CREDIT SUISSE

Walt Disney Company (DIS)

Rating	**OUTPERFORM***
Price (01 Oct 13, US$)	64.83
Target price (US$)	73.00[1]
52-week price range	67.67 - 47.06
Market cap. (US$ m)	115,815.07
Enterprise value (US$ m)	126,650.92

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

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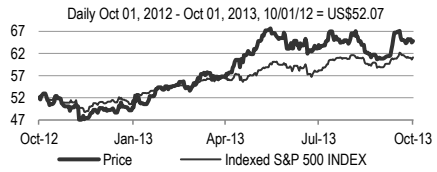
FORECAST INCREASE

Dissecting ESPN's Ad Revenue and Ratings

- **Event:** In light of soft ad growth and ratings declines at ESPN, plus new competition from Fox Sports 1 (FS1), in this note we look at ESPN's major ad drivers, analyze ratings trends, and look at key ad drivers in FY14/15.

  In addition, we are raising our FY4Q EPS est by $0.02, to $0.76, due to higher estimates at Studio, Parks, and DIMG balanced by lower Cable EBIT.
- **Ad Revenue Concentrated in Key Content:** Live events account for ~65% of ESPN ad revenue. We believe this portion of ad rev is less susceptible to competition given 1) high demand for the sports ESPN airs and 2) ESPN already competes w/most events FS1 will air.
- However, we expect competition from FS1 to pose a risk to ad revenue from sportscasts (~28% of ad rev across ESPN nets). We estimate lost mkt share due to competition could result in ~1.4% headwind in FY14.
- **Better Ratings Ahead:** Our analysis finds recent ratings declines mainly relate to tough comps (Olympics, election, peak NBA ratings in FY12), less appealing matchups (NBA), and add'l live sports that started last year.
- Ratings have stabilized in the Sept qtr, boosted by college football and MLB, and we believe ESPN is positioned to post solid ratings the next few qtrs. Further, we find that underlying ratings trends in key sports appear stable.
- **Positive Ad Outlook for FY14-15:** Based on our work, we est ESPN ad rev growth of 6.6% and 6.2% in FY14/FY15, respectively, boosted by the World Cup (FY14) and BCS Playoff (FY15), among other key drivers. Overall, we are raising our FY14 EPS $0.03 to $3.95 due to higher Cable EBIT and lower shares (higher buybacks) balanced by lower Studio est on film delays.
- **Valuation:** We maintain our OP rating and $73 TP. We believe concern over ESPN could be overdone, and continue to look to solid Parks growth in FY14, LT benefit from Lucas acq, and solid capital returns to support our OP.

Share price performance



On 10/01/13 the S&P 500 INDEX closed at 1695.

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.80	0.58	1.01	0.68
2013E	0.79	0.79	1.03	0.76
2014E	—	—	—	—

Financial and valuation metrics

Year	09/12A	09/13E	09/14E	09/15E
EPS (CS adj.) (US$)	3.07	3.37	3.95	4.71
Prev. EPS (US$)	—	3.35	3.92	4.64
P/E (x)	21.1	19.2	16.4	13.8
P/E rel. (%)	126.5	122.1	115.4	106.6
Revenue (US$ m)	42,278.0	44,944.6	47,690.3	51,604.3
EBITDA (US$ m)	11,324.0	12,221.1	13,733.0	15,222.3
OCFPS (US$)	4.38	4.88	5.82	6.82
P/OCF (x)	11.9	13.3	11.1	9.5
EV/EBITDA (current)	11.4	10.6	9.4	8.5
Net debt (US$ m)	10,924	10,836	12,401	13,381
ROIC (%)	12.48	12.96	13.53	14.44

Number of shares (m)	1,786.44	IC (current, US$ m)	50,683.00
BV/share (Next Qtr., US$)	27.1	EV/IC (x)	2.1
Net debt (Next Qtr., US$ m)	12,726.0	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	25.9	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates.

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Overview

Investors continue to express concern about ESPN in light of increased competition with the launch of Fox Sports 1 in August and sluggish ad growth dating back to FY4Q12, largely due to ratings declines. Therefore, in this report, we:

(1) Analyze key drivers of ESPN's ad revenue,

(2) Breakdown the source of ratings weakness in recent quarters,

(3) Examine longer term ratings trends for key live sports events,

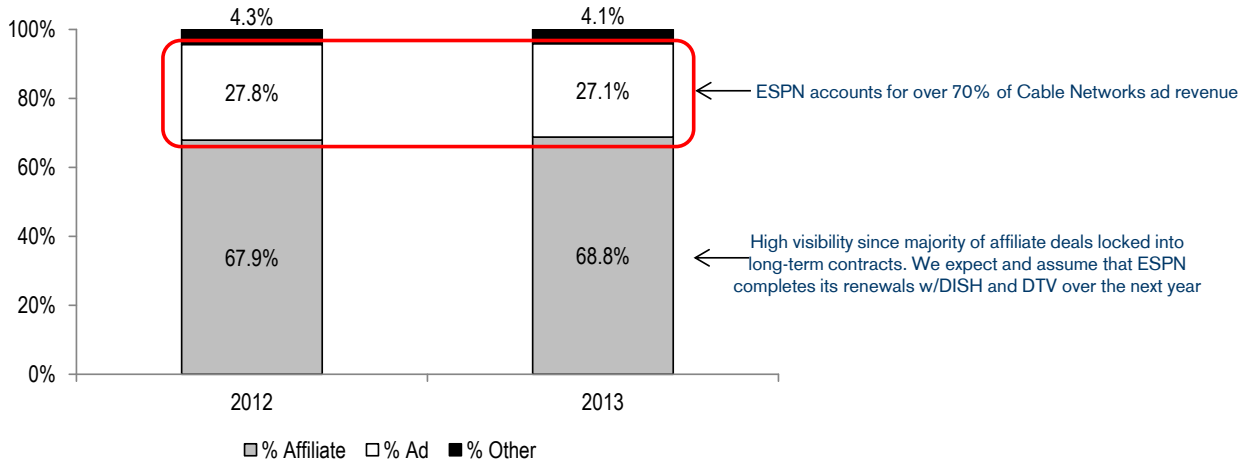
(4) Look at the potential impact of key drivers for FY14 and FY15 to update our ESPN ad estimates, and

(5) Update our FY4Q13 estimates to incorporate updated data.

Since the majority of affiliate revenue is locked in under long term contracts (and we expect DISH and DTV to renew on similar terms given we consider ESPN "must-have" content), we believe that the launch of Fox Sports 1 mainly poses a threat to ESPN's ad revenue as it could fragment sports viewership and ad spend.

While advertising only accounts for ~27-28% of DIS' cable networks revenue (see Exhibit 1) and about the same portion of ESPN's total revenue, a decline or slowdown in ad revenue could have a material impact on EBIT given ESPN's high fixed sports rights programming costs.

Exhibit 1: DIS Cable Networks Revenue Breakdown, FY12-FY13E



Source: Company data, Credit Suisse estimates

Conclusions

- ESPN's ad revenue is concentrated in key programming with ~65% from live events, and the NBA and college football accounting for the majority of that. Since ESPN still holds key sports rights, and already competes with most major live sports that Fox Sports 1 will air, we believe this portion of ad revenue is more susceptible to matchups and popularity of specific sports rather than competition from FS1.

- However, we see competition having the most impact on sportscast (i.e. Sportscenter) ad revenue, which accounts for ~28% of ad revenue across all ESPN networks. We conservatively factor in ~1.4% ad headwind in FY14 to account for competition.

- Recent ratings issues are driven by tough comps vs. FY12 (peak NBA ratings, Olympics, election) and less appealing matchups, but we see a setup for ratings improvement in the coming quarters and have started to see evidence of that in the

Sept. quarter. Further, we believe new competition last fall from Fox' college football launch and additional NFL games are now factored into base numbers.

- Long-term trends for key live sports, specifically NBA, college football, and NFL, appear healthy. We believe this bodes well for sustained ad revenue growth at ESPN.
- Besides favorable comps, ESPN has multiple drivers in FY14 and FY15 (i.e. World Cup, BCS Playoff) that we think should drive solid mid to high-single digit ad growth, and help restore investor confidence. We estimate 6.6% and 6.2% ad growth in FY14 and FY15, respectively, and see the potential for upward revisions.

Overall, we believe that ESPN can continue to thrive in spite of competition and that recent concern about the network could be overdone.

FY4Q13 and FY14 Estimate Changes

Separately, we are raising our FY4Q EPS estimate by $0.02, to $0.76, and segment EBIT estimate by $71m, to $2.5b (see Exhibit 29 for detail). The variance is largely related to higher estimates at Studio due to the stronger than expected performance of *Monsters University* and *Planes*. We also raised our DIMG EBIT estimate by $13m to +$8m due to the solid debut of Infinity. This is partly offset by lower Cable estimates to account for lower international revenue.

For FY14 we are raising our EPS estimate by $0.03 to $3.95 as we factor in management guidance for $6-8b buyback (we estimate ~$7b), higher DIMG estimates driven by Infinity, and higher Cable EBIT as we factor in lower sports rights costs due to the UK shutdown. These changes more than offset lower Studio estimates to account for the Pixar film delay from FY14 to FY15 (See Exhibit 30 for detail).

