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Creation of value through M&A: the Disney's case

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1.Introduction

Digitalization has reshaped and transformed the entertainment activities to a new level where people are unprecedentedly immersed in their digital devices with a highly interactive relationship between the customers and the service providers. Traditional media giants are inexorably threatened by this revolutionary impact.

The new streaming services such as Netflix, YouTube, and Amazon Prime Video had successfully occupied the Media and Entertainment market (M&E) which has a considerable profit. The popularity of these services served as a reminder for the traditional media and broadcasting companies and even inspired companies from other industries to expand their businesses into the new picture, such as Disney and Comcast. According to Mordor Intelligence, Netflix takes up about 74% of the total penetration of the U.S. Over-The-Top (OTT) media services household, followed by YouTube with 54% and Amazon's 33% penetration (2020). At the same time, the consumption of conventional pay-TV is decreasing, traditional media companies, therefore, hope to join this trend.

As a leading company in the industry with a history of over nine decades, Disney is known for its creativity and original media contents, as they created such famous characters as Mickey Mouse and Donald Duck back in the 20th century. What is the most efficient way for an industry giant to adapt to the trend of new business and still increase its profitability in the competitive market? The answer is through Mergers and Acquisitions, a method Disney has carried out for years and is proved to be very successful as well as effective.

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This thesis will focus on evaluating the M&A strategies of The Walt Disney Company in terms of the M&E industry. Disney is ideal for analyzing and understanding different strategies of M&A methods, for it had acquired many competitors and assets in recent twenty years, while maintaining a healthy financial status despite the risk of M&A and the increasingly competing multimedia market.

Disney Acquisitions

- **Miramax** – 1993; $60 million
- **Capital Cities/ABC/ESPN** – 1995; $19 billion
- **Starwave** – 1998; undisclosed
- **Infoseek** – 1999; undisclosed
- **Fox Family Worldwide (Freeform)** – 2001; $2.9 billion
- **Baby Einstein** – 2001; undisclosed (Sold to Kids II, Inc in 2013)
- **The Muppets (and Bear in the Big Blue House)** – 2004; $75 million
- **CrossGen** – 2004; $1 million
- **Avalanche Software** – 2005; undisclosed
- **Pixar** – 2006; $7.4 billion
- **Oswald the Lucky Rabbit** – 2006; traded for the rights to sports broadcaster Al Michaels
- **Junction Point Studios** – 2007; undisclosed
- **Marvel** – 2009; $4 billion (Saban Entertainment also joined Disney at this time)
- **Hulu** – 2009; 30% purchase (increased to full ownership in 2019)
- **Wideload Games** – 2010; undisclosed
- **Tapulous** – 2010; undisclosed
- **Playdom** – 2010; $563 million
- **UTV Software Communications** – 2011; $297 million
- **Lucasfilm (Star Wars)** – 2012; $4.06 billion
- **Maker Studios** – 2014; $500 million
- **Sphero** – 2014; unknown minority investment
- **BAM** – 2016 & 2017; $2.58 billion total
- **21st Century Fox** – **2019; $71.3 billion**

Figure 1. The Timeline of Disney Acquisitions from 1990

Source: Disneynews.com, 2020

As one of the oldest animation producers, The Walt Disney Co. had created a world of imagination with original intellectual properties. Except its animation and other media works, Disney's domination is undertaken through different types of M&A activities in a broad timeline, as it acquired other intellectual properties producers such as Pixar, Marvel, and more recently,

the 21st Century Fox. In this way, Disney elevated itself to the extent that it remained one of the most profitable companies in the challenging market. Its M&A strategy has contributed to an increasing revenue of Disney compared to the industry average and has offered more foreseeable benefits in terms of future media and entertainment market trends.

The thesis will be dedicated to answering the questions of the M&A strategy in The Walt Disney Company:

(1) What is the rationale behind the strategies of Disney's M&A transactions?

(2) How Disney has successfully adapted to the technology and market evolution by M&A transactions of M&E businesses?

Through analyzing Disney's major M&A transactions in the M&E industry from the 1990s, and Disney's financial performance before and after these activities, the thesis is constructed in three sections to provide a comprehensive glimpse into Disney's success.

First, the thesis provide an introduction of M&A activities and basic definitions and rationales through a literature review. Then it focus on contextualizing Disney's M&A history and strategies as the technology and the M&E market develops. Lastly, it will investigate Disney's success through its financial performance with comparison to the average industry level and Disney's competitors, all of which demonstrate the importance of M&A activities in Disney's businesses. Additionally, the thesis further discusses the prospects of Disney's future with its new streaming platform Disney+, and the future prospects in the M&E industry.

2.Literature review- Mergers &Acquisitions

2.1 Mergers and Acquisitions definition

Mergers and acquisitions (M&A) is a term referring to a consolidated financial asset which is established by various types of transactions and has attracted both commercial and academic attention for many years. According to Adam Hayes (2020), There are several types of M&A activities, which are determined by the legal process of M&A activities. A merger indicates two companies decided to combine as an entity and issue a new company stock, whereas an acquisition means unfriendly purchasing behavior while the acquired company's stock ceases to trade.

Although mergers and acquisitions are often used interchangeably, these activities share different characteristics and are often achieved by various funding resources and executive processes. Hayes breaks common mergers and acquisitions into different types of transactions, namely:

- Mergers: In a merger of equals, two companies which are similar in size would merge into a new company and issue new stock, instead of operating separately.
- Acquisitions: An acquisition means the buyer company completely takes over the target company's assets, the acquired company's stock would be no longer effective after the transaction while the buyer company absorbs the target company and reconstructs as a new one, with its stock continuing to be traded. This can be achieved by using cash to purchase the target company's stock or exchanging the company's stock for the others.

- Consolidations: A consolidation is built through combining essential businesses and assets to form a consolidation, as well as giving up the old structures.

- Tender Offers: Tender Offer is brought up by a buyer company which offers to purchase some promising stock of the target at a particular price instead of the market price. In this way, the buyer company discuss the transaction directly with the target company's stockholders rather than the management department of the company.

- Acquisition of Assets: In this kind of transaction, the buyer company acquires the target company's assets. It is decided by the target company's shareholders whether to accept the offer which often takes place in the process of the target company's bankruptcy.

- Management Acquisitions: A management acquisition happens when the executives privately purchase a considerable amount of stake in other companies, which are usually funded by other financiers and investors.

2.2 Synergy

Synergy is a term that refers to two or more companies to create more shareholder value than when the company operates alone (Damodaran 2011). There are two types of synergy: operating synergy and financial synergy.

- Operating Synergy: includes economies of scale with the help of distributing fixed costs of an increasing production process as well as economies of scope, which can be improved by using current technology or facility of a former product to produce a new

product or service. The latter often happens when it is cheaper to finish different production processes in a single company than in various ones.

- Financial Synergy: when an M&A activity happens, the acquiring company has to finance the transaction. Financial synergy refers to the impact of the M&A activity's impact on the capital of the buyer company or the result of the transaction, a new conglomerate.

2.3 Reasons for M&A

There are different rationales behind an M&A transaction, and a decision has to be made after sophisticated consideration, which requires a business owner to take into account the risk of acquisition and accurate prediction of the financial performance of post-acquisition (Hart and Sherman 2006). This has contributed to the difficulty of M&A activities, especially for large commercial groups like Disney with its complicated structures, stockholders and assets. Nonetheless, Disney has carried out successful M&A transactions over the past decade which contributed to Disney's positive stock performance as well as other aspects.

Including mergers, acquisitions, consolidations and other financial activities in terms of a company's marketing strategy, M&A is undoubtedly an efficient tool for well-established companies to expand their business to an unfamiliar field, concerning the fact that even though the most successful companies would not be able to build a good brand reputation instantly while entering and sharing a new business, especially in the highly developed digital media industry.

3.Overview of American Media and Entertainment Market

3.1 Industry profile

The United States of America has the largest Media and Entertainment industry in the world, as it represents a third that of the world at $717 billion according to the U.S. Department of Commerce (2019), and it includes different kinds of entertainment businesses: motion pictures, television programs and commercials, streaming content, music and audio recordings, broadcast, radio, book publishing, video games, and ancillary services and products. Moreover, the U.S. industry is expected to reach more than $825 billion by 2023, according to the 2019-2023 Media & Entertainment Outlook by PriceWaterhouseCoopers (2019). The global media and entertainment industry keeps growing at a compound annual growth rate of 4.3% from 2018 to 2023, according to PwC.

