

A Financial Analysis and Valuation of Walt Disney

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Abstract. This paper presents an analysis of the financial performance of The Walt Disney Company within the entertainment and media sector, focusing on key data such as liquidity, solvency, and profitability. Through a comparison of Disney's short-term solvency, debt structure, and long-term financial stability with those of peer companies in the same industry, namely Netflix and Paramount, the study will provide a comparison of Disney's financial health and profitability trends in recent years. This also encompasses an analysis of how such financial indicators reflect the firm's operational efficiency and the ability to respond to changes in the market. The paper further deliberates on Industry Risk and Business Risk, where it examines the effect of trends in macroeconomic factors, regulatory changes, and fluctuations of financial indicators on the strategic decisions of Walt Disney. Finally, this research forecasts the competitiveness of Disney in the market and the potential for growth within the next one or two years. This analysis offers an overview of the positioning of Disney in the entertainment landscape and furnishes valuable insights to stakeholders and all those who closely follow the developments in the industry.

Keywords: Financial Performance; Valuation Forecast; Walt Disney; Entertainment Industry.

1. Introduction

The entertainment and media vertical maintains a profound connection with the international economy in generating an extensive array of diverse content that effectively drives culture and consumerism forward. However, the outbreak of the COVID-19 pandemic exerted a highly disruptive influence on this industry. To a considerable extent, its location-based businesses, such as movie theaters and theme parks, encountered substantial setbacks as a direct consequence of the pandemic. These physical venues, which rely heavily on in-person attendance and interaction, were severely restricted due to social distancing measures and public health concerns. As a result, they suffered from reduced foot traffic, decreased ticket sales, and significant operational disruptions.

On the contrary, digital platforms involving streaming services witnessed an accelerated growth during this challenging period. The pandemic-induced restrictions on outdoor activities and social gatherings led to a sharp increase in the demand for at-home entertainment. People turned to streaming platforms to fulfill their entertainment needs, resulting in a surge in subscription numbers and viewership hours. Ryu and Cho asserted that this pandemic gave rise to a profound schism within the sector [1]. As businesses predicated on physicality and synchronicity collapsed in a dramatic manner, digital entertainment platforms like Disney+ registered unprecedented surges. This shift in consumer behavior and market dynamics not only demonstrated the vulnerability of the traditional entertainment and media models but also highlighted the adaptability and potential of digital platforms.

The Walt Disney Company serves as a prime example of this dual effect. The pandemic had a detrimental impact on its theme parks and film operations. Theme parks had to temporarily close or operate at reduced capacity, resulting in significant revenue losses. Film production schedules were disrupted, causing delays in the release of new movies and a decline in box office earnings. However, the company's strategic reorientation towards expanding its streaming platform, Disney+, proved to be a timely and effective response. By investing in content creation and enhancing the user experience on the platform, Disney was able to capitalize on the changing consumer preferences and behaviors.

As a diversified global brand encompassing a wide spectrum of media networks, theme parks, film studios, and consumer products, the fact that Disney managed to navigate through such tumultuous periods attests to the resilience and dynamism of the company. It showcases the ability to adapt to unforeseen circumstances and make strategic decisions to mitigate losses and seize new opportunities.

Recent initiatives, such as the introduction of the high-priced "Lightning Lane Premier Pass," have manifested Disney's commitment to leveraging premium experiences. This move aims to not only recover revenue lost during the pandemic but also enhance customer satisfaction in the post-pandemic era. By offering exclusive and enhanced services, Disney hopes to attract more customers and increase their willingness to spend.

This paper conducts a comprehensive and in-depth financial analysis of Disney, paying particular attention to liquidity, profitability, and solvency. It conducts a detailed comparison with some of its closest competitors, such as Netflix. Exploring the diversification strategy of Disney and how the company responds to industry risks could provide valuable insights and be highly beneficial in delineating the financial health of the firm and its potential for continued growth within an increasingly volatile and competitive environment. Such an analysis helps understand the company's strategic positioning, financial performance, and ability to withstand market fluctuations and industry challenges.

2. Financial Performance

2.1. Liquidity

Liquidity ratios are highly significant tools for determining whether a company can manage its short-term financial debts using current assets, without having to resort to loans or sell long-term assets. Common measures, such as the current ratio, quick ratio, and cash ratio, provide an understanding of a company's financial flexibility and overall stability.

