Explore the Risk Factors and Market Performance of American Animation Companies Represented by Walt Disney

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Abstract. After the world economy entered a relatively complex and changeable environment in the 21st century, it has brought significant impact to various industries, including the animation industry. The American animation market, as one of the world's largest animation markets, has the most influential animation companies, which well reflects the problems and future prospects of the animation industry. This article conducts a financial analysis of Walt Disney's financial status and market performance in 2022-2023, and summarizes its internal risk factors and external possible impacts, development strategies, and prospect planning. Also give Disney and other American animation companies an analyst to prospect and put forward relevant development strategy reference, for most small and medium-sized companies, reasonably absorbing Disney's successful experience and optimizing their own development strategy is the key to sustainable development. This article is more based on the analysis behind the data in the financial statements, collates and analyzes the possible risk factors, which is of reference value to investors and shareholders, and the evaluation of Disney also provides a good direction for the company's development.

Keywords: Disney; business model; theme park.

1. Introduction

1.1. Background

The American animation market is one of the most promising and developing in the world. From the familiar The Little Mermaid and Snow White to Frozen and Toy Story, the American animation industry has become the childhood memories of countless people. As a leader in the animation industry, its customer base is no longer just children. The significance of animation has long exceeded the film itself. As one of the earliest countries to develop animation, the United States has a long history and many outstanding listed companies, among which Disney, 21st Century Fox, Marvel, Hasbro, Pixar, etc. are the most influential.

1.2. Objection

With the continuous advancement of technology and the updating of film carriers, the animation industry has been pushed to more audiences. In the face of rapidly growing assets, liabilities and potential risk factors cannot be ignored. Today's world economies are facing many risks and challenges, such as the economic crisis and the recent epidemic. Under the impact of these risks, the animation industry has inevitably been affected. Therefore, it is crucial to analyze the possible risk factors of an animation company and propose corresponding countermeasures in the future development plan of an enterprise. The ability to deal with risks and long-term development strategies also determine whether an animation company can survive the continuous mergers, acquisitions and elimination of many outstanding competitors and build its own corporate empire.

2. Walt Disney's Industrial Chain and Development Status

2.1. Development Situation

The Walt Disney Company was founded by Walt Disney in 1923 and is the largest animated film company in the United States. Its brands include Walt Disney Pictures, Touchstone Pictures, Miramax

Pictures, 20th Century Films, Pixar Animation Studios, Marvel Studios, etc. As a successful player and leading company in the animation field, Walt Disney has a strong awareness of patents and intellectual property rights, and has a relatively complete industrial chain and profit model.

2.2. Development Status

According to the 2022 financial statements released by Disney, its revenue structure is mainly divided into service revenue and product revenue: service revenue is as high as 74,200 million U.S. dollars, while product revenue is 8,522 million U.S. dollars. Compared with 2021, respectively Increases of 20% and 51%. Service revenue accounts for nearly 90% of total revenue. It can be seen that service projects generated around animation IP have become the main way for Disney to make profits. IP is the core element of the Disney industry chain and the highlight of consumption. Although the proportion of direct profits through IP is not large, it still made a huge contribution to the total box office revenue in the United States, achieving U.S. $700 billion in revenue in 2019. The box office revenue contribution was as high as 7 billion U.S. dollars.

2.3. Profit Model and Industry Chain

Content and channels are the two core areas of the global media industry. Content business includes creativity, production, translation and other types, while channel business includes traditional TV operations, online video platforms and content product copyright trade [1]. Merchandise licensing is one of the most basic and important ways in the continuous realization process of IP consumer product development. Disney has formed a relatively complete industrial chain around IP resources, including media networks, theme parks, film and television entertainment, and peripheral products, which has promoted the entire IP development chain to form a positive cycle [2]. Many very classic animated images have been turned into plush toys, food packaging bags, and clothing decorations and flowed into the market. Disney's customer base is diverse. Although the audience is mostly skewed toward children, adult customers can also be found in theme parks and theaters. Theme hotels and parks have brought considerable attraction to Disney. Currently, Disney has more than 3,000 licensees worldwide and more than 100 licensees in mainland China, selling more than 100,000 products related to Disney cartoon images, making Disney's classic images cover almost every aspect of people's daily necessities, including food, clothing, housing and transportation [2]. Disney's real estate logic and site development cannot be underestimated and worth to learn.Disney prefers to say that parks are located in expensive areas with high traffic and customers flow, it can effectively capture customers [3]. By using this successful model, Disney earned $7325.4 million worldwide [4].The profit has increased from 2012 to 2016[5].

