



Deal Logic

Twenty-First Century Fox / Walt Disney

WHU Finance Society

Contact: info@whufinancesociety.org
Website: www.whufinancesociety.org

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Authors: Simran Ajay, Johannes Fink, Philipp Hess

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Abstract

As a giant in the entertainment space, you have the power to influence not only the kind of content you roll out, but also the mediums on which the content can be offered. With the growing presence of online streaming platforms, the need to make yourself and your content relevant is ever increasing. Under looming concerns of a possible monopoly in the entertainment sector, Disney's purchase of 21st Century Fox has effects on the entertainment industry in the long run. With expectations of downsizing operations and possible large scale lay-offs, the real-world implications of the buyout aren't exactly light-hearted fun.

If 2018 was the year of mergers and acquisitions for companies in the media and entertainment (M&E) industry, 2019 will be the year media companies need to execute their strategies. The year ahead promises to be a time of exciting change as new trends and technologies drive innovation, disruption, and opportunities for growth in media and entertainment.

At USD 735bn, the U.S. industry represents a third of the global M&E industry, and the U.S. industry is expected to reach more than USD 830bn by 2022. The Disney-Fox-Comcast bidding war ended with Disney poised to acquire most of Fox's assets and Comcast acquiring Sky. Deals such as that of Disney-Fox-Comcast are a reaction to the evolution of media consumption away from the traditional linear model and towards a more direct-to-consumer (DTC) model, necessitating greater scale and more global platforms.

In 2018, seven major studios control more than four-fifths of total film industry revenue, led by Disney (18.2%), NBCUniversal (16.4%), Time Warner (16.2%), 21st Century Fox (12.9%) and Sony (12.1%). An acquisition of 21st Century Fox by Disney would make Disney the market leader with a consolidated share of 31.1%.

In June 2018, Disney raised its USD 54.2bn bid to USD 71.3bn in order to drive Comcast out from the bidding war. Both Disney and Comcast saw the acquisition of 21st Century Fox as potentially transformative, adding to their arsenal of hit movies and shows at a time when digital behemoths such as Netflix and Amazon are changing the way consumers watch and pay for content.

A month later in July 2018, shareholders of both companies approved the acquisition offering of USD 71.3bn in cash and stock, which will include Fox's film and television studios, as well as partial ownership of telecommunications company Sky TV, Indian media conglomerate Star, and streaming service Hulu. Disney expects to pay a total of about USD 35.7bn in cash and issue approximately 343mn New Disney shares to 21st Century Fox stockholders. As a result, current 21st Century Fox will own a 17-20% stake in New Disney on a pro forma basis.

The impact of this acquisition will be seen on the operations and business of 21st Century Fox. With multiple shared services between Disney and 21st Century Fox, and the aim to downsize 21st Century Fox, there will be layoffs, potentially numbering in the thousands. Fox will be a very different company after the deal is completed, though it will face less competition, removing it from concerns about the arms race in streaming and the decline of traditional cable programming. "New Fox" is expected to have annual revenue of USD 10bn and USD 2.8bn in EBITDA, which, considering its valuation of USD 19bn with the Disney assets removed, looks like a good value.

All values in USDm, except Price, Initial (USD) & Price, Paid (USD)

Summary

Target	Twenty-First Century Fox, Inc.
Acquirer	The Walt Disney Company
Date, Announ.	14.12.2017
Date, Effective	Pending
Deal Attitude	Friendly
Consideration	Cash (41.8%) / Stock (41.8%) / Other (16.4%)
%Held/%Sought	0.00 / 100.00
Deal Value	84,197
Price, Initial	n/a
Price, Paid	38.0
Total Fees	133.5
Premium*, 1d	52.2
Premium*, 1w	44.0
Premium*, 4w	43.0

* Pre-bid (%)

Sources: Thomson Reuters Eikon

Synopsis

- Walt Disney Company agreed to acquire the entire share capital of Twenty-First Century Fox, a New York-based provider of cable and television services
- Walt Disney offered a choice of USD 38 in cash or USD 38 in common shares; originally Walt Disney offered 0.2745 common share per Fox share
- The offer followed a bidding war between Walt Disney and its direct competitor Comcast and will include Fox's film and television studios, as well as partial ownership of Sky TV, India's Star, and Hulu
- Shareholders of both companies have already approved the acquisition valued at a total of USD 71.3bn

