Proceedings of ICEMGD 2024 Workshop: Decoupling Corporate Finance Implications of Firm Climate Action
DOI: 10.54254/2754-1169/110/2024ED0116

An Analysis of the Walt Disney Company (DIS) Financial Performance and Comparison with Competitors

Zhangchongrui Ye[1,a,*]

[1]School of Economics, Sichuan University, Chengdu, 610065, China
a. yezhangchongrui@stu.scu.edu.cn
**corresponding author*

Abstract: The Walt Disney Company (DIS) is a giant in the entertainment industry with a diversified investment portfolio, including theme parks and streaming services such as Disney+. This article provides an in-depth analysis of DIS's liquidity, solvency, profitability, and valuation, and compares it with major competitors such as Sony, Comcast, and Netflix. DIS has demonstrated good liquidity and debt paying ability, thanks to diversified sources of income and prudent financial management. Compared to competitors such as Netflix, although its profitability indicators are robust, there is room for improvement. Valuation indicators indicate that, the pricing of DIS's stock price is relatively reasonable, but investors should be aware of the risk of overvaluation. DIS's strategies include expanding streaming services, maximizing theme park revenue, and embracing digital transformation. Although DIS offers the potential for stable growth, investors must be wary of industry disruption and constantly changing consumer preferences. In this rapidly developing entertainment industry, the position of DIS cannot be ignored, and investors also need to carefully weigh risk and return. This paper adopts fundamental analysis to inform investors insights of the risks and opportunities of DIS.

Keywords: Financial Analysis, The Walt Disney Company, Entertainment Industry, Operation Management

1. Introduction

The Walt Disney Company (DIS) is one of the world's largest companies in the entertainment industry, Founded in 1923 by Walt Disney and Roy O. Disney. Chen et al. pointed out the company has gradually accumulated experience, capital and technology to support its development since 1923 [1]. It covers a wide range of operations throughout different industries. The company operates in the entertainment industry mostly, which is a major player with significant influence and market presence in entertainment industry. Disney involve slightly in retailing industry, sports industry, technology industry, etc. Disney has a market domestically and internationally; its products and services are enjoyed by both adults and kids. It runs 6 theme parks in America, Japan, China and France. Disney's operations contain many segments. Here are some key segments. Firstly, Disney operates TV networks such as ABC, Disney channel, ESPN and so forth, generating its revenue through advertising. Secondly, there are six theme parks operated by Disney around the world, which are Disneyland Park in California, Walt Disney World Resort in Florida, Tokyo Disney Resort in Japan, Disneyland Paris in France, Hong Kong Disneyland Resort in China and Shanghai Disney Resort in

DOI: 10.54254/2754-1169/110/2024ED0116

China, revenue is mainly from ticket sales, peripheral products, hotel stays. Thirdly, this segment encompasses Disney's film production and distribution operations, including Walt Disney Pictures, Pixar, Marvel Studios, Lucasfilm, and 20th Century Studios, revenue is mainly from box office sale, licensing agreements. Fourthly, Direct-to-Consumer & International (DTCI), this segment is specifically operated by Disney, including Disney's stream media platforms such as Disney+, ESPN+, Hulu and other sales in international net media. The establishment of DTCI is mainly aimed to adapt the trend of digitalization and global market expansion. Revenue is generated through subscription fees and advertising. Yang mentioned that technologies like VR, AR and AI are a new breakthrough for DIS. The company has launched an application called "Disney Movies VR" with the favor of which an interactional virtual theme park can be developed. The immersive entertainment experience provide by these technologies can, to a certain degree, help TWDC make up for its shortcomings [2]. Here are some good news and bad news concerning DIS recently. In a good way, Disney+, Disney's streaming service, narrowed its losses in the third quarter of fiscal 2023, showing signs of a gradual turn around. Meanwhile, Disney's Park Experience and Products business generated $8.326 billion in revenue in the third quarter of fiscal 2023, an increase of 13%, primarily driven by revenue from Shanghai Disney Resort and Hong Kong Disney Resort. Furthermore, Disney announced an increase in streaming subscription fees, which is expected to help increase average monthly revenue per paying subscriber. In a bad way, a generation raised on Netflix has fundamentally altered the nature of media consumption, which is a problem for Disney. There is an upward trend in Disney's DTCI segment, but it is still losing. At the same time, Disney posted a quarterly net loss in the third quarter of fiscal 2023, with a net loss attributable to the parent of $460 million, compared with a net profit of $1.409 billion in the same period last year.

