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The Walt Disney Company: The 21st Century Fox Acquisition and Digital Distribution

In March 2018, the Walt Disney Company's $71.3 billion bid for 21st Century Fox was accepted. The original bid of between $52 and $60 billion had been filed in November 2017, but Comcast intervened with its own bid. When the dust settled in the competitive contest, the 21st Century Fox assets were split three ways (**Exhibit 1**). Disney acquired the film, television and cable entertainment assets of 21st Century Fox. Rupert Murdoch and his family retained Fox Broadcasting, which owned Fox News and Sports and twenty eight local television stations. Comcast acquired Sky TV, the European satellite broadcasting entity which it won for $39 billion in a one-day auction against Disney and Fox.[1]

More specifically, Disney acquired the 20th Century Fox[a] film library, including such franchises as Marvel[b] and Avengers, and classics like *Cleopatra* and *Avatar*, as well as the current film and television studios; the FX and National Geographic cable networks in the U.S.; Star India, the Indian broadcast media company with over 700 million monthly viewers;[2] and Fox's 30% share of the Hulu video on-demand subscription service—making Disney the majority Hulu shareholder with 60% ownership—[3] and a share of Sky TV.

Disney then recouped $15 billion through the sale of Fox's 30% share in Sky TV to Comcast. Regulatory pressure in the U.S. required Disney to divest twenty-one regional sports networks,[4] and in Europe to sell off all its "factual channels," including *History* and *Lifetime,*[5] which collectively recovered another $10 billion of the purchase price. In April 2019, Hulu made a deal with AT&T to purchase AT&T's 9.5% stake,[6] meaning that Disney held a 67% stake and Comcast held a 33% stake.[7] The following month, Disney and Comcast agreed that Disney would assume full operational control of Hulu, effective immediately.[8] The terms outlined that within about five years—as soon as January 2024[9]— Comcast would sell its Hulu share to Disney based on fair market value at the time, but for at least $5.8 billion.[10] When the dust had settled Disney's total net investment to acquire its share of the 21st Century Fox assets and AT&T's stake in Hulu, therefore, came to about $48 billion.

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[a] 21st Century Fox was the name of the parent corporation. 20th Century Fox was the original name of the film studio division.

[b] The original Disney acquisition of Marvel had not included the rights to some characters.

Professor David J. Collis prepared the original version of this case, "The Walt Disney Company: The 21st Century Fox Acquisition and Digital Distribution," HBS No. 719-445, which is being replaced by this version. This case was developed from published sources. Funding for the development of this case was provided by Harvard Business School, and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Disney's intent with the acquisition was to enhance its "position as a premier, truly global entertainment company, and . . . [its] ability to offer innovative direct-to-consumer offerings."[11] Specifically, it would make Disney the clear leader in traditional content businesses by owning additional movie franchises (Disney and Fox together would have had 28% of the North American box office between 1995 and 2018[12]); exploit economies in film and television production and generate $2 billion in cost synergies by 2021; broaden the scope of cable channels that could be offered in a bundle to cable networks; and expand its footprint outside the U.S. In early 2020, Disney announced that the "Mouse had killed the Fox" as it renamed the acquired assets "21st Century," dropping the Fox moniker.[13]

The deal would also increase Disney's sales to the final consumer. Historically, less than 25% of Disney's revenue came from a direct relationship with the end-consumer. This inhibited the ability to establish a deep customer relationship and use data to improve services, such as knowing a family's favorite Disney Princess when they booked a stay at Disney World. Acquiring Star India would substantially increase the end customer percentage, as would moving into digital distribution in the U.S.[14]