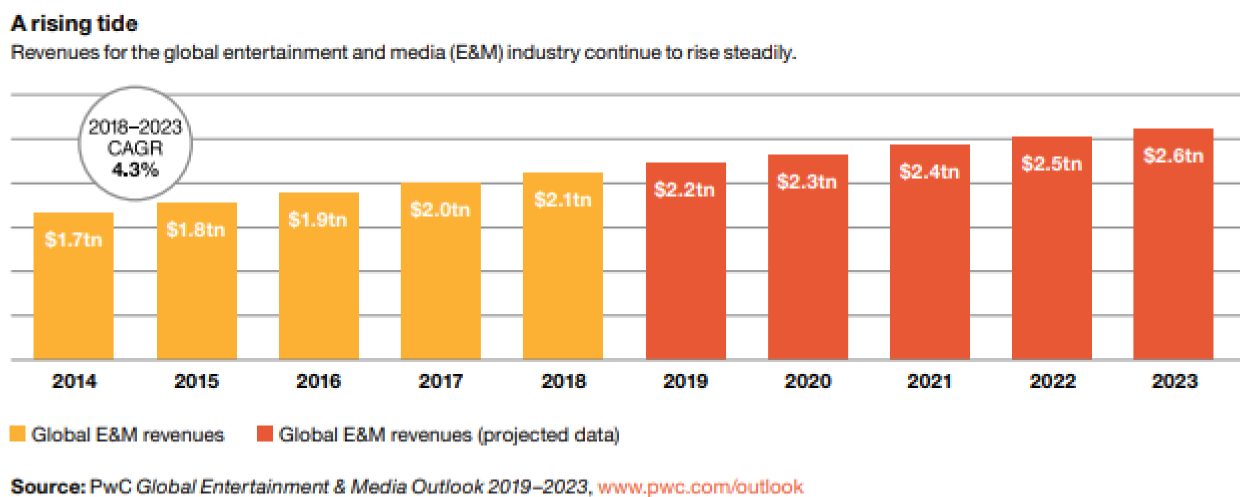


Figure 2. Estimated Global M&E Revenues from 2014 to 2023

The U.S. industry also rises steadily, with a market value of $496.39 billion dollars in 2011, which is expected to reach $720.38 billion in 2020, suggested by Statistics (2016). However, as the main character in the global M&E business, we have to bear in mind that the U.S. has a mature M&E market compared to the other regions since it was one of the earliest countries that engaged in film-making and media businesses. As a result, it had won a steady customer base which developed variety-seeking buying behavior since there are lots of choices for media networks and content. Consequently, the customer's demand and the huge amount of media peers have made the U.S. market rather productive but also highly competitive. Companies in the industry, therefore, have to maintain an active role and to constantly adjust their strategies to adapt to the changing market, especially for the older companies like Disney who started its business in making animation back in the 1920s when the process of producing and distribution are all different now.

3.2 The development of M&E supply chain

In order to better understand the market's impact on Disney's business strategies, we need to further investigate the basics of a business process, the supply chain. There is no doubt that the digital revolution had changed M&E business in all processes, with the most up-to-date drivers such as artificial intelligence, virtual reality, machine learning, and blockchain, not to mention the widely used portable devices and various media platforms. According to OpenText (2015), the media and entertainment industry has developed a digital supply chain, from the point of origin (content provider, creator or owner) to the destination (different portable devices). The process is the same as physical goods, however, the digital supply chain has more uncertainties

as the content flows to multiple devices instead of individuals. Here we focus on mass media, especially Disney's original business animated films as it is able to present the revolution of other visual media. Among all the processes, the most important sections whose transformations had a huge impact on animation and films' supply chain are production and distribution.

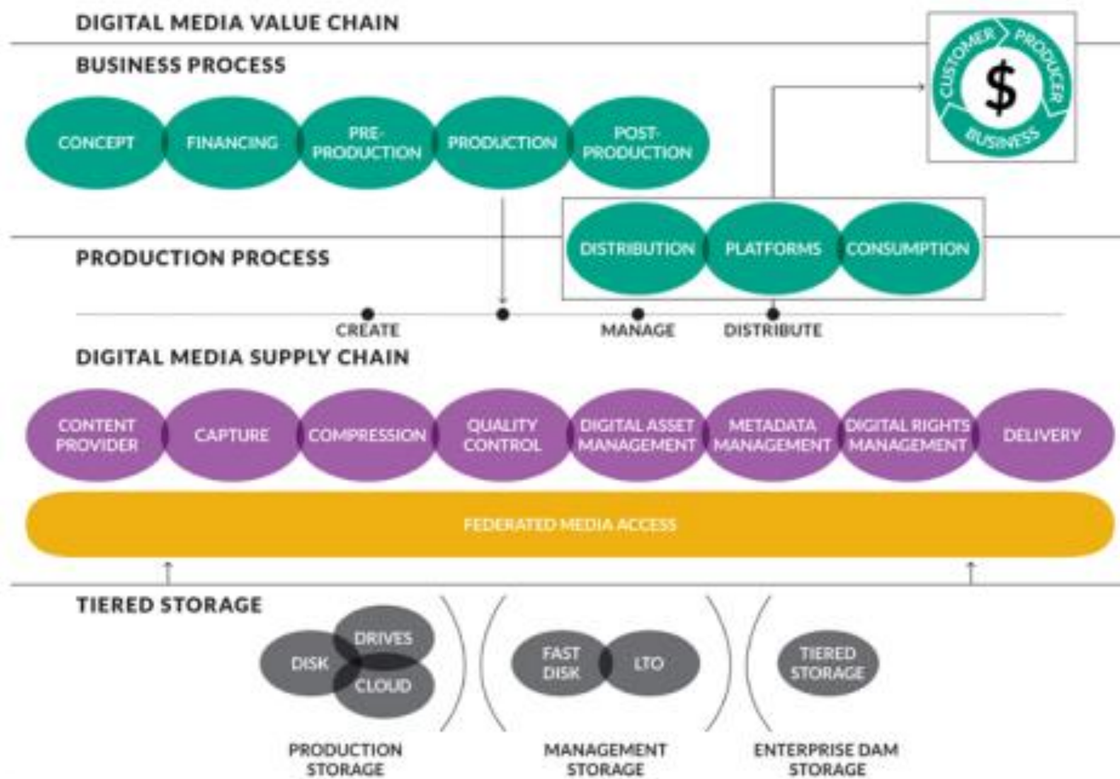


Figure 3. The Supply Chain of Digital Media Businesses

Source: Open Text, 2015

Production: Hand-drawn - 2D Animation - 3D Animation

New York Film Academy states the celluloid animation is the original animation where the animators literally have to draw thousands of images on special paper and have them

photographed, frame by frame (2017). Before the digital revolution, traditional animation was the norm of the industry, including Disney. After we enter the Internet era, computer-aided techniques such as Adobe Animate and Flash brought 2D animation which is vector-based and different from hand-drawn animation, 2D animation can be produced at a large-scale, making producing easier and as a result, there is more available content in a very short time. More recently, visual effects techniques made 3D animation easily accessible for the producers since the only producing requirements are a computer with a software like Maya and an animator who is professionally trained for digitally model characters.

Distribution: Cinema - Cable TV - CD/DVD - Streaming Services

In the pre-digital age, the only way of watching films or animation was going to a theatre or a cinema. After World War II, television boomed in the United States and abroad, though its concentration in the hands of three major networks led to accusations of conformity. The invention of cable and subsequent deregulation in the 1980s and 1990s led to more TV channels, with which satellite TV and direct-to-home services had received popularity (Saylor Academy 2012). At that time, TV programs were transmitted by cable and satellite in the form of over-the-air-programming and were delivered by different timetables. While in the late 20th century, Internet and IPTV technology had contributed to the transformation of media distribution, as PC and TV that were connected with the Internet gradually took the place of satellite services.

As we enter the millennium, portable devices became more available and now the new media trend falls into streaming, such as video-on-demand (VOD) and over-the-top (OTT) services.

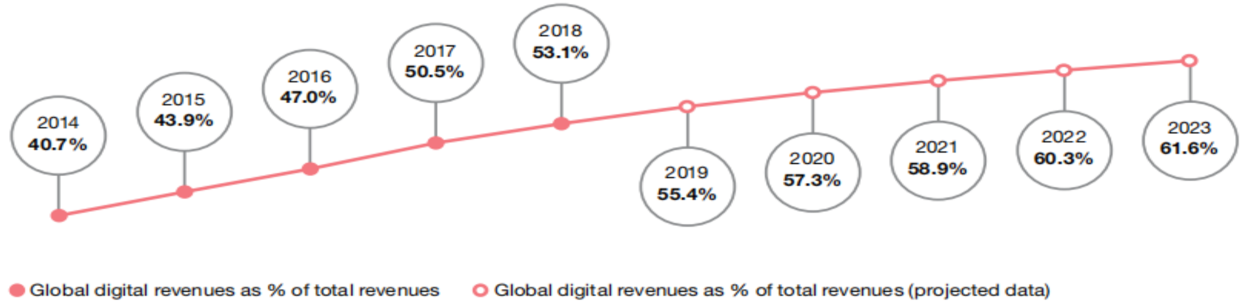
James Johnson (2019) on Uscreen distinguishes different streaming options by the following definitions.

VOD: offers instant video content as long as the customer demands, as well as play-back services if a customer wants to review something again, which can be seen as the direct opposite of scheduled broadcast TV programming. Today, the most popular categories of VOD are subscription video-on-demand (SVOD), advertisement-based video-on-demand (AVOD), and transactional-based video-on-demand (TVOD). Most media services here we discuss in this paper fall into SVOD, including Netflix, Hulu, HBO, Amazon Prime Video, and Disney+, while the most well-known examples of AVOD and TVOD are YouTube and iTunes Store.

OTT: a subset of VOD. OTT includes all media streaming services that previously transmitted by satellite or cable, but now deliver video content to the audience via the Internet. It can also be used to describe text and video call services on social media like WhatsApp. However, the term is often interchangeably used with SVOD, as service like Netflix represents the traditional OTT service which also offers download services as the feature of SVOD.

As now distribution and production are presented in a different way, the streaming service has become the major segment of the M&E business, as the global video streaming market size was valued at USD 42.60 billion in 2019 and is projected to grow at a compound annual growth rate (CAGR) of 20.4% from 2020 to 2027 (Grand View Research 2020). We can also draw the conclusion from digital revenues percentage of the whole M&E revenues, which is steadily increasing as shown in the following figure by PwC.

Inexorable digitisation
With each passing year, digital revenues account for a larger share of the E&M industry.



