SAGACITY ANALYSIS OF DISNEY'S EQUITY ON PRE-& POST M&A

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Abstract

The Walt Disney Company has come a long way since its inception as an American animation pioneer, the company has evolved into the largest independent media conglomerate through its diversified approach to monopolising the entertainment and communication medium segments, the synergies of its subsidiaries have made it the behemoth business generator that it stands to be today. The tussle that Disney shares with its fierce competition, in terms of gaining a greater a market share comes with its challenges of highly volatile dynamics; the media and entertainment industry has to be immersive in accordance with the prevalent socio-political, economic and technological succession in aspects such as content making, the content itself along with the representation of the same. Media giants are constantly looking to invest in the market pleasers of tomorrow while they defend the progenies of yesterday. With the pace of change increasing rapidly, media companies such as Disney itself look to acquire & collaborate with entities that portray the said suitable characteristics; in order to come into possession of a controlling interest of which, they bid exorbitant premiums. This makes the immediate efficacy of the predicted synergies of the 2 organisations a necessity as a step back simply translates into a leeway for the competitors. The immediate effect such business combinations may be indicated in the perceived value of the company's stock performance.

Keywords: Mergers & Acquisitions, Media & Entertainment Industry, Stock Performance, Synergy

1. Introduction

The Media and Entertainment Industry

With Visual Content in its boom, the media and entertainment industry are on the rise. From all the revenue channels adding up to a market of $1.3 trillion, The United States comprises greater than 50 % of all M&E segments in totality. Recovering from the economic slowdown of 2011, the industry is growing at a steady pace of 7% every year. The various segments of the M&E industry include; Films/Cinema, Music, Radio, Television, Internet, Gaming, Publishing and Advertising. Put together these segments form a vertical, the categories and subcategories of which, complement each other whilst they compete for the ever-growing demand of entertainment and information. With the constantly increasing of the pace of technological innovation, the screens being used to consume content put forth by these M&E segments, media owners run the risk of redundancy of both, content making resources and the content itself. This is the reason why media giants are always getting into business deals to acquire entities operating in the various segments of the M&E vertical. These business deals are of utmost importance to any media owning entity as with the number of acquisitions that take place in the industry and the volume of assets especially intellectual property hinged every one of these deals, even a relatively small deal could have a significant impact on the standing of a media owning entity. With highly volatile dynamics in the play, each segment of the M&E industry has to have certain timely additions made to its consumer appeal, as the flourishing market has new entrants making diversified content, it is essential for every media owning entity to assess every alternative from the plethora of options it has.

2. Review of Literature

a) **(Hagedoorn, Duyesters, 2000),** this study talks about the comparison between related and unrelated M&As and how related M&As show superior economic performance because of the synergetic effects that result due to increase in economics of expansion and scale. The research also reveals that the organisational and strategic fit between the firms that are involved in the M&A play an important role in increasing the tech. performance of companies.

b) **(King, Dalton, Daily, & Covin, 2004),** this study shows that existing empirical research on post-acquisition performance has not consistently identified antecedents that can be used to predict post-acquisition performance (Hitt et al., 1998; Hoskisson, Johnson, and Moesel, 1994; Sirower, 1997). The goal of this study is to cumulate the findings of published research on post-acquisition performance and to identify promising directions for further M&A research.

c) **(Agrawal & Jaffe, 2000),** this study shows that even though there is a huge chunk of research done on the financial performance of mergers and acquisitions that is focused on stock returns around the merger announcement, there is also a large set of papers that has also examined long-run stock returns following acquisitions. This paper concludes that long-run performance is negative following mergers, though performance is non- negative (and perhaps even positive) following tender offers.