Investment Thesis

We are maintaining our Outperform rating and our $73 DCF-derived price target. As we highlight in this report we believe ESPN's outlook remains healthy amid recent concerns, and we continue to expect strong profit growth at Cable Networks, and ~10% overall EBITDA CAGR for DIS. Key points highlighting our investment case include:

- We expect Parks margin expansion in FY14 as it benefits from recent investments and non-recurring project spending rolls off, plus DIS continues to drive top-line growth from these investments. We look to the FY4Q call for FY14 guidance as a potential catalyst.
- Despite noise in reported affiliate revenue that we mainly attribute to international, we estimate continued high single-digit affiliate revenue growth at ESPN that should balance upcoming programming cost growth. Longer term we expect margin expansion as sports costs normalize. Overall, we estimate ~9% EBIT CAGR at Cable.
- Solid returns from the Lucas acquisition, particularly starting with the 2015 *Star Wars* release, while mitigating risk at the Studio by adding another established franchise.
- Strong underlying FCF growth should result in increasing share repurchases, and potentially another solid dividend increase later this year. Management guidance for $6-8b in buybacks next year reinforces this shareholder return potential.

Disney trades at a ~16x P/E multiple on CY14 estimates, a thinner premium than historically relative to VIAB and TWX. Our price target implies DIS can trade at ~17.5x P/E. With solid growth ahead, potential upward earnings revisions, and increasing FCF driving capital returns, we believe DIS continues to warrant a premium valuation.

Dissecting ESPN's Ad Revenue

After posting solid quarterly organic ad growth from FY10-FY3Q12, ESPN's ad trends have slowed the past 4 quarters due to a combination of ratings declines and tough comparisons. In Exhibit 2 we highlight that lower ratings resulted in reported ad revenue coming in below cash ad sales the past 3 quarters, and lower than the prior quarter pacing the past two quarters.

In addition to ratings issues, which we analyze later in this report, ad shift to the Olympics and Presidential election in FY4Q12 and FY1Q13, respectively, also created headwinds.

Exhibit 2: ESPN Ad Revenue and Ad Pacings, FY1Q10-FY3Q13

Quarter	Prior Qtr Pacing	Reported	Organic	Comment
FY1Q10		mid single-digit		Record ratings 1Q ratings at ESPN, +7% y/y
FY2Q10	5%	mid single-digit	high single-digit	Timing of bowl games impacted by shift in FY calendar
FY3Q10	double-digit	31%	17%	Benefit from Worl Cup and 2 add'l NBA Finals games
FY4Q10	double-digit	19%	22%	Impact from extra week in prior year qtr
FY1Q11	double-digit	34%	27%	Two BCS games added
FY2Q11	double-digit	43%	23%	Two BCS games added
FY3Q11	single-digit	-1%	9%	Tough comp vs. World Cup and extra NBA Finals games
FY4Q11	up	4%	7%	World Cup comp
FY1Q12	single-digit	flat	8%	Shift in timing of two BCS games to FY2Q
FY2Q12	single-digit	14%	6%	Benefit of tiiming of two BCS games and impact of NBA lockout
FY3Q12	7.5%	mid-teens		Benefit from UEFA, more NBA games and better ratings.
FY4Q12	down modestly	0%		Olympics
FY1Q13	down modestly	flat		Cash ad sales +2%; impacted -6% by ESPN ratings
FY2Q13	7%	4%		~6% ratings impact
FY3Q13	10%	3%		Cash ad sales +9%; ESPN ratings -12% impact
FY4Q13	11%			

Indicative of recent ratings issues and some comp issues in FY2Q/3Q13; however, could setup for easy comps in FY14

Source: Company data, Credit Suisse estimates

Before beginning our ad revenue analysis, we want to highlight a few points to consider:

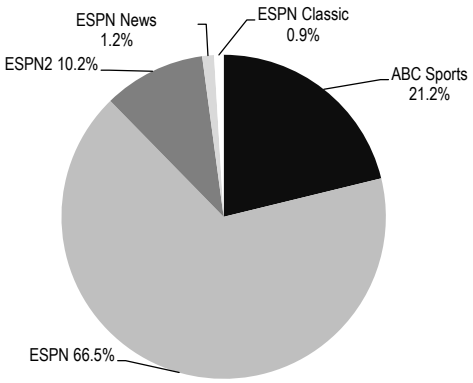
- Our analysis is based on data from Kantar Media, which uses gross ad revenue based on rate cards.
- The ad revenue does not incorporate ratings delivery. This results in variance from reported numbers.
- Kantar data is based on calendar quarters, and thus may vary slightly from Disney's fiscal quarters, which do not always end on the last day of the month.

Still, we believe the data is directionally correct, and attempt to account for these issues by looking at the ad data on a percentage basis or applying estimated commissions to absolute totals.

Composition of ESPN's Ad Revenue

Overall, ESPN accounts for over 70% of DIS' cable networks ad revenue, and Exhibit 3 shows the breakdown of ESPN ad revenue among its networks with ESPN and ABC accounting for ~87% of ESPN's total ad revenue. We note that revenue and costs for all sports aired on ABC are booked at ESPN through an intercompany agreement.

Exhibit 3: % of ESPN Networks Ad Revenue, FY12



Source: Company data, Credit Suisse estimates, Kantar Media

Focusing on the ad revenue at ESPN, ESPN 2 and ABC Sports, in Exhibit 4 we show that live sports events account for ~65% of annual ad revenue. Further, college football and the NBA represent over 60% of live event revenue, or ~40% of total ESPN ad revenue, indicating a fairly high concentration of ad revenue from key programming.

Exhibit 4: % of ESPN, ESPN 2, ABC Sports Total Ad Revenue, FY11 – FY13 YTD (FY3Q13)

	FY11	FY12	FY13 YTD
NBA	7.5%	7.2%	10.6%
NBA Playoffs / Finals	11.0%	10.5%	15.9%
Total NBA	**18.6%**	**17.6%**	**26.5%**
College Footbal Reg Season	15.6%	16.6%	12.4%
College Football Bowls	5.8%	6.7%	7.5%
Total College Football	**21.4%**	**23.3%**	**19.9%**
NFL	5.8%	6.5%	6.1%
Auto Racing	7.0%	6.2%	3.8%
College Basketball	3.7%	3.4%	4.4%
MLB	3.0%	2.8%	1.7%
Soccer	0.6%	0.6%	0.6%
Other Live Events	5.3%	5.1%	4.0%
Total Live Events	**65.5%**	**65.4%**	**67.0%**
Sportscenter	19.5%	20.4%	18.4%
Live Events + Sportscenter	**84.9%**	**85.9%**	**85.4%**

~40% of total ESPN ad rev and ~60% of live event ad rev comes from college football and the NBA

ESPN chose not to renew NASCAR (ends after FY14); all other sports locked in until NBA expires in June 2016

Sportscenter and Live Events account for ~85% of ESPN ad revenue

Source: Company data, Credit Suisse estimates, Kantar Media. FY13 YTD thru FY3Q13 (June qtr).

We believe that ad revenue related to live events is less susceptible to competition from Fox Sports 1 (FS1) because:

- ESPN is already competing against the live events that FS1 plans to air. Note that Fox launched major college football coverage last fall and already airs MLB, NASCAR and UFC.
- Live sports remain in high-demand and have some level of exclusivity. For example, ESPN is the only place to watch Monday Night Football, the NBA Finals (on ABC) and a portion of the NBA playoffs, and the college football BCS.
- Overall, we expect matchups (teams playing in the games) to impact ad revenue for these events more than competition.

NASCAR (~6% of ad revenue) is the only major sports rights deal that ESPN will lose over the next few years. However, we believe ESPN has acquired enough live programming to

fill this gap, particularly with 1) additional MLB rights starting in 2014, 2) full US Open tennis rights in 2015 (ESPN currently airs part of the tournament), and 3) enough college sports rights that games often overflow to other networks. Further, we believe the decision to pass on the NASCAR deal should be accretive to profit given the new rights costs.

More importantly, the NBA deal expires after the 2015-16 season and we expect the deal to come to market in the next year. Given its increasing popularity and significant contribution to ad revenue, we believe it is imperative for ESPN to retain the rights.

Exhibit 5 provides context on how the seasonality of various sports impact quarterly ad revenue. For example, the difficult NBA ratings comp and less desirable match-ups that resulted in lower ratings were the biggest driver of the reported ad revenue shortfall in FY3Q.

Exhibit 5: % of ESPN, ESPN 2, ABC Sports Total Ad Revenue by Quarter, FY12-FY13 YTD

Football drives FY1Q, 2Q, 4Q

NBA drives FY2Q and particularly FY3Q

	FY12				FY13		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
NFL	16.0%	1.7%	0.0%	6.9%	16.9%	0.0%	0.0%
College Football	38.1%	31.7%	0.0%	24.7%	36.5%	25.2%	0.0%
Baseball	0.2%	0.3%	4.7%	6.8%	0.3%	0.4%	4.3%
NBA	2.5%	15.8%	53.9%	0.1%	8.3%	20.4%	51.9%
College Basketball	2.2%	11.9%	0.5%	0.2%	2.1%	11.8%	1.3%
Auto Racing	7.1%	1.5%	4.3%	12.2%	5.6%	1.3%	3.9%
World Cup	0.3%	0.2%	1.1%	0.7%	0.5%	0.4%	1.0%
Other Live Events	1.0%	2.8%	4.9%	12.9%	0.9%	3.9%	7.6%
Total Live Events	**65.9%**	**64.3%**	**68.1%**	**63.1%**	**69.5%**	**61.6%**	**68.5%**
Sportscenter	18.1%	22.4%	20.6%	23.1%	16.1%	23.3%	18.3%
Live Events + Sportscenter	**84.0%**	**86.7%**	**88.7%**	**86.3%**	**85.5%**	**84.9%**	**86.8%**

Source: Company data, Credit Suisse estimates, Kantar Media.

