | 13.0 |
| 1967 | 23.0 |
| 1983 | \$28.5 |

Exhibit 4
WALT DISNEY PRODUCTIONS, JUNE 1984
 Cable Programming Services, December 1983

| <u>Service</u> | <u>Systems</u> | <u>Subscribers</u> |
|--|--------------------|--------------------|
| Basic | | |
| ESPN | 7,074 ¹ | 28,500,000 |
| WTBS | 5,717 | 27,654,000 |
| CBN Cable | 3,900 | 23,000,000 |
| CNN | 4,186 | 22,626,000 |
| USA | 3,600 | 21,000,000 |
| MTV | 2,000 | 17,600,000 |
| Nickelodeon | 3,000 | 17,600,000 |
| C-SPAN | 1,200 | 16,000,000 |
| Lifetime ¹ | 1,602 | 16,000,000 |
| Cable Health | 1,315 | 14,000,000 |
| ARTS | 1,936 | 12,500,000 |
| Nashville Network | 1,300 | 11,245,000 |
| WGN | 4,200 | 10,900,000 |
| Satellite Program Network | 460 | 10,440,000 |
| Weather Channel | 1,000 | 10,000,000 |
| Daytime | 734 | 10,000,000 |
| MSN-Information Channel | 521 | 8,685,000 |
| CNN Headline | 891 | 8,330,000 |
| PTL Club | 825 | 8,100,000 |
| WOR | 1,055 | 6,200,000 |
| Black Entertainment TV | 240 | 5,200,000 |
| Learning Channel | 474 | 3,913,000 |
| Trinity Broadcast Network | 290 | 3,350,000 |
| National Jewish Network | 165 | 3,200,000 |
| Eternal Word TV Network | 104 | 1,628,000 |
| National Christian Network | 108 | 1,434,353 |
| Genesis Story Time (on CBN subcarrier) | 1 | 6,000 |
| Pay | | |
| HBO | 5,200 | 13,500,000 |
| Showtime | 2,900 | 4,750,000 |
| Cinemax | 2,000 | 2,700,000 |
| Movie Channel | 2,700 | 2,000,000 |
| Playboy | 320 | 577,000 |
| Disney | 1,136 | 531,000 |
| HTN Plus | 400 | 250,000 |
| Bravo | 101 | 155,000 |
| Galavision/SIN | 160 | 120,000 |
| Spotlight ² | 237 | 750,000 |
| Pay-per-view | | |
| PPV Associates | 250 | 7,600,000 |
| Don King Sports & Entertainment | 9 ³ | 500,000 |

¹Combination of CHN and Daytime as of February 1, 1983.

²To be shut down January 31, 1984.

³Includes other pay-TV outlets.

Source: "Broadcasting, December 12, 1983," in H. L. Vogel, *Entertainment Industry Economics* (Cambridge: Cambridge University Press, 1986), 195.

Exhibit 5
WALT DISNEY PRODUCTIONS, JUNE 1984
 Selected Financial Data
 (in thousands, except per-share and other data)