2. Performance Evaluation

Sumathi & Narasimhaiah's study pointed out that the fixed and the current assets play a vital role in the success of any company. Managing the working capital is mandatory because it has a huge significance on profitability and liquidity of the business concern. The increase in working capital helps in improving its liquidity. Thus, a company needs to have a correct balance between the liquidity position and the profits of the company. The various components for measuring the working capital management include the receivable days, Inventory turnover [3]. In order to analyze the performance of DIS, the following analysis focuses on the comparison between DIS and other competitors in this research. Sony Group Corporation (SONY), Comcast Corporation (CMCSA), and Netflix Inc. (NFLX) are three representative competing companies.

2.1. Liquidity

Table 1: Liquidity ratios of DIS and its competitors.

Company Code	Current ratio	Quick ratio	Cash ratio
DIS	105.22%	98.91%	45.54%
SONY	62.05%	46.28%	19.44%
CMCSA	59.67%	59.67%	15.46%
NFLX	111.93%	111.93%	80.56%

In order to analyze the liquidity of The Walt Disney Company (DIS), Table 1 is presented here to showcase the comparison between the Walt Disneyland Company (DIS) and other companies in this research. Sony Group Corporation (SONY), Comcast Corporation (CMCSA), and Netflix Inc. (NFLX) are three representative competing companies. This comparison can provide meaningful

DOI: 10.54254/2754-1169/110/2024ED0116

observations and analysis of these companies' financial health. These ratios are important indexes for investors to make decisions. According to Koen and Oberholster's analysis, the current ratio determines to what extent current liabilities are covered by current assets [4]. From the perspective of current ratio, which is a vital index to measure a company's ability to cover the short term liabilities with short term assets, DIS performed exceptionally well with a current ratio of 105.22%, indicating that it has more than enough current assets to cover its current liabilities. This ratio is much better than the figure for Sony Group Corporation (SONY) and Comcast Corporation (CMCSA), with current ratios of 62.05% and 59.67% respectively, indicating Disney's better liquidity. However, NFLX showcases a slightly better figure in this aspect, which has a current ratio of 111.93%, this can imply that NFLX even has a stronger liquidity. Then getting into the quick ratio, which does not include inventory from current asset, in order to provide a comparatively more conservative approach to measure a company's liquidity. Similar to current ratio, it mainly focuses on the assets and liability. However, for the quick ratio, it mainly focus on the liquid part [5]. Disney is still maintaining good data in this respect with a high quick ratio of 98.91%, which is very remarkable. The quick ratios of SONY and CMCSA are significantly inferior than that of DIS with 46.28% and 59.67% respectively, which indicate worse liquidity. However, it is worth mentioning that Netflix remains its high liquidity in the index with a quick ratio of 111.93%, which is much greater than that of DIS, implying comparable liquidity in terms of quickly accessible assets. Lastly moving into evaluating the cash ratio., which is a financial indicator that measures a company's ability to repay short-term debts using cash and cash equivalents. In this respect Disney's cash ratio stands at 45.54%, the performance of DIS in this indicator is relatively stable, but markedly overtakes the figure for SONY and CMCSA with cash ratios of 19.44% and 15.46% respectively. Nevertheless, Netflix maintains its extraordinary performance in this aspect, boasting a cash ratio of 80.56 which is extremely impressive, showcasing much better liquidity in terms of cash ratio.

Disney has a strong level of liquidity compared to its competitors such as Sony and Comcast, thanks to its diverse revenue streams, including theme parks, media networks, movies, and Disney+. At the same time, Netflix's dominant position in the streaming sector and its large cash reserves constitute a formidable competitive advantage. Disney's strategic moves, such as content creation and acquisitions, have bolstered its financial performance. In the evolution of the industry, maintaining a strong level of liquidity is crucial for Disney, ensuring long-term growth and resilience.

2.2. Solvency

Table 2: Solvency ratios of DIS and its competitors.