LTM Transaction Multiples

	Target	Acquirer	Industry†
EV/Sales	3.4x	3.2x	2.0x
EV/EBITDA	15.5x	10.3x	6.4x
EV/EBIT	17.0x	12.3x	n/a
P/B	4.4x	3.5x	0.9x
P/E	25.3x	15.6x	10.3x

† Of Target, SIC: 4841

Rationale

- The purpose of the transaction is for Walt Disney to expand its direct-to-consumer offerings and accelerate its use of innovative technologies
- The acquisition will make Disney the market leader in the competitive studio film industry with a consolidated share of 31.1% in market revenue
- Twenty-First Century Fox Inc. aims at increasing its shareholder value through the deal, partially by downsizing the company
- Total pre-tax synergies are calculated to be USD 2.0bn and are expected to realize end of 2021

Financial Advisors

Target	Fees	Acquirer	Fees
Goldman Sachs	58.0	Guggenheim Securities	25.0
Centerview Partners	22.0	JP Morgan	25.0
Deutsche Bank	1.5	Citi	2.0

All values in USDbn, except EPS

Recent News*

- **2018/09** 21st Century Fox announces intention to dispose its entire stake in Sky to Comcast.
- **2018/06** 21st Century Fox sets July 27 for special meeting for vote on merger agreement with the Walt Disney Company.
- **2018/06** 21st Century Fox confirms receipt of unsolicited acquisition proposal from Comcast over the same businesses it agreed to sell to The Walt Disney Company.
- **2016/12** Agreement with Sky, in terms of a pre-conditional cash offer by the company for the fully diluted share capital of Sky.

* Prior To Deal
Sources: Thomson Reuters, Annual report 21st Century Fox; 21st Century Fox

Company Description

- Twenty-First Century Fox Inc. is a diversified global media and entertainment company which currently manages and reports businesses in the following four segments:
 - **Cable Network Programming:** Consists of the production and licensing of programming distributed material
 - **Television:** Consists of the broadcasting of network programming in the U.S.
 - **Filmed Entertainment:** Consists of the production and acquisition of live-action and animated motion pictures for distribution and licensing in all formats
 - **Other, Corporate and eliminations:** Consists of corporate overhead costs and intercompany eliminations

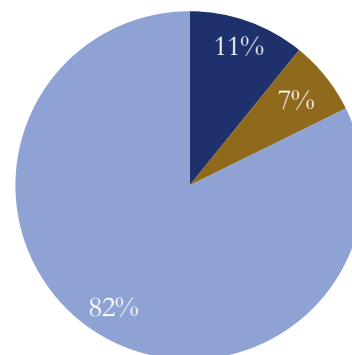
Key Management & Ownership Structure



James Murdoch
CEO
Since 2015



John Nallen
CFO
Since 2013



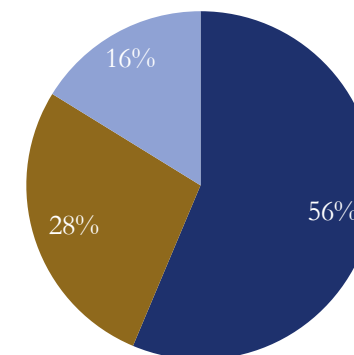
■ TCI Fund Management
■ The Vanguard Group
■ Other

Key Financials

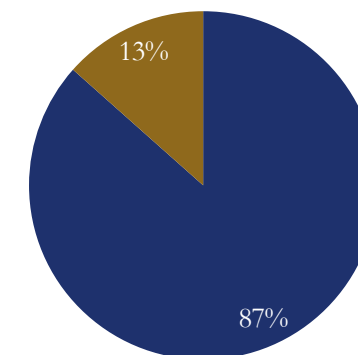
	2017A	2018A	2019F	2020F	2021F
Sales	28.5	30.4	31.5	33.3	35.2
% growth	4.3	6.7	3.7	5.7	5.6
EBITDA	7.0	6.8	7.3	7.8	8.5
% margin	24.7	22.4	23.2	23.5	24.2
Net Inc.	3.0	4.5	3.7	4.1	4.8
% margin	10.5	10.5	11.7	12.4	13.6
EPS	1.61	1.71	2.00	2.25	2.59