| | <u>1983</u> | <u>1982</u> | <u>1981</u> | <u>1980</u> | <u>1979</u> |
|---|-------------|-------------|--------------|-------------|-------------|
| Statement of Income Data | | | | | |
| Revenue | \$1,307,357 | \$1,030,250 | \$ 1,005,040 | \$ 914,505 | \$ 796,773 |
| Operating income before corporate expenses | 220,375 | 200,116 | 214,664 | 231,300 | 205,695 |
| Corporate expenses | 42,849 | 36,104 | 30,814 | 25,424 | 20,220 |
| Interest expense (income)--net | 14,066 | (14,781) | (33,130) | (42,110) | (28,413) |
| Taxes on income | 70,300 | 78,700 | 95,500 | 112,800 | 100,000 |
| Net income | 93,160 | 100,093 | 121,480 | 135,186 | 113,788 |
| Balance-sheet Data | | | | | |
| Current assets | 33,102 | 262,339 | 457,829 | 506,202 | 484,141 |
| Property, plant, and equipment--net of depreciation | 1,871,809 | 1,673,238 | 1,069,369 | 762,546 | 648,447 |
| Total assets | 2,381,195 | 2,102,816 | 1,610,009 | 1,347,407 | 1,196,424 |
| Current liabilities | 238,198 | 237,313 | 181,573 | 145,291 | 119,768 |
| Long-term obligations, including commercial paper of \$118,200--1983 and \$200,000C1982 | 457,199 | 409,739 | 171,886 | 30,429 | 18,616 |
| Total liabilities and deferred credits | 980,667 | 828,032 | 442,891 | 272,609 | 235,362 |
| Total net assets (stockholders equity) | 1,400,528 | 1,274,784 | 1,167,118 | 1,074,798 | 961,062 |
| Statement of Changes in Financial Position Data | | | | | |
| Cash provided by operations | 337,356 | 274,782 | 210,805 | 204,682 | 182,857 |
| Cash dividends | 41,100 | 39,742 | 32,406 | 23,280 | 15,496 |
| Investment in property, plant and equipment | 333,738 | 614,416 | 333,407 | 149,674 | 56,629 |
| Investment in film production and programming | 83,750 | 52,295 | 55,454 | 68,409 | 44,436 |
| Per-Share Data | | | | | |
| Net income (earnings) | \$2.70 | \$3.01 | \$3.72 | \$4.16 | \$3.51 |
| Cash dividends | 1.20 | 1.20 | 1.00 | .72 | .48 |
| Average number of common and common equivalent shares outstanding during the year | 34,481 | 33,225 | 32,629 | 32,513 | 32,426 |
| Other Data | | | | | |
| Stockholders at close of year | 60,000 | 61,000 | 60,000 | 62,000 | 65,000 |
| Employees at close of year | 30,000 | 28,000 | 25,000 | 24,000 | 21,000 |

Source: Form 10-K filed with the Securities and Exchange Commission by the company for 1983.

Exhibit 6

WALT DISNEY PRODUCTIONS, JUNE 1984

Ratio Analysis by Year

| | <u>1965</u> | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Pretax margin | 20.24% | 20.13% | 17.31% | 19.36% | 21.91% | 26.16% | 27.63% | 22.58% | 22.12% | 20.59% |
| × Asset turnover | 1.41 | 1.25 | 1.08 | 0.97 | 0.74 | 0.66 | 0.46 | 0.60 | 0.60 | 0.60 |
| = Pretax return on assets | 28.53% | 25.15% | 18.73% | 18.72% | 16.12% | 17.28% | 12.69% | 13.44% | 13.22% | 12.46% |
| × (1 – tax rate) | 0.51 | 0.53 | 0.55 | 0.49 | 0.49 | 0.50 | 0.55 | 0.54 | 0.56 | 0.55 |
| = After-tax return on assets | 14.59% | 13.28% | 10.38% | 9.24% | 7.84% | 8.60% | 6.99% | 7.28% | 7.42% | 6.80% |
| ÷ Leverage (equity/assets) | 0.61 | 0.64 | 0.66 | 0.59 | 0.59 | 0.72 | 0.70 | 0.70 | 0.75 | 0.74 |
| = After-tax return on equity | 24.05% | 20.88% | 15.78% | 15.65% | 13.36% | 11.94% | 9.96% | 10.34% | 9.88% | 9.13% |
| Dividend payout rate | 6.46% | 6.22% | 7.21% | 9.62% | 8.28% | 7.65% | 8.84% | 6.84% | 7.18% | 7.21% |
| EPS | \$0.63 | \$0.67 | \$0.59 | \$0.67 | \$0.79 | \$0.90 | \$1.00 | \$1.42 | \$1.64 | \$1.66 |
| BETA | NA | NA | NA | NA | NA | NA | NA | NA | 1.23 | 1.35 |
| Rate on one-year T-Bills | 4.06% | 5.07% | 4.71% | 5.45% | 6.79% | 6.49% | 4.67% | 4.77% | 7.01% | 7.71% |
| | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | |
| Pretax margin | 23.6% | 24.01% | 24.98% | \$25.57% | 26.84% | 27.12% | 21.59% | 17.35% | 12.50% | |
| × Asset turnover | 0.68 | 0.70 | 0.69 | 0.72 | 0.67 | 0.68 | 0.62 | 0.49 | 0.55 | |
| = Pretax return on assets | 15.18% | 16.93% | 17.12% | 18.51% | 17.88% | 18.40% | 13.48% | 8.50% | 6.86% | |
| × (1 – tax rate) | 0.53 | 0.53 | 0.52 | 0.52 | 0.53 | 0.55 | 0.56 | 0.56 | 0.57 | |
| = After-tax return on assets | 8.10% | 9.01% | 8.92% | 9.61% | 9.51% | 10.03% | 7.55% | 4.76% | 3.91% | |
| ÷ Leverage (equity/assets) | 0.77 | 0.79 | 0.80 | 0.80 | 0.80 | 0.80 | 0.72 | 0.61 | 0.59 | |
| = After-tax return on equity | 10.54% | 11.38% | 11.20% | 12.05% | 11.84% | 12.58% | 10.41% | 7.85% | 6.65% | |
| Dividend payout rate | 5.75% | 4.90% | 5.77% | 10.44% | 13.68% | 17.31% | 26.88% | 39.87% | 44.44% | |
| EPS | \$2.00 | \$2.41 | \$2.53 | \$3.04 | \$3.51 | \$4.16 | \$3.72 | \$3.01 | \$2.70 | |
| BETA | 1.45 | 1.50 | 1.55 | 1.50 | 1.40 | 1.35 | 1.15 | 1.05 | 1.00 | |
| Rate on one-year T-Bills | 6.76% | 5.88% | 6.09% | 8.34% | 10.67% | 12.05% | 13.16% | 11.10% | 8.86% | |