When comparing Disney's liquidity ratios with those of its competitors like Paramount and Netflix, some distinct issues emerge. Disney's current ratio is 0.72, which is significantly lower than Paramount's 1.27 and Netflix's 1.13. This indicates that Disney has fewer resources to cover its short-term debts. The quick ratio, which excludes inventory and focuses solely on more liquid assets, tells a similar tale. At 0.66, Disney lags behind Paramount (0.94) and Netflix (0.98), suggesting it relies more on assets that are not as readily convertible to cash. The cash ratio, which specifically examines the cash on hand in relation to short-term liabilities, is particularly concerning. Disney's cash ratio is only 0.16, while Netflix has a much more favorable 0.70. This reveals that Netflix has a considerably larger cash reserve to handle unexpected costs or market issues.

The COVID-19 pandemic is a major factor contributing to Disney's less favorable liquidity ratios. As Pennimpede (2024) states, the pandemic led to the closure of Disney's theme parks and resorts, resulting in a significant decline in cash flow and exposing the weaknesses of relying on businesses that require a physical location. Even though Disney+ gained a substantial number of subscribers during this period, the revenue generated was insufficient to compensate for the losses in other critical areas [2].

As Table 1 shown, Disney's lower liquidity ratios imply that it has limited flexibility to handle short-term financial surprises and has to rely more on external funds. In contrast, Paramount's balanced approach to managing funds and Netflix's substantial cash reserves place them in a more favorable position to address unforeseen challenges. This comparison highlights the significance of effectively managing liquidity to remain competitive and robust in an industry that undergoes rapid changes.

To improve its financial situation, Disney could focus on enhancing the efficiency of its cash flow and better utilizing its existing assets. Strategies such as implementing stricter cost controls, expanding digital income sources, and exploring new financial solutions could strengthen Disney's liquidity. These steps would not only enhance the stability of its finances but also prepare it to adapt promptly when new opportunities or problems arise, ensuring its long-term success.

Table 1. Liquidity ratios of Disney and its competitors

	Disney	Paramount	Netflix
Current ratio	0.72	1.27	1.13
Quick ratio	0.66	0.94	0.98
Cash ratio	0.16	0.26	0.70

Source: Yahoo Finance

2.2. Solvency

Solvency analysis assumes an indispensable position in understanding a company's capability of managing long-term debt and upholding financial stability. It constitutes a critical aspect that furnishes profound insights into the financial condition and strategic decisions of a business entity. Key indicators like the ratio of debt to assets, debt to equity, and long-term debt ratio offer substantial and detailed viewpoints on how a company endeavors to strike a balance between debt and equity to guarantee the seamless continuation of its operations and promote growth.

This section undertakes a comprehensive exploration of the solvency strategies utilized by three notable companies: Disney, Paramount, and Netflix, highlighting the distinct and diverse approaches adopted by each one. Disney adopts an extremely cautious stance in the management of its debt. Among the three, Disney distinguishes itself by having the lowest debt-to-asset ratio at 24.06% and the lowest debt-to-equity ratio at 45.19% (see Table 2). This suggests that Disney has minimal reliance on borrowed capital. This conservative financial mode of operation is not a haphazard choice but rather a well-considered and intentional strategy. It reflects a deliberate endeavor to minimize potential risks and ensure a solid and stable financial foundation. Zhang (2023) specifically stresses that Disney's circumspect and prudent utilization of debt significantly enhances its operational resilience [3]. This is particularly conspicuous during economic downturns when companies encounter numerous challenges. Additionally, Ren (2021) points out that Disney's diverse and extensive revenue sources, which encompass not only traditional media networks but also its expanding direct-to-consumer platforms, have played a crucial role in strengthening its financial stability during difficult and challenging periods such as the COVID-19 pandemic [4]. This strategic emphasis on prioritizing long-term growth over immediate and rapid expansion equips Disney with the ability to effectively traverse economic uncertainties and maintain a stable and reliable course [4].

In sharp contrast, Paramount presents an entirely different scenario. It displays the highest debt-to-asset ratio of 33.94% and the highest debt-to-equity ratio of 91.92%, clearly signifying a heavy and marked reliance on debt to fund its operational activities. Paramount's aggressive financial strategy undoubtedly facilitates rapid expansion and the undertaking of ambitious projects [5]. However, concurrently, it exposes the company to significant and substantial risks during periods of economic instability. This heavy reliance on borrowed capital has the potential to constrict Paramount's flexibility and long-term sustainability. Especially in an industry that is highly unpredictable and subject to rapid changes, this approach could present challenges. While this aggressive strategy might generate short-term growth and achievements, it raises legitimate concerns regarding the company's ability to maintain stability and financial health over an extended period.