The Bigger Risk from Competition: Sportscenter

As we show above in Exhibit 4, Sportscenter represents ~20% of ESPN, ESPN 2, and ABC Sports total ad revenue. Given Fox Sports 1 now airs a competing sports highlight show with similar content, we believe ESPN could lose some viewer and advertising share.

Exhibit 6 shows that sportscasts account for ~9% of total ad spend in Olympic years (2012) and ~11% in non-Olympic years.

Exhibit 6: % of Total Sports Ad Revenue by Quarter, 2011-12

	1Q	2Q	3Q	4Q	2011	1Q	2Q	3Q	4Q	2012
NFL	35.1%	0.0%	27.0%	52.4%	33.4%	32.2%	0.0%	19.1%	54.6%	30.4%
MLB	0.1%	5.6%	9.4%	12.5%	7.1%	0.1%	5.0%	4.9%	8.9%	4.9%
College Basketball	25.1%	10.2%	0.0%	0.9%	9.5%	8.5%	0.5%	8.2%	17.0%	9.6%
College Football	8.2%	0.1%	9.5%	16.2%	9.8%	5.3%	14.3%	9.6%	1.6%	9.5%
NBA	6.1%	26.3%	0.3%	0.8%	6.9%	6.6%	32.4%	0.1%	4.1%	8.3%
Auto	5.2%	13.5%	7.4%	2.2%	6.0%	0.0%	0.0%	0.0%	0.0%	4.5%
Olympics						0.0%	0.6%	38.7%	0.0%	10.4%
Sportscast	9.0%	13.1%	13.7%	9.1%	10.6%	10.1%	12.6%	8.1%	7.8%	9.3%
Other Sports Events	11.3%	31.1%	32.8%	5.8%	16.7%	37.2%	34.7%	11.4%	6.1%	13.3%
Total % Ad Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

We believe ESPN's live event ad revenue will be less impacted by the initial competition from Fox (see this report) given ESPN still holds all its key rights that drive viewers, we feel Sportscast ad share is most at risk

Source: Credit Suisse estimates, Kantar Media

Based on Kantar Media data, we estimate ESPN controls a mid-80% share of sportscast ad spending. Our estimate includes Sportscenter and all other sportscast shows on any ESPN network.

Exhibit 7: ESPN Share of Total Sportscasts Revenue, 2011-12

	2011	2012
ESPN Sportscasts	922	1,050
/ Total Sportscasts	1,098	1,211
= ESPN Share of Sportscast Rev	**84.0%**	**86.7%**

Includes sportscasts on all ESPN Networks (Sportscenter represents majority of this)

Source: Credit Suisse estimates, Kantar Media

We believe that ESPN could cede some market share with the entry of Fox Sports 1, which would impact ad revenue starting in FY14 (given the late FY13 launch of FS1). Exhibit 8 provides a framework to consider the potential impact.

First, we estimate the ad market for sportscasts expands by 10% due to the entry of FS1, along with continued CPM growth. Next we assume that ESPN loses ~15% market share, implying ~70% share of the sportscast market (Fox will also likely take some market share from others). These changes would result in ESPN's sportscast revenue declining 5%.

Given that sportscasts account for 28% of ad revenue across all ESPN networks, the 5% decline would equate to a 1.4% drag on total ESPN ad revenue. We consider this as we derive our FY14 ad estimate later in this report.

Exhibit 8: Potential Impact to ESPN FY14 Ad Revenue from Increased Sportscast Competition

		Comment
Sportscast Market Size Growth	10%	Assumes CPMs continue to grow and Fox Sports entry draws new ad revenue
+ ESPN Sportscast Share Loss	(15%)	Assumes viewership and ad revenue fragmentation due to entry of Fox Sports. We also expect other nets to lose some share to Fox Sports.
= Net Impact to ESPN Sportscast Revenue	**(5%)**	
Impact to ESPN Sportscast Revenue	(5%)	
x Sportscast Ad Revenue as % of All ESPN Nets	28%	Includes Sportscenter (~25% of ESPN ad rev) and ad revenue from sportscasts on smaller nets (i.e. ESPN News).
= Impact to ESPN Networks Ad Revenue	**(1.4%)**	

We feel this could prove conservative given that ESPN still controls major live events, which should result in lead-in viewership

Source: Credit Suisse estimates, Kantar Media

One factor that could help ESPN mitigate the impact is that key live event programming is usually a lead-in for Sportscenter. While we don't have specific data to support this, we assume ESPN derives a larger portion of ad revenue from Sportscenter following major live events, and thus if ESPN can maintain ratings for those events the example above could prove conservative and ESPN could retain more of its sportscast market share.

ESPN Ratings Trends

As we highlighted above, ESPN's ratings have been a hot topic given recent declines, notably in FY2Q (March quarter) and FY3Q (June quarter), and due to the launch of FS1. In this section, we 1) analyze ESPN ratings declines in CY2013 to identify the sources and likelihood for near-term improvement, and 2) look at the longer term rating trends of the key live sports driving ad revenue – college football, NBA, and NFL games.

A few points to note in our ratings analysis:

- We use Nielsen time periods, thus the exact timing of the quarters could vary from both the traditional calendar and DIS' fiscal calendar.
- In addition, the start and end of Nielsen time periods could change each year (i.e. 1Q12 runs from 12/26-3/25, 1Q13 from 12/31-3/31), which impacts year over year comparisons due to the timing of events.
- Unless otherwise noted, our analysis uses average Male 18-49 Live+SD viewers and ratings.
- We employ the concept of duration-weighted ratings, which is the rating weighted by the percent of total programming hours (measured by duration) that the program accounts for.

Dissecting Recent Ratings Issues

ESPN's total day ratings in the Male 18-49 demo started declining in October 2012, and the declines accelerated into early 2013 and through July 2013 (see Exhibit 9). Trends in August and September have improved and ratings for CY3Q have stabilized.

Exhibit 9: ESPN Male 18-49 and Total HH Rating by Quarter, CY4Q11-CY3Q13*

	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
ESPN (M18-49)	0.84	0.69	0.65	0.59	0.80	0.63	0.50	0.57
Y/Y % Change					(4.5%)	(8.9%)	(23.2%)	(1.9%)
ESPN (HH)	0.90	0.73	0.65	0.63	0.86	0.65	0.52	0.66
Y/Y % Change					(4.1%)	(11.1%)	(19.9%)	3.9%

Source: Nielsen. CY3Q13 thru 9/22/2013.

To identify the underlying causes of the ratings issues, we focused on the programs that account for the majority of programming hours on ESPN. Based on our analysis of CY1Q-CY3Q13, ~10-11 program categories typically account for ~90% of ESPN's programming time.

CY1Q13 (FY2Q)

Starting in CY1Q13 (Exhibit 10) we estimate the duration-weighted rating for the programs accounting for the majority of programming hours declined ~9% due to a combination of fewer hours of some program types and lower ratings for others. Of the three primary drivers of the ratings declines, two are related to the timing of programming:

- Fewer hours of college bowl games in FY2Q13 due to a one week shift in the Nielsen calendar. This was the largest drag on reported ratings despite strong viewership for the bowls. However, the impact to reported ad revenue was likely muted since DIS' fiscal calendar does not match the Nielsen calendar.
- Last year's NBA lockout and accelerated season resulted in fewer NBA games in FY2Q13, which was compounded by a decline in ratings, albeit coming off record ratings in 2011-12.

- Ratings for Sportscenter, which accounts for ~56% of ESPN's programming hours, declined ~5%. This decline is likely related to lower ratings for other programming, notably the NBA.

Based on this analysis, we believe ratings issues in FY2Q13 were not quite as bad as the 9% duration-weighted decline would indicate. Further, as it relates to ad revenue, 1) the timing shift of college football and the NBA should not impact total revenue, and 2) Sportscenter impacts ratings far more than ad revenue given it accounts for a disproportionate amount of programming hours, but only ~20% of ad revenue. That said, ESPN clearly showed signs of ratings weakness.