NA = Not available.

Sources of data underlying these ratios: Forms 10-K, Walt Disney Productions, and *Value Line Investment Survey*.

Exhibit 7

WALT DISNEY PRODUCTIONS, JUNE 1984

Other Financial Data
(in thousands)

Entertainment and Recreation

| | <u>1983</u> | <u>1982</u> | <u>1981</u> | <u>1980</u> | <u>1979</u> |
|---|--------------------|------------------|------------------|------------------|------------------|
| Walt Disney World | | | | | |
| Admissions and rides | \$278,320 | \$153,504 | \$139,326 | \$130,144 | \$121,276 |
| Merchandise sales | 172,324 | 121,410 | 121,465 | 116,187 | 101,856 |
| Food sales | 178,791 | 121,329 | 114,951 | 106,404 | 95,203 |
| Lodging | 98,105 | 81,427 | 70,110 | 61,731 | 54,043 |
| Disneyland | | | | | |
| Admissions and rides | 102,619 | 98,273 | 92,065 | 87,066 | 75,758 |
| Food sales | 45,699 | 44,481 | 44,920 | 41,703 | 35,865 |
| Participant fees, Walt Disney Travel Co., Tokyo Disneyland royalties and other | <u>83,044</u> | <u>28,502</u> | <u>29,828</u> | <u>28,005</u> | <u>26,843</u> |
| Total revenues | <u>\$1,031,202</u> | <u>\$725,610</u> | <u>\$691,811</u> | <u>\$643,380</u> | <u>\$571,079</u> |

Theme Park Attendance

| | | | | | |
|-------------------|---------------|---------------|---------------|---------------|---------------|
| Walt Disney World | 22,712 | 12,560 | 13,221 | 13,783 | 13,792 |
| Disneyland | <u>9,980</u> | <u>10,421</u> | <u>11,343</u> | <u>11,522</u> | <u>10,760</u> |
| Total | <u>32,692</u> | <u>22,981</u> | <u>24,564</u> | <u>25,305</u> | <u>24,552</u> |

