
Xinyan Fu
Tulane University, New Orleans, LA
* Corresponding author: xfu6@tulane.edu

Abstract. This research offers an in-depth exploration into the intersections of entertainment and finance, focusing on Disney's expansive business ecosystem and its influence on option pricing dynamics. The empirical findings pinpoint significant correlations: Disney Plus's subscriber trends and Average Revenue Per User (ARPU) exhibit a notable relationship with option prices, suggesting a complex interplay between digital revenue streams and financial derivatives. Additionally, revenue surges and operational shifts in Disney's theme parks have discernible impacts on option pricing. Furthermore, case studies on major film releases, including Thor: Love and Thunder and Avatar: The Way of Water, illuminate the profound influence of pop culture events on financial market fluctuations. The rapid responsiveness of option prices to film-related factors, such as reviews and box office performance, emphasizes the intertwined nature of entertainment products and investor sentiment. This research unravels the multifaceted connections between entertainment sectors and global financial markets, providing a robust foundation for future investigations into the evolving entertainment industry and its economic reverberations.

Keywords: Disney, Option pricing, Entertainment.

1. Introduction

The Walt Disney Company, universally recognized as a beacon of creativity and innovation, has woven a complex tapestry of storytelling that spans nearly a century. Founded in 1923 by Walt and Roy O. Disney, the company began its journey as a small animation studio. Over time, through vision, tenacity, and a relentless pursuit of creative excellence, it blossomed into a global entertainment behemoth, its influence reaching every corner of the modern world.

"Steamboat Willie" in 1928 marked Disney's inception into animation, introducing audiences to the now-iconic character Mickey Mouse. From Snow White to The Lion King, Disney's animated classics created a unique blend of storytelling that appealed to children and adults, becoming cultural staples that transcended generations. However, animation was just the beginning. In recent decades, Disney's acquisition of entities like Pixar, Marvel, and Lucasfilm showcased a strategic foresight to tap into varied storytelling genres, expanding its reach and diversifying its cinematic offerings.

The monumental success of "Avengers: Endgame" in 2019 epitomized this strategy. It was not merely a film but the climax of a meticulously crafted universe that spans over a decade, bridging characters, story arcs, and even galaxies. This landmark film was a testament to Disney's ability to evolve while maintaining its foundational ethos of compelling storytelling.

Yet, cinematic ventures represent only a fraction of Disney's multifaceted portfolio. Theme parks and resorts, from Disneyland in California to Shanghai Disney Resort, have become destinations of joy and wonder. With its meticulously designed attractions and experiences, each park stands as a testament to Walt Disney's vision of a place where adults and children can experience magic together.

Recent years have ushered in yet another strategic shift. Recognizing the rapidly changing media consumption landscape, Disney launched Disney+ in late 2019, marking its decisive foray into the digital streaming domain. Competing head-to-head with giants like Netflix and Amazon, Disney+ leveraged its vast content library, drawing millions of subscribers quickly.

However, with such immense growth and diversification come multifaceted challenges and considerations, especially in the financial realm. How do stakeholders, particularly investors, gauge
the value of a conglomerate like Disney? How do major corporate events reverberate through the intricate web of financial instruments associated with the company?

Options, a class of financial derivatives, serve as an intricate bridge between real-world corporate dynamics and the speculative world of finance. Their value is derived from underlying assets, in this case, Disney's stock, and the assumptions surrounding its future performance. The Black-Scholes model, a cornerstone of modern financial theory, offers a mathematical framework to evaluate these options. But how congruent is this theoretical framework with the ever-evolving tapestry of a company like Disney?

The Walt Disney Company, a global entertainment conglomerate, has consistently been at the forefront of industry discussions, especially concerning its financial health. Recent financial reports from 2022 and 2023 provide a comprehensive insight into the company's operational performance and financial standing. These publicly available reports serve as a valuable resource for researchers and analysts aiming to delve deeper into the company's financial robustness, growth potential, and strategic directions[1]. The intricate details, ranging from revenue streams to operational costs, offer a holistic view of Disney's financial landscape, enabling stakeholders to make informed decisions. Further insights into Disney's financial strategies can be gleaned from academic research. For instance, Zhang provides a detailed examination of Disney's strategic acquisition and its implications for the company's financial health and future growth prospects [2].