Exhibit 10: Duration and M18-49 Rating for Highest Duration Programs on ESPN, CY1Q13

	1Q12			1Q13			
	Duration	M18-49 Rating	Duration-Wgtd	Duration	M18-49 Rating	Duration-Wgtd	Cng in Duration-Wgtd. Rating
SPORTS HIGHLIGHTS	74,452	0.516	0.293	74,062	0.492	0.278	(0.015)
COLLEGE BASKETBALL - REGULAR	11,527	0.754	0.066	13,087	0.756	0.075	0.009
MENS NBA BSKTBALL-REG SEASON	10,607	1.021	0.083	9,425	0.952	0.068	(0.014)
PRO FOOTBALL-COMMENTARIES	6,357	0.742	0.036	6,463	0.626	0.031	(0.005)
COLLEGE FOOTBALL - BOWL GAMES	5,979	2.185	0.100	3,349	2.837	0.073	(0.027)
OTHER SPORTS-COMMENTARIES	5,844	0.617	0.028	6,193	0.563	0.027	(0.001)
COLLEGE BSKTBLL-CONFERENCE CHP	2,674	0.757	0.015	2,572	0.756	0.015	(0.001)
COLLEGE BSKBL-COMMENTARIES	1,745	0.618	0.008	1,684	0.579	0.007	(0.001)
COLLEGE BASKETBALL - CHAMPIONS	1,506	0.426	0.005	1,098	0.484	0.004	(0.001)
MLB BASEBALL - PRE-SEASON	1,138	0.371	0.003	1,246	0.255	0.002	(0.001)
MULTI-SPORT ANTHOLOGY	1,064	0.359	0.003	1,008	0.310	0.002	(0.001)
Duration Wgt'd Rating of Top Aired Telecasts			**0.64**			**0.58**	**(0.057)**
Total Duration	131,040			131,040		(9.0%)	
% Duration of Top 11 Programs	93.8%			91.7%			
Y/Y % Change							
SPORTS HIGHLIGHTS				(0.52%)	(4.77%)	(5.27%)	
COLLEGE BASKETBALL - REGULAR				13.53%	0.23%	13.79%	
MENS NBA BSKTBALL-REG SEASON				(11.14%)	(6.76%)	(17.15%)	
PRO FOOTBALL-COMMENTARIES				1.67%	(15.71%)	(14.31%)	
COLLEGE FOOTBALL - BOWL GAMES				(43.99%)	29.82%	(27.28%)	
OTHER SPORTS-COMMENTARIES				5.97%	(8.80%)	(3.35%)	
COLLEGE BSKTBLL-CONFERENCE CHP				(3.81%)	(0.04%)	(3.85%)	
COLLEGE BSKBL-COMMENTARIES				(3.50%)	(6.40%)	(9.67%)	
COLLEGE BASKETBALL - CHAMPIONS				(27.09%)	13.77%	(17.05%)	
MLB BASEBALL - PRE-SEASON				9.49%	(31.33%)	(24.81%)	
MULTI-SPORT ANTHOLOGY				(5.26%)	(13.53%)	(18.09%)	

Source: Credit Suisse estimates, Nielsen.

CY2Q13 (FY3Q)

CY2Q13 raised more concerns as the duration-weighted ratings y/y decline for the highest duration programming accelerated to -27%, as we show in Exhibit 11. The major drivers we identified were a balance of ratings issues and programing duration:

- ESPN aired 16% fewer hours of NBA playoff programming due to the length of certain series. The shorter series', which were less competitive than the prior year, likely contributed to lower ratings. Notably, ESPN carried the Western Conference finals (4 game sweep) with two small market teams compared to the Eastern Conference Finals (7 games) in 2012 with two large market teams.

- Last season's NBA lockout compared to this season's normalized schedule resulted in significantly fewer regular season games in CY2Q.

- Another driver was the absence of UEFA Champions League, which moved to Fox this season and caused the significant decline in ratings for soccer.

- Finally, Sportscenter ratings declines accelerated to -16%, having the second largest duration-weighted impact behind the NBA playoffs. We believe that the lower NBA playoff ratings and fewer hours of NBA programming likely contributed to the decline given the NBA is a key lead-in for Sportscenter.

CY2Q ratings were clearly concerning, particularly the steep decline in Sportscenter. However, we believe that the NBA regular season and playoff matchups, and decline in total duration of NBA programming had a material impact on the entire lineup.

We also acknowledge that Fox acquiring the UEFA Champions League is an example of impact from competition, but at this point it should be in the base.

Exhibit 11: Duration and M18-49 Rating for Highest Duration Programs on ESPN, CY2Q13

	2Q12			2Q13			
	Duration	M18-49 Rating	Duration-Wgtd	Duration	M18-49 Rating	Duration-Wgtd	Cng in Duration-Wgtd. Rating
SPORTS HIGHLIGHTS	78,121	0.533	0.318	78,075	0.445	0.265	(0.052)
OTHER SPORTS-COMMENTARIES	8,232	0.559	0.035	6,447	0.496	0.024	(0.011)
MLB BASEBALL - REGULAR SEASON	6,971	0.568	0.030	8,519	0.438	0.028	(0.002)
MENS NBA BSKTBALL-PLAYOFFS	6,373	2.355	0.115	5,352	1.488	0.061	(0.054)
MENS NBA BSKTBALL-REG SEASON	5,336	0.835	0.034	1,888	0.723	0.010	(0.024)
PRO FOOTBALL-COMMENTARIES	4,447	0.742	0.025	3,466	0.800	0.021	(0.004)
INTERNATIONAL/WORLD SOCCER	3,237	0.965	0.024	3,016	0.514	0.012	(0.012)
SOFTBALL	3,183	0.244	0.006	3,414	0.254	0.007	0.001
PRO BASEBALL-COMMENTARIES	3,001	0.364	0.008	2,283	0.290	0.005	(0.003)
GOLF-PGA EVENTS	1,870	1.001	0.014	1,856	0.913	0.013	(0.001)
COLLEGE BASKETBALL - CHAMPIONS	1,003	0.766	0.006	1,049	0.635	0.005	(0.001)
Duration Wgt'd Rating of Top Aired Telecasts			**0.62**			**0.45**	**(0.163)**
Total Duration	131,040			131,040		(26.5%)	
% Duration of Top 11 Programs	92.9%			88.0%			
Y/Y % Change							
SPORTS HIGHLIGHTS				(0.06%)	(16.46%)	(16.51%)	
OTHER SPORTS-COMMENTARIES				(21.68%)	(11.30%)	(30.53%)	
MLB BASEBALL - REGULAR SEASON				22.21%	(22.98%)	(5.88%)	
MENS NBA BSKTBALL-PLAYOFFS				(16.02%)	(36.79%)	(46.92%)	
MENS NBA BSKTBALL-REG SEASON				(64.62%)	(13.35%)	(69.34%)	
PRO FOOTBALL-COMMENTARIES				(22.06%)	7.73%	(16.04%)	
INTERNATIONAL/WORLD SOCCER				(6.83%)	(46.73%)	(50.37%)	
SOFTBALL				7.26%	4.18%	11.74%	
PRO BASEBALL-COMMENTARIES				(23.93%)	(20.14%)	(39.25%)	
GOLF-PGA EVENTS				(0.75%)	(8.75%)	(9.44%)	
COLLEGE BASKETBALL - CHAMPIONS				4.59%	(17.03%)	(13.22%)	

Source: Credit Suisse estimates, Nielsen.

CY3Q13 (FY4Q)

Moving to CY3Q ratings appear to have stabilized, declining only 3% y/y on a duration-weighted basis in the M18-49 demo as of 9/22/2013. Key drivers thus far in CY3Q include:

- Headwinds from pro tennis given a material decline in the number of programming hours due to the shift in the Nielsen calendar and lower ratings related to the matchups at Wimbledon and the US Open.
- While Sportscenter ratings have started to stabilize, they are still down ~5%, creating a drag on overall duration-weighted ratings.
- Ratings for MLB and college football are both up solidly from last year, although the impact on duration-weighted ratings is muted since the percent duration of each is lower than last year. We note this partly relates to the timing of our analysis, which does not include a full quarter this year (thru 9/22).

ESPN also issued a press release stating that total viewership from Aug. 17th (date FS1 launched) to Sept. 17th increased 13% y/y. Further, in September ESPN launched an ad campaign for Sportscenter.

While we are not in the business of predicting ratings, we believe the early season football trends, additional marketing behind Sportscenter, and easier comps vs. last year could setup ESPN for ratings growth heading into CY4Q. This should bring with it strong ad trends given recent pacings indicate a healthy ad market and strong pricing for sports.

Exhibit 12: Duration and M18-49 Rating for Highest Duration Programs on ESPN, CY3Q13

	3Q12			3Q13			
	Duration	M18-49 Rating	Duration-Wgtd	Duration	M18-49 Rating	Duration-Wgtd	Cng in Duration-Wgtd. Rating
SPORTS HIGHLIGHTS	71,601	0.458	0.250	66,467	0.434	0.248	(0.003)
MLB BASEBALL - REGULAR SEASON	9,161	0.411	0.029	7,661	0.459	0.030	0.001
COLLEGE FOOTBALL - REGULAR SEA	7,296	1.199	0.067	5,164	1.496	0.066	(0.000)
OTHER SPORTS-COMMENTARIES	6,681	0.506	0.026	4,275	0.544	0.020	(0.006)
PRO FOOTBALL-COMMENTARIES	5,337	0.675	0.027	6,217	0.570	0.030	0.003
PRO TENNIS	4,188	0.498	0.016	3,195	0.390	0.011	(0.005)
AMATEUR BASEBALL	3,589	0.315	0.009	3,432	0.377	0.011	0.002
PRO BASEBALL-COMMENTARIES	3,216	0.314	0.008	1,970	0.321	0.005	(0.002)
GOLF-PGA EVENTS	3,088	0.765	0.018	3,142	0.677	0.018	0.000
COLLEGE FOOTBALL-COMMENTARIES	2,679	0.569	0.012	1,630	0.775	0.011	(0.001)
MOTOR SPTS-NASCAR BSCHGRNDNTNL	1,515	0.637	0.007	1,068	0.592	0.005	(0.002)
Duration Wgt'd Rating of Top Aired Telecasts			**0.47**			**0.46**	**(0.012)**
Total Duration	131,040			116,460		(2.6%)	
% Duration of Top 11 Programs	90.3%			89.5%			
Y/Y % Change							
SPORTS HIGHLIGHTS	54.6%			57.1%	(5.35%)		
MLB BASEBALL - REGULAR SEASON	7.0%			6.6%	11.67%		
COLLEGE FOOTBALL - REGULAR SEA	5.6%			4.4%	24.75%		
OTHER SPORTS-COMMENTARIES	5.1%			3.7%	7.61%		
PRO FOOTBALL-COMMENTARIES	4.1%			5.3%	(15.48%)		
PRO TENNIS	3.2%			2.7%	(21.73%)		
AMATEUR BASEBALL	2.7%			2.9%	19.52%		
PRO BASEBALL-COMMENTARIES	2.5%			1.7%	1.94%		
GOLF-PGA EVENTS	2.4%			2.7%	(11.53%)		
COLLEGE FOOTBALL-COMMENTARIES	2.0%			1.4%	36.20%		
MOTOR SPTS-NASCAR BSCHGRNDNTNL	1.2%			0.9%	(6.99%)		

Source: Credit Suisse estimates, Nielsen.