Motion Pictures

| | | | | | |
|--------------------------------------|---------------|---------------|---------------|---------------|--------------|
| Theatrical | | | | | |
| Domestic | \$38,635 | \$55,408 | \$54,624 | \$63,350 | \$49,594 |
| Foreign | 43,825 | 64,525 | 76,279 | 78,314 | 57,288 |
| Television | | | | | |
| Worldwide | 27,992 | 44,420 | 43,672 | 19,736 | 27,903 |
| Home Video and Non-Theatrical | | | | | |
| Worldwide | <u>55,006</u> | <u>37,749</u> | <u>22,231</u> | <u>10,565</u> | <u>9,273</u> |
| Total revenues | \$165,458 | \$202,102 | \$196,806 | \$171,965 | \$144,058 |

Consumer Products and Other

| | | | | | |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Character merchandising | \$45,429 | \$35,912 | \$30,555 | \$29,631 | \$24,787 |
| Publications | 20,006 | 20,821 | 24,658 | 22,284 | 18,985 |
| Records and music publishing | 30,666 | 26,884 | 27,358 | 23,432 | 16,129 |
| Educational media | 10,269 | 15,468 | 21,148 | 21,908 | 19,967 |
| Other | <u>4,327</u> | <u>3,453</u> | <u>12,704</u> | <u>1,905</u> | <u>1,768</u> |
| Total revenues | <u>\$110,697</u> | <u>\$102,538</u> | <u>\$116,423</u> | <u>\$ 99,160</u> | <u>\$ 81,636</u> |

Source: Form 10-K filed with the Securities and Exchange Commission by the company for 1983.

Exhibit 8

WALT DISNEY PRODUCTIONS, JUNE 1984

Filmed-Entertainment-Industry Operating Performance,
Major Theatrical Distributors, 1973–84¹

| <u>Year</u> | <u>Revenues</u> (\$ millions) | <u>Operating</u> <u>Income</u> (\$ millions) | <u>Margin</u> <u>(%)</u> | <u>Film</u> <u>Inventory</u> (\$ millions) | <u>Invent./Rev.</u> | <u>Trade-Weighted²</u> <u>Dollar-Exchange-</u> <u>Rate Index</u> | <u>Adjusted</u> <u>Operating</u> <u>Income²</u> | <u>Difference³</u> <u>(\$ millions)</u> |
|-------------|----------------------------------|--|-----------------------------|--|---------------------|---|--|---|
| 1983 | 5,140.9 | 581.9 | 11.3 | 2,789 | 0.54 | 125.3 | 464.3 | -117.6 |
| 1982 | 4,448.3 | 550.7 | 12.4 | 2,631 | 0.59 | 116.5 | 472.7 | -78.0 |
| 1981 | 3,932.5 | 330.3 | 8.4 | 1,741 | 0.44 | 103.3 | 319.9 | -10.4 |
| 1980 | 3,961.8 | 473.5 | 12.0 | 1,580 | 0.40 | 87.4 | 541.9 | 68.4 |
| 1979 | 3,630.2 | 643.3 | 17.7 | 1,043 | 0.29 | 88.1 | 730.4 | 87.1 |
| 1978 | 2,667.4 | 557.8 | 20.9 | 1,119 | 0.42 | 92.4 | 603.7 | 45.9 |
| 1977 | 2,217.8 | 394.1 | 17.8 | 857 | 0.39 | 103.4 | 381.3 | -12.8 |
| 1976 | 1,847.1 | 289.8 | 15.7 | 817 | 0.44 | 105.6 | 274.4 | -15.4 |
| 1975 | 1,733.6 | 323.5 | 18.7 | 721 | 0.42 | 98.5 | 328.4 | 4.9 |
| 1974 | 1,516.1 | 240.8 | 15.9 | 755 | 0.50 | 101.4 | 237.4 | -3.4 |
| 1973 | 1,222.2 | 75.5 | 6.2 | 761 | 0.62 | 99.1 | 76.2 | 0.7 |

¹Includes fiscal-year data for Columbia Pictures, Disney, MCA, MGM/UA, Twentieth Century Fox, Warner Communications, and Paramount after 1978.