Understanding the broader market dynamics and corporate strategies can be enriched by analyzing different methodological tools used in economic analysis. A study by Gorb et al. discussed the opportunities for using the Boston Consulting Group Matrix in economic analysis, which might offer a framework to analyze Disney's corporate portfolio and its market strategies [3].

The strategies employed by companies in attracting investments and developing economic potential are critical in today's globalized market competition. Loi explored various strategies such as the use of digital technologies for business promotion, which might be relevant in understanding Disney's approach towards investment attraction and economic potential development [4].

In addition, understanding the corporate political activities and their influence on policy processes in different regions can offer a broader perspective on the market dynamics. A case study by Huse et al. on the ultra-processed food industry in the Philippines sheds light on the strategies used by corporate actors to influence policy outcomes, which might provide a lens to analyze Disney's corporate strategies in different markets [5].

On the other hand, the Black-Scholes model, a seminal piece in finance, has been the subject of extensive research since its inception. Introduced by Fischer Black and Myron Scholes, this mathematical framework revolutionized how options contracts and other derivatives were priced [6]. However, as with any theoretical model, its real-world applicability has been scrutinized. Numerous studies have explored the model's strengths and limitations, especially when juxtaposed against tangible market dynamics [7]. The intricate balance between the theoretical assumptions of the Black-Scholes model and the unpredictable nature of financial markets remains a topic of ongoing research and debate.

This research endeavors to navigate this complex terrain. In embarking on this exploration, it is vital to comprehend the broader implications of the study. The financial world operates on a delicate balance between tangible real-world events and the theoretical models used to navigate it. Understanding this balance is paramount with conglomerates like Disney, which embody multifaceted operations. By analyzing the link between corporate events and option pricing, this research provides a deeper understanding of how real-world corporate dynamics intersect with financial derivatives. The implications of this research extend beyond investors seeking a better grasp of Disney's stock behavior; it is also valuable for academia, aiming to refine financial models and theories. In an ever-evolving corporate landscape, understanding how theoretical financial models react to real-world stimuli offers insights into the robustness of these models and suggests avenues for their improvement. Thus, this research, set against Disney’s expansive empire backdrop, contributes valuable insights into the broader world of finance, corporate strategy, and market
dynamics.

By juxtaposing option prices, as computed via the Black-Scholes model, against Disney's multi-dimensional performance metrics - from streaming subscriber growth and theme park revenues to film releases and audience reception - this study endeavors to decipher the interplay between tangible corporate milestones and the ethereal world of financial modeling.

2. Methodology

2.1. Research Methodology and Essential Considerations

Our investigative methodology was structured meticulously to show how various components of Disney's operations influence option pricing. Here's a breakdown:

2.1.1. Data Collection and Preliminary Analysis

Sources & Tools: We mainly extracted data from Yahoo Finance, focusing on Disney's option prices over the designated research period.

Processing: This raw data was cleaned, filtered, and formatted using specialized financial analysis software, ensuring it was primed for subsequent analytical stages.

2.1.2. Analysis of Disney+ Performance vs. Option Prices

Metrics: Our primary metrics included the number of Disney+ subscribers and their Average Revenue Per User (ARPU).

Correlation Exploration: With this data in hand, we deployed correlation analysis techniques, examining if shifts in these metrics bore any relation to fluctuations in Disney's option prices.

2.1.3. Theme Park Revenue and Option Prices Symbiosis

Revenue Data Extraction: We sourced data about Disney's theme park revenues, particularly emphasizing Q4 2022 due to observed variances in option pricing.

Sentiment Analysis: Assessing announcements like the Genie+ and Lightning Lane introductions, as well as CEO commentary on park capacities, we correlated these qualitative aspects with option price movements.