Assessing Ratings Trends of Key Live Sports

College Football

Two factors impacted college football ratings at ESPN/ABC and CBS last season, 1) the start of Big 12 and Pac 12 coverage on Fox broadcast and 2) Notre Dame's strong performance, which drove ratings at NBC. Given college football is predominantly played on Saturdays with many games airing at the same time, these factors led to a share shift in viewership.

Further, additional Thursday night NFL games impacted ESPN, which airs Thursday night college football games. We believe the launch of Fox' coverage and additional NFL games had more of a competitive impact than the start of FS1 will have.

Exhibit 13: College Football M18-49 Viewership by Network (000s), 2007-12

Male 18-49 Viewers

	ESPN	ESPN2	ABC	CBS	Fox	FX	NBC	NBC Sports
2007	756	315	1677	1531			603	74
2008	688	277	1843	1309			750	93
2009	793	295	1686	1747			861	89
2010	815	288	1493	1816			736	122
2011	663	244	1584	1637		296	608	53
2012	632	219	1313	1387	699	166	1028	20

	ESPN	ESPN2	ABC	CBS	Fox	FX	NBC	NBC Sports
2007	--	--	--	--	--	--	--	--
2008	(9.0%)	(12.1%)	9.9%	(14.5%)	--	--	24.4%	25.7%
2009	15.3%	6.5%	(8.5%)	33.5%	--	--	14.8%	(4.3%)
2010	2.8%	(2.4%)	(11.4%)	3.9%	--	--	(14.5%)	37.1%
2011	(18.7%)	(15.3%)	6.1%	(9.9%)	--	--	(17.4%)	(56.6%)
2012	(4.7%)	(10.2%)	(17.1%)	(15.3%)	--	(43.9%)	69.1%	(62.3%)

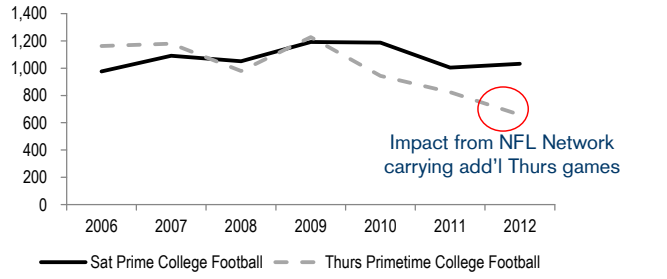
ESPN ratings impacted by add'l Thursday night NFL games competing with its Thurs college football

Start of Fox' Big and Pac 12 coverage and success of Notre Dame driving NBC ratings contributed to declines at ESPN and CBS

Source: Credit Suisse estimates, Nielsen

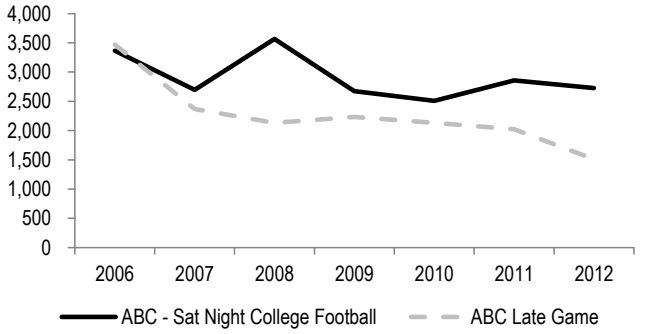
Looking further at ESPN and ABC's ratings in Exhibit 14 and Exhibit 15, we focus on the key time slots that drive the majority of ad revenue. While ESPN's Thursday night coverage has been clearly impacted by the NFL, its Saturday primetime viewership remains stable. Similarly on ABC, primetime viewership has been stable, while the late afternoon game (3:30pm EST) saw ratings drop last season, at least partly due to the two reasons listed above.

Exhibit 14: Key ESPN College Football Viewership, 2006-2012



Source: Credit Suisse estimates, Nielsen

Exhibit 15: Key ABC Sat College Football Ratings, 2006-2012



Source: Credit Suisse estimates, Nielsen

Outlook: We believe ESPN should see ratings improvement for the key college football time slots based on the following:

- Since Fox started coverage last season, we believe the launch of FS1 will have less impact since the major games that drive viewership were already on the air last season.
- ESPN also laps the comp to the NFL Network expanding Thursday night coverage.
- It appears Notre Dame will not sustain last season's performance, which should result in lower ratings for NBC, shifting more viewers back to ESPN and other networks.

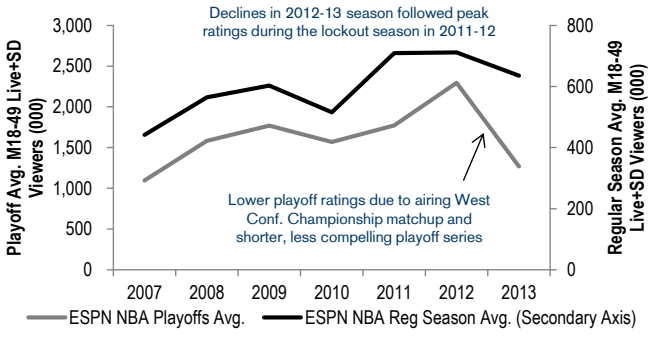
While competition from Fox did impact college football ratings, at this point, we believe increased competition is already factored in. While the launch of FS1 will increase the hours of coverage, last year Fox was already airing key primetime games that compete for the majority of ad revenue.

NBA

Both NBA regular season and playoff ratings declined in FY13, but the comps were impacted by the lockout in FY12, less appealing match-ups, and tough comps coming off peak ratings levels.

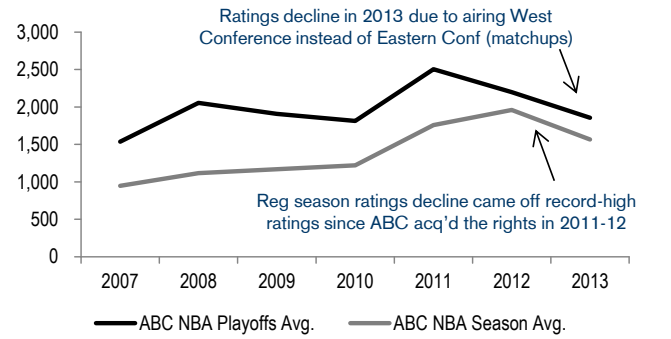
- The NBA lockout created a schedule heavily weighted to the back half of the season in FY12, thus ESPN aired fewer regular season games in FY2Q13 and FY3Q13 compared to FY12, but moving forward the y/y comparisons normalize.
- Further, the accelerated schedule in FY12 contributed to the highest NBA ratings in recent years, creating a difficult comp in FY13.
- ESPN aired less appealing match-ups, including a 4-game sweep in the Western Conference Finals as opposed to a 7-game Eastern Conference Final in 2012 that featured Boston and Miami, who each draw large viewership. This was a key driver to the lower playoff ratings.

Exhibit 16: ESPN NBA Male 18-49 Avg. Viewers, 2006/07-2012/13



Source: Credit Suisse estimates, Nielsen

Exhibit 17: ABC NBA Male 18-49 Avg. Viewers, 2006/07-2012/13



Source: Credit Suisse estimates, Nielsen

Exhibit 18: NBA Finals Avg. Male 18-49 Viewers, 2007-2013

NBA Finals	2007	2008	2009	2010	2011	2012	2013
Avg. Viewers	3,196	5,094	4,941	6,102	6,171	5,772	5,587
Number of Games	4	6	5	7	6	5	7
Avg. Viewership		59.4%	(3.0%)	23.5%	1.1%	(6.5%)	(3.2%)

Ratings highly dependent on matchup and competitive/length of series (6-7 games usually yields higher ratings and ad revenue)

Source: Credit Suisse estimates, Nielsen

Outlook: Despite declines in FY13, we believe that NBA ratings remain healthy and interest in the league continues to grow. Similar to other sports, it is difficult to predict how attractive the match-ups will be, but overall we believe ESPN's y/y performance should benefit from normalized comps in FY14 and strong demand for the NBA.

As we highlighted earlier, ESPN's biggest risk related to the NBA is the upcoming rights renewal. Given we estimate the NBA generates ~18-20% of ESPN's ad revenue, we find it critical for ESPN to retain the rights.