d) **(Onofrio, 2015),** this thesis investigates the various factors that contribute to a successful merger or acquisition through the case studies of companies in various industries since 1999. The thesis first provides a brief history of mergers and acquisitions and discusses the various considerations behind mergers and acquisitions. Each case study is evaluated on a framework that incorporates strategic logic, organizational factors, and financial considerations to arrive at the relative success of each merger. The four case studies discussed are: Exxon and Mobil (1999), America Online and Time Warner (2000), Disney and Pixar (2006), and Sirius and XM Radio (2007). Ultimately, the thesis highlights the importance of sound strategic logic, a vision for future industry trends, similarity and ease of incorporating assets across companies while mitigating distracting external factors, such as the requirements to be met by government agencies, and internal factors, such as cultural compatibility.

e) **(Yardimcioglu & Sutcu, 2012),** this study basically investigates that whether the acquisitions are value enhancing or destructive strategies for acquiring organisations from the perspective of various methods that are used to interpret post acquisition value. They have researched M&A literature over the last three decades to determine and portray various methods used to calculate acquisition performance; determine the most widely used methods; their pros and cons; and analyse whether research conclusions are different depending upon the various methods used.

3. Research Design

Scope of the Study: For the given study, we have taken into consideration- the share values of the acquired companies, 3 months prior to and post the day of their acquisition by The Walt Disney Company.

Company's Name	**Media & Entertainment Vertical Subcategory**	**Acquisition Cost ($billion)**
Marvel	Film, Television & Publishing	4
Bamtech	Entertainment Innovation	2.58
Lucasfilm	Film	4.05
Capital Cities/ABC Network	Television	19

The given study analyses the short-term stock value fluctuation of the companies in order to determine

Statement of Problem:

The Walt Disney Company has been making acquisition deals day in and day out offering to bid exorbitant premiums on deals even bigger players such as Comcast aren't willing to pay. In the given study, we make

an attempt to assess the stock performance of 4 such companies acquired by The Walt Disney Company, namely; Capital Cities, Lucasfilm, Marvel & Bamtech to analyse the perceived success of the synergies in the wake of the second biggest merger the Media & Entertainment Industry has ever witnessed: the acquisition of 21st Century Fox by The Walt Disney Company.

Objective of the Study:
To evaluate the stock performance of companies in the Media & Entertainment Industry, post their acquisition by the media giant- The Walt Disney Company in order to analyse the success of their perceived synergies.

{Bibliography}Sources of Data:
The given study has been conducted using secondary databases only
The historical stock data has been collected from the following websites
http://investor.org/
https://in.finance.yahoo.com/
https://statisticssolutions.com/

Limitations of the Study:

i. Only 6 of the acquisitions made by Disney have been analysed to conclude the perceived success of the synergies of the company's merger in terms of stock performance
ii. The study is based on short term share value fluctuations prior to & post the respective mergers which cannot signify the long terms effect of the merger
iii. Qualitative synergies have not been assessed for the given analysis thereby making our evaluation incomplete.
iv. The companies being analysed do not cover each Media & Entertainment vertical subcategory, each vertical subcategory is expected to have a varying effect on the initial stock performance post-merger, our research is limited in terms of a totalitarian evaluation in this manner.
v. Our study lacks to track the progression of increase in stock value

4. Data Analyses & Hypothesis Using T-Test

Hypotheses:

A. *Null hypothesis (H0): There is no significant relation between the M&A and the stock price of the acquirer firm (if the p- value calculated is more than* α i.e.0.05)

B. *Alternate hypothesis(H1): There is a significant relation between the M&A and the stock price of the acquirer firm (if the p- value calculated is more than* α i.e.0.05)

Paired Sample T-test is a statistical procedure that is used widely and uses a test statistic that is distributed according to the t-distribution.

The formula used for this test is as follows-
https://statisticssolutions.com/

$$t = \frac{\bar{d}}{S_d / \sqrt{n}}$$

To conduct a t-test, the t-statistic is compared to a critical t-value at the desired level of significance with the appropriate degrees of freedom.

The paired sample *t*-test has four main assumptions:

- The dependent variable must be continuous (interval/ratio).
- The observations are independent of one another.
- The dependent variable should be approximately normally distributed.
- The dependent variable should not contain any outliers.