2.1.4. Case Study Exploration: Thor: Love and Thunder

Pop Culture Financial Impact Assessment: This segment underscored the modern interplay between pop culture events and financial ramifications[8].

Sentiment Analysis: We discerned how entertainment releases could impact investor sentiments by harnessing reviews from platforms like Rotten Tomatoes and correlating them with option price shifts.

2.1.5. Case Study Exploration: Avatar: Way of Water

Anticipation Quantification: Understanding that this wasn't just another movie, we analyzed pre-release sentiments and expectations by tapping into various entertainment forecasting platforms [9].

Post-Release Analysis: Following the movie's release, we monitored option price trajectories, relating them to box office performance, audience reception, and broader commercial considerations.

Across all stages, the interplay between real-world data and industry nuances remained paramount. We ensured that every inference was rooted in concrete data yet remained interpretive enough to capture the vast ecosystem influencing option prices.

2.2. Black-Scholes Model

The Black-Scholes model, named after Fischer Black and Myron Scholes, is a mathematical model used to determine the theoretical price of European-style options. Robert Merton also made significant contributions, leading to the formula sometimes referred to as the Black-Scholes-Merton model.
2.2.1. The Formula

Given \( S \) (current stock price), \( K \) (strike price), \( T \) (time to maturity in years), \( r \) (risk-free interest rate), and \( \sigma \) (volatility of the underlying asset), the Black-Scholes formula for a European call option \( C \) is

\[
C = S \times N(d_1) - K \times e^{-rT} \times N(d_2)
\]

(1)

For a European, put option \( P \):

\[
P = K \times e^{-rT} \times N(-d_2) - S \times N(-d_2)
\]

(2)

Where:

\[
d_1 = \frac{\ln\left(\frac{S}{K}\right) + (r + \frac{\sigma^2}{2})T}{\sigma \sqrt{T}} \tag{3}
\]

\[
d_2 = d_1 - \sigma \sqrt{T} \tag{4}
\]

\( N() \) is the cumulative distribution function of the standard normal distribution.

\( S \times N(d_1) \): represents the expected benefit from purchasing the underlying stock.

\( K \times e^{-rT} \times N(d_2) \): represents the expected cost of exercising the option in the future.

The difference between these two expected values gives the call option’s value.

2.2.2. Historical Significance and Reception

The introduction of the Black-Scholes model in 1973 represented a paradigm shift in financial derivatives [1]. Before this, the pricing of options needed a consistent theoretical basis. Market practitioners relied heavily on heuristic methods, making the valuation process subjective and, at times, inefficient.

Black, Scholes, and Merton’s work offered a systematic, theoretically grounded approach to option pricing. Their methodology was grounded in advanced financial theories and leveraged concepts from stochastic calculus, lending the model both mathematical rigor and a degree of elegance. The subsequent rapid integration of the Black-Scholes model into financial practices is a testament to its revolutionary nature.

Its importance wasn’t just confined to academia or theoretical circles. Investment banks, hedge funds, and other financial institutions almost immediately started adopting the model for real-world applications. It streamlined the valuation process and facilitated the emergence of new financial products, hedging strategies, and trading tactics.

The magnitude of its impact was underscored in 1997 when Myron Scholes and Robert Merton were awarded the Nobel Prize in Economics for their contribution. Notably, Fischer Black would likely have shared in this honor had he not passed away earlier.

2.2.3. Limitations and Critiques

While the Black-Scholes model’s elegance and applicability are widely acknowledged, it has been the subject of critique and scrutiny, especially concerning its foundational assumptions [3]. Some of the most debated limitations include:

- **Constant Volatility Assumption**
- **Log-normal Distribution of Stock Prices**
- **Constant Interest Rates**
- **Lack of Taxes and Transaction Costs**
- **European Options Only**

Despite these limitations, the model remains a foundational tool in finance. Its imperfections have sparked decades of further research, driving the evolution of more sophisticated models and methodologies.
3. Results and Discussion

Navigating through the labyrinth of data, the empirical findings offer a fascinating glimpse into Disney's multifaceted business ecosystem. The overarching goal remains to discern how various facets of Disney's operations influence option pricing, particularly in the context of the Black-Scholes model [10].

