

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Finance



Master's Thesis

Financial Analysis of The Walt Disney Company

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DIPLOMA THESIS ASSIGNMENT

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Economics and Management

Thesis title

Financial Analysis of The Walt Disney Company

Objectives of thesis

The goal of this diploma thesis is to assess the financial situation of Disney (The Walt Disney Company) with regard to financial performance, financial position, liquidity, solvency, efficiency and profitability. Ultimately, the author is also interested in identifying a series of potential factors that influence the price of Disney stock in a significant way. Based on the findings of the analytical part, the author also seeks to provide a series of valuable recommendations for the Walt Disney Company's management that are expected to help the company to thrive in the nearest future.

Methodology

The author uses the quantitative approach, which is largely represented by analysis of financial statements using horizontal and vertical analysis. In addition to that, the author also uses financial ratios related to different domains. The author relies on secondary data obtained from the company's financial statements published over the course of 5 years – from 2018 to 2022. Additionally, the author uses a linear regression model for the identification of factors significantly influencing the development of the stock price of the company.

The proposed extent of the thesis

60 – 80 pages

Keywords

Disney, IFRS, financial statements, financial performance, financial ratios, liquidity, stability, profitability, efficiency

Recommended information sources

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Declaration

I declare that I have worked on my diploma thesis titled "Financial Analysis of The Walt Disney Company" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break any copyrights.

In Prague on 31.03.2024

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Financial Analysis of The Walt Disney Company

Abstract

This diploma thesis aims to explore the financial performance and position of one of the world's oldest and most popular corporations specializing in the entertainment industry – The Walt Disney Company. The author additionally wants to understand if the company can be considered a good investment option. Those objectives are met with the help of the methodology that consists of quantitative techniques, such as horizontal, vertical, and ratio analyses of financial statements, linear regression analysis, return analysis, and volatility analysis.

In conclusion, it was suggested that the company was badly hit by the pandemic, but it is actively recovering, so it is projected that if the company will manage to generate a series of successful commercial projects in the nearest future, it will return to the pre-pandemic level. Additionally, it is recommended that the company reconsider its approach to managing working capital as it is rather controversial.

Keywords: The Walt Disney Company, USA, entertainment industry, financial position, financial performance, financial ratios, stock market

Finanční analýza společnosti Walt Disney Company

Abstrakt

Tato diplomová práce si klade za cíl prozkoumat finanční výkonnost a pozici jedné z nejstarších a nejoblíbenějších světových korporací specializujících se na zábavní průmysl – The Walt Disney Company. Autor navíc chce pochopit, zda lze společnost považovat za dobrou investiční možnost. Tyto cíle jsou splněny pomocí metodiky, která se skládá z kvantitativních technik, jako jsou horizontální, vertikální a poměrové analýzy účetní závěrky, lineární regresní analýza, analýza návratnosti a analýza volatility.

V závěru bylo naznačeno, že společnost byla pandemií těžce zasažena, ale aktivně se zotavuje, takže se předpokládá, že pokud se společnosti v nejbližší budoucnosti podaří vygenerovat řadu úspěšných komerčních projektů, vrátí se na úroveň před pandemií. Dále se doporučuje, aby společnost přehodnotila svůj přístup k řízení pracovního kapitálu, protože je spíše kontroverzní.

Klíčová slova: The Walt Disney Company, USA, zábavní průmysl, finanční pozice, finanční výkonnost, finanční poměry, akciový trh

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List of abbreviations

OLS	Ordinary Least Squares
ACF	Autocorrelation Function
PACF	Partial Correlation Function
USD	United States Dollar
USA	United States of America
BG	Breusch-Godfrey Test
ROA	Return on Assets
ROE	Return on Equity
CF	Cash Flow
ADF	Augmented Dickey-Fuller Test
MCU	Marvel Cinematic Universe
IP	Intellectual Property
IFRS	International Financial Reporting Standards
FDI	Foreign Direct Investment

1 Introduction

Undoubtedly, in the life of almost every human being, there is a particular company that is uniquely associated with mostly positive moments of his or her life. Those companies can represent different industries ranging between catering and traveling, but quite surely, entertainment companies have one of the biggest shares in personal favorite lists of individuals. The author of this diploma is not an exception and the best moment of her childhood and even teenagerhood were inevitably accompanied by the presence of The Walt Disney Company with endless cartoons and movies produced by the studio. Therefore, it is quite possible to say that the author of the thesis cares about the company and is genuinely interested in the way how the company is currently doing from the financial point of view.

Effectively, conducting a financial analysis of a company specializing in the entertainment industry might shed brighter light not just on the way how one specific company is doing but also on how the overwhelming majority of companies are evolving, and what are the main tendencies in the domain of finance. The thesis is concerned with financial analysis, where the financial position and performance of Disney will be assessed with the help of quantitative techniques.

In addition to the primary description of the current state of affairs of Disney, the author, due to her status of a master's student, takes a more sophisticated and deeper approach to the problem of research. This reflects the methods, which are used by the author, where among the main ones, there is a linear regression model, which traditionally helps econometrists and statisticians to properly identify factors that significantly influence a specific variable. With the help of this analysis and also the analysis of volatility, the author will be able to come up with a series of recommendations not just for the management of The Walt Disney Company, but also for potential investors, who are currently considering whether it is a good bargain or not to invest in the aforementioned company.

The author aims at providing a diploma thesis, which can serve as a universal manual effectively explaining how to conduct a financial analysis and how the results of this analysis can be used in tandem with the results of an econometric estimation to formulate a series of

pertinent recommendations for stakeholders and other people potentially interested in the fate of the selected organization.

2 Objectives and Methodology

2.1 Objectives

The goal of this diploma thesis is to assess the financial situation of Disney (The Walt Disney Company) with regard to financial performance, financial position, liquidity, solvency, efficiency, and profitability. Ultimately, the author is also interested in identifying a series of potential factors that influence the price of Disney stock in a significant way. Based on the findings of the analytical part, the author also seeks to provide a series of valuable recommendations for the Walt Disney Company's management that are expected to help the company to thrive in the nearest future.

All in all, the following series of research questions are asked in the diploma thesis:

- 1) What is the financial performance of Disney in the time interval between 2018 and 2022?
- 2) What are the financial ratios of Disney in the time interval between 2018 and 2022?
- 3) What is the volatility of Disney stock and is it possible to classify Disney as a risky investment?
- 4) What are the factors that significantly influence the development of Disney stock in time?
- 5) What is likely to be the development of the company in the nearest future based on the current climate of the business environment?

2.2 Methodology

Surely, in order to achieve the ambitious goals, set in the previous chapter, it is essential to come up with a reliable methodology that will ensure that all objectives and research questions will be met. Effectively, the author initially performs a pertinent literature review to analyze the current framework behind the studied topic. After performing the literature

review and forming a solid basis for the author's own contribution, she continues to the analytical part of the work, where the main emphasis is put on the quantitative analysis, which will involve the utilization of individual techniques.

Quite evidently, the main technique implemented in the analytical part is financial analysis. Financial analysis inevitably involves a meticulous study of elements presented in financial statements. This is traditionally done with the help of either vertical analysis, where relative shares from the total are found for each sub-element, or with the help of the horizontal analysis, where the values are compared with either the previous year (chain index) or they are being compared to the values of the first year (base index). In this diploma thesis, the author relies on the base index, which is calculated in accordance with the following formula:

$$\text{Base Index (\%)} = \left(\frac{X_{1,2,\dots,n}}{X_n} - 1 \right) * 100 \quad (1)$$

Apart from relying on vertical and horizontal analyses, the author applies a series of financial ratios, which are expected to help her to better interpret raw figures for the elements of financial statements. Those ratios are ratios related to five equally important domains – liquidity, profitability, stability, and activity or efficiency. The first domain – liquidity, is used to identify if a given company has enough liquid assets to quickly cover its short-term obligations. For those ratios, the figures above 1 are the most preferred ones. Below, the author presents a list of solvency ratios used:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad (2)$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} \quad (3)$$

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}} \quad (4)$$

The list of stability ratios also covers three equally important ratios, which are:

$$\text{Debt – to – Assets} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \quad (5)$$

$$\text{Debt – to – Equity} = \frac{\text{Total Liabilities}}{\text{Total Equity}} \quad (6)$$

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}} \quad (7)$$

Ultimately, profitability ratios used in the chapter dedicated to financial ratios are limited to just 3, but it is essential to understand that the vertical analysis of income statement heavily relies on the implementation of margin ratios, so the author will include the way how they are calculated in the list as well alongside the other indicators of profitability.

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}} \quad (8)$$

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}} \quad (9)$$

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Total Revenue}} \quad (10)$$

$$\text{EBIT Margin} = \frac{\text{EBIT}}{\text{Total Revenue}} \quad (11)$$

$$\text{EBT Margin} = \frac{\text{EBT}}{\text{Total Revenue}} \quad (12)$$

$$\text{Net Margin} = \frac{\text{Net Income}}{\text{Total Revenue}} \quad (13)$$

The final domain represented in the analysis is the market valuation, which is traditionally composed of three ratios:

$$\text{Price – to – Earnings} = \frac{\text{Price}}{\text{EPS}} \quad (14)$$

$$\text{Price – to – Book Value} = \frac{\text{Price}}{\text{Book Value per Share}} \quad (15)$$

$$Price - to - Cash Flow = \frac{Price}{Operating Cash Flow} \quad (16)$$

For the volatility analysis, which will shed a brighter light on whether the volatility is high (and it is riskier to invest in Disney stocks) or low (less risky to invest in Disney stocks), the author uses two primary indicators from statistics, which are associated with measures of dispersion and variability. The first indicator is the standard deviation, which shows the variability of data around the distribution mean. Standard deviation is calculated as:

$$s = \sqrt{\frac{\sum(x_i - \bar{x})^2}{n-1}} \quad (17)$$

Out of the standard deviation measure, it is possible to derive the coefficient of variability, which shows the variability of an indicator expressed in percentage, which is slightly easier to interpret and understand. The coefficient of variation is calculated as:

$$Coefficient of Variation = \frac{s}{\bar{x}} \quad (18)$$

Finally, the author relies heavily on autoregressive linear regression, which will be used for the further identification of factors that influence the stock price of Disney in a significant way. Autoregressive linear regression is heavily based on the principle, that the previous values of the variables are capable of predicting its future development. For the purpose of identifying the best-selected order of the lag, the author relies on both ACF and PACF methods. After identifying the order, the author uses the lagged variable alongside the other factors in a linear regression model, which is based on the ordinary least squares (OLS) method, which is computed as follows:

$$OLS = (X^T X)^{-1} X^T Y \quad (19)$$

Additionally, for estimating the strength of the linear relationship and generally identifying if a selected parameter is significant or not, the author relies on the computation of t ratios, which are found according to the following formula:

$$t \text{ ratio} = \frac{\beta_{ij}}{S.E} \quad (20)$$

For hypothesis testing procedures that are implemented in the diploma thesis, the author uses the confidence level equal to 95% and therefore, the significance level equal to 5%, which is a standard for similar studies. The author uses data collected from Yahoo Finance and The Walt Disney Company's financial statements for the analysis conducted on the selected time period of 5 years – from 2018 to 2022.

Additionally, the author also considers the concept of returns and geometric returns on investment. For the purpose of eventually calculating the geomean of returns, the author would need to find weekly returns on Walt Disney's stock, which can be achieved with the help of the chain index. The chain index is calculated as follows:

$$\text{Chain Index (\%)} = \left(\frac{x_n}{x_{n-1}} - 1 \right) * 100 \quad (21)$$

Consequently, after calculating chain indices or returns, it will be possible to focus on the geometric return, which is generally calculated according to the following formula:

$$\text{Geomean Return} = \sqrt[n]{(1 + X_1) + (1 + X_n)} - 1 \quad (22)$$

3 Literature Review

3.1 Disney

3.1.1 History

The Walt Disney Company is a prominent multinational entertainment and media organisation that is located in the United States. It is most often referred to simply as "Disney." The Walt Disney Company was established on October 16, 1923, by Walt Disney and his brother Roy O. Disney. Since its inception, the company has developed into a dominant force in the entertainment business around the globe. There are a number of defining events in Disney's history that have contributed to the formation of the contemporary media and entertainment landscape. During Disney's early years, most of their efforts were focused on the animation medium (Pallant, 2011).

It is believed that the cartoon character Oswald the Lucky Rabbit, which was developed by the company, was instrumental in the first rise to notoriety of the brand. In spite of this, Walt Disney was unable to retain the rights to Oswald as a result of a contractual dispute. As a result, he came up with a new character known as Mickey Mouse, who would go on to become the mascot of the firm as well as an enduring symbol. Mickey Mouse did not make his debut to the general public until 1928, when the short film "Steamboat Willie" was released with synchronised sound for the first time (Van Wert, 1995).

