S&P Global Ratings (/en_US/web/guest/home)

Walt Disney Ratings Lowered To 'BBB+' On Continued Affect From Pandemic; Outlook Negative

18-Nov-2020 09:43 EST

View Analyst Contact Information
Table of Contents
Related Criteria
Related Research

The Walt Disney Co.'s theme park and movie studio operations continue to be severely affected by the COVID-19 pandemic.
We expect that once a vaccine is widely available, consumers will likely remain reluctant to immediately return to public venues. As a result, even if experimental vaccines are highly effective and are more widely available by mid-2021, we don't expect Disney's parks to return to normal operations until fiscal 2022.
Disney is also aggressively rolling out its global DTC streaming platforms and investing in new content, which will depress operating and cash flow measures for the next few years. As a result, we no longer expect that Disney will reduce adjusted leverage to below 3x by the end of fiscal 2022.
We are lowering our ratings on Disney, including the issuer credit rating, by one notch to 'BBB+' from 'A-' and removing all ratings from CreditWatch. We are affirming the 'A-2' short-term and CP ratings.
The negative outlook reflects the continued uncertainty over the path to global economic normalcy, the elevated cash flow burn to implement its global DTC strategy, and how long it will take Disney to reduce adjusted leverage to 3.5x.
NEW YORK (S&P Global Ratings) Nov. 18, 2020—S&P Global Ratings today took the rating actions listed above.

We no longer believe Disney can reduce leverage below 3x by the end of fiscal 2022. Our original operating assumptions underlying the former 'A-' issuer credit rating assumed an economic recovery from the pandemic in the latter half of 2020, with a return to more normalized operating activity at Disney's theme parks by the end of 2020. While reports that experimental vaccines may be highly effective and might gain initial approval by the end of the year are promising, this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. Factoring in the time for widespread global immunization to occur, reluctance to return to public venues, and resumption of normal activities (like returning to Disney's theme parks), we forecast that Disney's operating performance at its two hardest-hit segments (theme parks and movie studios) will not begin to normalize (return to 2019 levels) until fiscal 2022 (ending Sept. 30). We anticipate that it could take all of fiscal 2022 for revenues at the theme parks and studio entertainment to return to pre-COVID levels.

We do believe that EBITDA may improve somewhat faster because of the significant permanent cost reductions achieved throughout the entire Disney organization. These reductions will more than cover any additional costs associated with COVID-19 health and safety procedures. However, adding increased cash flow losses resulting from Disney's global direct-to-consumer (DTC) streaming initiatives likely keeps adjusted leverage above 3x through fiscal 2022 (we estimated adjusted leverage was 5.2x at the end of fiscal 2020). We forecast that S&P Global Ratings-adjusted leverage will return to below 3x only in fiscal 2023. (Our adjustments to debt include reported lease liabilities, unfunded pension and other post-employment benefits, redeemable noncontrolling interests, the balance sheet value of its put option to acquire NBC Universal's interest in Hulu, and net of cash balances.)

Theme park recovery will likely trail overall economic recovery. We believe that theme parks' path back to normalcy will be much slower than global GDP. Even after a vaccine is finally available, local and national governments may still impose social distancing restrictions or even capacity utilization limitations on public venues. We also believe many consumers will continue to be reluctant to attend theme parks, or other large public gatherings, even after a COVID-19 vaccine is available. For theme parks to begin to return to normalcy, consumers will likely need to believe they won't be exposed to the virus while visiting the parks. This may be somewhat easier for outdoor theme parks than for indoor activities. Global destination attractions, like Disney's Walt Disney World in Orlando, Fla., will likely recover more slowly than regional theme parks, like Disneyland in California, due to lingering travel-related concerns. Regional theme parks, on the other hand, could benefit from pent-up demand, accessibility by car, and limited required planning as an alternative to other leisure activities. We're forecasting attendance at Disney's two domestic theme parks in 2021 to be 50% of 2019 levels, improving to over 90% of 2019 levels in 2022. We forecast that domestic attendance will surpass 2019's total only in 2024.

Global DTC streaming initiatives will further depress credit measures over the next few years. Disney's strategic pivot to a global DTC streaming-centric company could better position it to counter the accelerating decline in its traditional linear TV business. Over the longer term, this move could further widen the perceived gap between Disney and its peers, solidifying the company's standing as the premier global media and entertainment company. Over the next two to three years, the company will need to make significant investments in new content, marketing, and systems to reap the advantages of global scale and reach profitability. However, these investments come with a steep near-term financial cost, and thus we expect these investments to further depress EBITDA and cash flow beyond what the pandemic has already wrought on Disney's credit measures.

Management commitment to lowering leverage remains solid. Disney's senior management remains fully committed to returning leverage to historical levels (below 2.5x on an adjusted basis). Since the start of the pandemic, the company has maintained its historically conservative financial policy to pursue these levels. Per Disney's recent earnings announcement, the board continues to suspend its dividend (saving $3.5 billion annually) and the company has not repurchased any stock since 2018 (when it announced the revision of its acquisition of Twenty-First Century Fox Inc. (21CF) to include a cash component). We believe Disney and its board will continue to suspend all shareholder-friendly actions until it reduces adjusted leverage to below 2.5x. Still, we believe there is much uncertainty around a timetable to achieving this lower leverage.

Disney remains the premier global media and entertainment company. Despite the ongoing pandemic and its impact on Disney's businesses and credit measures, our rating on Disney still incorporates its unparalleled collection of iconic brands, the breadth and depth of its film and television studios, its diverse global DTC streaming services (Disney+, Hulu, ESPN+. hotstar, and the soon-to-be-launched Star General Entertainment), its global destination theme parks, and its global distribution footprint. In our view, Disney remains the preeminent company for monetizing intellectual property across the full breadth of its businesses.