²Because between 30 and 45 percent of gross rentals were generated outside of the domestic market, it is useful to adjust for changes in foreign-currency exchange rates. Adjusted operating income reflects operating performance net of exchange-rate fluctuations.

³Adjusted operating income less regular operating income.

Exhibit 9

WALT DISNEY PRODUCTIONS, JUNE 1984

Film Industry Market Shares¹

| <u>Year</u> | <u>Twentieth Century Fox</u> | <u>Warner Bros.</u> | <u>Paramount</u> | <u>Columbia</u> | <u>Universal</u> | <u>MGM/UA</u> | <u>Buena Vista (Disney)</u> |
|-------------|----------------------------------|-------------------------|------------------|-----------------|------------------|---------------|-------------------------------------|
| 1983 | 21% | 17% | 14% | 14% | 13% | 10% | 3% |
| 1982 | 14 | 10 | 14 | 10 | 30 | 11 | 4 |
| 1981 | 13 | 18 | 15 | 13 | 14 | 9 | 4 |
| 1980 | 16 | 14 | 16 | 14 | 20 | 7 | 4 |
| 1979 | 9 | 20 | 15 | 11 | 15 | 15 | 4 |
| 1978 | 13 | 13 | 24 | 11 | 17 | 11 | 5 |
| 1977 | 20 | 14 | 10 | 12 | 12 | 18 | 6 |
| 1976 | 13 | 18 | 10 | 8 | 13 | 16 | 7 |
| 1975 | 14 | 9 | 11 | 13 | 25 | 11 | 6 |
| 1974 | 11 | 23 | 10 | 7 | 19 | 9 | 7 |
| 1973 | 19 | 16 | 9 | 7 | 10 | 11 | 7 |
| 1972 | 9 | 18 | 22 | 9 | 5 | 15 | 5 |
| 1971 | 12 | 9 | 17 | 10 | 5 | 7 | 8 |
| 1970 | 19% | 5% | 12% | 8% | 13% | 9% | 9% |

¹Total domestic market shares do not add to 100%; residual amount accounted for by smaller distributors.

Source: Vogel, *Entertainment Industry Economics*, 47.

Exhibit 10

WALT DISNEY PRODUCTIONS, JUNE 1984

Estimated Probable Minimum Library Values as of 1983

| | <u>Value</u> <u>(\$ millions)</u> | <u>Approximate No. of Titles</u> |
|-----------------------|--------------------------------------|---|
| Columbia Pictures | 500 | 1,800 features |
| Disney | 275 | 25 animated, 125 live action, 500 shorts |
| MGM/UA Entertainment | 950 | 4,600 features (2,200 MGM), 1,310 shorts, 1,080 cartoons |
| Paramount | 275 | 700 features |
| Twentieth Century Fox | 350 | 1,400 features |
| Universal | 700 | 3,000 features, 12,500 TV episodes |
| Warner Bros. | <u>450</u> | 1,600 features |
| Total | 3,450 | |

Exhibit 11

WALT DISNEY PRODUCTIONS, JUNE 1984

Revenue and Attendance Estimates
for 35 U.S. Theme Parks

| <u>Year</u> | <u>Total Revenues (\$ millions)</u> | <u>Total Oper. Inc. (\$ millions)</u> | <u>Margin (%)</u> | <u>Per Capita Revenues (\$)</u> | <u>Per Capita Oper. Inc. (\$)</u> | <u>Consumer Price Deflator (1967 = 1.000)</u> |
|-------------------|-------------------------------------|---------------------------------------|-------------------|---------------------------------|-----------------------------------|---|
| 1983 | 1,793.2 | 323.9 | 18.06 | 24.49 | 4.42 | .335 |
| 1982 | 1,414.9 | 249.0 | 17.60 | 23.30 | 4.10 | .346 |
| 1981 | 1,396.4 | 260.8 | 18.68 | 22.00 | 4.11 | .367 |
| 1980 | 1,205.1 | 221.6 | 18.39 | 19.42 | 3.57 | .405 |
| 1979 | 1,070.7 | 213.3 | 19.92 | 17.43 | 3.47 | .460 |
| 1978 | 951.9 | 203.4 | 21.37 | 15.48 | 3.31 | .512 |
| 1977 | 790.7 | 168.0 | 21.25 | 14.28 | 3.03 | .551 |
| 1976 | 698.5 | 149.4 | 21.39 | 13.49 | 2.89 | .587 |
| 1975 | 537.6 | 106.8 | 19.87 | 11.79 | 2.34 | .620 |
| CAGR ¹ | 16.25 | 14.88 | | 9.57 | 8.27 | |

