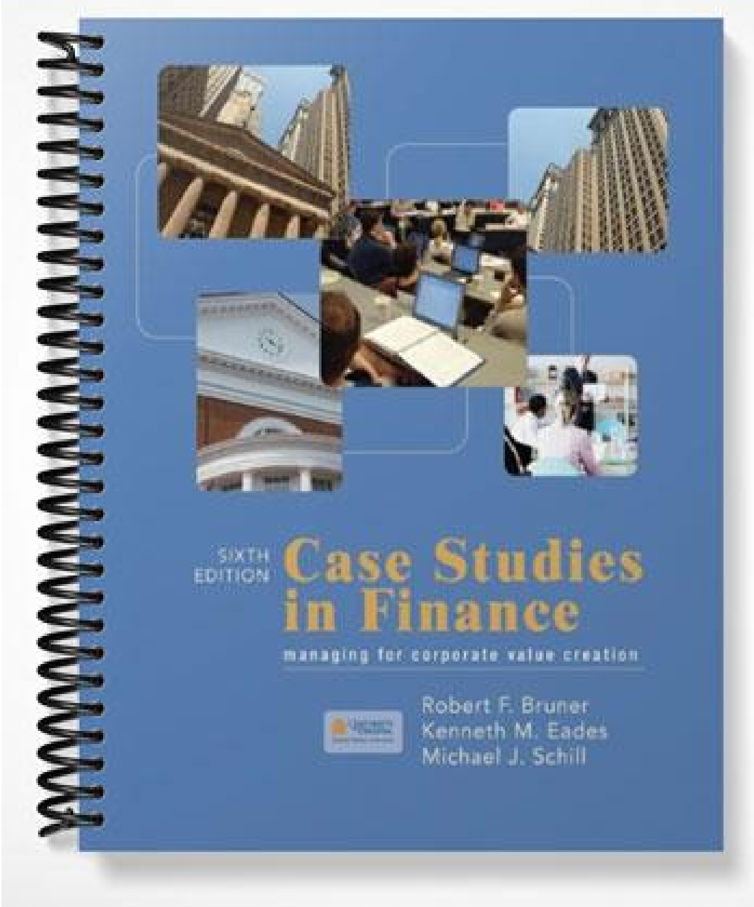
TEST BANK


SIXTH EDITION
Case Studies in Finance
managing for corporate value creation
Robert F. Bruner
Kenneth M. Eades
Michael J. Schill

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% of Disney's outstanding common stock. In subsequent announcements, Steinberg's holdings rose to 12.1%. When Steinberg announced his intention of acquiring 25% 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. On June 11, 1984, Steinberg retaliated with a public tender offer for 49% 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.

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 were divided into four 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

[1] Walt Disney Productions, 1982 Annual Report.

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 to 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 movies 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, eight "true-life adventure" feature films, and over 500 other shorter films. Certain movies 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%.

Overall, Miller summed things up 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% of pretax earnings and gave a pretax return on assets of 56%; in 1983, this segment lost $33 million. This disappointment was attributable to losses in the pay-TV startup 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 breakeven. 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%. For the industry in general, attendance over those 10 years had grown at about 5% 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% in the final quarter of 1983, and another 19% 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% 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 $l.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% 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% 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

[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%.

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]

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

> 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]

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 a seven-month period.) 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]

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

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

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

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		
	1983	1982	1981
Revenues			
Entertainment and recreation	$1,031,202	$ 725,610	$ 691,811
Motion pictures	165,458	202,102	196,806
Consumer products and other	110,697	102,538	116,423
Total revenues	1,307,357	1,030,250	1,005,040
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	53,815	54,706	65,859
Total costs and expenses of operation	1,086,982	830,134	790,376
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	56,882	47,832	50,564
Total operating income before corporate expenses	220,375	200,116	214,664
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	14,066	(14,781)	(33,130)
Total corporate expenses (income)	56,915	21,323	(2,316)
Income before Taxes on Income	163,460	178,793	216,980
Taxes on income	70,300	78,700	95,500
Net Income	$ 93,160	$ 100,093	$ 121,480
Earnings per Share	$2.70	$3.01	$3.72
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	1,195	273	110
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	347	204	193
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	$ 144,826	$ 113,619	$ 272,007

