

Walt Disney Company 2021 Strategy and Stock Price Analysis

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Abstract. This article analyses Walt Disney Company's business strategy and stock price. Disney is currently the second largest media and entertainment firm in the world, behind Comcast, and the outbreak of Covid-19 in 2020 has had a constant impact on Disney's corporate growth. We need to investigate Disney's performance as well as strategy throughout this unique period. I utilised Porter five-force analysis, SWOT analysis, and PESTLE analysis to determine and illustrate Disney's strategy. Next, I individually reviewed the financial reports of Disney and its competitors. I divided Disney into two parts, the DMED department compared with Netflix, the DPEP department compared with Universal, and then Disney compared with Comcast as a whole. Furthermore, I analysed and compared Disney's price-earnings ratio and enterprise value ratio to those of Netflix, NBCUniversal, and Comcast, respectively. Finally, I analysed Disney's stock price and projected the company's free cash flow over the next five years. The analysis reveals that Disney will have good business ability in the future and generate revenue in the future. I hope to provide some enlightenment to stakeholders.

Keywords: Strategy; Stock Price; Cash Flow.

1. Introduction

Walt Disney is a historic and large company founded by founder Walt Disney in 1923 and listed on the U.S. Stock Exchange in 1957. Walt Disney mainly covers two major businesses, Disney Media and Entertainment Distribution and Disney Parks, Experiences and Products. It enjoys a global reputation, and its anime characters and theme parks are widely loved by people around the world. Walt Disney's wide audience and great influence deserve to be analysed and discussed from the perspective of business performance and stock value.

1.1 Background

In 1923, Walt Disney and his brother Roy O. Disney founded Disney Brothers Studio. In November 1928, Disney released the black-and-white animated film *Steamboat Willie* starring Mickey, which was the world's first film to synchronise sound and painting. At that time, Walt Disney company also won the Academy Award. The success of this film has laid a solid foundation for Disney's future development. In 1932, Disney released its first colour film, *Burt Gillett*, which won the Academy Award for Animated Short Film. In 1937, *Snow White and the Seven Dwarfs*, the world's first animated feature film, became the most successful audio film to date. *Snow White and the Seven Dwarfs*' profits supported Disney to buy 50 acres of land in Burbank to build an animation studio, which is still the headquarters of Disney. Since the 1950s, Disney has entered the peak of creation. With efficient production capacity and quality assurance, it has produced and released a number of classic movies, including *Cinderella*, *Alice in Wonderland*, *Peter Pan*, *Sleeping Beauty* and other excellent films. During this period, Disney only made boutique movies, and the time and money spent on each film was amazing at that time. In 1955, Disney's first theme park was built and opened in Anaheim, California, United States, attracting 3.6 million tourists that year. Therefore, Disney's business sector has also been expanded, transforming cinema audiences into park visitors, forming a model of film moulding IP and Disneyland offline interaction. Disneyland has laid an important foundation for Disney's future development. In 1981, Disney announced the cable TV plan and established a TV distribution company. Over the next decade, Disney's business system continued to improve. After that, it acquired Pixar Studios, Marvel and 20th Century Fox, filling Disney's

creative bottleneck [1]. Walt Disney company is committed to entertaining, influencing, and motivating people around the world through unparalleled storytelling ability [2].

2. Literature Review

Walt Disney is one of the most well-known multimedia entertainment firms in the world, with operations in numerous countries. This company's stock price is worthy of research, and there are numerous articles about Walt Disney's strategy and stock price. UKEssays introduced the impact of globalisation on Walt Disney and conducted a strategic analysis of the company using the Porter five-force model and SWOT analysis [3]. However, his study does not include the analysis of stock value, which is an important consideration for stakeholders when analysing organisations. Walt Disney has always been committed to enhancing the customer experience and putting the customer first. Black relates the tale of how Disney theme parks create an immersive experience for visitors by employing modern technology measures [4], such as a huge number of speakers and ventilators with aroma to completely calm visitors.