Netflix adopts a middle position, as reflected in its debt-to-asset ratio of 30.57% and debt-to-equity ratio of 81.49%. The strategic utilization of debt by Netflix has been of critical significance in financing its global expansion and the creation of original content. This has enabled Netflix to enhance its competitive advantage in the highly competitive market. Nevertheless, if the growth rate in the streaming market were to slow down, Netflix's relatively high long-term debt ratio of 27.09% might impose constraints on its financial agility [6]. This balanced yet debt-dependent model showcases Netflix's attempts to manage risks while striving to sustain growth. However, reducing long-term borrowing could potentially strengthen and consolidate its position in the future competitive landscape.

In conclusion, Disney's conservative and cautious financial management emerges as a benchmark within the entertainment and media sector, demonstrating how a well-balanced approach can achieve both stability and sustainable growth. By maintaining relatively low debt levels and leveraging its diversified revenue streams, Disney exhibits a strong capacity to navigate economic uncertainties while positioning itself for long-term success. This strategy not only ensures operational flexibility but also emphasizes Disney's focus on resilience in an extremely volatile market.

In contrast, Paramount's aggressive reliance on debt prioritizes rapid expansion but significantly augments the company's risk exposure, making it more vulnerable to market fluctuations. Netflix, with its balanced strategy, reflects an effort to manage growth ambitions judiciously, although its dependence on long-term borrowing indicates room for improvement in financial flexibility. Ultimately, Disney's approach highlights the importance of prioritizing financial health while remaining adaptable to industry dynamics. As a leader in the field, Disney provides valuable insights into how strategic solvency management can drive sustained performance and maintain a competitive advantage in an ever-evolving entertainment landscape.

Table 2. Solvency ratios of Disney and its competitors

	Disney	Paramount	Netflix
Debt-to-asset ratio	24.06%	33.94%	30.57%
Debt-to-equity ratio	45.19%	91.92%	81.49%
Long-term debt ratio	19.98%	31.34%	27.09%

Source: Yahoo Finance

2.3. Profitability

This section have chosen a year-over-year comparative analysis method to observe Disney's long-term profitability trends by analyzing data changes across different years. This approach aims to evaluate Disney's adaptability and growth potential in various market environments, providing a more comprehensive and reliable basis for assessing Disney's investment value. Additionally, it has gathered data from two of Disney's competitors for comparison, making the analysis more thorough.

Profitability reflects a company's financial health, and its performance within the industry is a key indicator of its success and sustainability. The profitability ratios of three companies are shown in Table 3, Table 4, and Table 5, respectively.

Table 3. Profitability ratios of Disney form 2020 to 2023

Disney	2020	2021	2022	2023
Gross profit margin	33.057	33.057	34.236	33.405
Net profit margin	2.96	4.66	2.84	5.37
ROA	0.989	1.544	2.256	2.323
ROE	2.386	3.55	2.47	4.81

Table 4. Profitability ratios of Netflix form 2020 to 2023

Netflix	2020	2021	2021	2023
Gross profit margin	38.885	41.636	39.37	41.537
Net profit margin	11.047	17.227	14.207	16.036
ROA	7.029	11.475	9.24	11.097
ROE	24.955	32.28	21.619	26.267

Table 5. Paramount ratios of Netflix form 2020 to 2023

Paramount	2020	2021	2022	2023
Gross profit margin	40.707	37.927	34.187	24.495
Net profit margin	9.578	15.892	3.661	-2.05
ROA	4.599	7.749	1.89	-1.135
ROE	15.084	19.777	4.676	-2.637

Firstly, Disney's gross profit margin has remained stable over the years, indicating the strong profitability of its core businesses. However, it is slightly below the Media and Entertainment industry average of 42.6% and also lower than its competitors Netflix (39%-42%) and Paramount (33%-40%). This could be attributed to Disney's more diversified business model, which includes non-media segments such as theme parks, potentially increasing its costs.

Disney's net profit margin shows a gradual increase over time. While it is slightly lower than Netflix's (11%-16%), it is more stable compared to Paramount, whose net profit margin fluctuates significantly. Disney's return on assets (ROA) is noticeably lower than that of Netflix and Paramount, even though Paramount's ROA is more volatile but generally higher than Disney's. This indicates that Disney may require more assets to support its diversified business model.