Figure 1, Walt Disney



Source: The Economic Times, 2023

Throughout the 1930s, Disney continued its record of producing ground-breaking animation, which culminated in the release of "Snow White and the Seven Dwarfs," the world's first animated feature film to run the length of a full-length feature. This film laid the groundwork for Disney's following successes and helped establish the company as the undisputed leader in the industry. The succession of iconic works such as "Pinocchio" (1940), "Fantasia" (1940), and "Bambi" (1942), all of which were produced by Disney, solidified the company's position as the most successful animation studio in the world (Van Wert, 1995).

Disney started producing live-action films in 1950, with "Treasure Island" being one of them. This was the company's first step outside of its customary concentration on animation. The firm made significant strides forward in the field of television in the 1950s with the debut of the "Disneyland" series, which later evolved into "The Wonderful World of

Disney." These presentations advertised Disney's theme parks and highlighted the company's commitment to creating entertainment that is suitable for people of varying ages (Wakefield, 2014).

Figure 2, the logo of the Walt Disney Company



Source: The Walt Disney Company, 2023

The opening of Disneyland in Anaheim, California, in 1955 was yet another significant accomplishment for Disney, and it took place in that year. The success of Disneyland opened the door for the opening of additional amusement parks of a similar kind in other countries, notably Disney World in Florida (1971), Disneyland Tokyo (1983), Disneyland Paris (1992), Disneyland Hong Kong (2005), and Disneyland Shanghai (2016). These amusement parks continue to draw guests from all around the globe due to the widespread appeal of its well-known attractions and extensive storylines. Disney's animated film division saw a resurgence in the 1980s and 1990s, which is now often referred to as the "Disney Renaissance" (Davis, 2019).

Figure 3, Disneyland



Source: The Walt Disney Company, 2023

With the release of critically acclaimed and financially successful films such as "The Little Mermaid" (1989), "Beauty and the Beast" (1991), "Aladdin" (1992), and "The Lion King" (1994), Disney reclaimed its position as the uncontested king of animation. Pixar Animation Studios in 2006 and Marvel Entertainment in 2009 were two of the well-known entertainment companies that Disney bought during this time period in order to diversify its portfolio and expand its business (Mollet, 2020).

In recent years, a string of astute acquisitions has been a major contributor to Disney's expansion, which has been driven in large part by the company. In 2012, the company made the decision to buy Lucasfilm, the production company that was responsible for the "Star Wars" films. Since then, the company has begun production on a new trilogy. Following

Disney's acquisition of 21st Century Fox in 2019, the company now has access to the huge film and television library that Fox has (Mollet, 2020).

Following the completion of these acquisitions, Disney has evolved into an even more powerful competitor in the entertainment business. As a further demonstration of the company's dedication to digital media, Disney also launched its very own streaming service in 2019, which goes by the name Disney+. As a result of the extensive collection of classic and original material that Disney+ offers, the streaming service has quickly acquired a big number of subscribers, which further solidifies Disney's position in the continuously evolving digital media market (Meckel, 2021).

Figure 4, the largest subsidiaries of Disney



Source: The Walt Disney Company, 2023

3.1.2 Specialization

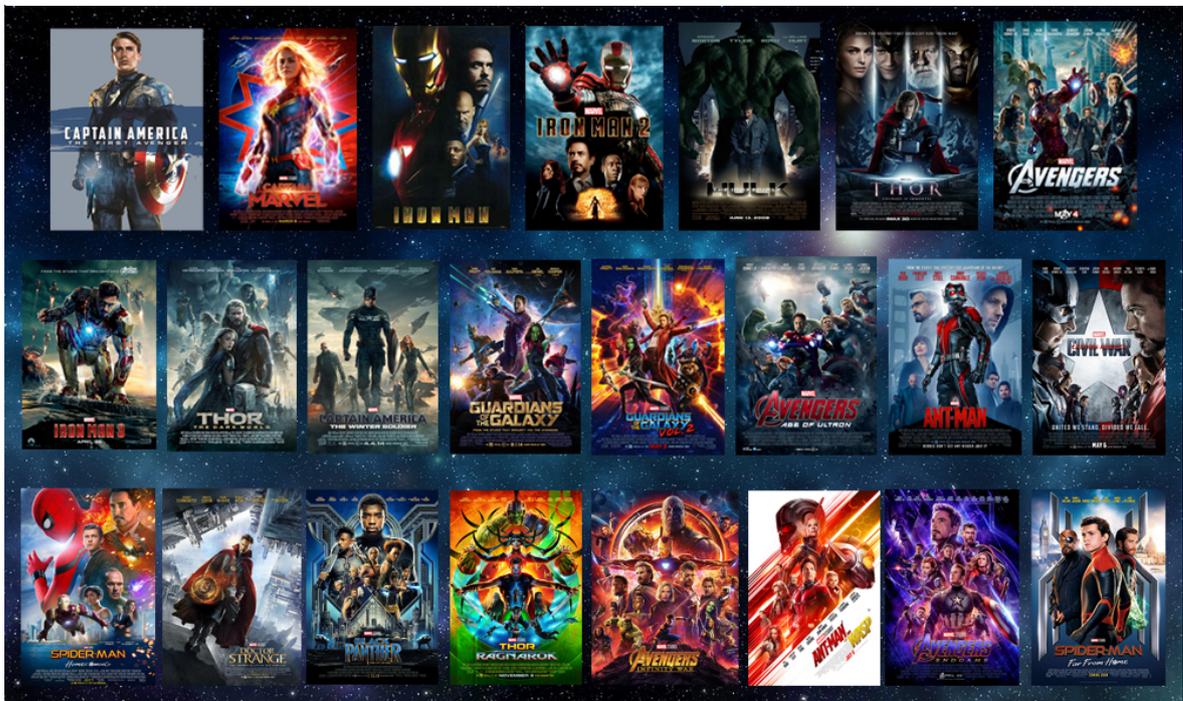
As it was already mentioned in the previous chapter, the steps that the company started to take in the early 2000 related to the acquisition of other smaller but prominent companies perfectly depicts the current business environment of the movie and entertainment industry. Undeniably, by encompassing more and more different domains, the company effectively manages to diversify their sources of revenue in order to ensure that the company will remain buoyant in the nearest future (Carillo et al., 2012).

At the same time, out of many different specializations that are pursued by The Walt Disney Company, it is vital to specify that the greatest emphasis is still being put on the activity in the movie production business, which remains highly lucrative, and this particular specialization was the main one for the company that helped the organization to ascend to the Olympus of Hollywood. Yet, it is also vital to mention that lately, the company's actions

in the domain of movie production were mainly related to the acquisition of Marvel Cinematic Universe and the acquisition of Lucasfilm (Kochnev, 2016).

When it comes to the first mentioned acquisition, it is possible to say that it was yet one of the biggest bets of the company and it was an example of a really good evaluation of the market and consumer preferences. As it was specified earlier, the company acquired the MCU, just shortly after the release of “Iron Man”, which became one of the highest ever grossing movies about superheroes. At the same time, Disney was able to understand the potential behind the universe and continued to support it, which eventually turned out to be one of the biggest commercial successes of the 21st century with studio releasing “Avengers”, “The Guardians of The Galaxy” and other incredibly successful films. At the same time, as consumers slowly became fed up with superhero movies, the interest towards new films belonging to new phases of Marvel history seems to be slowly diminishing, but scholars and critics are of no doubt that the company will manage to rekindle the interest of spectators, as it had happened couple of times already with Disney (Wasko, 2020).

Figure 5, films from the MCU



Source: The Walt Disney Company, 2023

On the other hand, the acquisition of Lucasfilm, which happened slightly after the acquisition of the MCU – 2012, is also definitely an example of visionary-like type of strategic management and planning of the company. However, Lucasfilm had already possessed a huge variety and number of films that were incredibly successful – Star Wars saga and Indiana Jones, for instance. Alternatively, when evaluating the two biggest individual acquisitions made by Disney, it is surely possible to say that the acquisition of Lucasfilm was a much safer bet due to the personal attachment of millions of people to the Star Wars movie saga, whilst the situation with Marvel heroes was not so straightforward. Nevertheless, scholars in fact believe that the effect of the first acquisition was much more positive than the effect of acquiring Lucasfilm and producing additional movies for the Star Wars saga as the company faced a serious problem with the confirmation bias that was especially strong among the fans of the saga (Proctor, 2013).

Figure 6, acquisition of Lucasfilm



Source: Graser, 2013

All in all, even despite a series of setbacks, whose presence is quite natural for huge acquisitions and capital projects, it is still possible to say that the company's management of subsidiaries and strategic choices were rather positive and surely worth the amount that had been paid for concluding those agreements. As of 2023, the company plans to continue their

expansion with the help of their newly launched platform Disney Plus, which will be discussed in more detail in the next chapter (Fricke, 2020).

3.1.3 Competition with Netflix

By venturing into a completely new domain for Disney, the company started to compete not just with other movie producers and studios specializing in cartoons, but the company found itself in a so-called “red ocean”, which for a very long time even prior the Disney’s entry to the market had been infested with competitors. Quite evidently, the biggest competitor of Disney today is Netflix – another media empire, which saw its rise in the 90s and 00s following the right decision of the company’s management to shift from movie rentals to actually creating a streaming service of its own. Of course, when comparing what both companies do today, it becomes pretty apparent that they are mainly concerned with the production of exclusive movies and series, which will be hosted only on one’s platform (Havard, 2021).

The competition between Disney and Netflix has been significantly more intense since the launch of Disney+. The extensive portfolio of profitable Disney brands and intellectual properties (IPs), which includes those from Marvel, Star Wars, and Pixar, provides the corporation with an advantage over its rivals. Disney+ was able to swiftly gain a significant subscriber base by capitalising on these well-known brands. This was especially true among families and lifelong fans of the Disney canon. The rise in popularity of the service may be attributed, in large part, to the rapid production of new television episodes and motion pictures that are based on these well-known titles (Martinez-Sanchez et al., 2021).

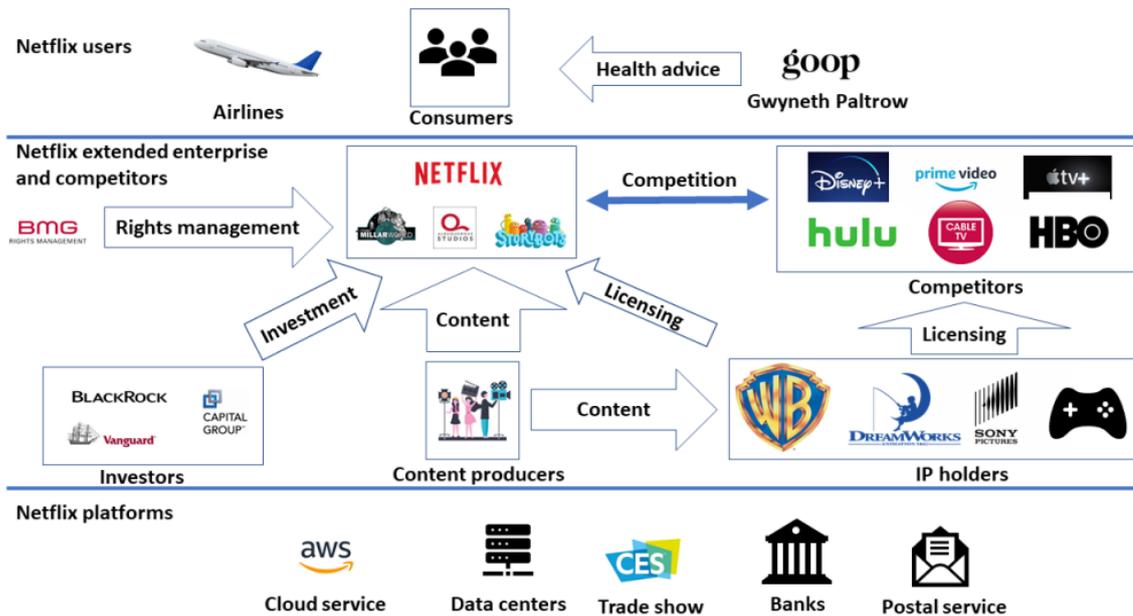
Figure 7, revealing Disney Plus



Source: The Walt Disney Company, 2023

Netflix, on the other hand, has managed to keep one step ahead of its rivals because to the importance it places on its own original programming. The company put a large amount of money into developing a wide selection of high-quality programming in order to attract a diverse audience and win their loyalty. The fact that Netflix is so committed to producing its own original programming is a major factor in the company's success in attracting and retaining users. As a direct response to Disney's entry into the streaming sector, Netflix has significantly stepped up the development of its own original content. The company has established an environment that fosters the creation of novel narratives via the expansion of its collaborations with renowned film directors and producers. The mission of Netflix is to maintain its position as the most popular streaming service by offering material that is appealing to consumers in different parts of the world. As a reflection of the importance of international markets, both Netflix and Disney have incorporated such regions into their growth strategies (Agnihotri & Bhattacharya, 2022).