Company Code	Total Debt Ratio	Long-term Debt Ratio	Times interest Ratio
DIS	97.96%	42.41%	494.46%
SONY	343.19%	24.45%	2102.03%
CMCSA	219.90%	114.89%	601.05%
NFLX	136.70%	68.70%	986.71%

Solvency indicates a company's capacity to fulfill its long-term financial responsibilities. It serves as a gauge for a company's financial well-being and steadiness, revealing whether the company possesses enough assets to cover its short-term and long-term debts. Fundamentally, assessing solvency ascertains whether a company is capable of sustaining operations in the long run without experiencing financial hardship or insolvency. Table 2 above showcases 3 significant ratios to measure the solvency of the 4 competing companies in the entertainment and media industry, offering insights into the risk management strategies and financial health of them. DIS has a total debt ratio 97.96%, which means that the majority of its assets is financed through debt. It seems that the figure

DOI: 10.54254/2754-1169/110/2024ED0116

is extremely high, but getting into detail can help to figure out the reason properly. It is noticeable that the long-term debt ratio of DIS is 42.41%, which means approximately a half of its liabilities is long-term. Therefore, the investors can have a deeper insight into the company’ s financial structure, which is relatively more stable and predictable in comparison to some of its competitors. However, essentially these two ratios showcase a marked debt burden of DIS, even though the debt structure is easier to manage in comparison to its competitors, which will be analyzed later. DIS has a 494.46% times interest ratio, implying its great ability to cover the interest expenses multiple times over and meet its financial capacity.

By contrast, the total debt ratio of SONY is 343.19%, the figure is extremely astonishing and much higher than that of DIS. However, the long-term debt ratio of SONY is relatively lower of around 24.45%, this indicates that SONY mostly financed its assets by some short-term debt and other financial strategies. CMCSA is a major player in the telecommunications and media industries. The company's total debt ratio is 219.90%, which is significantly higher than that of DIS. In addition, Comcast Telecom's long-term debt ratio is as high as 114.89%, indicating the company's high reliance on long-term debt, which can expose it to interest rate fluctuations and other risks associated with long-term financing. By comparison, entertainment disruptor Netflix Inc. has a total debt ratio of 136.70%, which is lower than Disney and Comcast Telecommunications but higher than SONY Corp. Although Netflix's debt ratio is relatively low, its interest rate is 986.71%, which is even higher than Disney's, indicating a strong ability to service its debt. To sum up, In the face of significant debt challenges, DIS continues to demonstrate its financial soundness. Thanks to its strong interest coverage multiple and stable long-term debt levels, Disney's risk rating is seen as within a manageable range when compared to the rest of the industry. As the entertainment and media industry grows rapidly, Disney is in a good position.

2.3. Profitability

Table 3: Profitability ratios of DIS and its competitors.

Company Code	Gross Profit Margin	Net Profit Margin	Asset Turnover
DIS	33.41%	2.65%	43.45%
SONY	27.22%	8.18%	35.26%
CMCSA	69.76%	12.66%	46.57%
NFLX	41.54%	16.04%	69.30%

Talking about the profitability ratio, the profitability ratio represents how much the return of a company is associated with the profit made by that company [6]. When assessing the profitability of DIS, its financial metrics need to be compared to other companies in its industry. Gross margin is one of the key financial metrics that shows the percentage of the difference between what a company earns from sales and what it costs to produce. Gross profit margin measures the remaining percentage of the sale if company has paid for its goods [7]. Disney's gross margin was 33.41 percent, indicating that the company is doing a pretty good job of controlling costs and generating revenue. However, if you compare this metric with Comcast Telecom's gross margin of 69.76%, you can see that Disney has room to improve in terms of gross margin. This difference could mean that Comcast Telecom has a more effective strategy or advantage in cost management or cost structure.

In addition to gross margin, net margin is also an important consideration when analyzing the profitability of DIS. Net profit margin is the percentage of net income a company is able to retain from each unit of revenue after deducting all operating costs, taxes, interest and other expenses. Disney's net profit margin was 2.65 percent, meaning that for every dollar of revenue earned, the company was able to keep 2.65 cents in net profit.

DOI: 10.54254/2754-1169/110/2024ED0116

While this ratio shows Disney has some profitability, it looks relatively low compared to its competitors. Netflix Inc. 's net profit margin of 16.04%, for example, is significantly higher than Disney's. The difference may reflect a more effective strategy in cost control and revenue generation, or a more favorable profit model.

In continuing to evaluate the financial performance of the Walt Disney Company (DIS), asset turnover is a measure of the company's ability to generate revenue from its assets. Disney's asset turnover rate is 43.45%, which means that for every dollar of assets invested in the company, it brings in about 43.45 cents in revenue. This ratio demonstrates Disney's reasonable efficiency in the use of its assets, but a comparison to industry standards is necessary to get a full picture of its performance. In this aspect, Netflix Inc. leads with an asset turnover ratio of 69.30%, meaning Netflix may be more efficient at converting assets into revenue. This comparison reveals that Netflix's asset management and revenue generation strategies may be more advanced or effective than Disney's.