Many multimedia film and television firms, including Disney, have been severely impacted by the Covid-19 outbreak. Therefore, Disney must design methods for client retention and expansion. Polizzi described briefly four strategies to build and maintain the loyalty of existing customers with nostalgic emotions, to understand and accurately segment customer groups through multiple channels, to establish offline experience brands in Disney theme park types, and to engage customers through high-quality storytelling [5]. Using the internet mode, Zhang recommends allowing travellers to experience Disney theme parks online using VR, and Disney may also live-broadcast the backstory of each Disney character [6].

3. The Analysis of Walt Disney

3.1 Strategy

3.1.1 Five forces analysis

(1) Threat of new entrants

Whether for audio-visual or theme parks, the threat of potential entrants will be very low. At present, audio-visual companies hold a large number of film and television resources, have a more mature streaming media system, and high barriers to entry for new entrants. In addition, the cost of establishing an amusement park is huge, and the company needs to have a certain corporate cultural heritage. At present, the existing amusement park system is relatively mature, and it is difficult for new entrants to succeed.

(2) Competitive rivalry

The competition for Disney comes mostly from two areas: audio-visual entertainment and theme parks. Netflix is Disney+'s biggest rival. With the spread of covid-19, many individuals were forced to quarantine at home in 2020 and 2021, which coincided with the premiere of Netflix's film Squid Games, causing Netflix memberships to skyrocket. In addition, the amount of movies available on Disney+ is less than Netflix's, and the platform's unique original material is also lower. Furthermore, Universal Studios is the most significant theme park competitor. The development potential of Universal theme parks cannot be overlooked, especially in light of the company's recent establishment of theme parks in Beijing and ongoing expansion.

(3) Supplier power

Suppliers have high bargaining power. Because Disney's products are unique, only a small number of vendors are able to provide them. If Disney wishes to switch suppliers after it has chosen one, they will have to start a new production line, which will be more expensive to replace.

(4) Buyer power

The bargaining power of buyers is low, and Disney has a monopoly among comparable enterprises. Disney is the world's most famous theme park with the greatest scale, as well as Disney's animation and movie characters are irreplaceable, thus purchasers have no other options.

(5) Threat of substitutes

The threat of alternatives is moderate. For Disney's Media and Entertainment Distribution, consumers can choose other recreational activities, such as going to zoos and participating in sports activities. But for Disney theme parks with uniqueness, consumers have no other choice. For example, Mickey Mouse was founded by Disney and not owned by other companies, which is irreplaceable.

3.1.2 SWOT Analysis

Walt Disney's business has been analysis by using SWOT Analysis model, as shown in Table.1.

Table 1. Strengths, Weaknesses, Opportunities, and Threats

<p>Strengths:</p> <ol style="list-style-type: none"> 1. Intellectual property of a large number of people and higher uniqueness 2. Excellent service 3. Unique marketing strategies 	<p>Weaknesses:</p> <ol style="list-style-type: none"> 1. Weak localization for different countries 2. Coronavirus (Theme Park closed) 3. The entity has a long payback period/relatively single person
<p>Opportunities:</p> <ol style="list-style-type: none"> 1. Expand the global market 2. Strategic acquisitions 3. Expand streaming media services 	<p>Threats:</p> <ol style="list-style-type: none"> 1. The increase in piracy 2. Expansion of competitors (Universal) 3. Rely on offline experiences

3.1.3 PESTLE Analysis

(1) Political: As a result of globalisation, governments' understanding of intellectual property protection is growing, and piracy has been severely curtailed, which has aided Disney's expansion tremendously. In addition, the national regimes where Disney's primary operations are based, such as the United States, China, and European countries, are reasonably stable, creating the political groundwork for Disney's long-term sustainable development.

(2) Economic: At present, covid-19 has had a great impact on Disney's offline business, and theme parks have to be closed. These parks have invested so much money, and their daily maintenance costs and labour costs are huge, which has led to substantial portion losses for Disney. The Chinese market as developing countries has made a great contribution to Disney's revenue, but as China's economic growth has slowed down in recent years, this is a risk that Disney needs to consider.

(3) Social: In the past two years, covid-19 has caused serious setbacks in Disney Parks, Experiences and Products. Disney can consider expanding online entertainment activities, such as online film and television distribution, some special mini-games, etc. In addition, Disney needs to integrate into different cultures in various countries and do a good job in content localisation. At present, Disney does not perform well in this regard. At the same time, Disney's operation mode should be suitable for the national conditions of different countries.