Global digital revenues as % of total revenues   Global digital revenues as % of total revenues (projected data)

Source: PwC *Global Entertainment & Media Outlook 2019–2023*, www.pwc.com/outlook

Figure 4. Global Digital Revenues As a Percentage of Total Revenues from 2014 to 2023

Through calculation, we observe digital revenue growth from 2014 to 2018 is 130.4%, whereas global revenue growth is 52.9%, suggesting digital revenues are growing at a faster speed than the industry.

PwC's research also shows that in the new digital-driven M&E industry, the growth of SVOD services is the most significant, which almost represents the overall growth of OTT services comparing to TVOD's revenue.

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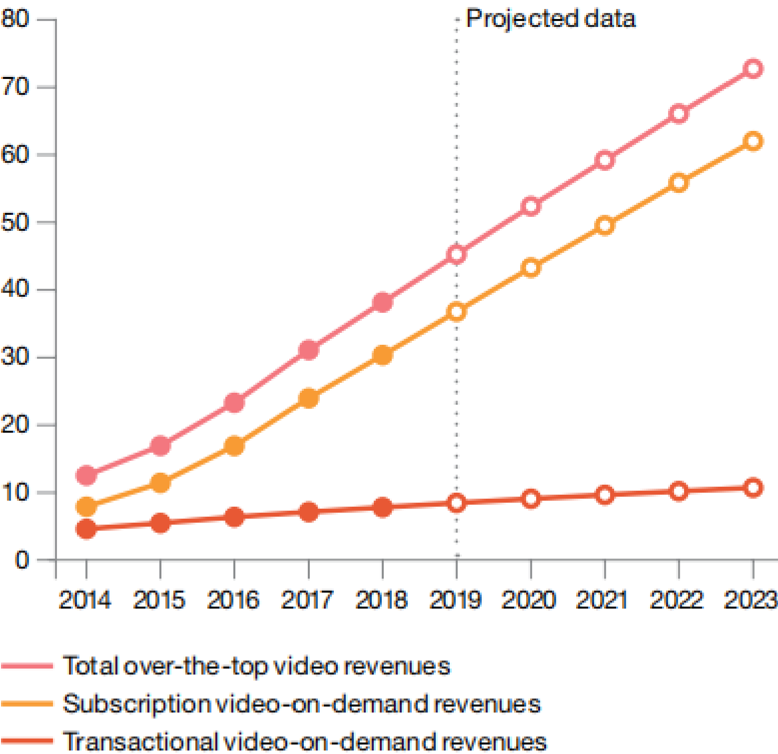


Figure 5. Global OTT Video Revenues by Category

Content is "king"

Besides, Deloitte's annual survey mentioned that streaming service penetration had surpassed traditional pay-TV penetration for the first time in 2018 since 69% of customers subscribe to at least one SVOD service whereas 65% has a pay-TV service in their home (2019). The number of

SVOD penetration in the U.S. household now climbed to 80% under the impact of COVID-19, according to the newest Deloitte report (2020). In this condition, it is important for the media companies and producers to figure out how to satisfy customers' needs so they can attract more subscriptions in the competing market. Deloitte's survey suggests the most important consideration for a subscription is on the original content and the library of films and TV series, since “57% of paid streaming video users said they subscribed to access original content” (2018). The newest survey after COVID-19’s outbreak also shows that given the streaming trend’s environment, media companies should focus on broadening their content category as well as creating original shows, to adapt to the highly stratified costumers’ demand.

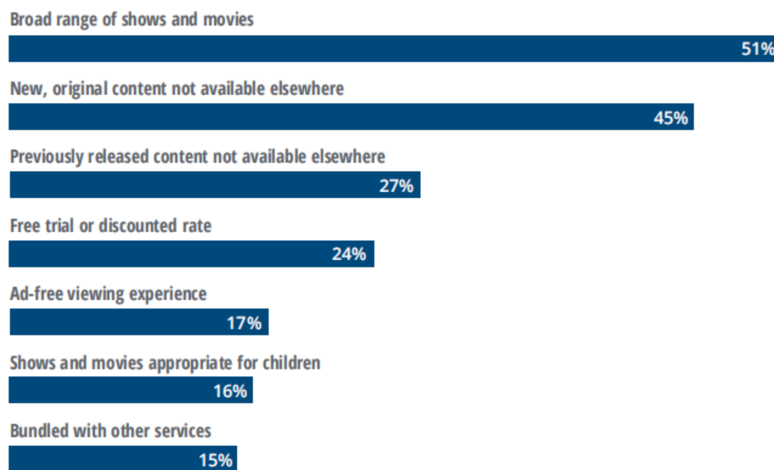
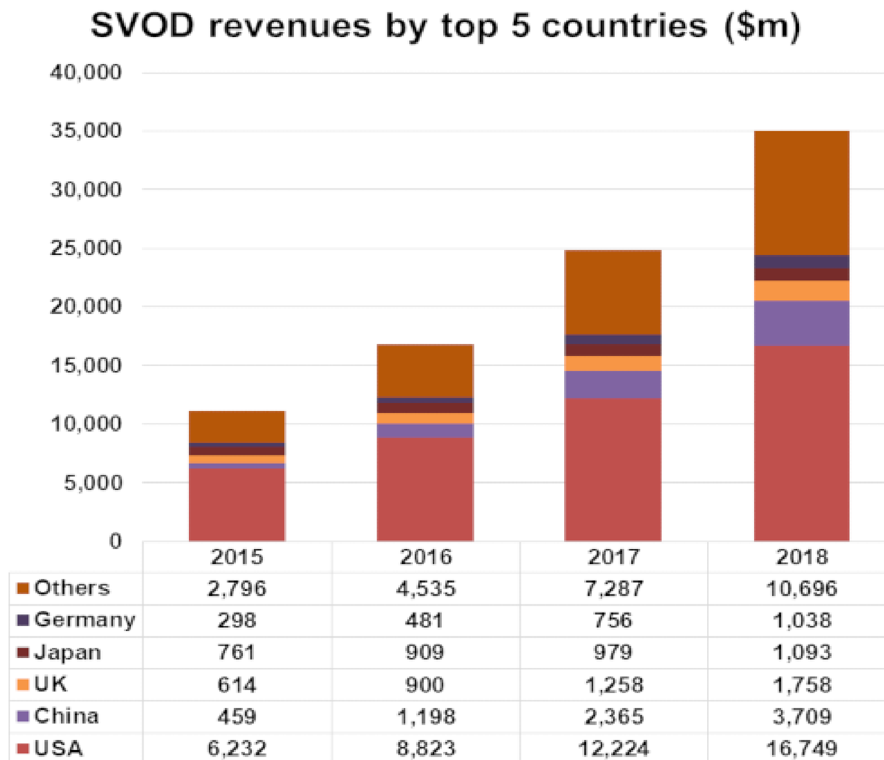


Figure 6. Top Reasons for Customers to Pay for Streaming Services

3.3 Streaming war: Disney’s market share and its competitors

In order to better analyze Disney and its competitors' market share, here we focus on the U.S. streaming media market because most media companies discussed in this paper that had been engaged in the streaming trend, are originated in the U.S. market. In this section, we will briefly look into the SVOD market, to offer more background information on the launch of Disney’s streaming service Disney+. More importantly, it is the U.S. where the streaming services started to boom and expand to the other regions, and the U.S. accounts for nearly half of the top 5 countries for SVOD revenues in recent years, as shown by the following figure.



	2015	2016	2017	2018
Others	2,796	4,535	7,287	10,696
Germany	298	481	756	1,038
Japan	761	909	979	1,093
UK	614	900	1,258	1,758
China	459	1,198	2,365	3,709
USA	6,232	8,823	12,224	16,749

Figure 7. Top Five Counties with the Most SVOD revenues

Source: Digital TV News, 2019

Disney's Market Share

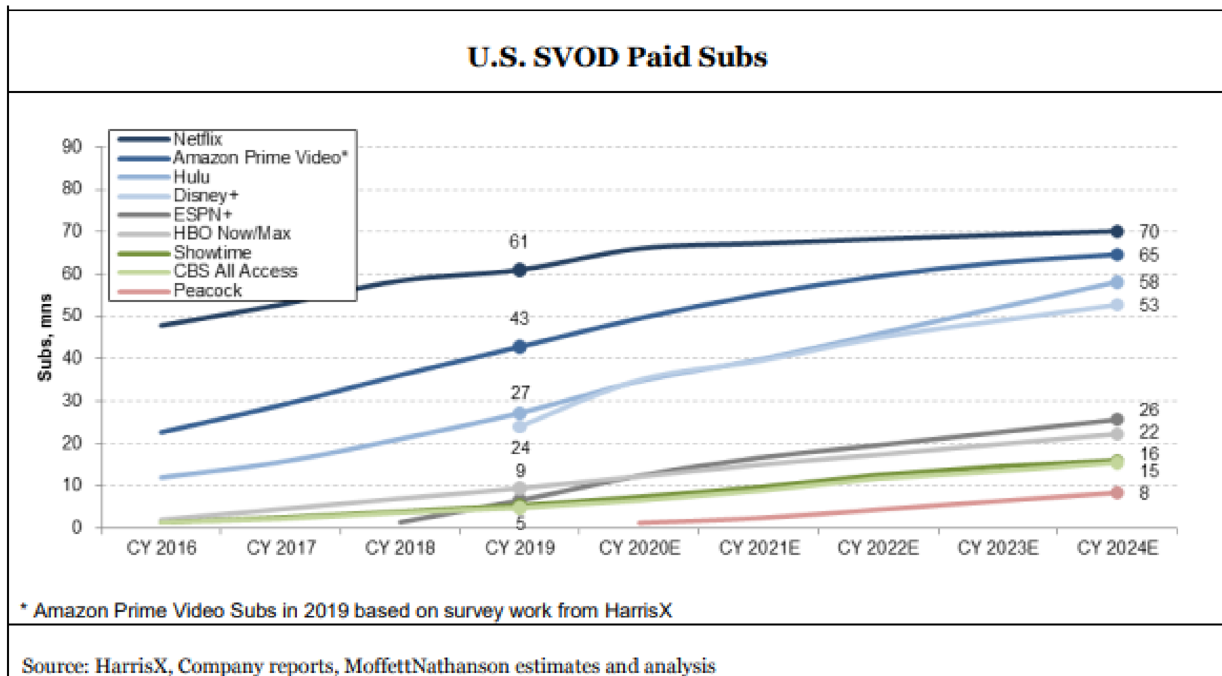


Figure 8. SVOD Paid Subscriptions of Different Services in the U.S. (2016-2024)

More recently, the battle of streaming services has encouraged the development of the M & E industry in the US, with increasingly media producers and companies are engaging in exploring new digital businesses, including examples such as Amazon's stream network Amazon Prime (which owns the broadcasting rights of a variety of films) and Apple's Apple TV. If we investigate earlier, Youtube has been evolving in streaming services with original content created by personal users and influencers, which had unprecedentedly revolutionized the hegemony of the big names in terms of content producers in the American M&E industry.