Indeed, after the acquisition, Disney quickly moved to introduce three video-on-demand subscription channels to be offered direct to the consumer (DTC). It would offer Hulu in direct competition with Netflix and HBO as an entertainment channel for adult audiences. The company then launched the Disney+ channel in late 2019. This featured at least five content channels, including Disney, Pixar, Star Wars, Marvel, and National Geographic, and would show new content, such as a Star Wars universe series "The Mandalorian", as well as movies targeted at the traditional Disney consumer, such as the live action version of "Mulan" available first on Disney+ for a $29.99 premium fee.[15] To support the channel, it pulled all the classic Disney content from Netflix after the end of 2019, even though it had been receiving about $150 million per annum from Netflix for the broadcast rights to that material.[16] Finally, it launched ESPN+, featuring college teams, local sports teams, and those sports that were underrepresented on the ESPN cable channel, such as lacrosse, so that it did not overlap with ESPN's current offerings.[17] The three channels would be offered on the BAMTech platform, which Disney had acquired from Major League Baseball in 2017 for $1.6 billion, and was widely recognized as the best platform for streaming video at scale.

The three streaming channels entered a field that had become crowded by 2020 with more than 400 services available around the world.[18] PC Magazine listed forty video streaming competitors in their annual review, including free services, like Tubi, and alternatives to cable, like YouTube TV[19]. Annual content budgets by major players exceeded $16–17 billion (Netflix), $6 billion (Apple) and $6–7 billion (Amazon). Disney proposed a budget of $3 billion for Hulu and $1.5 to $2 billion for Disney+ (**Exhibit 2**). Nevertheless, the launch of the channels was well received. The day of the announcement, Disney stock rose 12%, while Netflix stock fell by 5%—a net shift in market capitalization of about $50 billion **(Exhibit 3**). By mid-2020, Disney had accumulated over 100 million subscribers across the three channels.[20]

As these moves were announced, Iger reorganized the firm's management structure.[21] Former chief strategy officer Kevin Mayer was named president of a new DTC and international business unit. Bob Chapek, head of theme parks, was moved to chairman of the combined parks and resorts and consumer products business. Media networks and studios were left untouched by the reorganization. Then, in February 2020, Bob Iger announced that he was moving to become Executive Chairman, with Chapek taking over as CEO.[22] Kevin Mayer later left to become CEO of TikTok before stepping down as President Trump forced the sale of its U.S. operation.[23]

In early 2020, Disney's core businesses were badly affected by the Covid-19 pandemic as theme parks and movie theatres were closed during the crisis (**Exhibit 4**).

Exhibit 1 Assets Involved in Acquisition

DISNEY GETS:

Fox Movie Studios

Including:
Marvel Films: XMen
Other Films: Avatar, Planet of the Apes…

Fox TV Studios

FX Network

National Geographic Channel

Hulu Share increased to 60%

Star TV India

FOX KEEPS:

Fox Broadcast Channel

Fox News Channel

Fox

Fox

COMCAST GETS:

SKY Plc., U.K. TV

Source: Casewriter.

Exhibit 2 Streaming Services in 2020

Logos	Streaming Service	2020 Monthly Cost ($)	2020 Worldwide Subscribers million	2020 Content Budget $b
	HBO Max	14.99	4/134[5]	3
	Netflix	12.99[1]	190	16 - 17
	Peacock	9.99	10	1 - 2
	Amazon Prime Video	8.99[2]	150[6]	6 - 7
	Disney+	6.99	61	1.5 – 2.5
	Hulu	5.99	36	3
	Paramount+[3]	5.99	42[7]	2
	Apple TV	4.99	10	6
	ESPN+	4.99[4]	9	N/A

[1]Standard: Basic is $8.99

[2]$9.91 per month for all of Amazon Prime services, i.e., free shipping

[3]Formerly CBS All Access

[4]$12.99 for Disney +, Hulu and ESPN+

[5]134 million is for HBO cable subscribers

[6]Total is for Amazon Prime

[7]Includes cable subscribers for Showtime and Pluto

Source: Casewriter including from https://en.wikipedia.org/wiki/Streaming_service_provider and *Mike Reynolds "Disney leads legacy media companies in boosting streaming revenues," August 26, 2020, https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/disney-leads-legacy-media-companies-in-boosting-streaming-revenues-60076855.*