Figure 8, Netflix ecosystem



Source: Molla, 2021

Netflix has had early success in expanding its global reach, but Disney has the advantage when it comes to conquering new regions because of its strong presence in those countries via its theme parks and entertainment brands. Netflix has had early success expanding its global reach. Both companies have invested money into the creation of locally relevant material as well as modifications to their processes to make them more suitable for a wider range of cultural norms. The competition between Netflix and Disney, which began in one sector of business, has now moved to other areas. Both companies have engaged in fierce competition with one another in order to get the rights to highly popular television series, blockbuster movies, and significant sporting events (Eklund, 2022).

The cutthroat rivalry for these partnerships exemplifies the value that distinctive content brings to the process of luring and retaining paying clients. It is currently unknown how Netflix's ongoing battle with Disney will come to a conclusion. Despite the fact that Disney has made significant strides with the launch of Disney+ and the expansion of its content library, Netflix is in a formidable position due to the fact that it dominated the early market and placed a strong emphasis on original programming. The competition between these two

media giants, in the end, drives the streaming industry to deliver more engaging content and improved user experiences (Hadida et al., 2021).

3.2 Financial Analysis

This chapter of the literature review is concerned with the information that can be drawn from financial statements of organizations, the way how those statements are organization and what implications does the financial analysis have as a whole for organizations and other stakeholders. Given the complexity of modern organizations and countless transactions that are executed not just on a yearly basis but on a daily, there is an obvious need for bookkeeping. This need is expressed not just by the internal need for keeping records of everything, but it has long ago become an obligation for the majority of companies all over the world. The reason for providing companies with an obligation to annually submit particular financial statements is inevitably connected to the fiscal function of the government, where governments are concerned with the management of their own finances and ensuring that revenues will be collected promptly and fairly (Rees, 1995). Traditionally, governments persuade organizations based domestically to follow a specific series of regulations, such as:

- 1) Specific fiscal year. Fiscal year for the majority of countries traditionally starts on the 1st of January and finishes on the 31st of December (Oyer, 1998).
- 2) Specific monetary unit. Traditionally, governments persuade their domestic companies to conduct accounting processes in the domestic currency, but sometimes they might oblige companies to also use foreign currency, such as the USD for highly dollarized economies.
- 3) Specific tax imposed on corporate profit. Today, it is quite common to see situations where the so-called corporate tax is slightly higher than the tax that individuals pay to the government.
- 4) Specific financial statements to be published. The authorities might require companies to submit a larger number of financial statements rather than the traditional list of 5 statements involving balance sheet, income statement, statement of changes in equity, statement of cash flows and notes to financial statements.
- 5) Special form, sequence of items or utilization of accounts. Undeniably, every country's accounting regulation is likely to be different, where the local body can

require a special sequence of accounts or prohibit the utilization of special account as a whole (Barth et al., 2008).

However, it is vital to mention that in the light of the internalization and harmonization of accounting with the help of IFRS framework. Yet, it will still surely take time for individual less globalized countries to adopt the international framework. Unfortunately, the cost of not following a more or less globalized or internationalized version of accounting standards can often result in additional transaction costs for domestic companies and in turn, it can scare potential investors away from the country. After all, one of the main driving forces behind almost any economic growth is investment and countries wanting to achieve a long-term economic growth traditionally shift to a policy of open doors for international companies by welcoming FDIs and reducing barriers for their operations domestically (Gordon et al., 2012).

Figure 9, IFRS logo



Source: IFRS Foundation, 2023

All in all, it is essential to continue to the description of the financial analysis and its main utilization, according to the relevant scientific framework. Financial analysis is generally a concept that involves any pertinent analysis involving inspection of a particular company's financial statements. As it usually happens, there are techniques preferred to others, which traditionally form the basis of any financial analysis, such as horizontal and vertical analyses. Nevertheless, those analysis are useful based on the fact that analyzing the whole financial situation of a specific company just based on financial statements from one year is not fully feasible, since major companies traditionally rely on long-term planning with budgets covering more than 3 or even 5 years. For this purpose, financial statements

are analyzed for specific time periods, where essential insights are drawn with the help of statistical measures or financial ratios (Vogel, 2020).

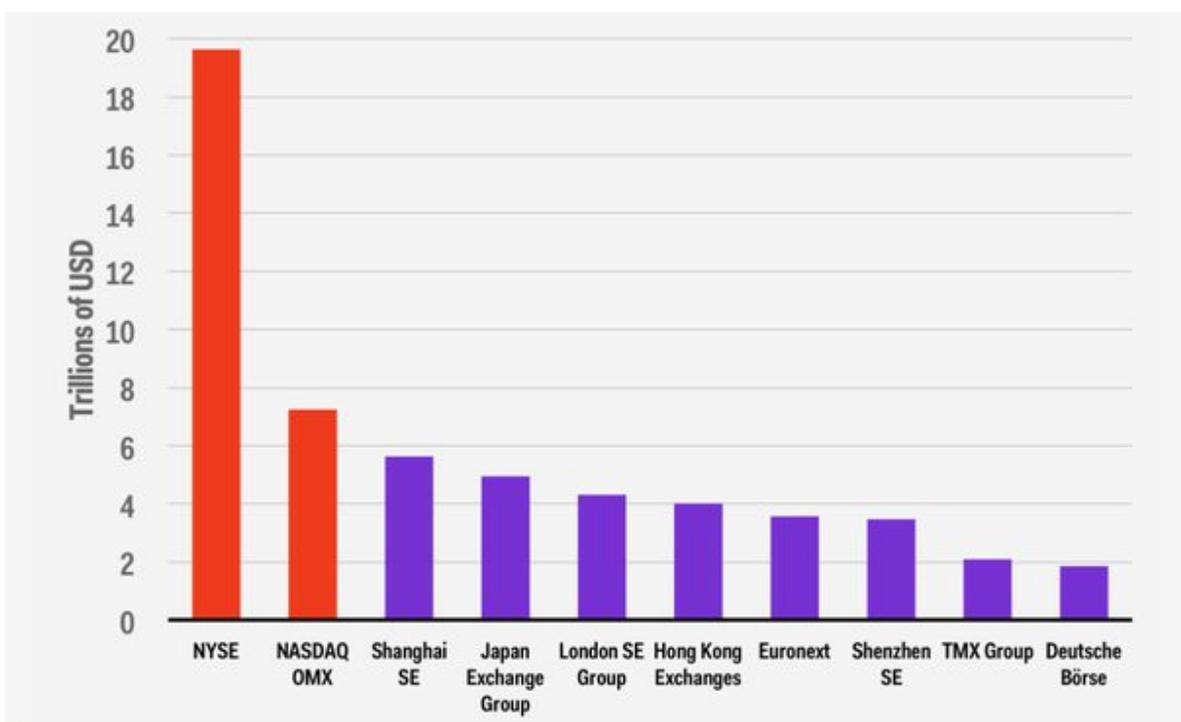
3.3 Stock Exchange Market

Because it makes trading in securities easier and provides enterprises with access to finance, the stock market is a key component of the economy of the entire world. The value of stocks traded on these markets are subject to ongoing shifts in price and are influenced by a diverse set of factors. This chapter presents the overview of the main stock exchanges all around the globe, examining topics such as what they are, how they operate, and what factors affect the stock values on those markets (Carpentier et al., 2010).

- The New York Stock market (NYSE), the biggest stock market in the world, has its headquarters on Wall Street in New York City. Wall Street is known as the financial district. It plays an essential role in the global economic system and attracts businesses and investors from all over the world as a result. The New York Stock Exchange, sometimes known simply as the NYSE, is a marketplace where stocks and other assets may be bought and sold.
- The NASDAQ, which is situated in the United States, is the second-largest stock exchange in the world. In contrast to the New York Stock Exchange (NYSE), it is primarily an online marketplace that is concentrated on the listing of firms related to technology. The NASDAQ stock exchange has become synonymous with cutting-edge companies that are seeing fast development in recent years.
- The Tokyo Stock market (TSE) is the largest stock market in Asia and the third-largest in the world. As a result, it is a significant participant in the world of international finance. As a trading floor that companies from all over the globe may use to attract investors, the Tokyo Stock Exchange (TSE) has been recognised for a long time as an essential component of Japan's economy. Because it focuses so heavily on industry and technology, the TSE is able to exert influence over other stock markets in Asia.

- The Shanghai Stock Exchange (SSE) is China's stock market and is often regarded as one of the stock exchanges with the highest levels of trading activity worldwide. The Shanghai Stock Exchange (SSE) is the largest stock exchange in China; as a result, it serves as a vital node for the economy of the country and as a venue through which domestic companies may acquire access to foreign markets and finance. It is symptomatic of China's rising weight on the international arena that the Shanghai Stock Exchange (SSE) has experienced significant development in recent years.
- The London Stock Exchange (LSE) is not only one of the world's oldest but also one of its most recognised stock exchanges. It is an essential hub on the international financial network and a passageway to the financial markets of Europe. Because of the diverse range of businesses that are represented there, the London Stock Exchange (LSE) is seen as a significant influence on stock prices all over the world (Mexmonov, 2020).

Figure 10, the world’s largest stock exchange markets



Source: Smith, 2023

In turn, it is possible to identify a series of factors which have an impact on stock prices. Those factors are mentioned below:

- The growth of the gross domestic product, interest rates, inflation, and unemployment are some of the economic indicators that have a significant impact on stock values. When there is a general sense of optimism among investors regarding the state of the economy, stock prices have a tendency to go up.
- Changes in a company's financial performance can have a significant impact on the price of its stock. The prognosis, as well as criteria like sales growth, profitability, and earnings per share, all have the potential to influence investor mood. When a company is performing well, stock prices go up, and when it is doing poorly, stock prices go down.
- It is possible for stock prices to be influenced by factors such as the level of success achieved by specific businesses and the competitive environment existing within those industries. Changes in client preferences, advancements in technology, and shifts in market dynamics can all have a significant impact on the pricing of stocks in a specific industry.
- It could happen for laws and policies enacted by the government to have a major impact on stock values. Changes in tax laws, trade agreements, monetary policies, and industry-specific rules can all have a positive or negative impact on stock values. These changes can also have an effect on the kind of regulations that apply to certain industries.
- The swings of the stock market can be ascribed to geopolitical causes and worldwide events such as civil upheaval, natural disasters, and disputes over international commerce. The uncertainty and volatility that are caused by such incidents have an effect, not only on the sentiment of investors, but also on the performance of the stock market.
- When it comes to determining stock prices, the psychology of the market and the sentiment of investors are both significant variables. Because of market speculation, investor euphoria, fear, and the herd mentality, swings in stock prices may not

represent changes in the underlying fundamentals of a company. Overall, it is visible that there are infinitely many factors influencing prices of stocks (Hatta & Dwiyanto, 2012).

4 Practical Part

4.1 Financial Analysis

4.1.1 Balance Sheet

The first financial statement that will be discussed in the analytical part of the work is the balance sheet, which is often regarded as the most important financial statement out of all since it sheds light on almost everything in relation to a given company's financial performance. Nevertheless, it is first essential to start with the presentation of the company's assets from the balance sheet's compilation with figures presented in millions of USD for 2018-2022. This is presented in Table 1.

Table 1, assets of The Walt Disney Company

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Cash</i>	\$ 4,150	\$ 5,444	\$ 17,917	\$ 15,962	\$ 11,618
<i>Receivables</i>	\$ 10,400	\$ 18,375	\$ 14,543	\$ 15,727	\$ 14,651
<i>Inventories</i>	\$ 1,392	\$ 1,649	\$ 1,583	\$ 1,331	\$ 1,742
Total Current Assets	\$ 15,511	\$ 23,527	\$ 33,080	\$ 31,474	\$ 27,208
<i>Gross Property</i>	\$ 60,304	\$ 64,018	\$ 71,643	\$ 74,775	\$ 77,221
<i>Accumulated Depreciation</i>	\$ 30,764	\$ 32,415	\$ 35,517	\$ 37,920	\$ 39,356
<i>Long-Term Investments</i>	\$ 2,939	\$ 3,377	\$ 4,203	\$ 4,110	\$ 3,429
<i>Intangible Assets</i>	\$ 38,081	\$ 103,508	\$ 96,862	\$ 95,186	\$ 92,734
Total Long-term Assets	\$ 83,087	\$ 170,457	\$ 168,469	\$ 172,135	\$ 176,423
Total Assets	\$ 98,598	\$ 193,984	\$ 201,549	\$ 203,609	\$ 203,631

Source: own processing based on the financial statements

Of course, when considering the fact that all those values are presented in millions of US dollars, the size of Disney and the scale of its operations both become downright astonishing. Nevertheless, it is essential to follow the development of the balance sheet throughout the selected years, so the author will first start with the horizontal analysis, which is presented in Table 2.