(4) Technological: Strong content creation technology. Disney is good at creating and marketing character IP, such as LinaBell of Shanghai Disneyland, which has had a huge response on the Chinese Internet, which shows that Disney has a large advantage in character marketing and promotion. With the continuous popularisation of virtual reality technology, Disney can apply cartoon characters to users' mobile devices, which can bring a new experience to consumers.

(5) Legal: First of all, the expansion of Disney theme parks is bound to bring environmental problems, which will touch on national environmental protection laws. The large area occupied by the theme park is bound to cause a certain degree of damage to the local ecological environment, and also face the problem of carbon emissions. Secondly, with the continuous development of Disney movies and film characters, intellectual property rights are one of the important issues facing Disney.

Strengthening the protection of intellectual property rights will have a positive impact on Disney's development and revenue.

(6) Environmental: Disney needs to improve energy efficiency to improve its corporate image. In theme parks, it should reduce its dependence on fossil fuels, use renewable and clean energy as much as possible, and launch energy storage stations and advanced energy management systems to achieve zero greenhouse gas emissions by 2030, while strengthening access to water resources. Have the ability to save and efficiently utilise water resources. The packaging of goods in the park adopts recyclable materials as much as possible to achieve garbage classification and rational disposal of waste.

3.1.4 Generic Strategies

(1) Establish and maintain consumer loyalty: Use nostalgia and emotion as a marketing approach to maintain customer loyalty. In 2019, Disney developed a live-action adaptation of *The Lion King*. This film is a remake of the 1995 animated picture *The Lion King* and made over \$1 billion globally in 2019, demonstrating an acute understanding of the usage of nostalgia [7].

(2) Learn about client groups through a variety of outlets. Disney has accurately segmented its fan base. *Star Wars* is immensely popular among millennials; therefore Disney created the official *Star Wars* Instagram account to communicate with fans. The younger generation has a liking for *Frozen*, thus Disney launches toys and other consumer goods to attract customers.

(3) Establish an offline Disney theme park experience brand: Disney theme parks bring animated characters to life in motion pictures. Its artistic conception based on a fairy tale creates an immersive environment, which is a highly unique experience. Disney is simultaneously shaping offline character intellectual property, such as *LinaBell*, which became popular at Shanghai Disneyland in 2021. It has been favoured by numerous admirers.

(4) Resonate with customers: Each Disney character intellectual property is accompanied by a story. It is far more than a mere entertainment enterprise. Take the film *Inside Out* as an example; it teaches us to recognise and accept others' emotions. Disney designed a series of emojis featuring characters, events, and seasons to promote the film.

3.2 Share price analysis

Analysing whether Disney's stock price is overvalued or not needs to be compared with the average of its same type of companies. However, Walt Disney has a dominant position in the industry, and there are fewer companies that match its business returns, which can compare them separately and then as a whole. Therefore, Disney is divided into two major parts for business analysis, DMED compared with Netflix, Warner Bro, and DPEP compared with Universal. However, the company similar to the business composition of Disney Group is Comcast, so Walt Disney can analyse the stock value with Comcast.

3.2.1 Comparison of financial statements

Table 2. Compare the revenues of competing businesses in the same market segment. [8-10]

(Revenue) in million	2021	2020	change
Disney:			
DMEM	50,866	48,350	5%
DPEP	16,552	17,038	(3%)
Comcast:			
NBCUniversal	34,319	27,211	26.1%
Netflix:	29,697	24,996	19%

First of all, the Disney DMED department compares it with Netflix. DMED, which accounts for 75% of Walt Disney's total revenue, is Disney's main revenue department. Its total revenue in 2021 was \$50,866, an increase of 5% year-on-year from \$48,350 in 2020. Affected by covid-19, Disney has been continuously affected by the circulation of cinemas in 2020, and the production of the film has also been delayed, limiting the sales of the film on other platforms after the release of the theatre, resulting in a negative impact on its circulation. However, due to the government's measures to require home quarantine, Disney+ online continuously popularised. Disney+ had 73.7 million subscribers in November 2020, easing the operational pressure of some DMED departments with the increase in subscribers [11]. In 2021, the growth of subscriptions to Disney's online business continued to slow down. With the gradual liberalisation of offline business, most people choose to go to the cinema to watch movies. At the same time, it also costs to expand the streaming business, so that the revenue growth rate is slower. Disney+'s total subscriptions at the end of 2021 was 129.8 million, significantly lower than its competitor Netflix's 222 million, but Disney accumulated so many subscriptions in just two years, together with Disney's existing large number of IP. Local innovation and development have a lot to do with it, and its development prospects are wonderful in the long run.