Exhibit 3 Disney Stock Price vs. S&P 500 (November 2016 to September 2020)

Source: BigCharts, accessed on October 8, 2020, https://bigcharts.marketwatch.com/advchart/frames/frames.asp?show=&insttype=Stock&symb=DIS&time=100&startdate=11%2F1%2F2016&enddate=9%2F30%2F2020&freq=1&compidx=SP500&comptemptext=DIS&comp=DIS&ma=0&maval=9&uf=0&lf=1&lf2=0&lf3=0&type=0&style=320&size=2&x=58&y=13&timeFrameToggle=false&compareToToggle=false&indicatorsToggle=false&chartStyleToggle=false&state=15.

Exhibit 4a Disney Financials 2015—2019

		2019 (1)		2018 (2)		2017 (3)		2016 (4)		2015 (5)
Statements of income										
Revenues	$	**69,570**	$	59,434	$	55,137	$	55,632	$	52,465
Net income from continuing operations		**10,913**		13,066		9,366		9,790		8,852
Net income from continuing operations attributable to Disney		**10,441**		12,598		8,980		9,391		8,382
Per common share										
Earnings attributable to Disney										
Continuing Operations - Diluted	$	**6.27**	$	8.36	$	5.69	$	5.73	$	4.90
Continuing Operations - Basic		**6.30**		8.40		5.73		5.76		4.95
Dividends (6)		**1.76**		1.68		1.56		1.42		1.81
Balance sheets										
Total assets	$	**193,984**	$	98,598	$	95,789	$	92,033	$	88,182
Long-term obligations		**60,852**		24,797		26,710		24,189		19,142
Disney shareholders' equity		**88,877**		48,773		41,315		43,265		44,525
Statements of cash flows										
Cash provided (used) by - continuing operations:										
Operating activities	$	**5,984**	$	14,295	$	12,343	$	13,136	$	11,385
Investing activities		**(15,096)**		(5,336)		(4,111)		(5,758)		(4,245)
Financing activities		**(464)**		(8,843)		(8,959)		(7,220)		(5,801)

(1) On March 20, 2019, the Company acquired TFCF for cash and Disney shares (see Note 4 to the Consolidated Financial Statements). TFCF and Hulu's financial results have been consolidated since the date of acquisition and had a number of adverse impacts on fiscal

Exhibit 4b Disney Financials 2020 (9 months)

	Quarter Ended			Nine Months Ended		
	June 27, 2020	June 29, 2019	Change	June 27, 2020	June 29, 2019	Change
Revenues	$ 11,779	$ 20,262	(42) %	$ 50,681	$ 50,489	— %
Income (loss) from continuing operations before income taxes	$ (4,840)	$ 2,009	nm	$ (1,163)	$ 12,676	nm
Total segment operating income(1)	$ 1,099	$ 3,952	(72) %	$ 7,502	$ 11,422	(34) %
Net income (loss) from continuing operations(2)	$ (4,718)	$ 1,430	nm	$ (2,122)	$ 9,648	nm
Diluted EPS from continuing operations(2)	$ (2.61)	$ 0.79	nm	$ (1.17)	$ 5.97	nm
Diluted EPS excluding certain items affecting comparability(1)	$ 0.08	$ 1.34	(94) %	$ 2.22	$ 4.74	(53) %
Cash provided by (used in) continuing operations	$ 1,162	$ (1,748)	nm	$ 5,949	$ 4,266	39 %
Free cash flow(1)	$ 454	$ (2,925)	nm	$ 2,656	$ 699	>100 %

(1) EPS excluding certain items affecting comparability, total segment operating income and free cash flow are non-GAAP financial measures. The comparable GAAP measures are diluted EPS from continuing operations, income from continuing operations before income taxes, and cash provided by continuing operations, respectively. See the discussion on page 2 and on pages 10 through 13.

(2) Reflects amounts attributable to shareholders of The Walt Disney Company, i.e. after deduction of noncontrolling

Source: Disney 10k for 2019 and 10Q for nine months.

Endnotes

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