Table 2, horizontal analysis of assets

	2019	2020	2021	2022
<i>Cash</i>	31%	332%	285%	180%
<i>Receivables</i>	77%	40%	51%	41%
<i>Inventories</i>	18%	14%	-4%	25%
Total Current Assets	52%	113%	103%	75%
<i>Gross Property</i>	6%	19%	24%	28%
<i>Accumulated Depreciation</i>	5%	15%	23%	28%
<i>Long-Term Investments</i>	15%	43%	40%	17%
<i>Intangible Assets</i>	172%	154%	150%	144%
Total Long-term Assets	105%	103%	107%	112%
Total Assets	97%	104%	107%	107%

Source: own processing based on the financial statements

First off, it strikes as obvious that the value of almost all indicators of Disney was higher than in the base year (2018). First, starting with cash, it is vital to note that the company significantly increase its amount of cash in 2020 – by 332% compared to 2018. This was surely done out of fear of facing unexpected risks and, to some extent, being unable to pay off their debts. The fact that the company started to decrease its value in 2021 and 2022 and initiated a slow return to values in 2018 suggests that the situation slowly returns back to normality and pre-pandemic times. For receivables, the situation is not that simple as the company’s debtors started to pay them off longer, which is not always a good sign. At the same time, the same applies to receivables as to the cash element – the values slowly return back to the level of 2018-2019, which is a good sign. The only negative figure is identified for inventories' value in 2021, when it dropped below the value from 2018, which is pretty self-explanatory – the company, hit by the pandemic, started to conduct fewer operations, so they did not have a need for many inventories, so they reduced it and by doing so, they also presumably reduced the value of expenses related to managing inventories. Overall, the company's value of current assets increases by almost 2 times by 2022 compared to 2018, which seems like a good sign and also a sign of Disney’s attempts to handle the crisis.

For the long-term assets, it is essential to note that based on Table 1, it is possible to say that these are assets that have the highest importance for the company, especially the intangible ones represented by goodwill and licenses. Also, it is essential to notice the

development of two related elements – gross property and accumulated depreciation that is often subtracted from the first element to get the net property. The value of gross property was increasing slightly faster than the value of accumulated depreciation and it is a good sign that helps the author to assume that the company managed to replace long-term assets that were quickly wearing off. Overall, the company managed to increase the value of long-term assets by the end of the time period analyzed compared to the base year of 2018 by almost twice, which is a good sign. In fact, the same also applies to the total assets' value since the element largely depends on the value of long-term assets. Now, the author proceeds with the vertical analysis of the assets in the balance sheet, which is indicated in Table 3.

Table 3, vertical analysis of assets

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Cash</i>	\$ 4,150	\$ 5,444	\$ 17,917	\$ 15,962	\$ 11,618
<i>% from total</i>	<i>4%</i>	<i>3%</i>	<i>9%</i>	<i>8%</i>	<i>6%</i>
<i>Receivables</i>	\$ 10,400	\$ 18,375	\$ 14,543	\$ 15,727	\$ 14,651
<i>% from total</i>	<i>11%</i>	<i>9%</i>	<i>7%</i>	<i>8%</i>	<i>7%</i>
<i>Inventories</i>	\$ 1,392	\$ 1,649	\$ 1,583	\$ 1,331	\$ 1,742
<i>% from total</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>
Total Current Assets	\$ 15,511	\$ 23,527	\$ 33,080	\$ 31,474	\$ 27,208
<i>% from total</i>	<i>16%</i>	<i>12%</i>	<i>16%</i>	<i>15%</i>	<i>13%</i>
<i>Net Property</i>	\$ 29,540	\$ 31,603	\$ 36,126	\$ 36,855	\$ 37,865
<i>% from total</i>	<i>30%</i>	<i>16%</i>	<i>18%</i>	<i>18%</i>	<i>19%</i>
<i>Long-Term Investments</i>	\$ 2,939	\$ 3,377	\$ 4,203	\$ 4,110	\$ 3,429
<i>% from total</i>	<i>3%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>
<i>Intangible Assets</i>	\$ 38,081	\$ 103,508	\$ 96,862	\$ 95,186	\$ 92,734
<i>% from total</i>	<i>39%</i>	<i>53%</i>	<i>48%</i>	<i>47%</i>	<i>46%</i>
Total Long-term Assets	\$ 83,087	\$ 170,457	\$ 168,469	\$ 172,135	\$ 176,423
<i>% from total</i>	<i>84%</i>	<i>88%</i>	<i>84%</i>	<i>85%</i>	<i>87%</i>
Total Assets	\$ 98,598	\$ 193,984	\$ 201,549	\$ 203,609	\$ 203,631

Source: own processing based on the financial statements

When it comes to the vertical analysis, it is essential to mention that the company's long-term assets form the basis of the company's total assets for all years long with a share of approximately 84-87%, which is really high and rather common for companies specializing in the entertainment and movie production. Also, it is worth mentioning that the most

important element from the long-term assets is in fact intangible assets, which definitely form the basis of the company's revenue.

Now, the author will continue with the analysis of the company's liabilities, whose overview is presented in Table 4. Also, the author will promptly proceed to the horizontal analysis of liabilities.

Table 4, liabilities of The Walt Disney Company

	2018	2019	2020	2021	2022
<i>Short-Term Debt</i>	\$ 3,790	\$ 8,857	\$ 6,495	\$ 6,544	\$ 3,721
<i>Payables</i>	\$ 6,503	\$ 13,778	\$ 12,663	\$ 16,357	\$ 16,205
<i>Other Current</i>	\$ 7,567	\$ 8,706	\$ 7,470	\$ 8,176	\$ 9,147
Total Current Liabilities	\$ 17,860	\$ 31,341	\$ 26,628	\$ 31,077	\$ 29,073
<i>Long-Term Debt</i>	\$ 17,084	\$ 38,129	\$ 55,828	\$ 51,769	\$ 48,538
<i>Provisions for Risks</i>	\$ -	\$ 4,783	\$ 6,451	\$ 4,132	\$ 1,940
<i>Deferred Taxes</i>	\$ 3,109	\$ 7,902	\$ 7,288	\$ 7,246	\$ 8,363
<i>Other long-term</i>	\$ 6,590	\$ 8,977	\$ 7,842	\$ 7,161	\$ 7,339
Total Long-Term Liabilities	\$ 26,783	\$ 59,791	\$ 77,409	\$ 70,308	\$ 66,180
Total Liabilities	\$ 44,643	\$ 91,132	\$ 104,037	\$ 101,385	\$ 95,253

Source: own processing based on the financial statements

Table 5, horizontal analysis of liabilities

	2019	2020	2021	2022
<i>Short-Term Debt</i>	134%	71%	73%	-2%
<i>Payables</i>	112%	95%	152%	149%
<i>Other Current</i>	15%	-1%	8%	21%
Total Current Liabilities	75%	49%	74%	63%
<i>Long-Term Debt</i>	123%	227%	203%	184%
<i>Provisions for Risks</i>	-	35%	-14%	-59%
<i>Deferred Taxes</i>	154%	134%	133%	169%
<i>Other long-term</i>	36%	19%	9%	11%
Total Long-Term Liabilities	123%	189%	163%	147%
Total Liabilities	104%	133%	127%	113%

Source: own processing based on the financial statements

Surely, to begin with, it is essential to note that the company's value of short-term debt increased significantly in 2019-2021, which is a consequence of facing unnecessary and unusual expenses during the pandemic. Yet, the company started to get rid of the debt in

2022, when the company returned to the pre-pandemic level. At the same time, the same is pursued by the company in relation to payables with the exception of not changing the tendency even once the pandemic is gone. Overall, the company has a value of current liabilities higher by almost half than the value of the element in 2018. Yet, it is still relevant to note that the company seems to have continued to execute its long-term projects even regardless of the presence of the pandemic since the values for the long-term liabilities have been increasing throughout the whole period. Overall, it is quite logical that the value of obligations and debts doubled the value from 2018 to 2022, especially when understanding that the company had a need to somehow finance the purchase of assets and renewal of machines and inventories. Next, the author proceeds to the vertical analysis of the balance sheet, which is presented in Table 6.

Table 6, vertical analysis of liabilities

	2018	2019	2020	2021	2022
<i>Short-Term Debt</i>	\$ 3,790	\$ 8,857	\$ 6,495	\$ 6,544	\$ 3,721
<i>% from total</i>	8%	10%	6%	6%	4%
<i>Payables</i>	\$ 6,503	\$ 13,778	\$ 12,663	\$ 16,357	\$ 16,205
<i>% from total</i>	15%	15%	12%	16%	17%
<i>Other Current</i>	\$ 7,567	\$ 8,706	\$ 7,470	\$ 8,176	\$ 9,147
<i>% from total</i>	17%	10%	7%	8%	10%
Total Current Liabilities	\$ 15,511	\$ 23,527	\$ 33,080	\$ 31,474	\$ 27,208
<i>% from total</i>	40%	34%	26%	31%	31%
<i>Long-Term Debt</i>	\$ 17,084	\$ 38,129	\$ 55,828	\$ 51,769	\$ 48,538
<i>% from total</i>	38%	42%	54%	51%	51%
<i>Provisions for Risks</i>	\$ -	\$ 4,783	\$ 6,451	\$ 4,132	\$ 1,940
<i>% from total</i>	0%	5%	6%	4%	2%
<i>Deferred Taxes</i>	\$ 3,109	\$ 7,902	\$ 7,288	\$ 7,246	\$ 8,363
<i>% from total</i>	7%	9%	7%	7%	9%
<i>Other long-term</i>	\$ 6,590	\$ 8,977	\$ 7,842	\$ 7,161	\$ 7,339
<i>% from total</i>	15%	10%	8%	7%	8%
Total Long-Term Liabilities	\$ 26,783	\$ 59,791	\$ 77,409	\$ 70,308	\$ 66,180
<i>% from total</i>	60%	66%	74%	69%	69%
Total Liabilities	\$ 44,643	\$ 91,132	\$ 104,037	\$ 101,385	\$ 95,253

Source: own processing based on the financial statements

After taking a brief look at the vertical analysis of the company's liabilities, it is possible to conclude that the main basis is formed by long-term liabilities, which are traditionally used for the funding of long-term projects and consequently the purchase of long-term assets. Despite the pandemic, the company kept on increasing the amount, which is a good sign. Finally, the author presents an overview of the company's equity in Table 7.

Table 7, equity of The Walt Disney Company

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Common Stock</i>	36,779	53,907	54,497	55,471	56,398
<i>Retained Earnings</i>	82,679	42,494	38,315	40,429	43,636
<i>Treasury Stock</i>	-67,588	-907	-907	-907	-907
Total Equity	48,773	88,877	83,583	88,553	95,008

Source: own processing based on the financial statements

The company's equity at first seems to represent values somewhat similar to the company's liabilities, which might serve as a piece of evidence for the fact that the company equally uses both methods of financing. Yet, it is essential to continue with the horizontal analysis of equity shown in Table 8.

Table 8, horizontal analysis of equity

	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Common Stock</i>	47%	48%	51%	53%
<i>Retained Earnings</i>	-49%	-54%	-51%	-47%
<i>Treasury Stock</i>	99%	99%	99%	99%
Total Equity	82%	71%	82%	95%

Source: own processing based on the financial statements

Clearly, the two most important elements of the equity domain are retained earnings and total equity. For the case of retained earnings, the fact that the value was decreasing is surely not good as it has direct implications for the company's operations. On the other hand, the volume of total equity was almost 2 times higher by 2022 than in 2018, which is a good indicator.

Overall, it is possible to say that the situation with The Walt Disney Company's financial position is typically common for companies specializing in movie production and entertainment. Additionally, the situation does not raise any special concerns, so the author considers that Disney, despite facing a minor setback during the pandemic times, is doing good from the financial position perspective.

4.1.2 Income Statement

The next financial statement to be analyzed is the income statement, the overview of which for the selected time period of 5 years from 2018 to 2022 in million US dollars is presented in Table 9.