Sales Split

FY2018



■ Cable Networking Programming
■ Filmed Entertainment
■ Television



■ US/Canada
■ Europe

All values in USDbn, except EPS

Recent News*

- **2018/07** 21st Century Fox and Disney stockholders approve acquisition by Disney.
- **2018/06** US regulators have cleared Walt Disney Co's plan to buy most of 21st Century Fox, removing a final barrier to the USD 71.3bn deal. The approval requires the sale of Fox's regional sports networks in the US due to antitrust concerns.
- **2018/06** Disney increases its offer for 21st Century to USD 71.3bn in cash and shares, up from an earlier USD 52.4bn offer. This equals a USD 10 increase per share.
- **2017/12** The Walt Disney Company announces plans to acquire Twenty-First Century Fox, Inc., after a spinoff of certain businesses, for USD 52.4bn in a stock deal.

* Prior To Deal
Sources: Thomson Reuters, thewaltdisneycompany.com; bbc.com

Company Description

- The Walt Disney Company, together with its subsidiaries and affiliates, is a leading diversified international family entertainment and media enterprise. It was founded in 1923 in California and has approximately 201,000 employees. Its main businesses are:
 - **Media networks:** Comprises an array of broadcast, cable, radio, publishing and digital business
 - **Parks, Experiences and Consumer Products:** includes Parks and Resorts, toys, apps, apparel, books, and stores
 - **Direct-to-consumer and international:** includes the international media business and streaming services
 - **Studio entertainment:** includes movies, music and stage plays

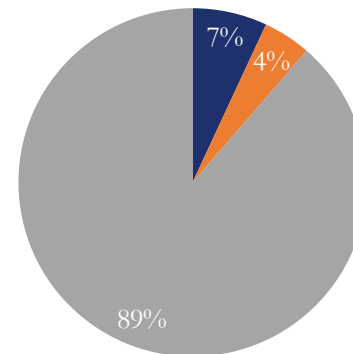
Key Management & Ownership Structure



Bob Iger
CEO
Since 2005



Christine McCarthy
CFO
Since 2015



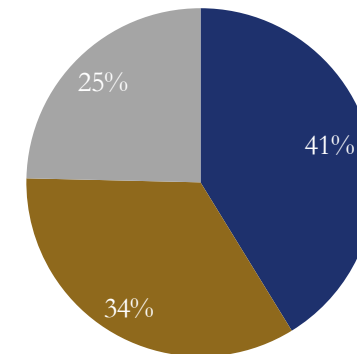
■ The Vanguard Group
■ BlackRock
■ Other

Key Financials

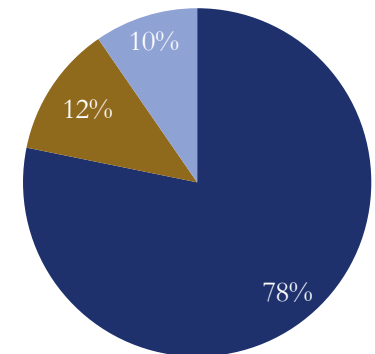
	2017A	2018A	2019F	2020F	2021F
Sales	55.1	59.4	60.6	63.3	65.6
% growth	(0.9)	7.8	2.0	4.5	3.6
EBITDA	16.7	17.9	17.5	17.9	18.7
% margin	30.2	30.0	29.0	28.3	28.5
Net Inc.	9.0	12.6	10.6	10.8	11.3
% margin	16.3	18.3	17.5	17.0	17.2
EPS	5.69	7.23	7.09	7.27	7.63

Sales Split

FY2018



■ Media Networks
■ Theme Parks & Resorts
■ Other



■ US/Canada ■ Europe ■ Asia Pacific

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