3. Use Stock Data and Market Performance to Explore Potential Risk Factors

3.1. Stock Analysis

Price-to-earnings ratio, stock price, and PEG ratio are important indicators for measuring stock profitability. From Table 1, Walt Disney's actual P/E value in 2022 is 23.13, and is expected to drop to 22.18 in 2023, a year-on-year decrease of 4.1%. It is expected that there will be a relatively sharp decline in 2024 and 2025, and it may reach 14.12 in 2025, which is a 39% decrease in P/E value compared to 2022. Walt Disney's PEG ratio will remain around 1.64 over the next twelve months, indicating steady growth. Currently, Walt Disney's stock price is approximately $81 per share according to Figure 1. The lower P/E ratio and stock price prove that Disney is a more suitable company for investment, and it has greater profit potential and more valuable. Compared with similar companies Warner Bros., the actual P/E ratio in 2022 is 25.13. However, in the forecast for 2023, its P/E value drops to -11.45, and the PEG ratio in the next twelve months is -0.92. A negative P/E ratio is usually caused by Warner's negative operating net income for the year. The 2025 P/E is expected to rise to 52.55, in sharp contrast to Disney's steady growth. As of 2023.9.2, Warner Bros.'s stock price is $11.56 per share, and may continue to decline in the future. Also, Figure 2 and Table 2 shows that WBD is more unstable and unpredictable, although it has more space to increase, Disney might be a better choice.

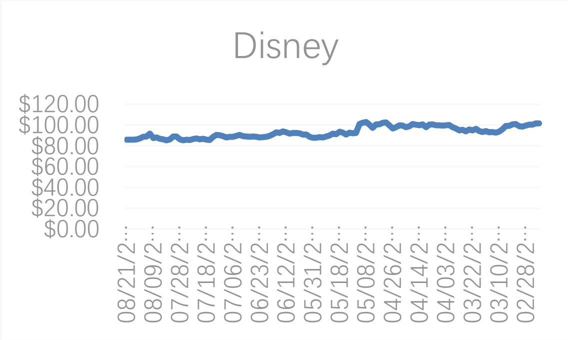

Fig. 1 Disney's stock price

Table 1. Disney's TTM EPS

Fiscal Quarter End	Date Reported	Earnings Per Share*	Consensus EPS* Forecast	% Surprise
23-Jun	08/09/2023	1.03	0.99	4.04
23-Mar	05/10/2023	0.93	0.89	4.49
22-Dec	02/08/2023	0.99	0.69	43.48
22-Sep	11/08/2022	0.3	0.5	-40

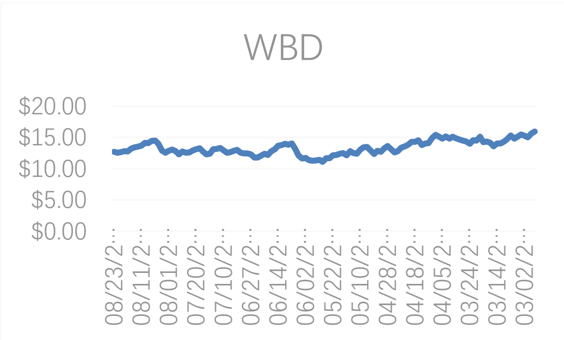

Fig. 2 WBD's stock price

Table 2. WBD's TTM EPS

Fiscal Quarter End	Date Reported	Earnings Per Share*	Consensus EPS* Forecast	% Surprise
23-Jun	08/03/2023	-0.51	-0.39	-30.77
23-Mar	05/05/2023	0.18	0.21	-14.29
22-Dec	02/23/2023	0.42	-0.03	1500
22-Sep	11/03/2022	0.17	0.02	750

3.2. Legal Channel Restrictions and External Risks

The court of chancery of the state of Delaware became Disney's only platform for legal proceedings. This limitation of legal avenues may increase Disney's litigation costs. In addition, the price of the common stock has been volatile and may continue to be volatile. The epidemic has reduced the business flexibility of animation companies. During COVID 19, some theaters were closed and film broadcasts were postponed. Many IPs in production were suspended or delayed. The epidemic caused a severe impact on the offline industry. Impact, even if the epidemic has improved and theaters are open again, some customers who have formed a habit will still not go to theaters to watch movies as they did before the epidemic. Therefore, offline theaters have lost many audiences, which has greatly reduced the box office of the movie and the company income. Most theme parks are built in relatively prosperous areas with high traffic. Disney built a theme park in crowded Orlando and used network facilities to create various festivals to attract tourists [6]. But this also means that the profitability of Disney theme parks may be affected by external conditions, such as natural disasters, policies, etc.