Table 9, income statement of The Walt Disney

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Sales</i>	\$ 59,459	\$ 69,422	\$ 65,125	\$ 67,387	\$ 82,580
<i>Costs of Goods Sold</i>	\$ 35,695	\$ 46,163	\$ 49,179	\$ 50,129	\$ 59,426
Gross Income	\$ 23,764	\$ 23,259	\$ 15,946	\$ 17,258	\$ 23,154
<i>Selling and Administrative expenses</i>	\$ 8,860	\$ 11,549	\$ 12,369	\$ 13,517	\$ 16,388
EBIT	\$ 14,904	\$ 11,710	\$ 3,577	\$ 3,741	\$ 6,766
<i>Unusual Expenses</i>	\$ 82	\$ -3,081	\$ 4,808	\$ 878	\$ 1,038
<i>Non-Operating Income</i>	\$ 597	\$ 213	\$ 328	\$ 343	\$ 138
<i>Interest income</i>	\$ 108	\$ 268	\$ 156	\$ 140	\$ 152
<i>Interest expense</i>	\$ 706	\$ 1,246	\$ 1,647	\$ 1,546	\$ 1,549
EBT	\$ 14,729	\$ 13,923	\$ -1,743	\$ 2,561	\$ 5,285
<i>Income Tax</i>	\$ 1,663	\$ 3,026	\$ 699	\$ 25	\$ 1,732
Net Income	\$ 12,598	\$ 10,425	\$ -2,832	\$ 2,024	\$ 3,193

Source: own processing based on the financial statements

The very first aspect worth being noted is the value of the net income in 2020, which became negative. This is an extremely bad sign, especially when considering that the level of sales remained the same. Yet, it is pretty understandable as the company faced one of the most serious crises in its history when the prospect of making movies and hosting them in cinemas was being put under serious question. Nevertheless, the next step will be the horizontal analysis of the income statement, which is presented in Table 10.

Table 10, horizontal analysis of income statement

	2019	2020	2021	2022
<i>Sales</i>	17%	10%	13%	39%
<i>Costs of Goods Sold</i>	29%	38%	40%	66%
Gross Income	-2%	-33%	-27%	-3%
<i>Selling and Administrative expenses</i>	30%	40%	53%	85%
EBIT	-21%	-76%	-75%	-55%
<i>Unusual Expenses</i>	-3857%	5763%	971%	1166%
<i>Non-Operating Income</i>	-64%	-45%	-43%	-77%
<i>Interest income</i>	148%	44%	30%	41%
<i>Interest expense</i>	76%	133%	119%	119%
EBT	-5%	-112%	-83%	-64%
<i>Income Tax</i>	82%	-58%	-98%	4%
Net Income	-17%	-122%	-84%	-75%

Source: own processing based on the financial statements

Surely, the company's sales were higher for every single year after 2018 than in the base year, which should have a positive effect on the company's profitability. At the same time, the company's expenses for the production of movies were rising faster, which is pretty understandable. Therefore, the company's gross income started to diminish, and only in 2022, the company was somewhat close to 2018's level of gross profit. Overall, after looking at the company's income statement and its horizontal analysis, it is surely possible to blame the increase in expenses rather than the drop in revenues for a drop in the net profitability of the company. At the same time, the values of the net income for 2020, 2021, and 2022 look dramatic as the company is nowhere near as profitable as it had been prior to 2019. Undeniably, solely blaming the pandemic would not be sensible, so the company must have either not had any significant commercial projects after 2018, or they turned out not to be as successful as it had been projected by The Walt Disney Company. Also, the vertical analysis of the income statement is presented in Table 11.

Table 11, vertical analysis of income statement

	2018	2019	2020	2021	2022
<i>Sales</i>	\$ 59,459	\$ 69,422	\$ 65,125	\$ 67,387	\$ 82,580
<i>Costs of Goods Sold</i>	\$ 35,695	\$ 46,163	\$ 49,179	\$ 50,129	\$ 59,426
Gross Income	\$ 23,764	\$ 23,259	\$ 15,946	\$ 17,258	\$ 23,154
Gross Margin	40%	34%	24%	26%	28%
<i>Selling and Administrative expenses</i>	\$ 8,860	\$ 11,549	\$ 12,369	\$ 13,517	\$ 16,388
EBIT	\$ 14,904	\$ 11,710	\$ 3,577	\$ 3,741	\$ 6,766
EBIT Margin	25%	17%	5%	6%	8%
<i>Unusual Expenses</i>	\$ 82	\$ -3,081	\$ 4,808	\$ 878	\$ 1,038
<i>Non-Operating Income</i>	\$ 597	\$ 213	\$ 328	\$ 343	\$ 138
<i>Interest income</i>	\$ 108	\$ 268	\$ 156	\$ 140	\$ 152
<i>Interest expense</i>	\$ 706	\$ 1,246	\$ 1,647	\$ 1,546	\$ 1,549
EBT	\$ 14,729	\$ 13,923	\$ -1,743	\$ 2,561	\$ 5,285
EBT Margin	25%	20%	-3%	4%	6%
<i>Income Tax</i>	\$ 1,663	\$ 3,026	\$ 699	\$ 25	\$ 1,732
Net Income	\$ 12,598	\$ 10,425	\$ -2,832	\$ 2,024	\$ 3,193
Net Margin	21%	15%	-4%	3%	4%

Source: own processing based on the financial statements

It strikes as obvious that the vertical analysis of the income statement is executed with the help of margin ratios. To begin with, it is essential to mention that the level of gross margin diminished in 2019, 2020, 2021, and even 2022 compared to 2018. Yet, the recent development and a slight recovery of 2022 might prompt us to believe that the company is returning to the same track of profitability with its new projects coming. On the other hand, the diminishment in EBIT and EBT is quite pessimistic, since the company's margins transformed into one-digit from two-digit ones. Also, the problems with the net margin are rather noticeable. All in all, the company seems to be undergoing rough times with regard to its profitability.

4.1.3 Cash-Flow Statement

The final financial statement that will briefly be analyzed is the cash-flow statement, the overview of which is presented in Table 12.

Table 12, cash-flow statement of The Walt Disney Company

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Operating</i>	\$ 14,295	\$ 5,984	\$ 7,616	\$ 5,566	\$ 6,002
<i>Investing</i>	\$ -5,336	\$ -15,096	\$ -3,850	\$ -3,171	\$ -5,008
<i>Financing</i>	\$ -8,843	\$ -464	\$ 8,480	\$ -4,385	\$ -4,729

Source: own processing based on the financial statements

Effectively, it is essential to highlight three key points with regard to the cash-flow statement of the company. The operating cash flow is well above zero and it is positive even during the rough times of the coronavirus pandemic, which is surely a good sign. Next, the company's investing cash flow is negative, which is also a good sign suggesting that the company had enough cash to invest. At last, the company's financing cash flow is negative, for the majority of years, but it is justified by the fact that the company was actively paying out their bank loans. Overall, the situation with the cash-flow statement seems rather positive and optimistic.

4.2 Financial Ratio Analysis

4.2.1 Liquidity

Each specific sub-chapter of chapter 4.2 dedicated to the analysis of financial ratios is dedicated to a specific domain with ratios discussed earlier in the methodology of the work. Liquidity will be the first analyzed domain with computed ratios indicated in Table 13 mentioned below in the chapter.

Table 13, liquidity ratios

<i>Liquidity</i>					
<i>Ratio</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Current</i>	0.87	0.75	1.24	1.01	0.94
<i>Quick</i>	0.79	0.70	1.18	0.97	0.88
<i>Cash</i>	0.23	0.17	0.67	0.51	0.40

Source: own processing based on the financial reports

For sure, there is a pretty evident reason for the fact that the overwhelming majority of ratios are marked in red. Based on the very essence of liquidity ratios, where the value of current assets, which are traditionally the ones that could be transferred into cash the fastest are compared against the value of current assets that should in turn be paid as soon as possible. For sure, it is fair to conclude based on the current ratio that in 2018, 2019, and 2022 the company was short on liquidity, which is rather paradoxical at first sight as the company was much better off during 2020 and 2021, when judging solely by the current ratio.

Traditionally, the situation is different for the majority of companies, but the author believes that the explanation lies on the surface. As was already noticed in the analysis of the balance sheet, the company has the biggest share of its assets allocated in the long-term category, which is pretty logical due to the nature of the company's business, where they are mainly involved with film production and management of licenses and other intangible assets. However, the company decided to artificially increase its liquidity in 2020 and 2021 in the case unexpected circumstances manifest themselves. Yet, it is possible to say that the attitude of Disney towards the concept of liquidity is somewhat not entirely common, but understandable.

The situation with the quick ratio is somewhat similar to the current one with values being almost identical, which is explained by the specialization of Disney – they are not a manufacturing company, so inventory will surely not be on the list of their most important assets. Yet, it is also vital to comment on the company's situation with the cash ratio. As it turns out, the company had a really low value of cash available to them during 2018 and 2019, but the coronavirus pandemic forced the company to reconsider its policy of cash management, so the company protected itself by slightly increasing the value of the most liquid asset that they possess. Overall, the situation with liquidity is not perfect or outstanding, but it actually shows that Disney selects a somewhat distinctive approach to the management of working capital. Another implication of having the value of current assets lower than current liabilities is the fact that the company would have a negative working capital, which is always not good. Further elaborations on this domain will be conducted in the results and discussion chapter of the diploma thesis.

4.2.2 Stability

The second analyzed domain is the domain of stability, the calculations for which are available in Table 14.

Table 14, stability ratios

<i>Stability</i>					
<i>Ratio</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Debt to Equity</i>	0.92	1.03	1.24	1.14	1.00
<i>Debt to Assets</i>	0.45	0.47	0.52	0.50	0.47
<i>Equity Ratio</i>	0.49	0.46	0.41	0.43	0.47

Source: own processing based on the financial reports

The principle behind stability ratios is opposite to the logic related to liquidity ratios, where figures below 1 are regarded as positive. Contrary to the situation with liquidity, the case of Disney's stability or solvency, as those ratios are often referred to is rather optimistic, as the company's ratio of debt to assets is positive throughout the whole time period of five years analyzed. At the same time, the situation with the company's debt-to-equity ratio is slightly worse, but the numbers are still somewhat either close to 1 or slightly above 1, which can easily be corrected if the company would want to, especially given its public status and

ability to issue stocks. Therefore, the author believes that it is possible to definitely conclude that the company seems to be pretty solvent as of 2018-2022 and even despite the times of pandemic, the company's solvency was not put under question. Finally, the situation with the company's equity ratio tells slightly different information rather than the situation with the debt. The equity ratio traditionally shows the type of financing primarily used by an organization, whereas the value above 50% indicates that the overwhelming majority of assets are funded with equity, which is always good and typically common for American firms. However, in that regard, The Walt Disney Company is not an example of a traditional American company, despite its label of being such – the company has approximately 40-47 percent of its assets financed through equity, whilst the biggest share of its assets is financed through debt. Of course, the figures are rather acceptable, but it is pretty apparent, based on the recent development of the ratio, that the company will keep on augmenting the share of assets financed through equity since it is a safer bet rather than indebting oneself.

4.2.3 Profitability

The third domain was briefly introduced and discussed earlier during the vertical analysis of the company's income statement. The complete table containing the selected ratios for the profitability domain is presented in Table 15.

Table 15, profitability ratios

<i>Profitability</i>					
<i>Ratio</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>ROA</i>	13%	5%	-1%	1%	2%
<i>ROE</i>	26%	12%	-3%	2%	3%
<i>Net Margin</i>	21%	15%	-4%	3%	4%

Source: own processing based on the financial reports

Of course, given that it has already been specified that the year 2020 was the most troubled one for the company when it stopped breaking even and incurred a total net loss for the whole year, it should be pretty apparent that it will be the only year for which profitability ratios will return a negative value. In fact, it is vital to understand that the negative figures for ROA and ROE are somewhat acceptable, but when realizing that a small figure of negative four for the net margin is in fact represented by millions of US dollars, the situation stops being rather reassuring. At the same time, the company managed to significantly

improve the situation in 2021 and 2022. Yet, for the company to return to the pre-pandemic levels of 21% and 15% for 2018 and 2019, respectively, it might take a very long time and a huge number of commercially successful projects. All in all, the situation with all ratios seems to be outstanding until 2020, but the pandemic significantly hit the company and left a toll on its profitability. As things stand, the author is able to conclude that as of 2022-2023, the company is a profitable one, but makes a really small profit for such a huge and internationally acclaimed organization.

4.2.4 Activity

The fourth domain is surely one of the most complicated ones to understand due to the specific nature of each of the ratios implemented for analyzing the domain. The results of computing ratios briefly mentioned in the methodology of the work are presented in Table 16.

