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Analysis of Disney's Acquisition of 21st Century Fox

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Abstract: Disney has recently made a momentous announcement regarding its acquisition of 21st Century Fox, a deal that is poised to revolutionize the entertainment industry. Valued at a staggering $71.3 billion, this acquisition will grant Disney control over Fox's film and television studios, cable networks, and international assets. With the addition of Fox's assets, Disney will emerge as an even more dominant force in the entertainment industry, boasting a vast library of content and a formidable presence in both film and television. This study will offer a comprehensive analysis of the acquisition. With fewer major players in the market, there are concerns about the impact on competition and the potential for increased prices for consumers. However, Disney has stated that the acquisition will enable it to better compete with new industry players, such as Netflix and Amazon. By merging its own content with that of Fox, it will be able to offer a more comprehensive streaming service, which is becoming increasingly vital in the era of cord-cutting. Overall, the acquisition of 21st Century Fox by Disney is a momentous development in the entertainment industry, with far-reaching implications for both companies and consumers. While there are concerns about the impact on competition, the deal is likely to bolster Disney's position in the market and enhance its ability to compete with new industry players.

Keywords: acquisition, capital preparation, diversification

1. Introduction

In recent years, the global entertainment industry has become increasingly competitive, with major players vying for market share by strengthening their own capabilities. Against this backdrop, on December 14, 2017, Disney announced its acquisition of most of 21st Century Fox's assets, including film and television production, cable television, and international assets for $52.4 billion [1]. This acquisition has attracted widespread attention and discussion in the global entertainment industry. According to Disney's annual report, the overall revenue and profit of Disney parks have been steadily increasing in recent years. In order to fulfill the expanding expectations of consumers around the world, Disney CEO Bob Iger claimed that the company's merger with Fox will allow it to produce more enticing content, increase the reach of its direct-to-consumer offerings and its international influence [2].

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This article focuses on the case of Disney's acquisition of Fox, describing the process of the acquisition and analyzing the pros and cons of the case, predicting the risks that may arise, and judging whether the acquisition is successful. From a macro perspective, this acquisition will have a profound impact on the global entertainment industry and its competitive landscape. As one of the world's largest entertainment companies, Disney's acquisition of 21st Century Fox's assets will further expand its influence and market share in film, television, media, and other fields. Meanwhile, this acquisition will also intensify the trend of monopolization in the global entertainment industry, posing greater challenges to other entertainment companies [3]. In addition, this acquisition will also have an impact on the cultural output of the global entertainment industry. As one of the world's largest cultural output enterprises, Disney's acquisition of 21st Century Fox's assets will further expand its influence in the global cultural output field, affecting the global cultural output pattern and trend. From a micro perspective, this acquisition will also have a profound impact on the business and strategy of Disney and 21st Century Fox. Disney will further expand its territory in film, television, media, and other fields by acquiring 21st Century Fox's assets, enhancing its competitiveness in the global market. At the same time, this acquisition will also bring more well-known IPs to Disney, such as "X-Men" and "The Simpsons" further enriching its content library in the entertainment industry [4]. 21st Century Fox will concentrate on developing its core business by selling most of its assets, improving its profitability and market competitiveness. In addition, this acquisition will also have an impact on the employees and management of both companies, and how to balance the interests of employees and management is an important issue that this acquisition needs to address.

A successful merger and acquisition should be able to add value by reconfiguring production components, such as technology, brand, capital, channels, manufacturing capacity, and management expertise, and thereby enhancing the company's competitiveness. These mergers and acquisitions have potential to enhance the market environment and increase consumer value in addition to their commercial value [5].

In summary, the Disney acquisition of 21st Century Fox is a microcosm of the development of the global entertainment industry, and its impact is not limited to the two companies, but also has a profound impact on the development and competitive landscape of the entire entertainment industry. This article will conduct an in-depth analysis of this acquisition case, exploring the acquisition method, source of acquisition funds, acquisition characteristics, whether the acquisition is successful, and the risks that may arise after the acquisition.

2. Background

Media networks, parks, experiential and consumer items, direct-to-consumer and international, and studio production are the four core divisions of The Disney organization, a market-leading, globally diversified family entertainment and media organization. Of these, Studio Entertainment includes motion pictures, entertainment, and stage productions. Table. 1 lists key financial data for the company, where the data is retrieved from Ref. [6].