Environmental, social, and governance (ESG) credit factors for this credit rating change:

Health and safety
The negative outlook reflects the continued uncertainty over the path to global economic normalcy, the elevated cash flow burn to implement Disney's global DTC strategy, and how long it will take Disney to reduce adjusted leverage to 3.5x. We expect adjusted leverage to significantly increase to well beyond our downgrade trigger in fiscal 2021 but should begin to quickly improve by fiscal 2022, assuming that a vaccine is widely available by mid-year 2021.

We could lower our rating on Disney if

We believe the company will be unable, or unwilling, to return adjusted leverage below 3.5x by the end of fiscal 2022. This would likely result from further delays in the development, manufacture, and distribution of a vaccine, which would further delay a return to economic normalcy and corresponding improvements in operational and financial metrics.
The company' changes its historically conservative financial policy. This includes undisciplined spending to support its global DTC strategy or using cash flow to support shareholder-friendly actions instead of reducing debt.
We could revise our outlook to stable or even raise our rating if:

Disney outperforms our base-case forecast such that leverage comes down more quickly than expected.
We see a clear path (less than one year away) to adjusted leverage of less than 3x.

Related Criteria

General Criteria: Group Rating Methodology (/en_US/web/guest/article/-/view/sourceId/10999747), July 1, 2019
Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments (/en_US/web/guest/article/-/view/sourceId/10906146), April 1, 2019
Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings (/en_US/web/guest/article/-/view/sourceId/10486915), March 28, 2018
General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceId/10011703), April 7, 2017
Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers (/en_US/web/guest/article/-/view/sourceId/8956570), Dec. 16, 2014
Criteria | Corporates | General: Corporate Methodology (/en_US/web/guest/article/-/view/sourceId/8314109), Nov. 19, 2013
General Criteria: Country Risk Assessment Methodology And Assumptions (/en_US/web/guest/article/-/view/sourceId/8313032), Nov. 19, 2013
General Criteria: Methodology: Industry Risk (/en_US/web/guest/article/-/view/sourceId/8304862), Nov. 19, 2013
General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities (/en_US/web/guest/article/-/view/sourceId/7629699), Nov. 13, 2012
General Criteria: Principles Of Credit Ratings (/en_US/web/guest/article/-/view/sourceId/6485398), Feb. 16, 2011

Related Research

Walt Disney Co.'s Third-Quarter 2020 Results Were Mixed; Ratings Remain On CreditWatch (/en_US/web/guest/article/-/view/sourceId/11604832), Aug. 6, 2020
Reopening Date For Walt Disney World An Important Milestone for Disney (/en_US/web/guest/article/-/view/sourceId/11511250), May 29, 2020
Disney 'A-2' Short-Term Ratings Affirmed And Removed From CreditWatch; Long-Term Ratings Remain On CreditWatch Negative (/en_US/web/guest/article/-/view/sourceId/11472324), April 29, 2020
Disney Ratings Lowered To 'A-' Amid Continued Uncertainty Over Business Reopenings And Deleveraging; On Watch Negative (/en_US/web/guest/article/-/view/sourceId/11448584), April 23, 2020
The Walt Disney Co. Ratings Placed On CreditWatch Negative As Theme Parks And Other Businesses Remain Closed (/en_US/web/guest/article/-/view/sourceId/11436898), April 16, 2020
The Walt Disney Co. Outlook Revised To Negative On Event Cancellations And Travel Restrictions Due To The Coronavirus (/en_US/web/guest/article/-/view/sourceId/11387156), March 12, 2020
How Does S&P Global Ratings Calculate Leverage For Major U.S. Media Companies? (2020 Update) (/en_US/web/guest/article/-/view/sourceId/11377557), March 5, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

European Endorsement Status

Global-scale credit rating(s) have been endorsed in Europe in accordance with the relevant CRA regulations. Note: Endorsements for U.S. Public Finance global-scale credit ratings are done per request. To review the endorsement status by credit rating, visit the standardandpoors.com website and search for the rated entity.

Primary Credit Analyst:	Naveen Sarma, New York + 1 (212) 438 7833; naveen.sarma@spglobal.com (mailto:naveen.sarma@spglobal.com)
Secondary Contact:	Jawad Hussain, Chicago + 1 (312) 233 7045; jawad.hussain@spglobal.com (mailto:jawad.hussain@spglobal.com)

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (http://www.standardandpoors.com) (free of charge), and www.ratingsdirect.com (http://www.ratingsdirect.com) and www.globalcreditportal.com (http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees (http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact S&P Global Ratings, Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280 or by e-mail to: research_request@spglobal.com (mailto:research_request@spglobal.com).

Legal Disclaimers (/en_US/web/guest/regulatory/legal-disclaimers)
Careers at S&P Global Ratings (https://www.spglobal.com/en/careers/overview)
Terms of Use (/en_US/web/guest/regulatory/termsofuse)
Privacy and Cookie Notice (/en_US/web/guest/regulatory/privacy-notice)
Do Not Sell My Personal Information (https://www.spglobal.com/en/privacy/california-consumer-privacy-act)
Copyright © 2020 Standard & Poor's Financial Services LLC. All rights reserved.

Reproduction and distribution of this information in any form is prohibited except with the prior written permission of Standard & Poor's Financial Services LLC and its affiliates (together, “S&P”). S&P does not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and is not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. S&P shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of this information, including ratings. S&P ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice. Please read our complete disclaimer here. (/en_US/web/guest/regulatory/legal-disclaimers)