Table 16, efficiency ratios

<i>Efficiency</i>					
<i>Ratio</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Inventory Turnover</i>	25.64	27.99	31.07	37.66	34.11
<i>Inventory Period</i>	14	13	12	10	11
<i>Receivables Turnover</i>	5.72	3.78	4.48	4.28	5.64
<i>Receivables Period</i>	64	97	82	85	65
<i>Payables Turnover</i>	5.49	3.35	3.88	3.06	3.67
<i>Payables Period</i>	66	109	94	119	100

Source: own processing based on the financial reports

The situation with efficiency or activity ratios is rather interesting. According to the inventory turnover and the derived inventory period, it takes around 10-14 days for the company to replace its inventory and after the pandemic hit the world, the company started to replace its inventory relatively faster. This might be related to a potential change in the way how inventory started to be managed presumably due to problems with logistics and disrupted supply chains. Also, it might be related to the company switching from the “just in time” model, which is riskier and usually involves a longer period of time before the inventory is being replaced (it is being replaced once the need for further inventory occurs) to a more conservative and safer principle.

On the other hand, the situation with the receivables turnover and the receivables period derived from it is rather not so good as the company does not really collect their debts often and in turn, it takes them a relatively long time to recover their debts – ranging between 64 and 97 days. The situation with debt collection became even worse during the pandemic when the period became significantly longer, but it is quite common due to the presence of financial problems in the overwhelming majority of corporations around the world during the world crisis.

Clearly, the same can be said about the company's tendency to pay off its debts – the company does not do it quite often and it takes a long period of time for debtors to collect their payment from The Walt Disney Company – the period ranges between 66 and 119 days. Of course, there are two reasons for that – the first one is surely the pandemic, which, as it has been noticed in the analysis of performance and profitability, has taken a toll on the company. The second reason might be related to the company's reputation, where suppliers will be willing to provide the company with a longer period of payment since Disney has high credibility in the industry. Overall, it is pretty visible that the pandemic significantly changed the way how Disney's operations were conducted but based on the values from 2021-2022, the company is on track to return to its pre-pandemic tendencies of collecting debts, paying debts, and also managing inventory.

4.2.5 Market Valuation

The final domain of financial ratios is the market valuation, which will shed a brighter light on the fact of whether The Walt Disney Company is overvalued or undervalued when comparing its price to financial elements and indicators. The summary of calculations is presented in Table 17.

Table 17, market valuation ratios

<i>Market Valuation</i>					
<i>Ratio</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>P/B</i>	2.96	2.48	3.35	2.72	1.46
<i>P/E</i>	14.90	23.00	-66.10	91.10	94.59
<i>P/CF</i>	17.19	650.61	124.84	190.68	162.75

Source: own processing based on the financial reports

Starting with the first ratio – P/B or the price per book value, it is sensible to say that this ratio shows the valuation of the company compared to its book value, which is traditionally computed as the total assets minus liabilities. Surely, the fact that this ratio is positive is good and so are the values – it does not seem that the company is overvalued, since it has been traded at a price 2-3 times exceeding its book value. In addition to that, the value of the ratio fell after 2020, which might be a good sign for investors to consider the company's stock as a good bargain for its price.

On the other hand, the situation with the P/E ratio after 2020 became significantly worse. What is more important, the P/E ratio is negative for 2020, which is critical for investors and other people thinking of buying Disney stocks back then. The company recovered in 2021 and 2022, but it resulted in the company being incredibly overpriced with investors facing a need to pay around 90 USD to get 1 USD in earnings, which is not good at all.

For the final ratio, it is essential to say that lower values and values closer to 10 are preferred for the ratio. Yet, the situation with Disney's price-to-cash flow ratio is not favorable and the situation became worse even before the pandemic – in 2019. All in all, the author suggests that the company is overpriced, based on the analysis of three individual ratios – price to earnings ratio, price to book value ratio, and price to cash flow ratio.

4.3 Return and Volatility

Return analysis is a crucial part of the analysis, which will ultimately help to understand if investors who have been investing in Walt Disney over the course of the last year managed to make a profit or loss. For the purpose of calculating returns, the author uses the dataset present in the list of appendices – Table X. The dataset contains the calculated returns (the third column) and also return relatives (the fourth column), which will be extremely useful for the calculation of the geomean, whose formula was briefly mentioned in the methodology of the work. Ultimately, the author can proceed to the calculation of the geomean of returns, whose final value is shown in Table 18.

Table 18, geomean of returns

Geomean	-0.14%
----------------	---------------

Source: own processing based on Yahoo Finance, 2023

As it becomes evident, the geomean of returns is negative, which is surely enough not a good sign for people who have been investing in the company's stock. At the same time, it is pretty understandable as the previous year was surely enough not the best one in terms of stability and absence of uncertainty. Traditionally, turbulent times leave their toll on the stock market's volatility and variability, which will both be addressed in the next chapter in relation to The Walt Disney Company.

Additionally, it is essential to focus on the analysis of the volatility of the company's stock, which will be delivered with the help of two statistical measures of variation – standard deviation and coefficient of variation. The author uses the dataset indicated in the appendices of the thesis, which is available in Table 21. Notably, the author uses just the variable of the closing price since the other two variables will be mainly used in the next chapter dedicated to the regression analysis. After applying formulas briefly mentioned in the methodology of the work, the author gets the output shown in Table 19.

Table 19, volatility analysis

Standard Deviation
8.22
Coefficient of Variation
8%

Source: own processing based on Yahoo Finance, 2023

Undoubtedly, it is sensible, to begin with the interpretation of the figure for the standard deviation, which is equal to 8.22 USD. Surely, the interpretation of this figure is rather complicated without knowing the actual figure for the mean price of the stock. Henceforth, the author will instead continue straight to the coefficient of variation, which is equal to 8%. The variation is relatively acceptable and rather medium, as figures above 20% are traditionally regarded as risky. Therefore, it is possible to conclude that the volatility of The Walt Disney Company's stock is not high.

4.4 Linear Regression

After finishing the financial analysis of the corporation, it is essential to continue to the linear regression model. In fact, the author uses a special kind of linear regression model, which is an autoregressive one. Effectively, when it comes to predicting the price of a given stock, one of the main factors traditionally regarded as significant and influential is the previous performance of the stock, i.e., lagged values of endogenous variables. The author will dedicate a special paragraph later on to the identification of the lag, which will be included in the model. First, it is vital to proceed to the formulation of an economic model.

The author has already specified that she considers the lagged price of the stock to be one of the variables included in the right-hand side of the equation. At the same time, the author believes that it would be sensible to include a dummy variable, which will indicate the presence of FED intervention in the interest rate, and to be more specific, it will indicate whether or not FED raised the interest rate on the week presiding week. This is done in accordance with many observations and publications of scholars, such as D'Amico & Farka (2011) and Kontonikas et al. (2013), who believed that any negative intervention of the FED is likely to negatively influence the American stock market. Apart from this variable, the author believes that the price of Disney stock is inevitably associated with the performance of the US dollar, which is pretty logical as The Walt Disney Company is based in the US. Jurion (1991) suggested that this might be an influential factor for American stocks. Therefore, an economic model has the following characteristics:

$$Price = f(Lagged\ Price, FED\ intervention, USD\ index) \quad (23)$$

Consequently, it is essential to formulate an econometric model based on the economic model above. The econometric model has the following structure:

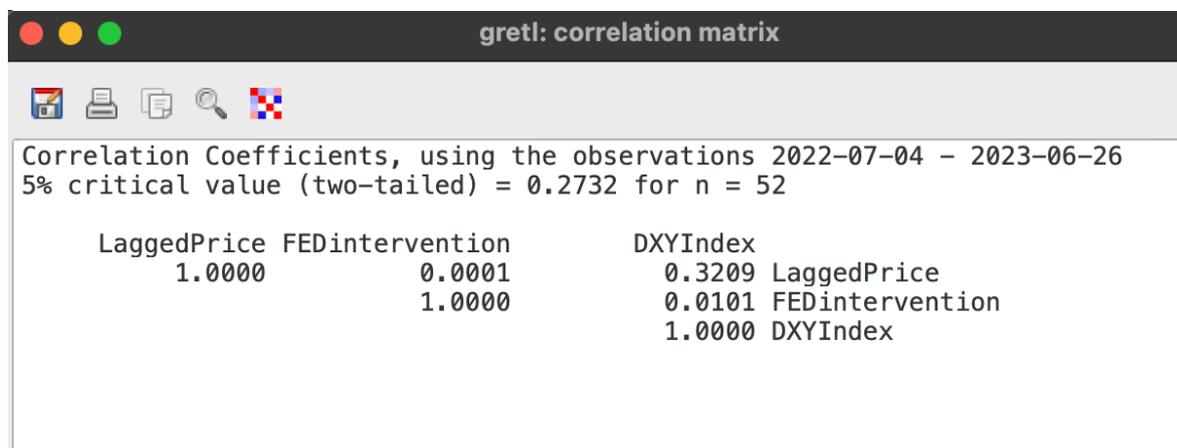
$$P = \gamma_0 + \gamma_1 Lagged\ P + \gamma_2 FED + \gamma_3 USD + U_e \quad (24)$$

After estimating the model, it is essential to collect data. Data regarding the performance of The Walt Disney stock is collected from Yahoo Finance, as well as data for the USD index. The author selects a time period of one year for the analysis, as well as weekly time

series. The dataset for the estimation is presented in the appendices of this diploma thesis in Table 20.

After collecting data for the estimation, the very first essential step to make would be checking if there is a problem of multicollinearity, i.e., a high linear relationship between independent variables (exceeding 0.8 in absolute terms for Pearson correlation coefficient) in the dataset. This is checked with the help of Gretl and the correlation matrix from the application. The correlation matrix is presented in Figure X.

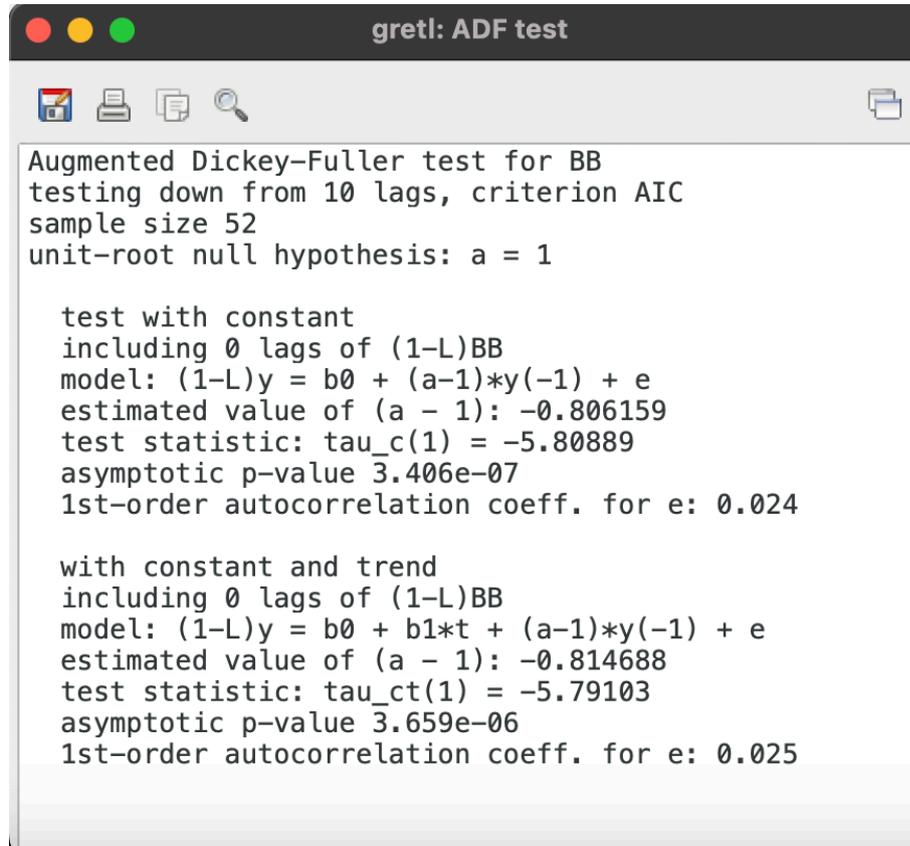
Figure 11, correlation matrix



Source: own processing based on Yahoo Finance, 2023

It is essential to specify that the original assumption of the author is that the lag of the first order will be the most suitable one, so the author primarily included it for the correlation check. However, further analysis will be performed to evaluate this decision. Based on the correlation matrix, it is possible to say with a certain degree of confidence that there is no such problem as the multicollinearity identified in the dataset. Consequently, the author will proceed to the next step, which will help to identify if the time series is stationary or not. In case the time series is not stationary, it would be vital to transform the data for the purpose of estimating it. This will be verified in accordance with the ADF (Augmented Dickey-Fuller test) of stationarity. The test output is presented in Figure X.