Regarding return on equity (ROE), Disney's performance is below Netflix's but generally higher than Paramount's, suggesting that Disney delivers a reasonable return to its shareholders. Notably, Disney's ROE saw a sharp increase in 2023. According to Disney's data, the entertainment segment grew from \$130 million to \$158 million, a 22% increase, significantly boosting Disney's net income. Additionally, Disney's 50% stake in A+E contributed an additional \$28 million from A+E's \$56 million growth. However, this income is considered non-recurring, which can temporarily drive up ROE but may lead to future fluctuations if similar gains are not repeated.

3. Risk Assessment

3.1. Industry Risk

Disney's theme parks are concentrated in Florida and California, two states which are highly susceptible to natural disasters [7]. According to Disney's Q1 2024 financial report, hurricanes Helene and Milton resulted in a \$130 million loss for the theme park segment. Additionally, the cruise business is also affected by adverse weather, often requiring cancellations or adjustments, which negatively impacts customer experience and reduces revenue. Post-disaster, Disney faces substantial repair costs, significantly increasing short-term operating expenses, while insurance costs could also rise. With the frequency of extreme weather events increasing in recent years, such expenses are likely to continue escalating in the future.

Disney's core competitive advantage lies in its intellectual properties (IP), such as the Marvel and Star Wars franchises. However, in Asian markets, rampant piracy poses a significant threat. Without strong enforcement of intellectual property protections in these regions, Disney risks losing revenue and weakening its control over the distribution of original content.

On the macroeconomic front, during periods of economic recession, households may reduce discretionary spending on high-cost entertainment, directly affecting Disney's theme park ticket sales. Additionally, inflation-driven surges in energy prices further exacerbate Disney's rising operational costs.

At the same time, according to the proportion analysis, Disney has improved its capital efficiency and operating profitability, although from 2020 to 2021, Disney will face liquidity pressure in the short term, even if the epidemic has caused a considerable impact on Disney, its brand strength, intellectual property rights, property and innovation ability can still enable the company to adapt and recover. This is a further indication of Disney's power [8].

3.2. Business Risk

With the rising popularity of short videos on platforms like TikTok, Disney faces new challenges. Consumer preferences and behaviors are rapidly changing. To remain competitive in the future, Disney must adjust its content creation methods and strategies, focusing more on personalized needs to align with the evolving trends. At the same time, consumers are demanding greater diversity in content quality, which poses higher production costs and time pressures for Disney. If Disney cannot quickly meet consumer expectations, it may lead to significant customer churn, especially in this era where consumers prioritize instant gratification.

This evolving landscape has also intensified competition between Disney and other companies, further increasing the difficulty of maintaining its market share.

To address these changes, Disney can leverage AI technology to optimize its systems and provide customers with a better experience [9]. AI can also be used to strengthen data analysis capabilities, offering quicker insights and inspiration for content creation. Additionally, Disney can explore emerging content formats, such as short videos, to expand its market among younger audiences.

Disney+ has a lot of Disney's original content, but Disney+ has the disadvantage of targeting too few mature audiences, and if more mature shows can be added, it will be critical to Disney+ 's continued success as a streaming service. In contrast, Disney's competitors, Netflix and amazon prime video, offer a wider variety of original programming that caters to an adult audience with diverse tastes [10].

4. Conclusion

As times evolve, Disney should embrace the trends and further develop its AI technologies. For instance, it could expand the application of AR in theme parks, leverage more AI technologies in content creation and animation production, and utilize AI for advertising optimization to maximize Disney's profitability.

Taking Netflix, one of Disney's key competitors, as an example, Netflix has been using AI to optimize its advertising efforts. According to analyses, Netflix's use of AI in content creation has reduced content production costs by 15%. Additionally, Netflix's AI-driven personalized recommendations have successfully reduced customer churn by 5%. To achieve such results, Netflix has invested significantly in AI technology, employing over 1,000 scientists dedicated to AI project development.

With the development of science and technology, more viewers have switched from cable TV to online viewing, and then there may be a change to the development of virtual reality entertainment. However, Disney has not participated in this part of the development at present, which may affect the future audience's choice of Disney in the future.

Post-pandemic changes in streaming consumption trends present significant market potential for Disney+ subscription renewals. Regarding theme parks and Disney Cruise Line projects, with the recovery of international travel trends, these segments are also expected to generate greater profits in the future. According to Disney's Q4 2024 financial report, revenue from domestic theme parks in the U.S. has increased compared to the same period last year. Based on this data analysis, I believe Disney will remain on an upward trajectory in the next one to two years.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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