The procedure for a paired sample *t*-test can be summed up in four steps. The symbols to be used are defined below:

D = Differences between two paired samples
di = The ith observation in D
n = The sample size
$\bar{d}$ = The sample mean of the differences
σ^ = The sample standard deviation of the differences
T =The critical value of a *t*-distribution with (n − 1) degrees of freedom
t = The *t*-statistic (*t*-test statistic) for a paired sample *t*-test
p = The p-value (probability value) for the *t*-statistic.

The four steps are listed below:

1. Calculate the sample mean.

2. Calculate the sample standard deviation.

3. Calculate the test statistic.

4. Calculate the probability of observing the test statistic under the null hypothesis. This value is obtained by comparing *t* to a *t*-distribution with (n − 1) degrees of freedom. This can be done by looking up the value in a table, such as those found in many statistical textbooks, or with statistical software for more accurate results.

   p = 2 Pr (T > |t|) (two-tailed)
   p = Pr (T > t) (upper-tailed)
   p = Pr (T < t) (lower-tailed)

A. Disney and Capital Cities/ ABC M&A

The M&A took place on January 5th, 1996.

Paired Samples Test							
	Paired Differences				t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			

					Lower	Upper			
Pair 1	Price -Date	20.20937	37.75794	3.35047	13.57888	26.83986	6.032	126	.000

B. Disney and Marvel M&A

The M&A took place on 31st August 2009

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Price - V2	26.17781	39.13052	3.45868	19.33370	33.02192	7.569	127	.000

C. Disney and Bamtech M&A

The M&A took place on 7th August 2017

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Price - V2	104.28891	33.98348	2.99208	98.36858	110.20925	34.855	128	.000

D. Disney and Lucasfilm M&A

The M&A took place on 30th October 2012

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Price - V2	50.09159	36.77296	3.27600	43.60799	56.57519	15.290	125	.000

5. Analysis of Result and Interpretation

Hypothesis Result

Since the P-value is each of these 4 cases is lower than 0.05 we therefore reject our Null Hypothesis and accept the alternate hypothesis i.e. There is a significant relation between the M&A and the stock price of the

acquirer firm which indicates that the immediate effect of the execution of an M&A deal can be denoted as one of the parameters for temporary stock fluctuation (with short term relevance to the execution of the M&A deal).

Interpretation & Discussion

- The study, over and about the short-term stock valuation in relation to the execution of an M&A deal also demonstrates the perceived success of the synergies of the given acquisitions made by The Walt Disney Company in terms of the stock performance as the company's equity share value portrayed bullish secondary trends ensuing the acquisition of the companies, namely; Marvel, Bamtech, Lucasfilms & Capital Cities.

- The study can also be used to hereby state that M&A deals in the Media & Entertainment Industry are significantly affective factors of stock price fluctuations in the short run and can be used to predict upside/downside trend in the share value of a given company in the industry to make informed investment decisions or for other related purposes.

- The study also shows a pattern of stock performance of a Media & Entertainment Conglomerate like The Walt Disney Company in terms of its stock performance (bullish secondary trend in all 4 of the given acquisitions) in the wake of the execution of an acquisition deal.

6. Conclusion

In the Media & Entertainment Industry, multifarious growth is essential in order to secure a substantial share of the existent market, in order to retain the secured market and the most crucial of all; to monopolise a potential market before time such that thought leadership navigated through the spectrum of the company's network can navigate Consumer taste and trends. In order to stimulate such growth, media & entertainment companies tend to make business combination deals with due advantageous of the outcome being strategic quantitative and qualitative synergies & curbing competition. These Business combination deals, especially in the case of mergers & acquisitions in the industry, entail sizable risks which could have a substantive counter effect on the company's standing in many ways. One such way is a company's secondary stock value trend which is significantly affected amidst the execution of an acquisition deal made by a company which could be attributed to the perceived success of the synergies of the emergent acquirer company. The results of this study can be used to analyse trends in the perceived efficacy of such acquisition deals and make informed investment decisions when dealing with companies in the given industry amidst execution of business combination deals such as an acquisition.

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