In conclusion, the profitability of the Walt Disney Company shows that the fundamentals of its business are quite solid, which is supported by the company's high gross margin and effective asset utilization efficiency. Still, the company's relatively low net margin may suggest room for improvement in cost control or revenue growth. Investors who prefer stability may prefer DIS while those who can tolerate higher risk level may prefer NFLX.

3. Valuation

3.1. Forecast

Table 4: Valuation index of DIS and its competitors.

Company Code	TTM P/E Ratio (Actual)	NTM P/E Ratio(Estimates)	PEG Ratio(Forecast)
DIS	27.33	21.59	1.25
SONY	15.35	14.54	NA
CMCSA	9.86	9.32	0.98
NFLX	51	33.53	1.48

The price-to-earnings ratio (P/E) is a fundamental financial indicator, it compares its market price per share to its earnings per share to evaluate the valuation of a company's stock by. Earning per share and price-earning ratio on stock prices, earning per share is net income ready to be shared with shareholders divided by the number of shares of the company [8]. It is a good tool to compare the intrinsic and market value of a company, predict the growing profit of a company, and measure the risk level at the same time. A high P/E ratio typically indicates that investors are willing to buy the stock of a company and the company is during its growing period. However, if it is too high, it may mean that the company is overvalued. As Table 4 shown, DIS has a P/E ratio of around 25, this number is actually very mild. Take TTM P/E ratio for instance, the figures for SONY and CMCSA are 15.35 and 9.86 respectively. This might imply that investors in the market sense some problems with these two companies and they do not tend to invest these two stocks. However, Netflix has an extremely high TTM P/E ratio of over 50, this suggests that people are attracted by its innovation, leadership, research input, etc., thinking that the company has a bright future and being confident about its profitability. At the same time, it is noticed that PEG ratio is another significant investing indicator. It is a combination of P/E ratio and a company’s expected growing profit. A company's P/E ratio should match its profit growth rate. If the PEG ratio is below 1, it may indicate that the stock is undervalued because investors pay a price per unit of profit lower than the growth rate of the company's profits. If the PEG ratio is higher than 1, it can mean that the stock of a company is

DOI: 10.54254/2754-1169/110/2024ED0116

overvalued. Disney's PEG ratio stands at 1.25, indicating that the valuation of its stock is reasonable relative to the expected growth rate of earnings. While the figure for CMCSA is 0.98, which is very close to 1, meaning that the market value can relatively correctly reflect its intrinsic value. The figure for SONY is NA because it has a negative earning per share growth rate, reflecting that there might be some uncertainties and fluctuation of the company's operation, which is a serious problem, investors have to think twice before investing. NFLX has a TTM P/E ratio of 51, which is extremely high as mentioned. This high figure implies the optimism of the investors in the market. This may be caused by a lot of reasons, like its unique stream media platform which is welcomed all over the world and its rapid expend. However, the NTM P/E ratio of 33.53,which is markedly lower than TTM P/E ratio suggests that investors are uncertain about the future. This expectation be proved by various factors, such as the rising competition in the relative industry, higher and higher production costs, and other challenges that the company may going to face. The overly high PEG ratio may imply the company is overvalued to a degree.

To sum up, if an investor prefers a company with a more stable prospect and a strong industry fundamentals, and is capable is tolerate a little risks, the investor is supposed to DIS. However, if the investor dislikes risk extremely, CMCSA may be a better choice. And for those who can stand higher risks and want to seek for higher profits, NFLX may be preferred.

3.2. Strategy & Risks

Here the potential risks for DIS are listed. Firstly, lack of growing potential. Nowadays, there is an obvious shift in the way people watch movies. People tend to be lazier and unwilling to go to cinemas to watch movies, instead, they prefer to stay home and what movies through the scream media, stream media transmission control is one of the most important technologies in mobile video surveillance systems. The most concerned issue of stream media transmission is the quality of service [9]. This is the reason why Netflix is warmly welcomed in the fast-paced society. Whether Disney can catch up the trend is essential to whether it has enough potential to develop.

Secondly, losses in the DTCI Segment. As mentioned before, although Disney's DTCI segment is getting better year by year and gain profits in a diversify of ways, it is still suffering a noticeable loss, whether Disney can carry out more new motivated measures matters. Furthermore, overvaluation is another important problem. As mentioned before, the PEG ratio of DIS is more than 1, though it is not as serious as that of NFLX, it is still a problem. Investors need to consider carefully whether it is still a good opportunity to invest in the period.