On the other hand, Netflix as the first streaming platform has attracted lots of customers with its convenient media content usage and specific recommendation system benefitting from big data tools.

In 2019, Netflix entertained more than 160 million members with original stories that were nominated for 117 Emmys and an industry-leading 24 Academy Awards. According to Netflix's 2020 Proxy Statement,

"We hit financial milestones, achieving $20 billion in revenue and $2.6 billion of operating income, and over the last decade, we were the highest-returning stock in the S&P 500. As consumers shift away from linear television, we seek to continue to redefine how the world watches movies and TV shows" (2020).

Despite a few service glitches on launch, Disney+ has landed exactly how the mouse house would have wished. According to a Sensor Tower report, Disney+ topped 31 million downloads from the Apple App Store and Google Play in Q4 2019, more than double second-place TikTok, and has been downloaded nearly 41 million times across App Store and Google Play as of this writing. In the Apple App Store, it bumped YouTube from the No. 1 position for the first time in a year (2020). Disney+ also became the download market share leader in Q4 2019, capturing 34% of total U.S. downloads for streaming video apps, surpassing Netflix, YouTube, Hulu, and Amazon Prime Video. So far, it has amassed nearly $100 million in user spending.

4.Walt Disney Co. and its M&A strategies

4.1 A brief history of The Walt Disney Company

The Walt Disney Company originated from an animation studio and later expanded its business to several different fields with the core value of bringing happiness and entertainment to families and children (Harrison et al. 2012). As early as 1923, Walt Disney exhibited a talent for producing arts, with his ambition in devoting himself to the developing moving pictures business he moved to California, and within four years later he formed Walt Disney Productions with his brother Roy and made its debut Steamboat Willie. However, the same as any possible business, there were ups and downs in his studio, especially in the studio's early-stage he experienced a management crisis while the studio worked for Universal (Beattle 2019). Later in 1928 he decided to work on their own and invented the most important cartoon character, Mickey Mouse, which served as a turning point for his company and has changed the history of animation and moving pictures forever.

Undoubtedly, Disney's groundbreaking films cost so much money to make and the margins were so low that even a pitfall at box office performance would end in debt, which means Disney had to raise even more money to keep producing regularly. According to Beattle, Walt Disney Studios issued 155,000 shares of 6% convertible preferred stock on April 2, 1940 (Investopedia 2019). Yet the company was soon in debt again, and at the same time, Walt Disney was always a pilgrim for dreaming big, which both contributed to the idea of starting to gamble and reach out to other industries. The first experiment was the opening of the first Disneyland theme park in

California in 1955, which occupied over 160 acres. A theme park at this astonishing size filled up with imagination especially under the environment of post-war and lack of technology support. Walt Disney insisted on pursuing his dream, with himself being the supervisor of the construction process, and carried out a series of plans which led to the success of theme parks. In the following years, Disney's theme parks and its media content continued to expand despite the iconic brothers passed away one after another in the 1960s and 1970s. The company also constructed additional theme parks on an international basis, including the opening of Tokyo Disneyland in 1983 as its first overseas park and many more in subsequent years (Sanders 2019). Today, there are Six Disneylands as "castle parks" around the world, which has different resorts with a total of 12 Disney parks. As is shown in Disney's newest second quarter report for fiscal 2020, the segment revenue of parks and their products is $5,543 million dollars, which was under the impact of the COVID-19 pandemic. We can conclude that the revenue of parks has decreased by roughly 10% compared to the second quarter of 2019.

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	Quarter Ended			Six Months Ended		
	March 28, 2020	March 30, 2019	Change	March 28, 2020	March 30, 2019	Change
Revenues:						
Media Networks	$ 7,257	$ 5,683	28 %	$ 14,618	$ 11,604	26 %
Parks, Experiences and Products	5,543	6,171	(10)%	12,939	12,995	– %
Studio Entertainment	2,539	2,157	18 %	6,303	3,981	58 %
Direct-to-Consumer & International	4,123	1,145	>100 %	8,110	2,063	>100 %
Eliminations	(1,453)	(234)	>(100)%	(3,103)	(418)	>(100)%
Total Revenues	$ 18,009	$ 14,922	21 %	$ 38,867	$ 30,225	29 %

Figure 9. Disney's Revenues in Market Segments in Q3 Fiscal 2020 and 2019

Source: The Walt Disney Company Q3 Fiscal 2020 Report

4.2 Disney's market segments

It is obvious that the most profitable segment of Disney is not its parks and resorts. According to the chart, Media Networks is the biggest money-maker, with a total of $7,257 million dollars, which made up around 40.3% of its whole revenue within the time period. And it's continuing to grow due to the government restrictions of outdoor activities under the scope of isolation, people are stuck in their house and turn to TV and streaming services to kill time. This is demonstrated

by a 28% increase in the revenue of Media Networks comparing 2019 and 2020, and the number is estimated to increase since Disney has postponed the launch of many movies.

Additionally, through analyzing the 2019 annual report of Disney we can also conclude that Media Networks is the biggest earning asset in all Disney's segments. In the report, the total revenue of Media Networks is $24,827 million, which accounted for around 35.7% of all revenues. We can also observe an increase of 13% in Media Networks comparing 2018 and 2019, which could be ascribed to the new M&A activities carried out by Disney in 2019 since Disney successfully owned a 60% stake of Hulu which came with the completion of acquiring 21st Century Fox in 2019.

				% Change Better/(Worse)	
(in millions)	**2019**	2018	2017	**2019 vs. 2018**	2018 vs. 2017
Revenues:					
Media Networks	**$ 24,827**	$ 21,922	$ 21,299	**13 %**	3 %
Parks, Experiences and Products	**26,225**	24,701	23,024	**6 %**	7 %
Studio Entertainment	**11,127**	10,065	8,352	**11 %**	21 %
Direct-to-Consumer & International	**9,349**	3,414	3,075	**100 %**	11 %
Eliminations	**(1,958)**	(668)	(613)	**>(100)%**	(9)%
	$ 69,570	$ 59,434	$ 55,137	**17 %**	8 %
Segment operating income / (loss):					
Media Networks	**$ 7,479**	$ 7,338	$ 7,196	**2 %**	2 %
Parks, Experiences and Products	**6,758**	6,095	5,487	**11 %**	11 %
Studio Entertainment	**2,686**	3,004	2,363	**(11)%**	27 %
Direct-to-Consumer & International	**(1,814)**	(738)	(284)	**>(100)%**	(100)%
Eliminations	**(241)**	(10)	13	**>(100)%**	nm
	$ 14,868	$ 15,689	$ 14,775	**(5)%**	6 %

Figure 10. Disney's Revenues in Market Segments (2017-2019)

Source: The Walt Disney Company Fiscal 2019 Financial Report

Moreover, we have to keep in mind that this acquisition is only a part of Disney's long history of M&A transactions, through which Disney has increasingly expanded its influences and competed with the other companies in the M&E industry.

Media & Entertainment: Total Revenue, Earnings & Growth (USD, Million)

	12/31/2019	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Quarterly Revenue	208,761.5	177,662.9	178,804.1	165,880.4	188,607.1	163,616.1
Trailing 12 Months Revenue	731,108.9	710,954.5	696,907.7	681,173.7	671,963.4	654,345.1
Year-Over-Year Revenue Growth	10.69%	8.59%	9.65%	5.88%	10.30%	6.03%
Quarterly Net Income (Earnings)	29,492.4	22,008.9	25,207.7	22,540.6	26,869.3	27,487.4
Trailing 12 Months Net Income	99,249.7	96,626.5	102,105.0	97,850.6	99,211.6	101,400.9
Year-Over-Year Earnings Growth	9.76%	-19.93%	20.30%	-5.69%	-7.53%	22.53%

Figure 11. Global M&E Revenues and Growth (2018-2019)

Source: Siblings Research, 2020

As a result, it draws our attention to the M&A strategies Disney had utilized and transactions it had completed in recent years, specifically from the 1990s to the 2020s.

