

Disney's Acquisition of Twenty-First Century Fox

Background:

On July 27, 2018 the shareholders of 21st Century Fox will officially vote on a \$71.3 billion sale to The Walt Disney Company. This was a competitive and complicated deal with an endless number of stakeholders including Comcast, and Sky Plc.

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The Process:

On December 14, 2017, The Walt Disney Company announced a deal that has the potential to fundamentally alter the global media landscape. The Walt Disney Company announced a \$52.4 billion deal in stock to acquire Twenty-First Century Fox.

Twenty-First Century Fox is a multinational mass media corporation and is the fourth-largest media conglomerate in the United States. Some of its most noticeable assets include 20th Century Fox which is a film studio that has produced some of the worlds most noticeable films including Avatar and Titanic, and the Fox News channel.

The process began on November 6, 2017 when CNBC reported Disney was negotiating a deal with 21st Century Fox to purchase its assets¹. However, the deal would not be for all of 21st Century Fox's assets. Due to some conflicts of interests between Disney's existing assets and Fox's assets, some of the assets will be spun off into a new company. The acquisition will not include the Fox News Channel, Fox Business Network, and Fox Sports, as well as a few other TV Stations. These assets will be used to create a new company owned by Fox's shareholders.

Opposition

Despite Disney's \$52.4 billion interest in purchasing Fox, it faced heavy competition from other companies. Comcast Corporation which is a telecommunications conglomerate with assets including CNBC, Universal Pictures, and Universal Theme Parks and Resorts was the most noticeable contender.

¹ <https://www.cnbc.com/2017/12/14/disney-to-buy-21st-century-fox-assets.html>

On November 17, 2017, it was reported that both Comcast and Sony were interested in purchasing the assets of 21st Century Fox with Comcast particularly interested in Fox's array of international assets including the European network Sky and the Star stations in India².

On May 23, 2018, Comcast officially made their bid to acquire 21st Century Fox. Although the amount of bid isn't public, analysts believe it to be in the \$60 billion range.³ However due to the sheer size of 21st Century Fox, if the deal were to go through, Comcast would reach \$164 billion in debt. Another issue facing Comcast is the idea of a cash vs stock deal. Disney's offer revolved around a stock deal whereas Comcast is offering cash to purchase 21st Century Fox. This hurts Rupert Murdoch who owns 17% of Fox by triggering capital gains taxes whereas stock transactions do not until the shares are sold.

After pressure from Comcast, Disney was forced to increase the size of their offer. On June 20, 2018 Disney increased the size of their bid to \$71.3 billion representing \$38 a share which is \$10 a share higher than the previous offer⁴. The offer isn't limited to stock of Disney but rather provides shareholders the option to take payment in the form of cash.

Another hurdle that both Disney and Comcast must overcome are the regulatory hurdles that come with an acquisition of this magnitude. A horizontal acquisition such as this catches the eyes of various Anti-Trust agencies who must approve the transaction for it to go forward. Bob Iger, the CEO of Disney, made the increased \$71.3 billion offer once the AT&T's acquisition of Time Warner Inc. was approved because that too was a similar horizontal acquisition. According to Bloomberg, "The Justice Department's antitrust division has been reviewing the Disney deal for months, while the investigation into Comcast's bid hasn't started"⁵. This was one of the factors that ultimately led to Fox's decision of accepting Disney's bid, not only because of the higher bid, but because the Justice Department has been reviewing the transaction for several months.

On June 27, 2018, Disney officially won the approval of the United States to proceed with its \$71 billion purchase of Fox. This didn't come without sacrifice. According to Bloomberg, "Disney agreed to sell Fox's 22 regional sports networks". Disney already owns a controlling interest of ESPN which is a television network that focuses on sports-related programming. Controlling both Fox's sports channels and ESPN's channels raised concerns from the Justice Department which feared it would raise prices for sports programming.