3.1. Disney Plus Performance and Its Correlation with Option Prices

This research analyzes the correlation of Disney+ performance and option prices, and the results are depicted in Figure 1. According to the data extracted from Disney's 2022 fourth-quarter financial report, the Disney+ platform experienced a rollercoaster trajectory in subscriber count. The number peaked at 164.2 million in the fourth quarter before seeing a slight decline in the subsequent period. Concurrently, the platform's Average Revenue Per User (ARPU) showcased fluctuating figures, with quarter 2 of 2023 registering a notable peak of $4.44. Upon closer examination, the fluctuations in Disney Plus's ARPU were mirrored in Disney's option prices. For instance, the peak ARPU in the second quarter of 2023 corresponds to a slight dip in option prices. This intriguing inverse relation suggests that while the platform extracts more revenue from its users, it may raise concerns among options traders, reflected in the option prices.

![Figure 1. ARPU vs. option price](image)

3.2. The Waltz of Theme Parks and Option Prices

Disney's theme parks have been a significant source of revenue, and this was particularly evident in the fourth quarter of 2022 when they recorded a remarkable revenue of $3.053 billion, as detailed in Table 1. This period also saw a deviation in the option price as predicted by the Black-Scholes model.

It is plausible to infer that the buoyancy of the theme park segment, fueled by innovative introductions like the Genie+ and Lightning Lane, might have swayed traders' sentiments, thereby...
affecting the option pricing. The upward trajectory in the revenue, as depicted in Table 1, showcases a consistent growth, with the fourth quarter of 2022 standing out prominently with a substantial increase.

CEO Bob Chapek indicated that the reintroduction of in-park experiences and enhanced park capacities have been pivotal in this growth. This strategic move likely bolstered investor confidence, creating ripples in the options market and potentially influencing the observed deviation in option pricing. The data in Table 1 succinctly captures the revenue uptick, providing a quantitative backdrop to the qualitative analysis presented.

**Table 1. Disney Park Income**

<table>
<thead>
<tr>
<th>Period</th>
<th>Disney park income (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>quarter 3 2022</td>
<td>$1,514.00</td>
</tr>
<tr>
<td>quarter 4 2022</td>
<td>$3,053.00</td>
</tr>
<tr>
<td>quarter 1 2023</td>
<td>$2,166.00</td>
</tr>
<tr>
<td>quarter 2 2023</td>
<td>$2,425.00</td>
</tr>
</tbody>
</table>

### 3.3. Broader Implications and Observations

With its diversified revenue streams, Disney presents a unique case where isolated segments can sway overarching financial instruments like options. This investigation illuminates the intricate interplay between direct revenue avenues (like Disney+ or theme parks) and the nuanced world of options trading. However, it's crucial to understand that while correlations have been observed, the vast ecosystem of factors influencing option prices cannot be distilled into a few parameters alone. External market dynamics, global events, or even sectoral shifts can cast their shadow, underlining the importance of holistic financial analyses.

### 3.4. Case Study: Thor: Love and Thunder

The financial market's reaction to entertainment releases, especially a franchise as iconic as the MCU, can be pretty profound. One such reflection of market sentiment is observed through option prices. Options are financial derivatives that allow an investor the right, but not the obligation, to buy or sell an underlying asset, like a stock, at a predetermined price within a specific timeframe. In the context of *Thor: Love and Thunder*, the option prices for Disney leading up to the film's debut serve as a barometer for investors' expectations regarding the film's potential success. As illustrated in Figure 2, on June 8, 2022, the option price for Disney sat at an optimistic 5.929. This could be attributed to the pent-up anticipation from the MCU’s fan base, prior successes of related movies, and the general positive buzz in the media and trailers. However, when reviews from influential platforms like Rotten Tomatoes started to flood in, the market began reacting to this new influx of information. With the mixed reviews highlighting the film's strengths and shortcomings, it introduced an element of uncertainty about its box office performance. By June 17, just a few days after its premiere and just before its wide release, the option price took a noticeable hit, dropping to -1.021. This drastic decline indicates that investors might have revised their expectations downward, factoring in the potential impact of those mixed reviews on the movie's box office performance. The sharp swing in option prices within such a short time frame underscores how quickly the market can adjust to new information. While box office collections and fan reactions are direct metrics of a film's success, option prices offer a nuanced perspective on investor sentiment and how external factors, like reviews, can significantly affect the perceived financial trajectory of entertainment products. This dynamic also exemplifies the modern-day interplay between pop culture and financial markets. As movies and entertainment products become global phenomena, their ability to influence stock and option prices of associated companies, like Disney, cannot be underestimated.
3.5. Case Study: Avatar: Way of Water