4.3 Overview of major M&A transactions of Disney from the 1990s: a timeline

In 1983, Disney launched its own network Disney Channel, targeting families and children entertainment when cable TV grew increasingly in usage during the 1980s. The channel reached 200 million subscribers in a few years, adding television components to its already successful movie foundation (High 2019). From the 1990s to the 2000s, Disney aimed at combining more musical elements with visual contents for teenagers and children, created some well-known

series of Disney such as Hannah Montana and High School Musical in which starred Miley Cyrus, Hillary Duff and Britney Spears. Besides producing original content and its related products, Disney also gained access to its competitor's content by merging or acquiring other film-making companies or studios as shown in the following chart, which is one of the most essential methods that Disney expanded its media networks empire.

The first step was the acquisition of Miramax for a $60 million deal in 1993, allowing Disney to its film library including the most commercially successful ones Pulp Fiction and Chicago. It was announced that the contract ended in 2005, however, Miramax remained with Disney for several years yet eventually fell after laying off 70% of the staff and the lack of film release (High 2019).

Shortly after acquiring Miramax, Disney made a move that shocked the media industry in 1995 by its merger with Capital Cities/ABC Inc. for an astonishing $19 billion. Disney is known as a creative original media producer, so this vertical merger had brought Disney the ability to offer its content through cable TV and radio network platforms to reach more audience and customers with 225 affiliated stations and 8 TV stations, as well as an 80% ownership of ESPN and already powerful network ABC (Domanska 2020). Disney had expanded its radio cable and cable TV services even further to overseas by this important merger, of which the details will be discussed in later chapters.

Another significant Dinsey transaction was acquiring its former competitor Pixar Animation Studios in 2006 with a deal of $7.4 billion in stock. As a grounded animation producer Pixar was

famous for its series Toy Story and Finding Nemo, the transaction had offered Disney access to Pixar's animation library.

Then Disney joined Hulu as a stakeholder of 30% purchase in 2009 (Disney gained full ownership of Hulu with the acquisition of 21st Century Fox in 2019), planning to offer content from ABC and Disney Channel (High 2019). In the same year, Disney announced the acquisition of Marvel Entertainment with a $4 billion deal, which will be proven to be a shrewd strategy since this transaction enabled Disney to occupy the box office and gained an impressive revenue through Marvel's content in the following years. In 2012, Disney acquired Lucasfilm which owns the Star Wars series for $4.1 billion, adding franchise to Disney's realm of superhero and fantasy entertainment content. Then Disney reached deeper in sports streaming after the acquisition of BAMTech with a $1 million, 33% stake, and launched its own sports streaming service ESPN+ in 2018.

More recently, Disney finished another industry-high acquisition of 21st Century Fox with a total of $71.3 billion. Disney gained the access to both unaccountable movies and Fox's TV series, including Twentieth Century Fox, Fox Searchlight Pictures and Fox 2000, which together offer diverse and compelling storytelling businesses and are the homes of Avatar, X-Men, Fantastic Four and Deadpool, as well as The Grand Budapest Hotel, Hidden Figures, Gone Girl, The Shape of Water and The Martian (Smith 2019). After this acquisition, Disney eventually launched its streaming service Disney +, offering a subscription price of $6.99 per month (Netflix starts at $9 and Amazon's monthly price is $8.99), competing directly with Netflix and Amazon Prime with Disney's classic contents and acquired media contents.

4.4 Strategic Analysis

DePamphilis (2011) concludes the reason for some mergers and acquisitions transactions is that many larger and bureaucratic companies may not be able to innovate at the cost of time and resources comparing to smaller but nimble companies, so these large companies take M&A as a rapid tool to acquire new technologies and to catch up with the market trend or to enter a new business. DePamphilis also points out other motives for M&A activities include value creations, diversification, strategic realignment, acquisition of assets, tax considerations and managerial incentives. Through investigating Disney's major M&A transactions' of the media segment, we can conclude diversification, acquisition of assets and strategic realignment serve as the main motivations for Disney's strategy, which is demonstrated by Disney's acquisitions of its competitors or distributors.

As mentioned in the former chapter, there are three types of mergers from an economic perspective: horizontal mergers, conglomerate mergers and vertical mergers. We can conclude that Disney had followed a strategic model for its expansion through a series of M&A activities. Disney started to produce animations and films as early as the 1920s and continued to grow as an original producer. Except for developing theme parks and consumer products, it launched Disney Channel in the 80s and acquired ABC (Distribution) so that Disney can present its channel to the whole nation and overseas via lots of TV stations and networks. Here the vertical merger had offered Disney the lower side of a whole service, namely the distribution process. In order to remain competitive in the market Disney acquired more companies (Production) such as Pixar and Marvel to get more access to original content to broadcast in its own channel and networks.

And finally Disney returned again to the first step to launch its new platform Disney+ to join the streaming service trend. This circuit of M&A strategy combining vertical and horizontal mergers is proven successful by Disney's annual report and financial performance, which will be covered later.

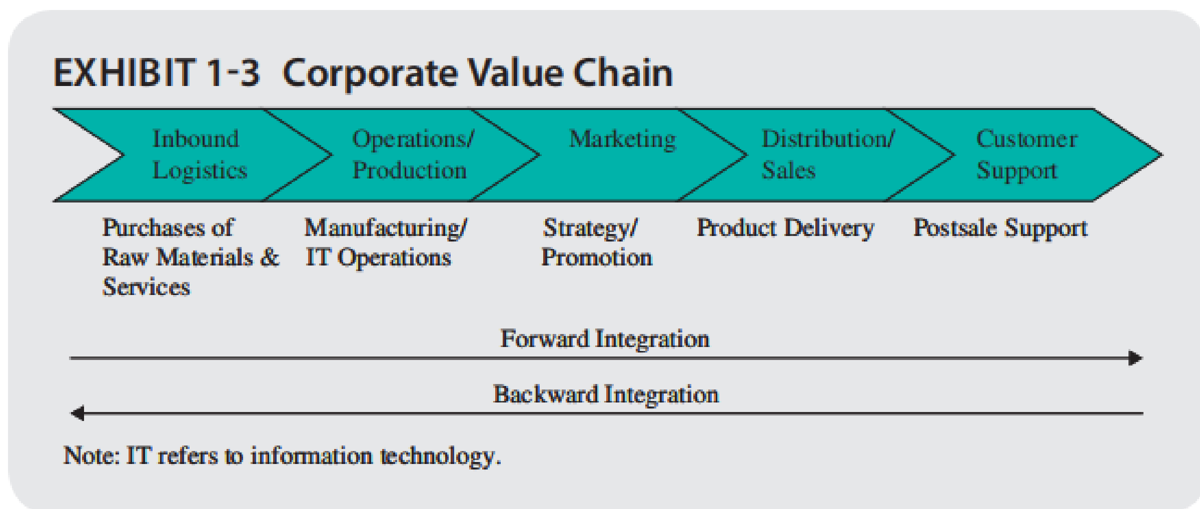

Figure 12. Corporate Value Chain in a Business

Source: DePamphilis, D. 2017

With the knowledge of Disney's major M&A transactions, we observe Disney merged and acquired its competitors to get the access to more intellectual property in terms of media contents including films, TV series and animations, whereas expanded these original or acquired content vertically as Disney monetized different contents into consumer products, parades in theme parks and even reproduce the original content. For example, Disney created The Lion King as an animation movie in 1994 which was an award-winning series and gained a box office of $968.5

million (Wikipedia). Disney had been using the same monetizing model, selling toys and merchandise products of the characters, designing The Lion King show performance as well as performing related parades in theme parks (Krafczyk 2019). According to data from Disney's 2019 annual report, theme parks are the second most profitable segment in Disney's revenue. Disney also applies the same vertical monetizing model to other original content, whereas acquiring more media properties from its competitor will contribute to more diversified visual content within its own platforms, Disney Channel, ABC, and now Disney+. Therefore more ownership of film and TV contents will bring Disney more revenues, as we are experiencing a more competitive and innovative era of the media industry, where people's demand for diversity and multicultural content has largely increased in recent years.

4.5 Major M&A transactions in media segments

4.5.1 Disney - Pixar deal

Pixar Animation Studios is known for its motion picture producing in the 2000s. Though Disney is one of the oldest companies involved in this business, Pixar is undoubtedly competitive and successful in the market back then, with the first computer-animated film Toy Story, making $192 million domestically and $362 million worldwide. According to Kechnev's research (2019), under the market environment back in the early 2000s, studios profit mainly through domestic ticket sales, while today theatrical revenues only account for 24% including cable networks, videos and broadcast, and licensing takes up the rest. It is easy to conclude the objective of Disney - Pixar acquisition is to elevate its market influence since Disney only had three other competitors in the animation industry after the acquisition (Kechnev 2019).

The reasons for acquiring Pixar is obvious if we investigate Disney's animation library before 2006: Atlantis: The Lost Empire (2001), Lilo & Stitch (2002), Treasure Planet (2002), Home on the Range (2004) were all made in the form of traditional hand-drawn animation. So as its powerful competitors like Pixar emerges, Disney had to adapt to the technology change and acquire new 3D animation techniques. According to DePamphilis (2011), M&A is the most efficient way of acquiring new technology, and at the same time Disney also prevented itself from failing in the competition in the animation realm by directly acquiring his competitor Pixar.

The products created after the transaction were profiting in the first couple of years, and Disney's stock price is the best indicator of the successful acquisition since we observe an increase after the acquisition in 2006. The stock price kept climbing in the first year, which indicated the good health of the company.

Figure 13. Disney's Stock Price from 2002 to 2010

Source: Yahoo Finance

4.5.2 Disney - Marvel deal

Marvel Entertainment, LLC is known as an American company founded in June 1998 in New York City. The company was formed by the merger of Marvel Entertainment Group, Inc. And ToyBiz, and is specialized in creating comic characters and series, as well as film production based on its comic content (Wikipedia 2020). Marvel has created numerous superhero figures, and its market share in the comic publishing business has reached 40% in 2008, according to Comichron (2014).