A diverse, international media and entertainment firm, 21st Century Fox currently manages operations in four areas, including marketing, television, motion picture entertainment, cable network programming, and other companies. Cable network programming consists of the licensing of programming and distribution materials; television includes network programming broadcast in the United States; and film entertainment includes the manufacture and acquisition of live-action and animated films. Table. 2 shows key financial data for the company.

Table 1: Disney's key financial data table.

	2017A	2018A	2019F	2020F	2021F
Sales	55.1	59.4	60.6	63.3	65.6
% growth	-0.9	7.8	2	4.5	3.6
EBITDA	16.7	17.9	17.5	17.9	18.7
% margin	30.2	30	29	28.3	28.5
Net Inc.	9	12.6	10.6	10.8	11.3
% margin	16.3	18.3	17.5	17	17.2
EPS	5.69	7.23	7.09	7.27	7.63
Sales Split					FY2018

Table 2: Key financial data tables for 21st Century Fox.

	2017A	2018A	2019F	2020F	2021F
Sales	28.5	30.4	31.5	33.3	35.2
%growth	4.3	6.7	3.7	5.7	5.6
EBITDA	7	6.8	7.3	7.8	8.5
%margin	24.7	22.4	23.2	23.5	24.2
Net Inc.	3	4.5	3.7	4.1	4.8
%margin	10.5	10.5	11.7	12.4	13.6
EPS	1.61	1.71	2.00	2.25	2.29
Sales Split					FY2018

3. Disney's acquisition of 21st Century Fox

Disney as a company with a strong financial background, Disney's acquisition of 21st Century Fox the acquisition case is a kind of horizontal merger and acquisition relationship between the same industry, providing many merger and acquisition ideas for the same entertainment industry. on December 14, 2017, Disney announced to acquire most of Fox's film, television production company and other content assets in the form of stock, the offer of $52.4 billion for its and in response announced the assumption of $13.7 billion of its Fox liabilities, but the acquisition was set to bring more market share to its company in 2017 when Disney first began its acquisition, when its total operating income and net income were in a declining condition for the entire year [7]. However, in 2018, Comcast made a bid for its Fox company with Disney, cash way offers $65 billion, and at this time, Comcast Corporation is the largest cable television company in the United States, but also a large Hollywood studio Universal Pictures parent company, compared to Disney, the company has also developed "Jurassic Park" and other related to Fox has a huge appeal of many content assets, with considerable advantages. And in December 2017, 21st Century Fox rejected Comcast's offer of $65 billion in cash, at which point Disney, because of Comcast's competition, also had to increase its offer to $71.3 billion in the form of cash plus stock, and finally on March 20, Los Angeles time, Disney officially completed its acquisition of most of the assets of 21st Century Fox with an offer of $71.3 billion. It took more than a year and a lot of twists and turns to get the approval of both shareholders and approval [8].

The Walt Disney Company has large cash reserves, which are mainly derived from the Company's business income and investment income. Disney's financial reports show that the company's cash equivalents totaled $4.1 billion as of September 30, 2017. This cash reserve provides a certain source of funding for The Walt Disney Company. In order to raise additional funds, the Walt Disney Company has also undertaken debt financing. According to the company's announcement, the Walt Disney Company issued $40 billion in bonds for the acquisition of 21st Century Fox's assets. These bonds had maturities of 3, 5, 10, 20 and 30 years with interest rates ranging from 2.25% to 3.8%. Disney acquired most of the assets of 21st Century Fox. These shares were issued at a price of $105 per share for a total value of $18.9 billion.

4. Changes After the Acquisition

According to Disney's financial report, Disney's film production business revenue reached $13.2 billion in 2019, up 33% year-on-year; Disney's cable TV business revenue reached $9.9 billion in 2019, up 19% year-on-year; this indicates that the acquisition had a positive impact on Disney's film production business and cable TV business; while Fox's film production business revenue was $6.8 billion, down 11% year-over-year, and cable TV business revenue was $4.4 billion, down 7% year-over-year. This indicates that the acquisition had a negative impact on 21st Century Fox's business [9].

Disney dominated the North American box office from 2016 to 2018 with market shares of 26.3%, 21.8%, and 26.0%, compared to 20th Century Fox's market shares of 12.9%, 12.0%, and 9.1%. The merger gives Disney a share of more than 30 percent of the North American box office and Disney a share of more than 20 percent of the worldwide film market. The acquisition has spurred acquisitions of entertainment content assets by other entertainment companies such as Hollywood, boosting the growth of the film and entertainment industry and increasing the worldwide reach of film and entertainment culture.