NFL

Although the NFL only accounts for ~6-7% of ESPN ad revenue (compared to ~40% total for the NBA and college football), NFL ratings are important because its 1) a high profile property and drives viewership to a significant amount of studio programming, and 2) ad revenue contribution is high relative to hours of live games shown given the high CPM's.

In Exhibit 19 we show that Monday Night Football ratings peaked in 2009 and 2010 before a significant decline in 2011, partly related to less desirable matchups. Meanwhile, ratings last season declined modestly.

Exhibit 19: Monday Night Football M18-49 Viewership by Week and Season, 2006-2012

	M18-49 Viewers						
Week	2006	2007	2008	2009	2010	2011	2012
1		6,301	6,721	7,739	8,244	8,088	5,958
1		5,106	5,671	7,535	7,204	6,878	6,245
2	7,111	6,576	10,235	7,783	8,004	6,188	8,100
3	7,874	5,899	6,615	8,635	9,426	9,197	8,138
4	6,782	6,726	6,548	11,906	7,373	5,700	8,627
5	6,393	7,429	6,111	7,094	9,334	8,870	7,273
6	7,354	4,631	6,267	7,223	5,558	6,335	6,621
7	8,187	6,714	5,802	6,860	9,387	5,154	5,723
8	5,991	7,263	6,089	6,770	6,505	5,955	5,490
9	4,822	5,397	7,590	8,609	8,056	8,778	6,452
10	4,735	4,706	6,110	5,363	8,235	7,351	6,198
11	5,414	5,075	5,989	6,327	6,042	6,260	6,096
12	6,508	6,901	5,721	11,196	5,763	7,117	5,118
13	5,298	9,227	4,480	6,932	8,298	4,798	7,621
14	5,732	4,153	5,939	6,742	5,920	4,672	7,014
15	7,373	6,852	5,229	5,500	8,081	8,225	4,498
16	5,390	4,328	6,543	8,017	9,346	7,112	
Average	**6,331**	**6,076**	**6,333**	**7,661**	**7,693**	**6,863**	**6,573**
		(4.0%)	4.2%	21.0%	0.4%	(10.8%)	(4.2%)

Ratings declines the past 2 seasons came after record high ratings in 2009-10

Source: Nielsen

However, NFL ratings at all major networks declined mid-single digits last season (Exhibit 20), therefore the 2012 ratings decline was not specific to ESPN.

Exhibit 20: NFL Regular Season M18-49 Avg. Viewers by Networks, 2007-2012

	Male 18-49 Viewers			
Year	Fox	CBS	NBC	ESPN
2007	5,762	5,348	5,568	6,076
2008	5,575	5,093	5,676	6,333
2009	6,167	5,377	6,677	7,661
2010	6,258	5,785	7,256	7,693
2011	6,352	5,591	7,232	6,863
2012	5,944	5,291	6,760	6,573

Year	Fox	CBS	NBC	ESPN
2007	--	--	--	--
2008	(3.2%)	(4.8%)	1.9%	4.2%
2009	10.6%	5.6%	17.6%	21.0%
2010	1.5%	7.6%	8.7%	0.4%
2011	1.5%	(3.4%)	(0.3%)	(10.8%)
2012	(6.4%)	(5.4%)	(6.5%)	(4.2%)

2012 NFL ratings declines not specific to ESPN

2011 declines related to less desirable match-ups on MNF

Source: Nielsen

Exhibit 21: NFL Regular Season HH Rating by Network, 2007-2012

	HH Rating			
Year	Fox	CBS	NBC	ESPN
2007	10.7	10.2	9.9	7.3
2008	10.4	10.0	10.2	7.5
2009	11.4	10.3	11.7	9.0
2010	11.7	11.1	13.0	9.0
2011	12.1	11.0	12.9	8.3
2012	11.7	10.8	12.4	8.3

Year	Fox	CBS	NBC	ESPN
2007	--	--	--	--
2008	(2.7%)	(2.5%)	3.3%	2.9%
2009	9.4%	3.5%	14.9%	19.0%
2010	2.7%	7.9%	11.3%	0.3%
2011	2.6%	(1.1%)	(1.3%)	(7.4%)
2012	(2.9%)	(1.7%)	(3.7%)	(0.7%)

Source: Nielsen

Outlook: We do not anticipate a decline in demand for NFL content, and while matchups could swing ratings up or down, we expect ratings to remain relatively stable from last season's level. We again note that the significant decline in 2011 came off record-high ratings (the mean reversion effect), while the current level is more in-line with the average.

Thus far in 2013, ESPN posted record ratings for its opening game since acquiring the rights in 2006, while Week 2 and 3 declined y/y.

FY14 and FY15 Ad Drivers

FY14 ESPN Ad Estimate

We believe FY14 sets up well for ESPN to reaccelerate ad growth with an expected boost from the World Cup and easier comps.

When ESPN aired the World cup in FY10, we estimate it accounted for 2.8% of ESPN's total ad revenue (Exhibit 22). In Exhibit 23, if we assume the ad base grows at a 5% CAGR over the 4 years, we believe that would imply ~2.7% uplift from our FY13 ESPN ad revenue estimate. Given the increasing popularity of soccer and the benefit of playing in a similar time zone, our estimate could prove conservative.

Exhibit 22: Estimated World Cup Ad Revenue, FY10 ($ mil)

	FY10
World Cup - ESPN	$35
World Cup - ABC	$31
Total World Cup	**$66**
% of Total ESPN Ad Revenue	*2.8%*

Estimated net ad revenue after commission

Source: Credit Suisse estimates, Kantar Media

Exhibit 23: Estimated Potential World Cup Ad Revenue Benefit in FY14

2010 World Cup	$65.5
x (1 +	1
Annual Growth Rate)	5.0%
^ Years	4
= 2014 World Cup Impact	**$79.6**
/ 2013E ESPN Ad Revenue	$2,912
= Potential World Cup Ad Benefit	**2.7%**

Potential uplift to ESPN ad revenue

Source: Credit Suisse estimates, Kantar Media

In terms of the comps, we factor in the following:

- Absence of the presidential election should benefit FY1Q results vs. last year.
- ESPN laps the start of college football on Fox and the success of Notre Dame on NBC last fall. This should benefit college football ad revenue in FY1Q14 as ESPN likely benefits from some share shift away from NBC (assuming Notre Dame does not repeat the same success) and competition with Fox is already built into expectations.
- Additional games on NFL Network started last season and are already factored in.
- ESPN will air the NBA's Eastern Conference Finals this season, and comps against low ratings and fewer games in last season's playoffs.
- We also note that ESPN could receive an incremental benefit from additional MLB rights that start under the new deal in 2014.

Given the potential favorable comps, we assume a 3% decline in audience declines, more modest than the ratings delivery last year. We estimate ~8% CPM growth based on the upfront, combined with the benefit from the World Cup and the potential impact on Sportscenter ad revenue due to competition derived earlier, to arrive at our 6.6% ad growth for ESPN, 10bps higher than our prior estimate.

Exhibit 24: Calculation of FY14 ESPN Ad Growth

	FY14 Y/Y % Change	+ 1 =	Growth Factor	Comments
CPM Growth	8.0%	1	108.0%	
x Audience Growth	(3.0%)	1	97.0%	
x Inventory Sold	0.0%	1	100.0%	
x Sportscenter Impact	(1.4%)	1	98.6%	Estimated mkt shr loss due to competition
x World Cup	2.7%	1	102.7%	
x Add'l MLB Games	0.5%	1	100.5%	Conservative benefit from incremental late season MLB games that should drive higher ad revenue
= Growth Factor			**106.6%**	
- 1			1	
= ESPN Ad Growth Y/Y % Growth			**6.6%**	

Source: Company data, Credit Suisse estimates

While ratings could be a swing factor in either direction, we see the potential for upside from the World Cup and lower Sportscenter impact, since we feel our estimates for each are conservative.

FY15 ESPN Ad Estimate

While still too early to gain good visibility on the ad market for FY15, we highlight a few key drivers that will impact ESPN's ad revenue in FY15:

- Start of the BCS Playoff system, which we believe could drive meaningful incremental revenue.
- Headwind from the World Cup comp that benefits FY14.
- Loss of NASCAR rights, which we believe could be at least partly offset by replacement programming such as college football and additional MLB games carried under the new deal. Due to the timing of NASCAR events, FY15 will comp against ~75% of the NASCAR season, while the rest of the impact would run into FY1Q16.
- Benefit from additional US Open tennis rights, as ESPN will now air the full event including the semis and finals (previously on CBS).
- One MLB playoff game under the new rights deal (as opposed to none previously).
- Extra week in the fiscal year.

To frame the potential for the BCS Playoff, we first looked at the avg. revenue per NFL playoff game in Exhibit 25, excluding the Super Bowl since that is a unique event. In 2013, the divisional NFL playoff round (conference semifinals) generated ~55% of the total revenue that the conference championships earned.

Next, we looked at the current BCS bowl games and the 3 non-BCS bowl games that will be added under the new playoff system. Exhibit 26 shows that the BCS bowls (Orange, Sugar, Fiesta, Rose) earn ~30% of the revenue that the BCS Championship collects, while the non-BCS games earn a fraction of that.

