Walt Disney – When You Wish Upon a (Fallen) Star

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Disney's share price suggests the market believes its magic has faded, trading at a forward price to earnings multiple of around 13x after years of disappointing investors. We disagree. Despite uneven execution across content and a disrupted distribution model, we believe Disney's flywheel of creation, distribution, relationships, monetization and reinvestment remains intact. Streaming profitability is inflecting, park and cruise demand remains robust, and management is showing renewed capital discipline. At current valuations, we see an attractive opportunity to own one of the world's most powerful media businesses.

Has the Walt Disney Company lost its magic? At a forward Price-to-Earnings multiple around 13x, it would seem so. The company has disappointed investors for years. The fairytale outlook of content monetization in the streaming era has failed to live up to early, elevated expectations. Combined with management succession failures, sporadic content quality, rising costs, and the brand becoming more politically contested – all within a competitive industry – perhaps the valuation is appropriate. For investors, the question is whether these issues have permanently impaired Disney's economic engine, or whether the market's pessimism provides an opportunity to purchase a powerful business at an attractive price. We think the latter is true, as Disney's unique flywheel remains in place.

The Disney Flywheel

The flywheel starts with content creation. Disney develops or acquires characters, stories, franchises and sports rights. It then distributes the content through theatres, linear networks (traditional TV), streaming, and other platforms. Successful content deepens consumer relationships, often across generations, with monetization across subscriptions, advertising, licensing, merchandising, parks, cruises and resorts. The cash flow is then reinvested into the next cycle of content and experiences.

Creation

Despite an uneven creative record in recent years, Disney still owns one of the broadest collections of intellectual property in global media. Pixar, Marvel, Lucasfilm, 20th Century Studios, Disney Animation, National Geographic, FX, Hulu and ESPN remain valuable assets. More importantly, Disney continues to produce globally appealing content. In 2024, Disney was the top box office studio worldwide and produced the top three highest grossing films – Inside Out 2, Deadpool & Wolverine, and Moana 2. In 2025, excluding China's Ne Zha 2, Disney once again produced the top three films – Zootopia 2, Avatar: Fire and Ash, and Lilo & Stitch.

While the creative team overextended certain brands to fill streaming catalogues, Disney continues to benefit from both new franchises and legacy IP. With a renewed focus on quality, investment into new IP, and continued success of existing franchises, Disney's creative engine remains intact.

Distribution

This important component of Disney's flywheel has structurally changed and continues to weigh on sentiment. Though Disney still dominates the box office, changing consumer habits continue to weigh on theatre attendance following COVID. Further, Disney's linear networks and ESPN remain under pressure from continued cord cutting.

Despite the uneven transition, Disney remains the best placed legacy media company to compete in the streaming era. Leveraging its studios and sports assets, Disney's bundled offerings across Disney+, Hulu and ESPN provide a broad range of content across children's content, general entertainment, and sports. Over time, this should increase engagement, reduce churn, and raise customer lifetime value, supporting improved segment profitability.

In sports, ESPN continues to aggregate large live audiences and remains attractive to advertisers. The shift to ESPN's direct-to-consumer offering remains a risk, particularly as competition rises and sports rights costs soar, but the current valuation provides both a margin of safety and upside optionality.

Relationships

At its core, Disney is a content creator. However, its unique success over more than 100 years has been its ability to create lasting connections with customers. Many fans first encounter Disney during childhood through films, TV shows, toys and theme parks, creating lasting memories. Old characters are reintroduced to new generations, and franchises remain valuable over decades.

This success is not limited to children's entertainment. Disney continues to turn characters into multigenerational relationships across existing franchises, new characters, and acquired assets such as Marvel, Star Wars and Avatar. Increasing political polarization, particularly in the US, has alienated some fans and weighed on brand perception. Despite this, demand for parks, cruises and major films suggest that Disney still owns a rare connection with consumers.

Monetization

The fourth component of Disney's flywheel is monetization, which is a direct function of its creative engine and customer relationships. Franchises can be monetized for decades across film extensions, TV shows, merchandise, licensing, and experiences. Experiences are the clearest evidence of Disney's brand strength and pricing power. Park attendance remains strong, per capita spending continues to grow, and new cruise launches have been met with robust demand.

At the same time, streaming is reaching a turning point. The shift to streaming weighed on profitability just as cord cutting caused operating deleverage in the linear network cash cow. However, streaming operating margins are expected to exceed 10% this fiscal year. As the content strategy improves and bundle adoption rises, customer lifetime value and cash generation should continue to improve.

Reinvestment

The last component of the flywheel is reinvestment. The model works best when cash is reinvested at high rates of return into new content, attractions, technology, and consumer relationships. It fails when reinvestment is undisciplined, particularly in content and sports rights.

Encouragingly, management seems focused on execution, optimizing existing assets, and improving returns. The content strategy has returned to a focus on quality, while capital investments in parks and cruises continue to offer attractive returns. With the launch of four cruise ships since 2022, and with five additional ships expected by 2031, Disney continues to invest in bringing content to life.

The planned theme park in Abu Dhabi provides another opportunity to extend Disney's global relationships. It is particularly attractive because Miral will develop, build and operate the park, while Disney oversees creative design and operational oversight. This provides a capital light opportunity to further enhance brand monetization.

Valuation

At the current valuation, there is no need for investors to wish upon a star. At a forward Price-to-Earnings multiple of around 13x, the valuation is undemanding for a company with Disney's unique IP. Execution has been uneven, but Disney's core economic engine remains undamaged. Consensus expects earnings per share to compound around 12% per year, from under $6 in FY2025 to over $8 by FY2028. As streaming profitability improves and linear networks become a smaller part of the group, earnings growth remains well supported beyond this. Under the new management team, continued focus on product improvement, thoughtful content spend, and expanding experiences should allow the flywheel to return to delivering high-return growth that creates value for shareholders.

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