Figure 12, ADF test



```
gretl: ADF test

Augmented Dickey-Fuller test for BB
testing down from 10 lags, criterion AIC
sample size 52
unit-root null hypothesis: a = 1

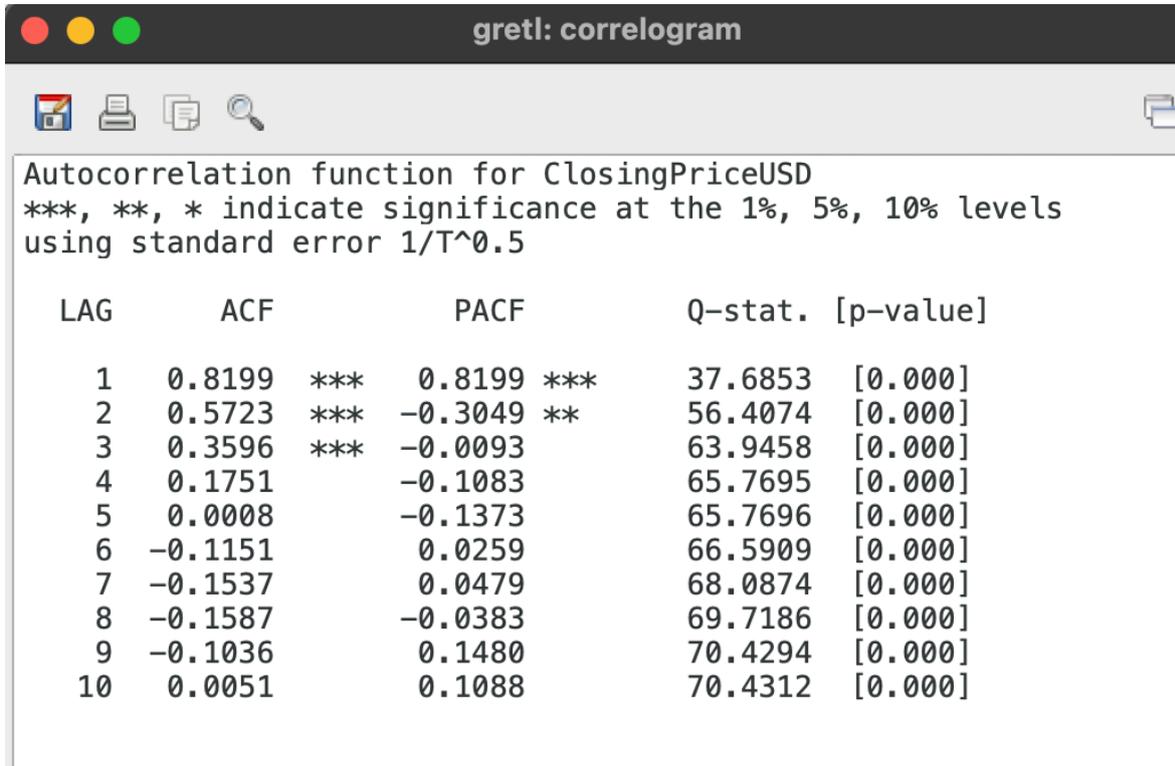
test with constant
including 0 lags of (1-L)BB
model: (1-L)y = b0 + (a-1)*y(-1) + e
estimated value of (a - 1): -0.806159
test statistic: tau_c(1) = -5.80889
asymptotic p-value 3.406e-07
1st-order autocorrelation coeff. for e: 0.024

with constant and trend
including 0 lags of (1-L)BB
model: (1-L)y = b0 + b1*t + (a-1)*y(-1) + e
estimated value of (a - 1): -0.814688
test statistic: tau_ct(1) = -5.79103
asymptotic p-value 3.659e-06
1st-order autocorrelation coeff. for e: 0.025
```

Source: own processing based on Yahoo Finance, 2023

Based on the null hypothesis that the time series is stationary, and the P value associated with this hypothesis that is equal to 0.08, it is possible to say that the null is not rejected at alpha equal to 0.05, so the author assumes that the time series is, in fact, stationary, so there is no need for further modification. At the same time, it is essential to find out the exact lag that should be included in the model for the autoregressive part. For this purpose, the author will proceed to the correlogram, which will indicate the confidence interval for ACF and PACF, based on which it will be possible to identify the exact lag recommended to be selected. Both functions are shown in Figure X.

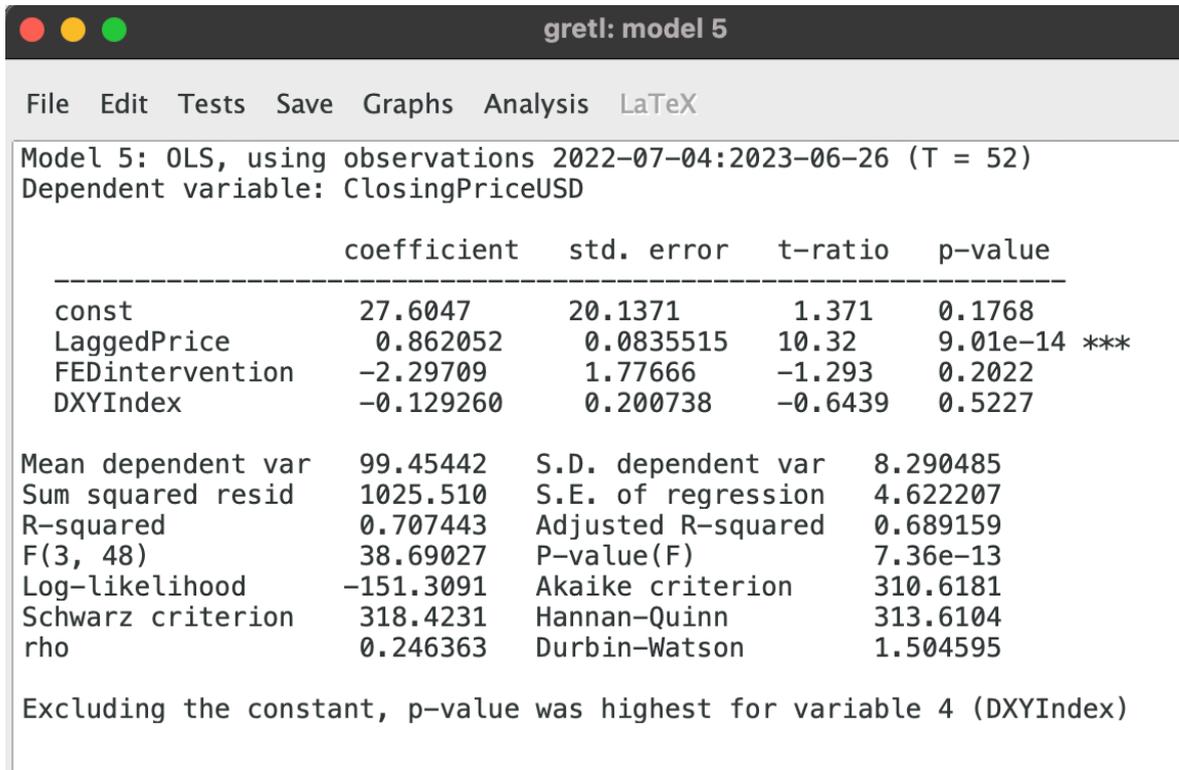
Figure 13, ACF and PACF



Source: own processing based on Yahoo Finance, 2023

Based on figures for ACF and PACF, it is possible to suggest that the first lag of the price variable definitely should be included in the model, just as it has been suggested during the formulation of the economic and econometric models. Therefore, the author can proceed to the further estimation of the model with the help of the OLS method. The result of the estimation is indicated in Figure X below.

Figure 14, estimated parameters



Source: own processing based on Yahoo Finance, 2023

Ultimately, it is possible to finally fit the estimated models into the assumed econometric model:

$$P = 27.60 + 0.86Lagged P - 2.3FED - 0.13USD + U_e$$

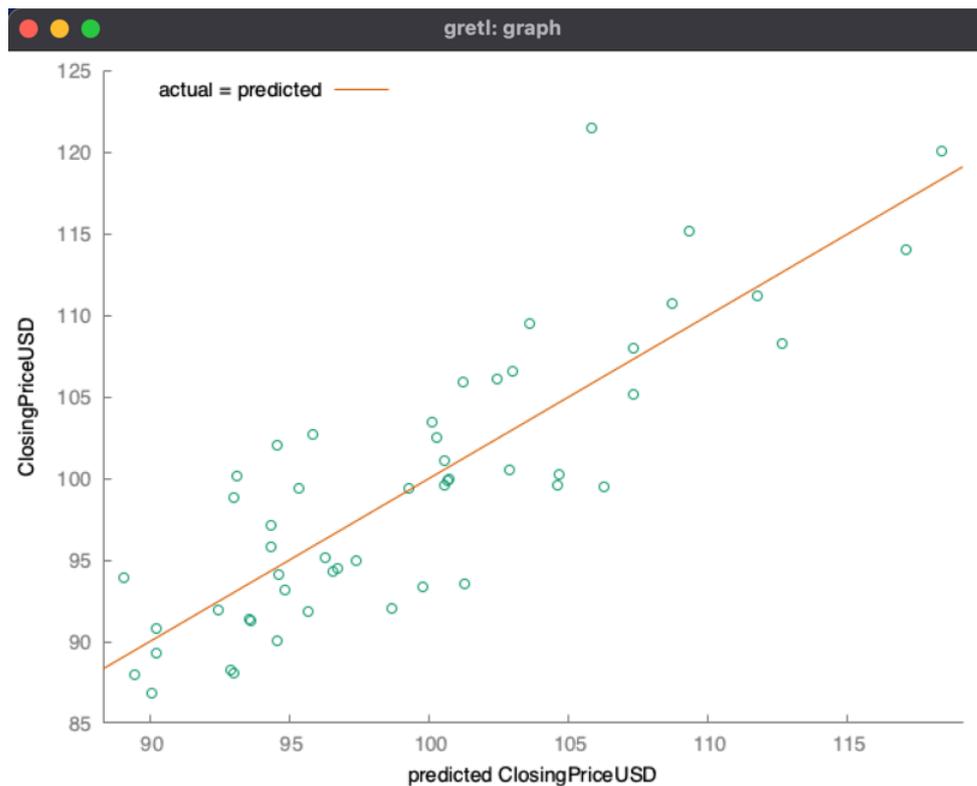
The following interpretation can be formulated:

- *Whenever the price of Disney stock on the previous week increases by 1 USD, it contributes to the increase of 0.86 USD on the next week, ceteris paribus.* This seems pretty logical as a strong previous performance of the stock is sometimes regarded as a main predictor of future strong performance.
- *Whenever FED increases the interest rate, it contributes to the decrease in the price of Disney stock equal to 2.3 USD, ceteris paribus.* This is also pretty logical as the increase in the interest rate traditionally has a negative impact on the stock price.

- Whenever the USD index increases by 1, or alternatively, the USD appreciates by 1%, the price decreases by 0.13 USD. The sign of this variable seems to be the most controversial as it is traditionally assumed that the relationship is positive. However, further analysis will identify if it is sensible to leave the variable in the model or if it is possible to get rid of it due to its non-significant nature.

F-test associated with the model ultimately suggests that all three variables altogether have a strong statistical effect on the response variable, which is the price of Disney stock. At the same time, when looking at the individual significance, it becomes pretty evident that the only variable that is significant at the level of 5% significance is the lagged price variable. Therefore, the author's two variables can be deducted from the model. All in all, the author presents the comparison of fitted values with the actual ones in Figure X.

Figure 15, a scatterplot of fitted and actual values



Source: own processing based on Yahoo Finance, 2023

Additionally, the overall quality of the model is equal to 0.68 or 68%, which is not a perfect result. At the same time, stocks have traditionally been regarded as rather risky investments despite sometimes being rather lucrative. The main problem with stocks is the fact that they are subject to countless different factors that sometimes cannot be properly quantified, but they are nonetheless present in the econometric model that has recently been estimated – they are indicated in the error term since it is the main goal of including it into the model (describing all variables that have for some reason not been included into an econometric model). Finally, it is also vital to take a look at the econometric tests behind the model that are presented in Figure X.

Figure 16, econometric tests

```
White's test for heteroskedasticity -  
Null hypothesis: heteroskedasticity not present  
Test statistic: LM = 6.20512  
with p-value = P(Chi-square(8) > 6.20512) = 0.624267  
  
LM test for autocorrelation up to order 14 -  
Null hypothesis: no autocorrelation  
Test statistic: LMF = 1.53122  
with p-value = P(F(14, 34) > 1.53122) = 0.152432  
  
Test for normality of residual -  
Null hypothesis: error is normally distributed  
Test statistic: Chi-square(2) = 6.41473  
with p-value = 0.0404632
```

Source: own processing based on Yahoo Finance, 2023

On one hand, the model does not have a problem with heterogeneous residuals, according to White's test and neither does the model have a problem with autocorrelation, according to the BG test. On the other hand, there is a problem with normality as it is not identified in the model, which might be a consequence of having outliers for some variables. Regardless of this problem, the author believes that the results can still be used given the level of her study. In the next chapter, the author proceeds to the interpretation of the results achieved by her in the practical part, where her findings will equally be compared to the

findings of other authors interested in the performance of Disney and other entertainment companies with similar characteristics and financial performance.