3.3. Fluctuations in the World Economy

The instability of the world economy has also brought more uncertainty to the animation industry, and fluctuations in global financial markets may hinder operational and investment financing or increase financing costs. As of August 2023, U.S. inflation continues to decline, which means that consumers' spending power and consumer demand will change. Animation companies need to pay attention to adapting to consumer needs. Due to excessive animation production costs and unnecessary investment, the creation of additional debt has also become a potential factor affecting the company's revenue. Additionally, Disney's flagship service Disney+ lost 4 million paid members in the second fiscal quarter of 2023, marking the second consecutive quarter in which the platform has lost subscribers and its largest loss ever. Due to a large number of layoffs, the loss of Disney's streaming media business narrowed by 400 million US dollars, a year-on-year decrease of 26%, and the operating profit margin of the most traditional limited network TV business dropped sharply [7].

3.4. Potential Risks Brought by Mergers and Acquisitions

Fox Film Corporation, Marvel Studios, and Miramax Films were acquired by Walt Disney, while Dream Works Animation was acquired by Universal Pictures Entertainment Group. Disney's early mergers and acquisitions successfully expanded its business chain. As a comprehensive entertainment group with multiple successful mergers and acquisitions, Disney's main mergers and acquisitions methods have two main methods: one is the method of stock exchange mergers and acquisitions, which helps Disney rapidly expand its business areas and improve its core business. Competitiveness. This can quickly increase the company's net assets, but the liabilities will also increase. For example, with the acquisition of ABC Media Group, Disney's net assets increased by U.S. $9.94 billion. The second is the use of private equity capital for mergers and acquisitions, such as the acquisition of Classic Sports and Network, which reduces the probability of financial risks to a great extent. However, inappropriate acquisitions of companies with weak profitability and excessive acquisition expenditures may lead to an increase in liabilities and the risk of poor capital flow of the company [8].

4. Development Prospects of American Companies

4.1. Development Strategy Based on Existing Profit Model

Disney's successful case reveals that it is very effective to quickly accumulate IP assets through the "own + M&A" approach with the imperial logic of optimal efficiency, highest profits, and largest scale [9]. Therefore, small animation companies can independently innovate animation IP in the early stages to attract loyal customers. The quality and culture of the IP itself, whether it is unique and in line with public aesthetics, have become the key to determining the original asset accumulation of animation companies. As the world's largest animation market, the vitality displayed by the American animation market is also reflected in business competition. It is very necessary in this long-distance competition to reduce internal competition among IP owned by the same company. Decentralize the intensity of IP-related service industries and reduce the creation of IP around the same subject matter in the same field; for IP with high ratings and popularity, secondary creations, derivative sequels of the same IP, etc. can well develop customer groups. At the same time, create new markets by developing disruptive products. This strategy will have a huge impact on competitors' companies, but it will also expose themselves to more risks and costs [10].

4.2. Two-way Development Strategy

For large companies, reducing capital expenditures and excessive investment in film and television content is an effective way to prevent uncontrollable liabilities. At the same time, the form must minimize the negative impact of COVID 19 at this stage and restore the asset-to-liability ratio to pre-epidemic levels as soon as possible. When necessary, layoffs should be reduced, unnecessary administrative expenses should be eliminated, and acquisitions should be made with caution. At the same time, as the industrial chain continues to expand, you should pay attention to avoid infringing the IP property rights of other companies and causing legal disputes, and sign security clauses to protect the rights and interests of your own original IP. Additionally, reusing the successful characters to make different products for different commercial promotions to maximize its profits [10]. When necessary, investments or shares in small animation studios can be made to reduce the uncertainty and large capital losses of independently producing animations; for small companies, they should first ensure the uniqueness and culture of their own IP and develop. With its own industry chain and customers, it can also attract more customers by cooperating with large companies, outsourcing animation or linking with large company IP. Two-way investment and linkage can well balance the development prospects of leading companies, and small studios in the animation industry, and can also diversify the American animation industry.

5. Conclusion

Although Disney's recent situation has declined, its abundant capital and complete IP industry chain still prove the reason why Disney is the first choice for investors. Compared with American animation companies, Disney is currently in a leading position. Its industrial chain, profit model, risk control and hedging strategies provide good learning cases for other small and medium-sized enterprises in various industries. At the same time, American animation companies still have relatively bright prospects. Although the animation industry has been severely affected by the epidemic in the past five years, which means the investing in animation companies may have a relatively high rate of return and risk.

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