Exhibit 25: Avg. Ad Revenue Per NFL Playoff Round

NFL Playoff Revenue/Game	2013
Avg. Conference Championship Game	$116.7
Avg. Divisional Round Game	$64.8
Avg. Wild Card Round Game	$50.5

~55% of the avg. Conf. Championship game revenue

Source: Credit Suisse estimates, Kantar Media

Exhibit 26: Avg. Ad Revenue for College Bowl Games

College Bowl Revenue / Game	2013
BCS National Championship	$69.5
Avg. of Other BCS Bowls	$22.3
Avg. Non-BCS Games Incl In Playoff	$8.1

New BCS structure includes 3 add'l bowls

Source: Credit Suisse estimates, Kantar Media.

The new playoff system calls for two semifinal games and one championship game, thus two of the current BCS games, which have no impact on determining the champion, will convert to semifinals and a chance to play for the championship. We believe this should drive increased viewership and advertising. In Exhibit 27 we assume these semifinals earn ~55% of the championship total, similar to the earlier round NFL playoff games.

The other 4 games will be similar to the current BCS games with high rated teams and conference champions participating, but with no impact on determining the champion, thus we estimate they earn similar ad revenue to the current BCS games. We apply a slight discount given the quantity of games.

Based on this framework, we estimate the new system could drive ~43% upside compared to current BCS bowl ad revenue. We also note that ESPN does not currently air the Cotton Bowl, which we believe to be one of the non-BCS games that will be included in the new system, thus the upside could be higher than our estimate.

Exhibit 27: Estimated Potential Upside Due to BCS Playoff System

	Estimated	Current	% Upside	Abs. Upside
BCS National Championship	$69.5	$69.5	0.0%	$0.0
Semifinal (Current BCS Bowl)	$38.2	$22.3	71.5%	$15.9
Semifinal (Current BCS Bowl)	$38.2	$22.3	71.5%	$15.9
Playoff Game (Current BCS Bowl)	$20.8	$22.3	(6.5%)	($1.4)
Playoff Game (Current Non-BCS Bowl)	$20.8	$8.1	157.2%	$12.7
Playoff Game (Current Non-BCS Bowl)	$20.8	$8.1	157.2%	$12.7
Playoff Game (Current Non-BCS Bowl)	$20.8	$8.1	157.2%	$12.7
	$229.2	**$160.6**		**$68.6**
				42.7%

Assumes semifinals generate ~55% of the revenue of BCS Championship, similar to earlier round NFL games

Assumes these bowls generate similar ad revenue to current BCS games

Implies ~43% upside to ad revenue under current bowl structure

Source: Credit Suisse estimates, Kantar Media

To derive our FY15 ad estimate, we assume 7.5% CPM growth, assuming ESPN receives similar recent high-single digit CPM increases in next year's upfront, and continued modest viewership declines.

Based on our analysis above, we estimate the BCS playoff could drive ~2% upside to our estimates. We expect additional US Open tennis coverage and some additional college football will offset about half the NASCAR impact. Combining these factors with the other drivers mentioned above, we arrive at a 6.2% ad growth estimate for ESPN in FY15.

Again, we note many variables could swing this, including ratings, state of the ad market, matchups in certain key games, and how the competitive environment with FS1 unfolds.

Exhibit 28: Calculation of FY15 ESPN Ad Growth

	FY15 Y/Y % Change	+ 1 =	Growth Factor	Comments
CPM Growth	7.5%	1	107.5%	
x Audience Growth	(1.5%)	1	98.5%	
x Inventory Sold	1.0%	1	101.0%	
x MLB Playoff Game	0.5%	1	100.5%	We est. MLB wildcard playoff game and potential late season matchups in Oct could generate an incremental ~$15m.
x BCS Playoff Impact	2.1%	1	102.1%	Using our analysis above, we apply estimated commissions to arrive at a net ad revenue est, then increase that by a 5% CAGR to put it in 2015 terms. We est ~$64m benefit.
x World Cup	(2.2%)	1	97.8%	Impact of lost revenue; slightly lower impact compared to the 3.1% benefit FY14 due to the higher total advertising base.
x Net NASCAR Impact	(2.2%)	1	97.8%	NASCAR contribues ~6% of ad revenue and ~75% of the NASCAR season is in FY15 (the rest would impact FY16). We believe add'l US Open tennis and replacement programming would offset about half the lost ad revenue.
x Extra Week	1.2%	1	101.2%	53 week fiscal year should provide incremental benefit. We conservatively estimate 1%, although it could range closer to 2%
= Growth Factor			**106.2%**	
- 1			1	
= ESPN Ad Growth Y/Y % Growth			**6.2%**	

Source: Company data, Credit Suisse estimates

Other Advertising Factors to Consider

Two other factors to consider in the context of ESPN's ad revenue:

- We feel ESPN also stands to benefit more than most peers from the advent of online and mobile viewer measurement, which should drive material growth in online video advertising, given the success of its streaming product, Watch ESPN.
- Despite noise around ratings and advertising fragmentation, live sports are essentially DVR-proof providing an attractive platform to reach key demographics. As viewing continues to fragment, we believe the value of live sports as an advertising platform will continue to increase.

Estimate Changes

FY4Q13 Estimates

We have updated our estimates to account for stronger than expected performance at the Studio and DIMG and to incorporate international headwinds at Cable. Overall, we are raising our EPS by $0.02, to $0.76.

Exhibit 29: Summary of FY4Q13 Earnings Variance

		New Est.		Old Est.		Variance		Comments
	4Q12A	4Q13E	Y/Y %	4Q13E	Y/Y %	($)	(%)	
Revenues								
Cable Networks	$3,535	$3,565	0.9%	$3,600	1.8%	($35)	(1.0%)	Adjusting affiliate revenue to account for shutdown of UK network, plus headwinds from 1) shift of an int'l net to FTA, and 2) shift of network in India into a JV (eq income). Assumes ~-1% reported affil (7.3% organic, ex-deferrals and impact listed above) and solid 8% ad growth.
Broadcasting	$1,346	$1,373	2.0%	$1,373	2.0%	$0	0.0%	
Media Networks	**$4,881**	**$4,938**	1.2%	**$4,973**	1.9%	**($35)**	(0.7%)	
Parks & Resorts	$3,425	$3,627	5.9%	$3,570	4.2%	$57	1.6%	
Studio Entertainment	$1,402	$1,631	16.3%	$1,548	10.4%	$83	5.4%	Raising estimates based on solid box office of Pixar's Monsters University and better than expected performance of Planes.
Consumer Products	$883	$1,022	15.7%	$1,022	15.7%	$0	0.0%	
Interactive Media	$191	$254	33.1%	$228	19.3%	$26	11.6%	Benefit from early success of Infinity.
Total Revenues	**$10,782**	**$11,472**	**6.4%**	**$11,340**	**5.2%**	**$131**	**1.2%**	
EBIT								
Cable Networks	$1,379	$1,469	6.5%	$1,513	9.7%	($43)	(2.9%)	Trimming EBIT to account for lower revenue, mainly related to int'l. UK shutdown will benefit EBIT mainly in FY14 as most rights costs were incurred in FY1Q and FY2Q.
Cable Margin	*39.0%*	*41.2%*		*42.0%*		*(0.8%)*		
Broadcasting	$192	$154	(19.8%)	$154	(19.8%)	$0	0.0%	
Broadcasting Margin	*14.3%*	*11.2%*		*11.2%*		*0.0%*		
Media Networks	**$1,571**	**$1,623**	3.3%	**$1,667**	6.1%	**($43)**	(2.6%)	
Media Networks Margin	*32.2%*	*32.9%*		*33.5%*		*(0.6%)*		
Parks & Resorts	$497	$559	12.5%	$542	9.0%	$18	3.2%	Expect continued attendance and per cap momentum at Parks.
Parks Margin	*14.5%*	*15.4%*		*15.2%*		*0.2%*		
Studio Entertainment	$80	$34	(57.4%)	($49)	(161.5%)	$83	(169.2%)	Flow through of rev benefit from Planes and Monsters U. These help offset Lone Ranger writedown (~$80m) and $40m headwind from Avengers vs. Iron Man 3 DVD comp. Also, DIS incurred a $50m write-off in last year's qtr.
Studio Margin	*5.7%*	*2.1%*		*(3.2%)*		*5.3%*		
Consumer Products	$267	$284	6.4%	$284	6.4%	$0	0.0%	
Consumer Products Margin	*30.2%*	*27.8%*		*27.8%*		*0.0%*		
Interactive Media	($76)	$8	NM	($5)	NM	$13	(278.5%)	
DIMG Margin	*(39.8%)*	*3.3%*		*(2.1%)*		*5.4%*		
Total EBIT	**$2,339**	**$2,509**	**7.3%**	**$2,438**	**4.2%**	**$71**	**2.9%**	
Total EBIT Margin	***21.7%***	***21.9%***		***21.5%***		***0.4%***		
Consolidated								
Revenues	$10,782	$11,472	6.4%	$11,340	5.2%	$131	1.2%	
Segment Operating Expenses	$8,126	$8,541	5.1%	$8,479	4.3%	$63	0.7%	
Segment EBITDA	**$2,656**	**$2,930**	**10.3%**	**$2,861**	**7.7%**	**$69**	**2.4%**	
Corporate Expense	($140)	($149)	6.5%	($149)	6.5%	$0	0.0%	
EBITDA	**$2,516**	**$2,781**	**10.5%**	**$2,712**	**7.8%**	**$69**	**2.5%**	
D&A	$492	$566	15.1%	$568	15.4%	($2)	(0.3%)	
EBIT	**$2,024**	**$2,215**	**9.4%**	**$2,144**	**5.9%**	**$71**	**3.3%**	
Equity Income of Investees	$175	$145	(17.1%)	$145		$0		
Adj EBIT	**$2,199**	**$2,360**	**7.3%**	**$2,289**	**4.1%**	**$71**	**3.1%**	
Segment EBIT	*$2,339*	*$2,509*	7.3%	*$2,438*	4.2%	*$71*	2.9%	
Restructuring and Impairment	($49)	$0		$0		$0		
Net Interest (Expense)	($91)	($70)	(23.1%)	($66)	(27.8%)	($4)	6.5%	
Income before Tax	**$2,114**	**$2,290**	**8.3%**	**$2,223**	**5.2%**	**$66**	**3.0%**	
Income Tax (Expense)/Benefit	($724)	($744)	2.8%	($723)	(0.2%)	($22)	3.0%	
Noncontrolling Interests	($146)	($165)	12.7%	($165)	12.7%	$0	0.0%	
Restruct Charges/Extr. Items	($16)	$0		$0		$0		
Net Inc. to DIS Shareholders	**$1,228**	**$1,381**	**12.5%**	**$1,336**	**8.8%**	**$45**	**3.3%**	
Diluted Shares Outstanding	1,817	1,813	(0.2%)	1,813	(0.2%)	0	0.0%	
Diluted EPS b/f Extr. Items	**$0.68**	**$0.76**	**12.7%**	**$0.74**	**9.1%**	**$0.02**	**3.3%**	