Market capitalization, enterprise value, sales, and EPS are the main topics of the study on Disney's profitability. (Enterprise value = Market Capitalization – Cash & Equivalents + preferred & Other + Total Debt). Although the acquisition transfers a sizeable portion of Fox's debt to Walt Disney (about $19.2 billion), the enterprise value curve after debt is subtracted continues to move upward. It is very clear that the acquisition has improved Disney's performance [10]

Disney's stock price has performed well on significant days for M&A activity, which suggests that investors have high hopes for this activity and feel the purchase of Fox has the potential to greatly benefit Walt Disney. The stock price kept rising starting at the end of March 2019, eventually reaching an all-time high. The trend indicates that the share price will remain at this high level going forward and might even slightly rise. In other words, acquiring 21st Century Fox raises the Walt Disney Company's market worth and the wealth of its shareholders [10].

5. Pros and Cons of the Acquisition

The merger will allow Disney to further expand its film production business. 21st Century Fox owns many well-known movie brands such as X-Men and Avatar, Disney will hold a controlling interest in Hulu, Fox's film production division, 21st Century Fox, Fox, and entertainment channels including FX and Nat Geo. 21st Century Fox, which includes Fox Networks, Fox News, and Fox Sports, will take over the remains of Fox's film production division [11]. The Fox merger will allow Disney to be more diversified, to create more compelling content, to have more direct-to-consumer offerings, to expand its international reach and to provide a more personalized and engaging entertainment experience to continue to meet the concept of continued global growth in consumer demand.

First is the impact of the Disney-Fox monopoly on movie theaters. Disney's acquisition of Fox has given it greater influence in the movie industry and enough authority in its industry to make its share far greater than other studios. The Wall Street Journal reported that for all cinemas that want to show "Star Wars: The Last Jedi", Disney has strict terms limiting their requirements and must

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collect 65% of its box office revenues, the share reached a new high for Hollywood studios, and if any cinema violates the terms, Disney will increase its share to 70% [12]. In 1948, the U.S. Supreme Court ruled in the Paramount Pictures case that created a legal barrier to studio ownership of theaters, preventing them from controlling both the content creation and distribution process.

Disney-Fox may also enter the gaming arena. Disney wants to make its own entertainment business more powerful, to observe the entertainment industry occupied by its rival companies, so Disney will not only do something in the film industry, but also look at the whole entertainment industry can be developed in a comprehensive way, the game for its Disney development prospects must be huge, Disney and Fox merger can be a big role in the game industry consumer market, so that it reaches the status of a giant monopoly market The merger of Disney and Fox could make a big difference in the consumer market of the game industry, making it a giant monopoly. Apparently, all entertainment industry giant companies will explore more eye-catching areas with the changing times.

6. Judgement of the Acquisition

Disney chose Fox for its M&A deal with a clear objective, a clear understanding of the company's role in the group, and the acquisition has improved its competitiveness in the industry in all aspects, including content and technology. Disney's acquisition of 21st Century Fox gave it a stronger IP advantage and a more complete set of rights and content. But the acquisition is only part of the equation; it's what you do with it after the acquisition that matters. How to deal with such a large business system, how to rationalize and evenly coordinate the development of various departments, and how to fully play its role in the market after the union of the two companies is also a problem for Disney to consider [13].

7. Suggestions

Chinese entertainment companies are gradually moving toward conglomeration, but there are still many problems and areas for improvement for Chinese film and television and other entertainment companies compared to large U.S. media conglomerates in terms of corporate scale and profitability. The M&A case of Disney's acquisition of Fox shows that M&A can increase market share, improve business revenue, increase profitability, achieve economies of scale, reduce transaction costs, and diversify operations can also diversify business risks. The business handling and organizational integration after the M&A is also the key to whether the two companies can play the role in the market that they should want after the union, which greatly affects the success of the acquisition.

8. Conclusion

To sum up, based on the analysis of the acquisition of 21st Century Fox by Disney, the search and analysis of various data indicators of the two companies, the increase in revenue of Disney's business and the decrease in revenue of Fox's business, the increase in market share and profitability of Disney, the diversification of the entertainment industry as a result of the merger of the two companies, the creation of more attractive content, and the expansion of international influence, it can be seen that the acquisition has affected the entire entertainment industry and played a huge role in the development and progress of the entertainment industry. diversification of the industry, the creation of more attractive content, and the expansion of international influence, the acquisition has influenced the entire entertainment industry and has played a huge role in the development and progress of the entire entertainment industry. Overall, these results shed light on guiding further exploration of acquisitor in entertainment industry.

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