¹Compound annual growth rate, 1975–83 (%).

Exhibit 12

WALT DISNEY PRODUCTIONS, JUNE 1984

U.S. Population by Age Bracket:
Components of Change and Trends by Life Stage, 1970–95

A. Components of population change

| <u>Age</u> | <u>Percentage distribution</u> | | | |
|-------------|--------------------------------|-------------|-------------------------|-------------------------|
| | <u>1970</u> | <u>1980</u> | <u>1990¹</u> | <u>1995¹</u> |
| Under 5 | 8.4% | 7.2% | 7.7% | 7.2% |
| 5-19 | 29.3 | 24.6 | 21.0 | 21.2 |
| 20-29 | 15.1 | 18.2 | 16.0 | 13.8 |
| 30-59 | 33.2 | 34.3 | 38.3 | 40.9 |
| 60 and over | <u>14.0</u> | <u>15.7</u> | <u>17.0</u> | <u>16.9</u> |
| | 100.0% | 100.0% | 100.0% | 100.0% |

B. Population trends by life stage (millions)

| <u>Life stage</u> | <u>1970</u> | <u>1980</u> | <u>1990¹</u> | <u>1995¹</u> |
|-----------------------------|-------------|-------------|-------------------------|-------------------------|
| 0-14 Children | 57.9 | 51.3 | 54.6 | 56.7 |
| 15-24 Young adults | 36.5 | 42.7 | 35.5 | 34.1 |
| 25-34 Peak family formation | 25.3 | 37.6 | 43.5 | 40.5 |
| 35-44 Family maturation | 23.1 | 25.9 | 37.8 | 42.0 |
| 45-54 Peak earning power | 23.3 | 22.7 | 25.4 | 31.4 |
| 55-64 Childless parents | 18.7 | 21.8 | 21.1 | 21.0 |
| 65 and retirement | <u>20.1</u> | <u>25.7</u> | <u>31.8</u> | <u>34.0</u> |
| Total population | 205.1 | 227.7 | 249.7 | 259.6 |

¹Forecast.

Exhibit 13

WALT DISNEY PRODUCTIONS, JUNE 1984

Disney's Recent Buoyancy Tied to Assets Value
by Some Who See a Ripeness for Takeover Bids

(*Wall Street Journal*, January 4, 1984)

By Gary Putka

Walt Disney Productions has stopped being a Mickey Mouse stock lately, despite a lack of analyst enthusiasm for the shares or the company's fiscal 1984 earnings prospects. Instead, buyers have been attracted by Disney's considerable asset values. Some of them have raised the possibility that the company, once regarded as the quintessential American success story, may be ripe for a change of ownership.

Culminating a 44 percent drop in price from the 1983 high, Disney shares fell 1 1/2 points to 47 1/4 on Nov. 10 after a disappointing earnings announcement. Since then, however, the shares have risen to 52-5/8 at yesterday's close, while the overall market has been about flat. Most recently, the shares gained on nine of the past 11 trading days, with volume considerably higher than the levels that preceded the November selling binge.

Disney says it knows of no reason for the market activity, except that it might represent a recovery from the "overreaction" that followed the earnings announcement, according to Michael Bagnall, chief financial officer. Asked about rumors that Disney's management might be exploring the possibility of taking the company, or part of it, private, he replies, "Absolutely not."