FY14 Estimates

We have adjusted our Cable revenue and sports rights cost estimates to more accurately account for the magnitude of the UK shutdown, resulting in higher profit. Further, we have lowered our Studio estimates due to the delay of the FY14 Pixar release into FY15 and raised our DIMG estimate due to solid initial reception for Infinity. Overall, our EPS increases from $3.92 to $3.95.

Exhibit 30: FY2014 Old vs. New Estimate Changes

		New Est.		Old Est.		Variance		Comments
	2013E	2014E	Y/Y %	2014E	Y/Y %	($)	(%)	
Revenues								
Cable Networks	$14,445	$15,429	6.8%	$15,603	8.0%	($174)	(1.1%)	Adj affiliate revenue to better account for shutdown of UK network, shift of one int'l network to FTA and another into a JV. Est 7.1% affil growth (8.4% domestic) and 6.1% ad growth.
Broadcasting	$5,903	$6,054	2.6%	$6,054	2.6%	$0	0.0%	
Media Networks	**$20,348**	**$21,483**	5.6%	**$21,657**	6.4%	**($174)**	(0.8%)	
Parks & Resorts	$13,998	$15,155	8.3%	$15,093	7.8%	$62	0.4%	Flow through of higher FY13 estimates due to solid Parks trends for both attendance and per caps.
Studio Entertainment	$6,104	$6,159	0.9%	$6,300	3.2%	($141)	(2.2%)	Impact of delayed Pixar movie.
Consumer Products	$3,573	$3,778	5.7%	$3,818	6.9%	($40)	(1.1%)	
Interactive Media	$922	$1,115	20.9%	$1,021	10.7%	$94	9.2%	
Total Revenues	**$44,945**	**$47,690**	**6.1%**	**$47,889**	**6.6%**	**($198)**	**(0.4%)**	
EBIT								
Cable Networks	$6,232	$6,855	10.0%	$6,794	9.0%	$61	0.9%	Adjusting sports rights estimate to account for UK shutdown and lower SG&A est following recent layoffs and cost controls at ESPN. We est this to offset lower revenue as the UK was generating a loss.
Cable Margin	*43.1%*	*44.4%*		*43.5%*		*0.9%*		
Broadcasting	$767	$838	9.2%	$838	9.2%	$0	0.0%	
Broadcasting Margin	*13.0%*	*13.8%*		*13.8%*		*0.0%*		
Media Networks	**$6,999**	**$7,693**	9.9%	**$7,632**	9.0%	**$61**	0.8%	
Media Networks Margin	*34.4%*	*35.8%*		*35.2%*		*0.6%*		
Parks & Resorts	$2,208	$2,571	16.4%	$2,549	15.5%	$22	0.9%	
Parks Margin	*15.8%*	*17.0%*		*16.9%*		*0.1%*		
Studio Entertainment	$587	$647	10.1%	$765	30.3%	($118)	(15.5%)	Impact from delay of Pixar film.
Studio Margin	*9.6%*	*10.5%*		*12.1%*		*(1.6%)*		
Consumer Products	$1,049	$1,243	18.5%	$1,276	21.6%	($33)	(2.6%)	Temper expectations slightly as we expect Lucas to have bigger impact in FY15.
Consumer Products Margin	*29.4%*	*32.9%*		*33.4%*		*(0.5%)*		
Interactive Media	($95)	$52	NM	($2)	NM	$55		Raising expectations given strong early results for Infinity.
DIMG Margin	*(10.3%)*	*4.7%*		*(0.2%)*		*4.9%*		
Total EBIT	**$10,749**	**$12,206**	**13.6%**	**$12,220**	**13.7%**	**($14)**	**(0.1%)**	
Total EBIT Margin	***23.9%***	***25.6%***		***25.5%***		***0.1%***		
Consolidated								
Revenues	$44,945	$47,690	6.1%	$47,889	6.6%	($198)	(0.4%)	
Segment Operating Expenses	$32,723	$33,957	3.8%	$34,139	4.3%	($181)	(0.5%)	
Segment EBITDA	**$12,221**	**$13,733**	**12.4%**	**$13,750**	**12.5%**	**($17)**	**(0.1%)**	
Corporate Expense	($516)	($542)	5.0%	($542)	5.0%	$0	0.0%	
EBITDA	**$11,705**	**$13,191**	**12.7%**	**$13,208**	**12.8%**	**($17)**	**(0.1%)**	
D&A	$2,199	$2,304	4.7%	$2,307	4.9%	($3)	(0.1%)	
EBIT	**$9,506**	**$10,887**	**14.5%**	**$10,901**	**14.7%**	**($14)**	**(0.1%)**	
Equity Income of Investees	$672	$777	15.6%	$777	15.6%	$0	0.0%	
Adj EBIT	**$10,178**	**$11,664**	**14.6%**	**$11,678**	**14.7%**	**($14)**	**(0.1%)**	
Segment EBIT	*$10,749*	*$12,206*	13.6%	*$12,220*	13.7%	*($14)*	(0.1%)	
Restructuring and Impairment	($121)	$0		$0		$0		
Net Interest (Expense)	($279)	($312)	12.0%	($284)	1.9%	($28)	9.9%	Increased debt to maintain leverage.
Income before Tax	**$9,686**	**$11,352**	**17.2%**	**$11,394**	**17.6%**	**($42)**	**(0.4%)**	
Income Tax (Expense)/Benefit	($3,047)	($3,860)	26.7%	($3,874)	27.1%	$14	(0.4%)	
Noncontrolling Interests	($516)	($541)	5.0%	($552)	7.0%	$10	(1.9%)	
Restruct Charges/Extr. Items	($1)	$0		$0		$0		
Net Inc. to DIS Shareholders	**$6,122**	**$6,951**	**13.5%**	**$6,968**	**13.8%**	**($17)**	**(0.3%)**	
Diluted Shares Outstanding	1,815	1,760	(3.0%)	1,775	(2.2%)	(15)	(0.9%)	Increase buyback to ~$7b based on mgmt guidance for $6-8b in FY14. Accounts for ~$0.03 accretion.
Diluted EPS b/f Extr. Items	**$3.37**	**$3.95**	**17.1%**	**$3.92**	**16.4%**	**$0.03**	**0.8%**	

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 01-Oct-2013)*

21st Century Fox (FOXA.OQ, $33.98)
DISH Network Corp. (DISH.OQ, $45.68)
The Directv Group Inc (DTV.OQ, $59.8)
Walt Disney Company (DIS.N, $64.83, OUTPERFORM, TP $73.0)

Disclosure Appendix

Important Global Disclosures

I, Michael Senno, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Walt Disney Company (DIS.N)

DIS.N Date	Closing Price (US$)	Target Price (US$)	Rating
09-Feb-11	43.36	48.00	O
10-Aug-11	31.54	43.00	
13-Oct-11	33.55	40.00	
07-Feb-12	40.98	45.00	
08-May-12	44.30	50.00	
07-Aug-12	49.81	56.00	
20-Sep-12	52.66	58.00	
06-Feb-13	54.52	61.00	
17-Apr-13	60.68	66.00	
08-May-13	65.99	73.00	
08-Jul-13	64.71	74.00	
08-Aug-13	65.75	73.00	

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Underperform/Sell*	15%	(40% banking clients)
Restricted	3%	

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Price Target: (12 months) for Walt Disney Company (DIS.N)

Method: We used the discounted cash flow method (DCF) to calculate our $73 target price. Our 5-year discounted cash flow analysis uses a 2% terminal growth rate and a market-implied WACC, or weighted average cost of capital.

Risk: Risks to DIS's achievement of our $73 target price are (1) economic risk given that Disney has material exposure to consumer pending via its Parks & Resorts division, which is inherently discretionary and hence susceptible to fluctuations in the overall economy; (2) Disney has significant exposure to content, the success of which is dependent on consumers' entertainment tastes, which are fickle and unpredictable; (3) if ABC network enters a prolonged or more severe ratings slump than we currently expect, our current earnings forecast could prove optimistic given high fixed programming cost.

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See the Companies Mentioned section for full company names

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