² <http://www.latimes.com/business/hollywood/la-fi-ct-comcast-21st-century-fox-20171116-story.html>

³ <https://deadline.com/2018/05/comcast-confirms-plan-to-counter-disney-superior-all-cash-offer-for-fox-assets-1202396406/>

⁴ <https://www.bloomberg.com/news/articles/2018-06-20/fox-agrees-to-sweetened-bid-from-disney-dealing-blow-to-comcast>

⁵ <https://www.bloomberg.com/news/articles/2018-07-21/sky-is-comcast-s-final-prize-as-disney-battle-approaches-endgame>

On July 19, 2018 Comcast officially withdrew its bid to acquire 21st Century Fox. The decision seemed to satisfy shareholders considering Comcast's shares rose nearly 3.5 percent after announcing their decision⁶. Rather than acquiring 21st Century Fox, Comcast will focus on acquiring Sky.

Currently, Fox and by extension Disney (assuming the transaction goes through) owns 39 percent of Sky. Comcast has made a \$34 billion offer to purchase the 61% owned by other shareholders. Sky will help Comcast achieve the global presence they desire⁷. Shareholders of Sky have until August 22, 2018 to tender their shares to Comcast but an important consideration will be Disney's actions. If the Fox acquisition goes through, Disney may decide to purchase the remaining 61 percent of Sky, which will once again put them in a competition with Comcast.

On July 11, 2018 Comcast raised its offer to \$34 billion to purchase Sky in response to 21st Century Fox's bid of \$32.5 billion.⁸ As of July 12, 2018 both Comcast and Fox have approvals from the British government to proceed with the acquisition of Sky.⁹

The question then becomes, what will happen on August 22, 2018. Fox may decide to increase size of their bid to match or increase Comcast or they may back out. Disney may also make its own bid to purchase the assets of Sky subject to approval from regulators.

Strategy

Now that the mechanics of the transactions have been discussed, the question becomes, Why? Why is Disney willing to spend \$71.3 billion and absorb \$14 billion of Fox's debt? The idea revolves around their strategy. Disney will be able to use Fox's extensive distribution network to reach a much larger audience.

This also has drastic implication on the movie landscape. Currently, Walt Disney Pictures controlled 21.82 percent of the US and Canada market share with 20th Century fox controlling 12.92 percent. The two combined would control almost 35% of the market¹⁰. This has led to backlash from some journalists. In the past, "Disney has barred the Los Angeles Times from

⁶ <https://www.usatoday.com/story/tech/news/2018/07/19/disney-wins-bidding-war-fox-assets-comcast-focus-sky/799500002/>

⁷ <https://www.bloomberg.com/news/articles/2018-07-19/comcast-surrenders-to-disney-in-fox-bid-to-keep-pursuing-sky>

⁸ <https://www.theglobeandmail.com/business/international-business/article-fox-raises-sky-bid-to-325-billion-all-eyes-on-comcast>

⁹ <https://www.wsj.com/articles/fox-gets-u-k-approval-to-buy-sky-amid-bidding-war-with-comcast-1531393148>

¹⁰ https://en.wikipedia.org/wiki/Major_film_studio#ref_1

advance screenings because it wasn't happy with an investigative series published about in in the paper"¹¹.

The acquisition would give Disney access to the X-Men characters as well as Deadpool whose film rights were sold to 20th Century Fox in the 1980's to 1990's. The acquisition will also help with Disney's plan to launch a streaming service. Currently, Hulu which can be recognized as Netflix's biggest competitor, is a joint venture with the Disney, Fox, Comcast, and AT&T. Both Disney and Fox own 30% each and the acquisition will allow Disney to double their stake in Hulu. This will help Disney with their direct to consumer strategy amid cord cutting nationwide.

Furthermore, Fox's stake in Sky will allow Disney to access 50 million subscribers in Europe and the stake Star India will allow Disney to access 650 million customers¹².

Future:

The next step for Disney is to wait until July 27, 2018 when shareholders of Fox officially vote on the acquisition. Stakeholders aren't limited to the shareholders of Fox and Disney, anyone that consumes media can be affected by this acquisition. The decision of shareholders is unknown but one thing for sure, this transaction has the potential to completely alter the media landscape.

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¹¹ <https://www.buzzfeednews.com/article/krystieyandoli/journalists-disney-fox-merger>

¹² <https://www.bbc.com/news/business-42356485>