The release of Avatar: The Way of Water marked a significant moment in cinematic history and triggered notable financial reverberations, particularly in the realm of Disney's option prices. Evaluating the trajectory of these prices after the film's debut provides a striking illustration of how blockbuster successes can have a tangible impact on financial markets. In the lead-up to the film's release, there was an undercurrent of intense anticipation. This was not just another movie but a sequel to "Avatar" — a film that had previously set box office records. Given the vast amounts of money and time invested in its production and James Cameron's formidable reputation, expectations were set astronomically high. The movie premiered on December 6, 2022, and was released to the general public ten days later. Financial analysts and investors keenly observed the market's reaction, using Disney's option prices as one of the primary indicators. On December 16, 2022, as illustrated in Figure 2, the option price for Disney stood at -3.481. This relatively low figure reflected a myriad of factors, potentially including market apprehensions about the film's potential success, given its mammoth budget and the long delay since the original. However, a drastic change was witnessed as audience reception became clear and box office numbers started rolling in. By January 17, 2023, a month after the movie's release, the option price had risen to 1.271 - an impressive turnaround. This uptick indicated growing confidence in the film's ability to generate significant returns on its investment, buoyed by its rapidly escalating box office earnings. The crescendo didn't stop there. By January 27, 2023, the option price skyrocketed to 6.000. This dramatic increase over a relatively short period showcases the financial power of blockbuster movies. The positive shift in Disney's option prices was not merely reflective of the movie's ticket sales. Still, it was emblematic of the broader commercial ecosystem surrounding it, from merchandise to potential theme park integrations. To draw a comprehensive analysis, it's crucial to understand that option prices can serve as a bellwether, offering insights into investor sentiment and the perceived financial potential of associated ventures. The Avatar: The Way of Water case elucidates how major entertainment releases can impact the economic fortunes of the companies backing them. Post the movie's debut, the sharp upswing in Disney's option prices reinforces the intersection of entertainment and finance in the contemporary world.
4. Conclusion

In this research, an in-depth examination of Disney's financial ecosystem was undertaken, focusing on the interplay between its varied operational facets and option pricing. Central findings suggest that segments like Disney+ and the company's theme parks can substantially impact the financial instruments, especially options. For instance, fluctuations in Disney+’s ARPU were mirrored, to a degree, in Disney's option prices. Further, while theoretical predictions like the Black-Scholes model offer valuable insights, they sometimes diverge from real-world data, emphasizing the importance of grounding analyses in real-world trends and industry nuances.

Case studies on significant movie releases like Thor: Love and Thunder and Avatar: The Way of Water highlighted how entertainment releases influence investor sentiments and option prices. Market reactions can shift dramatically based on the buzz preceding a movie release and subsequent reviews, showing a potent blend of pop culture and financial markets.

While this research sheds light on Disney's intricate financial and operational dynamics, the broader implication is the recognition of the ever-tightening nexus between entertainment and finance. Companies with diversified revenue streams can experience marked economic shifts based on singular entertainment events in a world where pop culture wields significant influence.

Future studies could investigate how merchandising, online streaming trends, or social media sentiments contribute to financial market dynamics. Understanding these will be crucial, not just for investors but for the entertainment industry, as they navigate the complex future ahead.

References