At the same time, practical measures are as followed. Firstly, expansion and enhancement of streaming services may bring some benefits. In order to meet the changing taste of people, it has to expand its stream services, enhancing user experience through technology upgrades and personalized recommendations. Explore international markets to boost subscriber growth and diversify revenue.

Secondly, maximizing theme park and resort revenue is another good approach. It is the theme park the set Disney above. With the unique approach to generate revenue, it is a wonderful opportunity for Disney to build its brand and attract more tourists around the world. It is the basic segment of the company and a stable way to maintain its profit. Finally, digital transformation and innovation do benefits as well. People live in the digital era, only by constantly integrating the products with the digital era can meet the requirements of the age, otherwise it can only be like many companies, they refuse to innovate in order to maintain the sales of the original products, leading to the final bankruptcy. At the same time, companies are suggested to use digital technology to disclose corporate information in a timely, comprehensive and objective manner, and provide high-quality information to investors and analysts [10]. Therefore, digitalization new is a must for a company in the modern society.

DOI: 10.54254/2754-1169/110/2024ED0116

4. Conclusion

To sum up, there are both opportunities and risks when investing DIS. The positive part is that DIS has a diversity of income sources, including theme parks, media network, movies and stream media like Disney+, and these various methods provide DIS stable income. Meanwhile, DIS is doing their best to maximize their potential of stream media service, enhancing international influence, and diversifying the company's income. Furthermore, theme parks operation is still the most stable income source, bringing a lot of benefits to the company's profitability.

However, there are also lots of risks that deserve considering. Firstly, the industry of entertainment is developing all the time. The developing of stream media and Digital trend bring many challenges to the traditional cinema market. DIS has to adjust the new standard of customers and meet their requirements to keep innovating to keep the edge in the market. Secondly, although the DTCI unit showed improvement, it still faced losses, it is the significant moment to carry out new policies to make this segment bring benefits again. Furthermore, there are also some concerns of overvaluation. For instance, the PEG ratio is over 1, although that is not as serious as some of its competitors like Netflix, indicating investors should evaluate the investment choice carefully.

All in all, investing in Disney offers the potential for steady growth and profitability, especially through strategic initiatives such as expanding streaming services, maximizing theme park revenue, and embracing digital transformation. However, investors should be mindful of the risks posed by industry disruption, persistent losses in certain sectors, and possible excessive valuations.

References

[1] Chen, H., Li, Y., Ling, X., & Yan, M. (2022). Corporate strategy analysis based on current environment — Taking Disney's expansion in China as an example. Journal of Economics, Business and Management, 2.

[2] Yang, J. (2019). Analysis of business operation management under the Harvard analytical framework: A case study of the Walt Disney Company. In Proceedings of 1st International Symposium on Economic Development and Management Innovation (EDMI 2019) (pp. 126-139). School of Economics, Hefei University of Technology.

[3] Sumathi, A., & Narasimhaiah, T. (2016). A study on the effect of working capital on the profitability of Infosys. ICTACT Journal on Management Studies, 3.

[4] Koen, M., & Oberholster, J. (1999). Analysis and interpretation of financial statements (p. 54). Juta & Co, Ltd.

[5] Wijaya, D. P. (2020). Effects of quick ratio, return on assets and exchange rates on stock returns. American Journal of Humanities and Social Sciences Research (AJHSSR), 4(1), 323–329.

[6] Rutkowska-Ziarko, A. (2015). The influence of profitability ratios and company size on profitability and investment risk in the capital market. Folia Oeconomica Stetinensia, 15(1), 151–161.

[7] Nariswari, T. N., & Nugraha, N. M. (2020). Profit growth: Impact of net profit margin, gross profit margin and total assets turnover. International Journal of Finance & Banking Studies (2147-4486), 9(4), 87–96.

[8] Anwar, Y. (2019). The effect of return on equity, earning per share and price earning ratio on stock prices. The Accounting Journal of Binaniaga, 4(01).

[9] Guozhu, L. (2011). Research of self-adaptive transmission policy for stream media. In Proceedings of 2011 IEEE International Conference on Intelligent Computing and Intelligent Systems (ICIS 2011) (Vol. 1, pp. 550-553).

[10] Chen, S. (2022). The impact of digital transformation on analyst forecast accuracy. In Proceedings of 4th International Symposium on Economic Development and Management Innovation (EDMI 2022) (pp. 381-392). College of Economic and Management, Xiamen University.