Marvel first experienced a rise in profits through film licensing and production instead of comic publishing since the 2000s. Before Disney's acquisition in 2009, Marvel sold and licensed film rights to different companies such as Universal and Sony, which largely contributed to Marvel's boost in revenue, as Marvel reported a total net sales of $ 269.4 million and an operating income of $172.7 millions for Q1 and Q2 (Business Wire 2008).

Strategic reasons

Marvel had been profiting through film production since 2002. According to Marvel's quarterly report (2008), Marvel gained a net sale of $224.3 million and net income of $27.6 million in Q4, reflected Marvel Studio's film Iron Man and The Incredible Hulk's contribution to the increase compared to Q4 2017.

We can also observe an increase in Marvel's revenue from 2005 to 2008 as shown in the following chart. At the same time, the buyer company Disney, was low in revenue growth.

Disney was therefore looking for potential targets at that time, to help itself increase the revenue through Marvel's superhero fan base and the licensing of film rights.

	2006	2007	2008
Marvel Entertainment	-10%	38%	39%
DreamWorks Animation	-15%	94%	-15%
The Walt Disney Company	7%	3.5%	6.5%
Time Warner	1.3%	5%	1%
Average	-4%	35%	8%

Table 5: Revenue growth of Marvel and its peers

Source: Data from ADVFN.com

Figure 14. Marvel's Revenue Growth and Its Competitors from 2005-2008

Another reason for Disney's acquisition was to expand its film content, since Disney films received popularity among teenage girls rather than boys. Disney's film production before the transaction such as Hannah Montana (2006) and High School Musical (2006-2008) portrayed the life of groups of teenagers and their love stories. If Disney wanted to increase its media revenue, the most efficient way was to expand its audience group. Marvel can help Disney increase its diversification in content. On the other hand, Marvel had a solid fan base as the biggest comic publisher who had merchandised their characters into films, toys and other consumer products. Disney got access to not only film licensing but also consumer products licensing, as well as designing related parades and activities in Disney's theme parks using this intellectual property.

In fact, Whitten (2019) suggests that Disney had earned more than $18 billion in the global box office since it acquired Marvel with $4 billion in 2009. As we mentioned before, after the transaction Disney and Marvel can make films that include all the superheroes which would inexorably become popular among Marvel's fans. *The Avengers* series is the best example, which even contributed to an increase in Disney's share price with each film's launch. According to Variety magazine (2018), Disney accounted for one-fifth of the global box office in 2018.

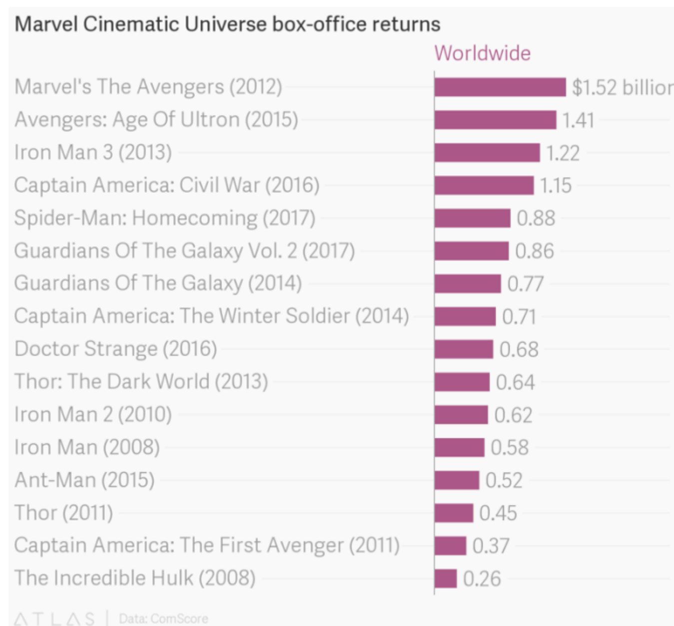

Figure 15. Marvel Films' Box Office in Recent Years

Source: ComScore, 2018

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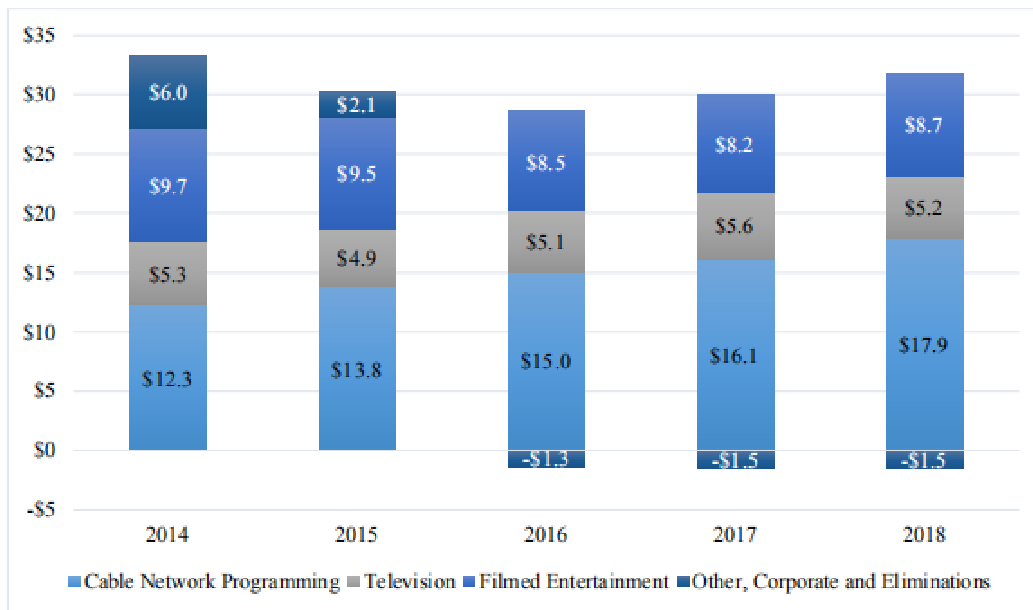
4.5.3 Disney - 21st Century Fox deal

4.5.3.1 21st Century Fox company overview

21st Century Fox is a media conglomerate that includes the 20th Century Fox, Fox Searchlight, Fox 2000, Blue Sky Animation film studios, The Fox News, Fox Sports Stations, FX Cable Stations, and National Geographic TV holdings along with a 30% share of Hulu streaming and other international holdings. Prior to the acquisition by Disney, Fox was a powerhouse in the entertainment industry. One of the six major studios and the 4th largest media conglomerate in the world (Neal 2020). 21st Century Fox has a wide range of film intellectual property and TV assets, including some worldly renowned film hits such as The Simpsons, Avatar, The Sound of Music or Alien. According to Fox's annual report (2018), the company's revenues included four segments: Cable Network Programming, Television, Filmed Entertainment and Others, shown by the following chart. Cable Network Programming was the main income of Fox, which accounted for 58.88% in Fiscal 2018 (the total revenue was $30.4 billion).

However, Fox's filmed entertainment and television segment was not in progress due to the trend of streaming service. Comparing Fox's net revenue to the market average, we can conclude that before the transaction, Fox did not perform a promising income concerning the extent of its market share. As a result, Fox benefited from the acquisition for it shed the less profitable segments but remained some other businesses including sports streaming.



Source: 21st Century Fox (2018)

Figure 16. Revenues in Market Segments of 21st Century Fox (2014-2018)

Market share

As the following chart suggests, Disney occupied a share of 15.6% in 2018 and Fox had a market share of 8% before the acquisition. After the deal, Disney is able to increase its market share to 26.3% in 2018 and has a potential to reach 32% of a market share in 2024 if the media market keeps growing at a pace of 6% each year and the company maintains its current revenue growth rate (Korenkova 2019).

Figure 17. Disney and Fox's Market Share in the M&E Industry

Moreover, in the pay-TV segment, 21st Century Fox had accounted for 19% of a market share, with its rich cable networks. If Disney acquires Fox, its market share would add up to 44%; however, if Fox was acquired by Disney's competitors, Disney will lose its position as the company that receives the most pay-TV revenue in the industry.

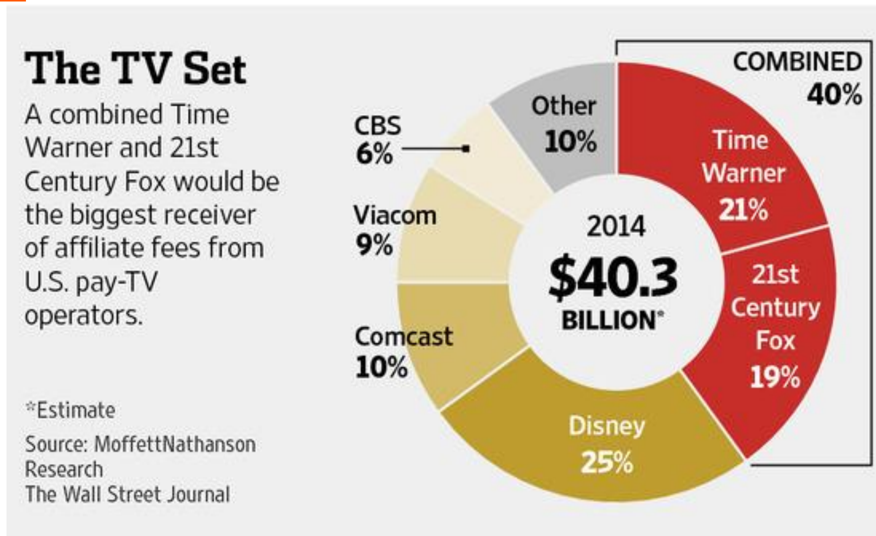


Figure 18. Disney, Fox and Their Competitors' Market Share

Another thing is, we can conclude from the comparison between Disney and Fox that the two companies have a similar scale of film studios and cable networks. However the content is different. Disney's film production targets children and teenagers, as well as family entertainment, whereas Fox has a broader category of films including family series The Simpsons and more diversified films. This had become the major reason for the acquisition, for Disney's aim was to keep up with the streaming trend, which required Disney to expand its content. The streaming giant, Netflix, had taken advantage of its original TV series. However, it takes a lot of time to make original series or films, so acquiring was more efficient for Disney since it had to launch a streaming service as soon as possible.