5 Results and Discussion

5.1 Financial Position

Following her analysis, the author is able to formulate relevant conclusions regarding the company's financial position based on its performance over the course of five selected years – 2018, 2019, 2020, 2021, and 2022. First of all, the financial position of the company does not seem to have been badly hit by the ongoing pandemic of the coronavirus, which is visible in the company's actions related to the augmentation of their long-term assets, which traditionally represent capital projects. In fact, this is quite unusual, since various publications of scholars, such as Mikos (2020) suggest the opposite about the movie-making industry, as well as for the entertainment as a whole, since almost all possibilities for entertaining oneself were shut as a result of applied restrictions everywhere in the world.

At the same time, the answer to the dilemma briefly addressed in the previous paragraph lies on the surface – the company, alongside other giants such as Netflix, shifted their focus to cloud-streaming, so they continued to stay buoyant, and they certainly had opportunities to continue with their capital projects and movie production even despite the problem with cinemas and other venues. The same is suggested by Meckel (2021).

Alternatively, the company visibly changed its strategy of managing working capital and, to be more specific, inventories, which might definitely be related to the management of the company's network of parks all over the world, which were hosting just small numbers of visitors if not none at all. As a consequence of this, the company shifted to a more conservative approach to managing inventories and the company also diminished the overall value of the element. Overall, the suggestion of the author is that the company managed to undergo through the pandemic quite well and its financial position is still strong, which is rather unsurprising given the name and the status of the company. The publication of Berawi (2021) might actually explain the reason for such a quick way to recovery and the author of the thesis agrees with it – after unusual economic damages to the world economy, such as wars and pandemics, economies and, therefore, the private sector recovers quicker than from economic crises caused by natural economic processes.

5.2 Financial Performance

On the other hand, the situation with the financial performance is definitely not so simple for the company, as the company's performance faced 2 serious problems. The author believes that the main reason for the fall in the net income of the company is generally the fact that movie production starts to cost more and more each year due to difficulties, utilization of computer graphics, and also overall inflation. As a consequence of this, the company's net income falls whilst having the same level of sales, which is a problem caused mainly by exogenous factors. The same is highlighted by ZXhang et al. (2023). Alternatively, another serious problem faced by Disney is the fact that the company's top of highest-grossing movies has not faced any change since 2019. In other words, the company's movies and other projects are definitely still popular, but they are nowhere as popular as the projects of 2013-2018, which is a problem. This is also supported by the publication of Davis (2019).

Therefore, it is sensible to say that the financial performance of the company is far from perfect and the situation is not likely to improve unless the current main project of Disney – Disney Plus will be able to compete on equal terms with Netflix, which still might be the case. On the other hand, the author herself doubts if the upcoming years will indeed be the year of streaming since people might shift again to cinemas. Out of this fear, Netflix and Disney both started investing huge sums of money, as well as other streaming services such as Hulu and Amazon to produce their own movies. However, it is quite fair to assume that despite the relative advantages that each company has, competing with Disney on its playfield will be rather complicated, so the author believes that the company's position will still be strong.

5.3 Recommendations

The chapter with recommendations will be split into two smaller paragraphs, where the first one will be dedicated to recommendations for potential investors and the second one will represent recommendations for the management of the company. Starting with investors, based on the analysis concluded, it is essential to highlight that the company is significantly overpriced and the weekly return on the stock of the company was negative. On the other hand, the volatility is not high, so if an investor plans to buy stocks and hold

them for a long time, it might be a sensible idea as the price of Disney stock is likely to grow in the nearest future following the company's recovery and also the recent decision to pay dividends to shareholders once again. The same is suggested by the publication of ZXhang et al. (2023). In addition to that, it was identified that the previous performance of Disney stock is a significant predictor of the future behavior of the price, so potential investors should take this fact into consideration.

When it comes to the recommendation to the management of Disney, the author believes that the best that the company can do would be finishing the projects that had been initiated during the pandemic and not risk it too much by investing vast sums of money into Disney Plus as it is not yet known what will be the general reception and user rate of the platform in the nearest future. In other words, considering that the biggest bet of Disney was their Disney Plus platform, the author suggests that it would be sensible to close the cycle and see if they could anyhow approach the level of reception of Netflix in the nearest future. If not, the company should return back to its roots and continue to focus on its franchises and iconic series, which have stood the test of time and are likely to be popular even among representatives of younger generations. The final recommendation is related to the financing that the company uses and also to liquidity. For the financing, the author recommends putting additional emphasis on equity financing and slowly focusing on decreasing the share of assets financed through debt. As for liquidity, the author suggests that it would be a safer bet to get back to positive working capital without having a need to suddenly increase its liquidity in case of economic turmoil, as it happened in 2020.

6 Conclusion

The aim of the diploma thesis concerned with the financial analysis of the Walt Disney Company was to analyze the financial performance and position of the company. Additionally, the author aimed at understanding the investment potential for the formulation of recommendations for potential investors. Effectively, recommendations were also supposed to be formulated for the stakeholders of the company.

Following the analysis, the author believes that she was able to fulfill all of her objectives and she is able to answer all of the research questions formulated earlier. Starting with the first question about the financial performance of the company, the author believes that the financial performance of the company is not necessarily bad, but it is not possible to call it outstanding as the company went through a period of facing huge surges in expenses, which resulted in significantly lower net margins and even a net loss for the year of 2022. Overall, the company's performance was far from perfect, but it seems to have started the recovery from the crisis.

The second question was associated with financial ratios and their values over the course of the five selected years. Starting with liquidity, it is possible to say that the company's approach to liquidity and working capital, in general, is rather controversial and unusual, as the company, even in the best-performing years, had ratios below 1. For stability ratios, it is possible to conclude that the company is solvent and that it is mainly financed through debt and borrowing. The profitability domain seems to be the most troubling one as the company has really low profitability on the selected time interval. Activity ratios revealed that the company has a problem collecting debts and also paying them and that the pandemic is likely to have influenced the company to reconsider its approach to managing inventories. For the market valuation, it is possible to conclude that the company is significantly overpriced.

Following the logic from the last sentence of the previous paragraph, it is possible to say that investing in Disney in 2023-2024 might not be the best idea if an investor wants to make money in the short-term horizon, as the recovery is still likely to take a couple of years. On the other hand, the company has a low volatility and the return was just slightly negative

even despite facing serious difficulties, so it is not possible to classify Disney as a risky investment.

Based on the linear regression analysis, it is possible to say that out of the three variables employed as regressors (USD index, FED intervention, and lagged price), only the lagged price was considered to be significant. Therefore, investors performing the technical analysis on Disney stock should consider this aspect when projecting their return from the investment.

Despite a series of major setbacks and problems, the author believes that the company will still be one of the most important players in the movie production and entertainment industries due to its large history and generally the experience that the company has, as well as a unique pool of characters.

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8 Appendices

Table 20, dataset used for the regression estimation

<i>Date</i>	Closing Price, USD	Lagged Price	FED intervention	DXY Index
27.06.2022	96.14	-	0	106.72
04.07.2022	95.86	96.14	1	107.01
11.07.2022	95.20	95.86	0	108.06
18.07.2022	102.72	95.20	0	106.73
25.07.2022	106.10	102.72	0	105.90
01.08.2022	106.63	106.10	1	106.62
08.08.2022	121.57	106.63	0	105.63
15.08.2022	120.14	121.57	0	108.17
22.08.2022	114.07	120.14	0	108.80
29.08.2022	111.20	114.07	0	109.53
05.09.2022	115.18	111.20	0	109.00
12.09.2022	108.25	115.18	0	109.76
19.09.2022	99.50	108.25	0	113.19
26.09.2022	94.33	99.50	1	112.12
03.10.2022	97.16	94.33	0	112.80
10.10.2022	94.45	97.16	0	113.31
17.10.2022	102.04	94.45	0	112.01
24.10.2022	105.95	102.04	0	110.67
31.10.2022	99.58	105.95	0	110.88
07.11.2022	95.01	99.58	1	106.29
14.11.2022	91.80	95.01	0	106.93
21.11.2022	98.87	91.80	0	105.96
28.11.2022	99.43	98.87	0	104.55
05.12.2022	93.38	99.43	0	104.81
12.12.2022	90.08	93.38	0	104.70
19.12.2022	88.01	90.08	1	104.31
26.12.2022	86.88	88.01	0	103.52
02.01.2023	93.92	86.88	0	103.88
09.01.2023	99.40	93.92	0	102.20
16.01.2023	103.48	99.40	0	102.01
23.01.2023	109.54	103.48	0	101.93
30.01.2023	110.71	109.54	0	102.92
06.02.2023	108.06	110.71	1	103.63
13.02.2023	105.22	108.06	0	103.86
20.02.2023	100.30	105.22	0	105.21

27.02.2023	101.14	100.30	0	104.52
06.03.2023	93.57	101.14	0	104.58
13.03.2023	93.20	93.57	0	103.71
20.03.2023	94.08	93.20	0	103.12
27.03.2023	100.13	94.08	1	102.51
03.04.2023	99.97	100.13	0	102.09
10.04.2023	99.90	99.97	0	101.55
17.04.2023	99.57	99.90	0	101.82
24.04.2023	102.50	99.57	0	101.67
01.05.2023	100.52	102.50	0	101.21
08.05.2023	91.99	100.52	1	102.68
15.05.2023	91.35	91.99	0	103.20
22.05.2023	88.29	91.35	0	104.21
29.05.2023	90.77	88.29	0	104.02
05.06.2023	91.93	90.77	0	103.56
12.06.2023	91.32	91.93	0	102.30
19.06.2023	88.10	91.32	0	102.90
26.06.2023	89.28	88.10	0	102.91

Source: Yahoo Finance, 2023

Table 21, dataset for the return analysis

<i>Date</i>	Closing Price, USD	Return	Return Relatives
27.06.2022	96.14	-	-
04.07.2022	95.86	-0.29%	1.00
11.07.2022	95.20	-0.69%	0.99
18.07.2022	102.72	7.90%	1.08
25.07.2022	106.10	3.29%	1.03
01.08.2022	106.63	0.50%	1.00
08.08.2022	121.57	14.01%	1.14
15.08.2022	120.14	-1.18%	0.99
22.08.2022	114.07	-5.05%	0.95
29.08.2022	111.20	-2.52%	0.97
05.09.2022	115.18	3.58%	1.04
12.09.2022	108.25	-6.02%	0.94
19.09.2022	99.50	-8.08%	0.92
26.09.2022	94.33	-5.20%	0.95
03.10.2022	97.16	3.00%	1.03
10.10.2022	94.45	-2.79%	0.97
17.10.2022	102.04	8.04%	1.08
24.10.2022	105.95	3.83%	1.04

31.10.2022	99.58	-6.01%	0.94
07.11.2022	95.01	-4.59%	0.95
14.11.2022	91.80	-3.38%	0.97
21.11.2022	98.87	7.70%	1.08
28.11.2022	99.43	0.57%	1.01
05.12.2022	93.38	-6.08%	0.94
12.12.2022	90.08	-3.53%	0.96
19.12.2022	88.01	-2.30%	0.98
26.12.2022	86.88	-1.28%	0.99
02.01.2023	93.92	8.10%	1.08
09.01.2023	99.40	5.83%	1.06
16.01.2023	103.48	4.10%	1.04
23.01.2023	109.54	5.86%	1.06
30.01.2023	110.71	1.07%	1.01
06.02.2023	108.06	-2.39%	0.98
13.02.2023	105.22	-2.63%	0.97
20.02.2023	100.30	-4.68%	0.95
27.02.2023	101.14	0.84%	1.01
06.03.2023	93.57	-7.48%	0.93
13.03.2023	93.20	-0.40%	1.00
20.03.2023	94.08	0.94%	1.01
27.03.2023	100.13	6.43%	1.06
03.04.2023	99.97	-0.16%	1.00
10.04.2023	99.90	-0.07%	1.00
17.04.2023	99.57	-0.33%	1.00
24.04.2023	102.50	2.94%	1.03
01.05.2023	100.52	-1.93%	0.98
08.05.2023	91.99	-8.49%	0.92
15.05.2023	91.35	-0.70%	0.99
22.05.2023	88.29	-3.35%	0.97
29.05.2023	90.77	2.81%	1.03
05.06.2023	91.93	1.28%	1.01
12.06.2023	91.32	-0.66%	0.99
19.06.2023	88.10	-3.53%	0.96
26.06.2023	89.28	1.34%	1.01

Source: Yahoo Finance, 2023