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)

	Year Ended September 30	
	1983	1982
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	19,843	18,152
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	(504,365)	(419,944)
	1,746,932	1,496,673
Construction and design projects in progress		
Epcot Center	70,331	120,585
Other	37,859	39,601
Land	16,687	16,379
Other Assets 1,871,809	1,673,238	
	93,686	103,022
	$2,381,195	$2,102,816
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable, payroll and other accrued liabilities	$187,641	$240,753
Taxes on income	50,557	26,560
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	738,594	686,534
	1,400,528	1,274,784
	$2,381,195	$2,102,816

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

Exhibit 3

WALT DISNEY PRODUCTIONS, JUNE 1984

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

Year	Revenue
1937	$10.00
1944	4.0
1952	5.0
1958	6.5
1965	13.0
1967	23.0
1983	$28.5

Source: Published by special permission of Donald Rosenthal, Buena Vista Pictures, Burbank, California.

Exhibit 4

WALT DISNEY PRODUCTIONS, JUNE 1984

Cable Programming Services, December 1983

Service	Systems	Subscribers
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

[1] Combination of CHN and Daytime as of February 1, 1983.
[2] To be shut down January 31, 1984.
[3] Includes 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)

	1983	1982	1981	1980	1979
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

		1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	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%

		1975	1976	1977	1978	1979	1980	1981	1982	1983
	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	1983	1982	1981	1980	1979
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	83,044	28,502	29,828	28,005	26,843
Total revenues	$1,031,202	$725,610	$691,811	$643,380	$571,079
Theme Park Attendance					
Walt Disney World	22,712	12,560	13,221	13,783	13,792
Disneyland	9,980	10,421	11,343	11,522	10,760
Total	32,692	22,981	24,564	25,305	24,552
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	55,006	37,749	22,231	10,565	9,273
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	4,327	3,453	12,704	1,905	1,768
Total revenues	$110,697	$102,538	$116,423	$ 99,160	$ 81,636

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, 1973–84[1]

Year	Revenues ($ millions)	Operating Income ($ millions)	Margin (%)	Film Inventory ($ millions)	Invent./Rev.	Trade-Weighted[2] Dollar-Exchange-Rate Index	Adjusted Operating Income[2]	Difference[3] ($ millions)
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

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

[2] Because between 30% and 45% 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.

[3] Adjusted operating income less regular operating income.

Source: Vogel, *Entertainment Industry Economics,* 46.

Exhibit 9

WALT DISNEY PRODUCTIONS, JUNE 1984

Film Industry Market Shares[1]

Year	Twentieth Century Fox	Warner Bros.	Paramount	Columbia	Universal	MGM/UA	Buena Vista (Disney)
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%

[1] Total 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

	Value ($ millions)	Approximate No. of Titles
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.	450	1,600 features
Total	3,450	

Source: Vogel, *Entertainment Industry Economics*, 61.

Exhibit 11

WALT DISNEY PRODUCTIONS, JUNE 1984

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

Year	Total Revenues ($ Millions)	Total Oper. Inc. ($ Millions)	Margin (%)	Per Capita Revenues ($)	Per Capita Oper. Inc. ($)	Consumer Price Deflator (1967 = 1.000)
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	

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

Source: Vogel, *Entertainment Industry Economics*, 341.

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

	Percentage distribution			
Age	1970	1980	1990[1]	1995[1]
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	14.0	15.7	17.0	16.9
	100.0%	100.0%	100.0%	100.0%

B. Population trends by life stage (Millions)

Life stage	1970	1980	1990[1]	1995[1]
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	20.1	25.7	31.8	34.0
Total population	205.1	227.7	249.7	259.6

[1] Forecast.

Source: U.S. Department of Commerce.

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% drop in price from the 1983 high, Disney shares fell 11 l/2 points to 47 1/4 on November 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% of the shares for a change in ownership. Including a 4.2% holding by officers and directors, Disney employees and family members are believed to hold 15% to 20% 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 September 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

Date	Price	News
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%