

The *WALT DISNEY* Company

The Walt Disney Company's Acquisition Strategy:
Pixar, Marvel and Lucasfilm

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Research question:

The rationale behind Disney's acquisitions of Pixar, Marvel and Lucasfilm and the subsequent impacts on Disney as a whole.

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Company Introduction



- Founded in 1923 by Walt and Roy Disney
- Started out as an animation studio
- Mickey Mouse created in 1928

Disney today:

- 5 business segments
 - **Studio Entertainment**, Parks and Resorts, Consumer Products, Interactive and Media Networks
 - Related diversification
- World's second largest media conglomerate after Comcast
- Market Cap. \$159.71B



The Disney Model (1957) --“The Ripple Effect”



“As animation goes, so goes our company. A hit animated film is a big wave, and the ripples go down to every part of our business—from characters in a parade, to music, to parks, to video games, TV, Internet, consumer products. If I don’t have wave makers, the company is not going to succeed.” --Bob Iger, CEO of Disney



Year	Studio Entertainment	Consumer Products	Parks and Resorts	Total net income
1997	1,079	893	1,136	4,312
1998	769	801	1,288	3,231
1999	116	607	1,446	3,231
2000	110	455	1,620	4,081
2001	260	401	1,586	4,214
2002	273	394	1,169	2,826
2003	620	384	957	3,174
2004	662	534	1,123	4,488
2005	207	543	1,178	5,137

Net income of Disney (in millions USD)

Disney's turning point: Bob Iger as CEO (Oct 1, 2005-)

- A different mindset from previous CEO Eisner
 - Recognized the serious faults in Disney's animation studio
 - Hand-drawn specialist
 - Bad computer technology and 3D techniques
 - Fail to create attractive characters
- No more wave makers!



The 3 Acquisitions

- Pixar (2006) at \$7.4 billion
- Marvel (2009) at \$4 billion
- Lucasfilm (2012) at \$4.06 billion



Common goal: To find Disney's way back to the wave makers
→ **make the Disney model work again**

Acquisition of Pixar (2006)



- The goal: To revitalize Disney's animation studio
 - Fundamentally targeted at Pixar's
 - (1) **computer graphic technology**
 - (2) ability to create popular characters



Acquisition of Pixar (2006)

- Pixar much better performing than Disney in animation
- Partnership with Disney in distribution of 5 films
 - Started in 1995, due to end in 2006
- *“I had this instinct that Pixar was the best way to fix and save Disney animation.”--Bob Iger*

To infinity and beyond...

Pixar has had nothing but blockbusters with its first five movies with Disney

1995	Toy Story		\$191.8
1998	A Bug's Life		\$162.8
1999	Toy Story 2		\$245.8
2001	Monsters, Inc.		\$255.9
2003	Finding Nemo		\$339.7

NUMBERS REPRESENT MILLIONS OF DOLLARS OF U.S. BOX OFFICE GROSS.
SOURCE: THE MOVIE TIMES/IMAGES FROM PIXAR



Post-acquisition results

- Successful revitalization of Disney's own animation studio
 - Creation of *Tangled* (2010), *Wreck-it-Ralph* (2012), *Frozen* (2013), *Zootopia* (2016)
 - Huge ripple effect from *Frozen*
- Continue success of Pixar
 - *Toy Story 3* (2010) and *Finding Dory* (2016)



Acquisition of Marvel (2009)

- The goal: acquiring the **huge intellectual property**
 - Over 5,000 characters and numerous storylines
 - Gain access to the teenage boy demographic
 - **Quick** recreation of the “ripple effect”



Post-acquisition Results

- Marvel became world's #1 highest-grossing franchises and film series
 - 9 Marvel movies released in 7 years
 - 4 hit the \$1 billion box office benchmark
- Marvel becomes a huge, stable revenue generating machine for Disney
 - Stable and large fanbase
 - Content has long estimated useful life of 40 years
 - Ripple effects seen all over consumer products, resorts and parks, television, etc.

Acquisition of Lucasfilm (2012)

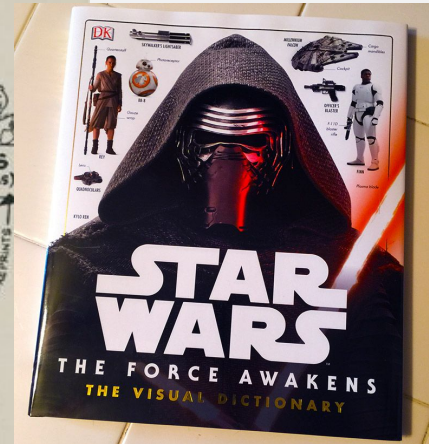


- The goal: Acquiring (1) the intellectual property and (2) special effects technology





STAR THE FORCE AWAKENS WARS



Post-acquisition Results

- Released *Star Wars: The Force Awakens* in December 2015
 - Over \$2 billion at box office
 - → highest grossing film in the entire history of Disney movies
 - → 3rd highest grossing film in history (after Avatar and Titanic)
- Ripple effects
 - Toys and merchandize brought in more than \$700 million
 - *Star Wars*-themed land underway in Disneyland