Mr. Bagnall says Disney also is unaware of any accumulation of its shares by a hostile party. An aggressor would have to overcome corporate bylaws that require approval by 80 percent of the shares for a change in ownership. Including a 4.2 percent holding by officers and directors, Disney employees and family members are believed to hold 15 percent to 20 percent of the 34.7 million shares.

So what's all the speculation about? Disney, according to merger speculators and others who've been buying the stock, has all the characteristics of a concern that can be bought through borrowing against its property. Its debt is relatively low; it has assets, such as Disneyland, which can be revalued upward to generate tax deductions for a prospective buyer, and its cash flow could turn significantly higher within a brief time. And even if these factors don't prompt a buyout, they significantly reduce the risk that the stock could go lower, says Michael Metz, market strategist at Oppenheimer.

Exhibit 13 (continued)

Mr. Metz, who also manages money at Oppenheimer, has been buying Disney shares for his clients recently. He argues that large amounts of pension fund and bank capital are eager to finance leveraged buyouts currently, and that Disney probably will be approached. "This company has one of the great American franchises, assets and the prospect of a dramatic upswing in cash flow." In addition, he says, institutional selling of the stock was "climactic" in early November, which may mean that those inclined to get out of Disney already have done so.

Disney's book value is about \$40 a share, but the company owns considerable real estate and a film library, both carried on its books at substantially below market values. Land holdings include 28,000 acres in central Florida at its Disneyworld/Epcot Center complex, and another 1,340 acres in California, which includes Disneyland and filming facilities. Mr. Metz says that valuing the land is an impossible task, since most of the Florida tract is undeveloped. But a recent report by Cyrus J. Lawrence analyst Peter Appert placed Disney's asset value at \$64 to \$99 a share.

Just how much Disney's cash flow might improve in its fiscal year, ending Sept. 30, is debatable. But it is clear that a five-year spending spree to finance Epcot Center, its newest theme park, will peak in 1984. Mr. Bagnall says that "not much more than \$100 million" remains to be spent on building at Epcot, on which Disney has spent \$1.3 billion.

Accounting for tax changes and other adjustments that would be made in a leveraged buyout, Disney could improve its cash flow to \$8 a share, says David Londoner, an analyst at Wertheim. That cash flow would more than support debt payments necessary to finance a buyout, but Mr. Londoner doesn't believe one will happen and isn't recommending the stock.

Disney's management isn't prone to make big borrowings for buyouts on anything else, Mr. Londoner notes. It borrowed only about a quarter of its Epcot needs, and currently has debt of about \$330 million.

And in the absence of any kind of bid for the company, Mr. Londoner sees an unspectacular future. He figures Disney will make \$3.10 a share in its current year, up from last year's \$2.70. Attendance has been down at Disney's Florida complex since September, and Mr. Londoner says he's worried about the erosion of profit margins at the parks, which marked the disappointing earnings statement that hurt the stock.

Harold Vogel, who follows Disney for Merrill Lynch, rates the stock "three" on his firm's five-point rating system. Mr. Vogel says the main reason is the losses of the Disney pay TV channel and his belief that its profitability may be some time in coming.

Exhibit 14

WALT DISNEY PRODUCTIONS, JUNE 1984

Share Price of Walt Disney Productions

| <u>Date</u> | <u>Price</u> | <u>News</u> |
|--------------------|--------------|----------------------------------|
| September 30, 1982 | \$57 | |
| September 30, 1983 | \$62 | |
| November 7, 1983 | \$62-3/8 | |
| November 10, 1983 | 47-1/2 | Quarterly earnings |
| January 3, 1984 | 52-5/8 | |
| March 26, 1984 | 63-7/8 | Takeover rumors |
| April 9, 1984 | 67 | Steinberg acquired 6.3% |
| April 18, 1984 | 62-1/4 | Quarterly earnings |
| May 2, 1984 | 66 | Steinberg has 12.1% |
| May 18, 1984 | 63 | Disney to buy Arvida |
| June 7, 1984 | 65-1/8 | Disney to buy Gibson Greetings |
| June 11, 1984 | \$54-1/4 | Steinberg tender offer for 49.9% |