Walt Disney and Comcast have almost the same business composition, such as network TV, theme parks and streaming services, which are competitive, so they can be used for stock price comparison. Although the two businesses are similar, Comcast's revenue is much larger than Disney's, and its revenue in 2021 increased by 12.4% compared with 2020, which is significantly ahead of Disney's 3%. Comcast's main revenue comes from cable. Cable communications accounted for nearly half of the overall revenue, an increase of 7.1% year-on-year. Among them, the number of subscribers in the broadband business increased with the impact of the epidemic; the revenue of the video business was also affected by the cancellation of some sports programs, but they rose prices so much that Video revenue has maintained a relatively stable level. The largest increase in Comcast is NBCUniversal, with a year-on-year increase of 26.1%, and its theme parks increased by 141.2 percent, which is related to the gradual liberalisation of offline activities in 2021, coupled with the opening of Beijing Universal Studios in September 2021. But despite this, the revenue of Universal theme parks is still less than half of Disney's revenue from Disney's theme parks. Disney is constantly expanding and acquiring well-known IP studios, and the number of character IP have a significant advantage in the number of theme parks.

3.2.2 market value analysis

Table 3. Compare P/E Ratio, Enterprise/EBITDA Ratio and Diluted EPS

	P/E Ratio	Enterprise/EBITDA	Diluted EPS (\$)
Disney	139.54	35.06	1.09
Netflix	54.32	14.91	11.24
Warner Bro	12.59	2.15	1.54
Comcast	16.18	8.41	3.04

Walt Disney is higher than the market average in terms of price-earnings ratio and enterprise value ratio. Its stock price is obviously overestimated. According to diluted EPS, Disney's stock price is not as strong as the other three companies. The main business DMED has poor growth ability, and DPEP has negative growth. Even if Disney's stock price is overestimated and the current growth is weak, there is no denying that Disney's development potential. The development history of nearly 100 years and the ability to create new IP have great benefits, and the acquisition of other companies in recent years have continued to expand Disney's business scope.

3.2.3 Free Cash Flow

Table 4. Data of Free Cash Flow

Disney (Mil)	2022	2023	2024	2025	2026
Free Cash Flows	7177	7895	8685	9554	10509
WACC=8.67% [12] (GuruFocus)	g=2%				
Disney (Mil)	2022	2023	2024	2025	2026
Discounted free cash flow	6645	6769	6894	7022	7152
DCF (\$ Mil)	156<203.6 (2021)				

According to Disney's previous free cash flow data, the average annual growth rate is about 14%, so the free cash flow from 2022 to 2026 is speculated for DFC valuation analysis. According to the data of GuruFocus, Disney's WACC in 2021 was 8.67%, and the discount rate was obtained. As shown in the chart, the growth rate of large companies is relatively small. According to the inflation rate and average GDP growth rate in the United States, it can be estimated to be $g=2\%$. Finally, according to the formula calculates that the value of companies in DCF is \$15.6 billion, which is less than \$20.36 billion in 2021, which also indicates the market may have paid too much price for Disney's common shares.

4. Conclusions

To summarise, Walt Disney is recuperating gradually from the effects of covid-19. Disney's future revenue potential is enormous from a data standpoint. Although Disney has performed better in the current fiscal year, it must still address a number of challenges. The rate of expansion of Disney's internet users is decelerating, and managers should focus more on the Chinese market. Moreover, if the stock price is overestimated, there may be contradictions between managers' and shareholders' interests, which could detract from the company's overall performance. The board of directors need preserve the allocation of stakeholder interests inside the organisation.

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