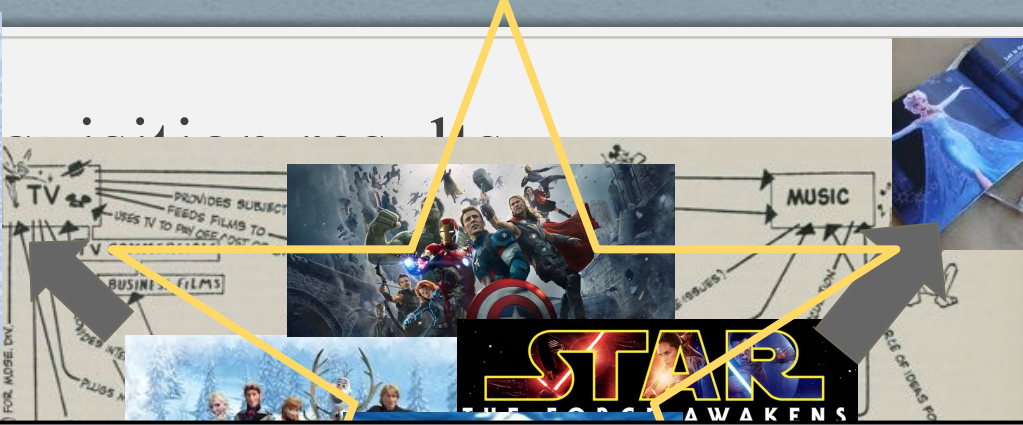
Disney in 2016

- 4 great hits this year, one from each studio
 - Disney Animation Studio: *Zootopia* (\$1.024 billion)
 - Pixar: *Finding Dory* (\$1.026 billion)
 - Marvel: *Captain America: Civil War* (\$1.132 billion)
 - Lucasfilm: *Star Wars: The Force Awakens* (\$2.066 billion) (released December 2015)
- Market share increased from 11% in 2001 to 25% in 2016 in film industry
- Market cap. increased from \$61 billion in 2006 to \$160 billion in 2016
- Ranked as world's #1 most powerful brand in 2016 by Brand Finance

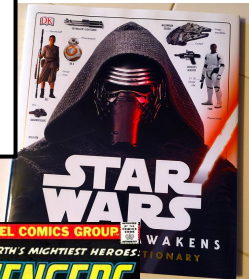
Conclusion

- **Pixar:** revitalized Disney's animation studio
→ **Wave makers created from within Disney**

- **Marvel and Lucasfilm:** huge intellectual property
→ **Wave makers acquired from already established characters and contents**



With a rich reservoir of wave makers, the ripple effect came back stronger than ever for Disney.



-End-

References

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- Carillo, Carlos, Jeremy Crumley, Kendree Thieringer, and Jeffrey S. Harrison. *The Walt Disney Company: A Corporate Strategy Analysis. Case Study*. University of Richmond: Robins School of Business, 2012.
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98.82 USD ↑ 0.56 (0.57%)

After-hours: 98.94 ↑ 0.12%

1 day

5 day

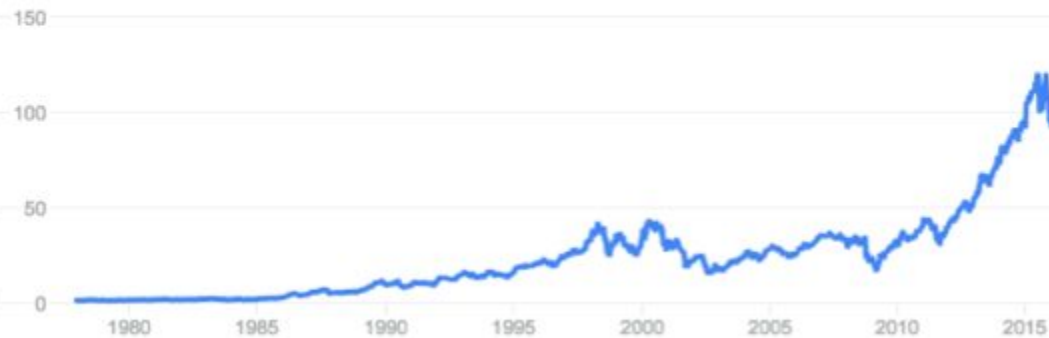
1 month

3 months

1 year

5 years

max



Open 98.71

Mkt cap 159.71B

Pixar's acquisition (2006)

Potential benefits	Potential risks
Access to Pixar's technology	Cultural incompatibility →“suit-and-tie” vs “Hawaiian shirt and scooter”
Full integration of Pixar's characters into Disney's various platforms (i.e. Ripple effect)	Clear skepticisms from Pixar's top executives
Increase Disney's overall brand strength and the base of high quality content	Over-valuation →3.8% premium paid over Pixar's closing price
Reduce market competition	

Marvel's acquisition (2009)

Potential benefits	Potential risks
Quickly expanding Disney's content base	Content incompatibility → Will the co-presence of Avengers and Mickey Mouse in Disneyland look strange?
Gain a new segment of audience →teenage boys	Uncertainty in Disney's ability to create good content with Marvel characters
Remove competition and increase market share	Allocation of resources → Each subsidiary in Disney's portfolio require substantial resources and funding
New source of long-term stable income	Disputes with Marvel's existing licensing partners