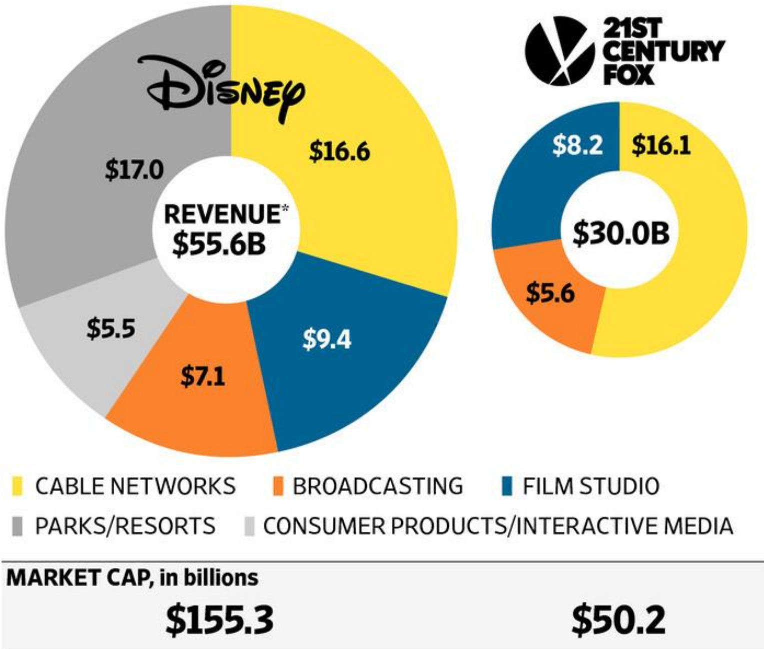


Figure 19. Disney and Fox's Market Capital

As we had discussed some rationales behind an M&A transaction, here the reason for Disney to acquire 21st Century Fox is Disney's ambition to join the streaming trend, as Disney launched its streaming service Disney+ shortly after the acquisition. It is obvious that Disney wishes to expand its film category which can be delivered to subscribers of Disney+. We have already learned the content and personalized media experiences are the most important factors that can decide whether a customer is paying or not, so Disney had to expand its category to compete with Netflix's original content library, and M&A is the fastest way of acquiring intelligence

property, especially if the target is rich in the content. Direct acquiring the media content giant is undoubtedly more efficient than acquiring some of its films, as known as a franchise.

Another important reason is to win over Disney's long-time competitor, Comcast. Comcast had also bid for acquiring 21st Century Fox in order to launch a streaming service. If Disney fails to acquire Fox, Comcast could be a threat for Disney with a combined 29% market share in pay-TV revenue.

Thirdly, the strategic driver behind the acquisition was to decrease the streaming services' competition, as the Disney - Fox deal offered Disney a 30% share of the streaming platform Hulu, also a growing company in the SVOD trend. Under the circumstance, Disney's own platform will be facing less competition as it was relatively late to the market.

Financial Analysis

First, we need to investigate the buyer and the target company's value before the acquisition to evaluate the influences. Since Disney acquired Fox in 2019, Fox's historical stock price data before the deal is not available in Yahoo Finance. Here we compare Fox's stock performance with the market, and we choose The S&P 500 as the benchmark. If we take a look at Fox's stock price, we observe that Fox has maintained a steady growth rate in the past 10 years. However, Fox was experiencing some downfalls between 2015 to 2017, which suggested the environment for investing was risky since acquirers were looking for a deal with Fox. Five days prior to the acquisition, Fox's share price reached the highest $51.72 in its history on March 15, 2019. We also observe that Fox's stock price kept growing rapidly since the end of 2017, which can be

ascribed to more potential investors for Fox since Disney and other buyers including Comcast were bidding for the target.

Figure 20. 21st Century Fox Historical Stock Price (2012-2020)

Source: Macro Trends

Figure 21. The S&P 500 Index (2012-2020)

Source: Yahoo Finance

The buyer, Walt Disney Co. exhibited a more volatile stock price at the same time, since the company scale was bigger than the target and thus more vulnerable to the market.

Figure 22. Disney's Historical Stock Price (2012-2020)

Source: Google Finance

Comparing the stock price of Disney and 21st Century Fox, we can see that Fox presented an overall more stable stock price than Disney. Disney was up 20% from 2015 to 2017, yet it experienced a roller coaster ride with the lowest price of $86.25 in February 2016.

Figure 23. Disney and Fox's Stock Price In Comparison

Source: S&P Global, 2017

Secondly, through investigating the evolution of the implied volatility of the two companies, we can evaluate the risk of the acquisition. From 2015 to 2018, 21st Century Fox maintained steady implied volatility, however, we see rapid growth by the end of 2018, suggesting the option demand was decreasing or there were fewer market expectations. As a result, it was the best time for Disney to acquire Fox since lower volatility corresponds to a higher possibility of a rising market (Investopedia 2020).

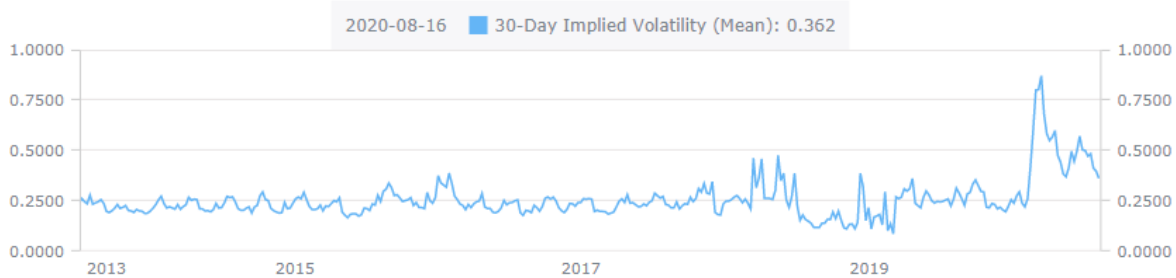


Figure 24. Fox's Implied Volatility

Source: AlphaQuery.com

To evaluate Disney's stock performance and investment risk compared to the market, we choose the S&P 500 as our large-capital benchmark. The Motley Fool (2012) found that since 1980, Disney shares had crushed the S&P 500, and Disney's shares returned an average of 14% per year while the market was 11.1%. Since then Disney's stock performance was steady until 1998. From 1998 to 2008, Disney underperformed the S&P 500 due to increasing competitors in the media and entertainment industry. However, after the financial crisis of 2009, Disney's shares recovered and increased steadily, until Disney remained a solid outperformance in contrast with the market since 2012. From 2012 to 2016, Disney was undoubtedly above average market performance, and after the acquisition of 21st Century Fox, Disney's stock performance largely increased in 2019. From the comparison, we can observe most outperformances of Disney are correlated with its M&A activities.

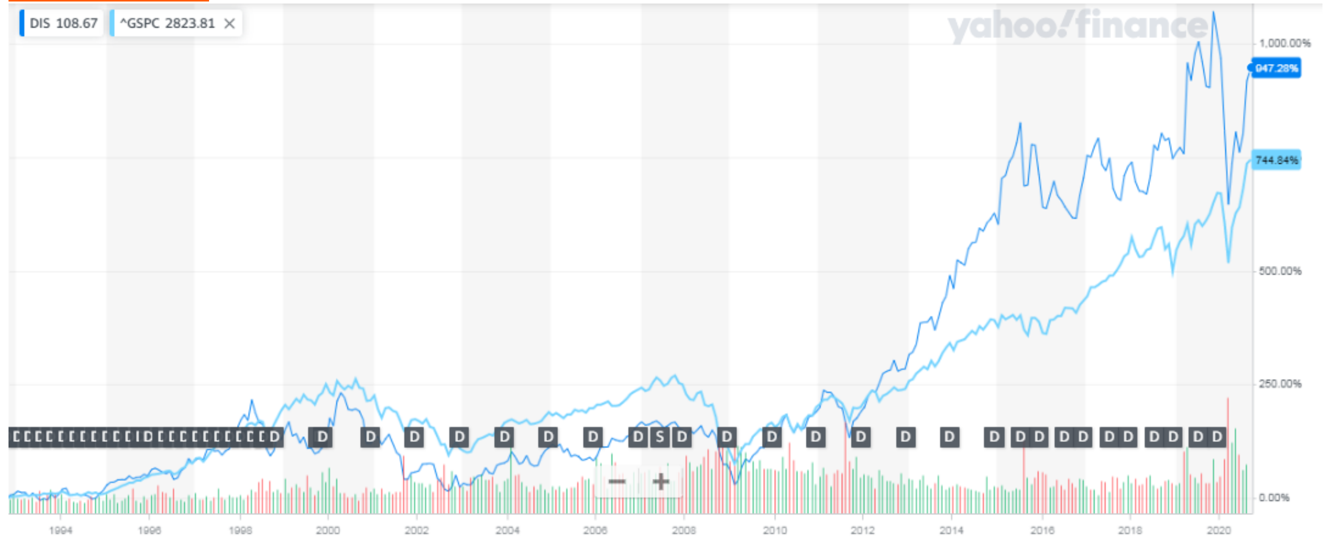


Figure 25. Disney and The S&P 500 Stock Performance (1995-2020)

Source: Yahoo Finance

Post-acquisition performance

After Disney finished the acquisition of 21st Century Fox, it launched an SVOD service Disney+ on November 12, 2019, to adapt to the streaming trend. In contrast to Disney's market capital at $ 163.97 billion on March 20 when it acquired Fox, Disney's market capitalization reached a historically highest of $273.32 with shares closing at $154.64 in response to the launch of Disney+ in November, suggesting the new streaming service had largely boosted Disney's stock price (MacroTrends 2019). Variety notes that there are more than 7,500 TV episodes and 500 films on Disney+ content library, which can satisfy customers from different generations and can meet the demand for various preferences (2020). In a few weeks, the new service received a large number of subscribers. According to Tech Church (2020), Disney+ was the most

downloaded APP in the U.S. in Q4 2019, with 28 million downloads one month after its debut. Moreover, Disney+ gained more than 50 million subscribers according to Disney Q3 2020 report, surpassing the company's streaming asset Hulu and looking forward to combating with Netflix, which has more than 182 million subscribers after COVID-19.

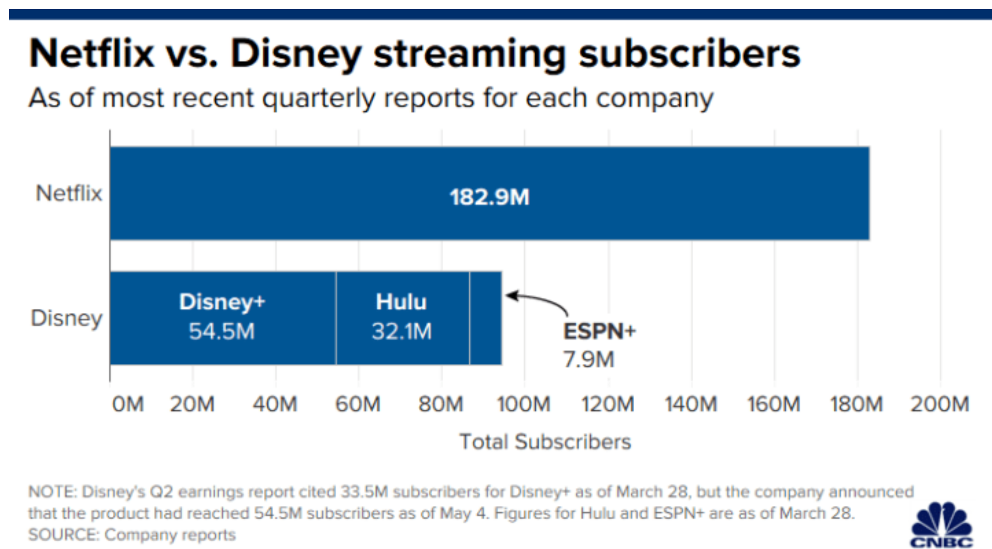


Figure 26. Paid Subscription Data of Netflix and Disney's Streaming Services

As for financial performance, Disney+ also indicated considerable profit concerning the COVID-19's impact on the streaming market. Sensor Tower (2020) states Disney+ reached $55 million one month following its launch and had an ARPU of $5.56 (monthly) in Q1 2020.

In Disney Fiscal Q3 2020 report (2020), we can further evaluate Disney+'s profitability through the Direct-to-Customer and media networks revenue. The former segment Direct-to-Customer includes all streaming services Disney+, Hulu and ESPN+, which is the only increasing one in Disney's major segments, with up 2% comparing to the same quarter last year. The decrease in

all segments of Disney in 2020 is due to the impact of COVID-19, as Disney postponed the release of most films. Also, the theme parks were closed following the isolation and traveling restrictions in different counties, which caused a decrease in Parks, Experience, and Consumer Products revenues.

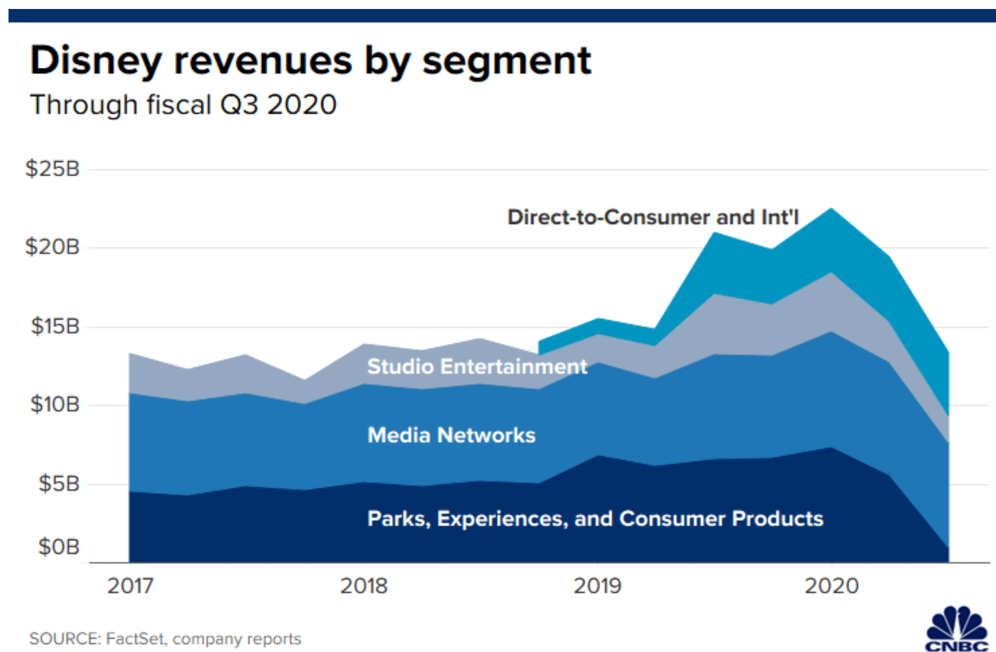


Figure 27. Disney's Revenues by Segments in Fiscal Q3 2020

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5. Conclusion

While the other segments are experiencing a plunge due to the pandemic, the success of Disney+ demonstrated that Disney's continually M&A transactions in recent years were shrewd. Today, Disney successfully expanded its content to adjust to the streaming market with access to Pixar, Marvel, Star Wars and lots of Fox's movies. There is no doubt that Disney had received more benefits.

Firstly, despite expanding its content library, Disney also benefited from acquiring ABC and Fox's cable networks to improve its ability of distribution. In the 1990s the cable TV was the most popular media facility for family entertainment, and Disney started to mass-produce TV series targeting at teenage girls. With the acquisition of ABC, Disney expanded its distribution with the benefit of 8 TV stations and more than 200 radio stations from the transaction. Also, the acquisition had brought Disney 80% ownership of ESPN, a sports streaming company, which became the foundation of Disney's ESPN+ service. On the other hand, the acquisition of 21st Century Fox also provided Disney with Fox's media networks as one of the biggest film-making and distribution companies in the U.S. These transactions improved Disney's ability of distribution in terms of Disney's own channels, Disney's TV series and films.

Secondly, Disney can profit from its horizontal monetized model, namely to transform the intelligence property (IP) it acquired to new commercialized products, such as toys, models and even parades in Disneyland. For example, Disney's acquisition of Marvel and Lucasfilm had given Disney access to their library such as Marvel Universe and Star Wars. These series

received increasingly worldwide popularity in recent years, so Disney could monetize consumer products with its theme parks located in various countries. Moreover, Disney obtained full licensing through these transactions, which suggests Disney could create new media series with existed IP to distribute to the fans. Thus, Disney could increase its revenue in the box office as well as consumer assets, demonstrated by the increased profits in Disney's latest superheroes series after these acquisitions.

Thirdly, Disney decreased its competitors directly through acquiring them, such as Pixar and 21st Century Fox. As mass-media has been going through a digitalized revolution since the beginning of the 2000s, Disney was challenged by increasing competitors who developed computer-aided animation technologies. In the film segment, one of the biggest competitors in the industry was 21st Century Fox. From analyzing Fox's financial performance before the acquisition, we find out that Fox was not in the competitive condition in its film and cable TV segments, which suggested Fox was an ideal target for an M&A transaction for Disney. Acquiring Fox would benefit Disney from several aspects. This deal was a game-changer for the media and entertainment industry because Disney had largely improved its market influence, reaching 12.75% of the market share, larger than any other competitors. We also conclude that Disney acquired Fox in order to get access to Fox's content to launch Disney+, and compete with leading SVOD giants such as Netflix and Amazon Prime Video. It is notable that Disney+ had exceeded the expectation of Disney since the service received more than 60 million subscribers within a year.

In conclusion, Disney’s M&A transactions in recent years appear to be profitable, as we have analyzed Disney’s increase in market share, market segments, revenues and stock price evolution. Also, COVID-19 had largely encouraged worldwide media consumption due to isolation and social distancing conditions, of which Disney+ would take advantage and continue to profit in the following quarters. In the latest Q3 report we can estimate that Disney’s acquisition of 21st Century Fox would continue benefiting Disney, as Disney’s Direct-To-Customer segment revenue increased to $4 billion in contrast to the decrease of other segments, under the impact of COVID-19. Consequently, we expect to see the long-term success of Disney’s M&A strategies in media segments in the future.

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