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The Investment Bank's Responsibilities in Cross-Border Mergers and Acquisitions - Taking the Disney Acquisition of 21st Century Fox as an Example

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Abstract. Cross-border mergers and acquisitions (M&As) have emerged as a key means by which businesses can gain strategic growth and integration of resources in the global capital market. Investment banks play various roles in M&A deals as a middle intermediary, including valuation, financing, risk control and compliance coordination. The paper uses the example of Disney acquiring 21 st Century Fox - the biggest cross-border M&As in the history of the entertainment industry - to examine the specific functions and practical effects of investment banks. The research is based on a case analysis, supplemented by the financial data of the public and industry research reports and current scholarly articles to be discussed. The findings indicate that the investment banks, such as the J.P. Morgan, Goldman Sachs and Guggenheim Partners, performed such important activities during the transaction as valuation and pricing, financing arrangements, due diligence and antitrust negotiations. Not only did these activities directly establish the price of the transaction and availability of funds of up to 71.3 billion dollars, but it also made the deal go through regulatory inspections in both the United States and the European Union without difficulties and affected the short-term reaction and long-term anticipation of the transaction on the market.

Keywords: Cross-border M&A, valuation and strategic synergy, investment bank roles, Disney-Fox acquisition case.

1. Introduction

Cross-border mergers and acquisitions (M&As) have become one of the significant means of companies acquiring the key resources in the global capital market, gaining international influence and transforming strategically. A report by the United Nations Conference on Trade and Development (UNCTAD) indicates that the total amount of cross-border M&As has been on the increase in the last ten years, particularly in the media and technology industry [1]. The trend is an indication of the strategic requirements of the firms in the digital and international competition. Nonetheless, M&As across borders are normally accompanied by issues of valuation uncertainty, complexities in regulation and cultural differences. Thus, financial intermediaries - particularly investment banks [2,3] have an indispensable role.

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Investment banks assume a variety of roles during M&A dealings, which consist of company valuation, financing structure, due diligence, transaction negotiations and compliance organisation. Recent research has demonstrated the ability of investment banks to be more invested in the industry, thus enhancing the accuracy of the valuation, negotiation time [4] and the failure rate of cross-border M&As [5]. According to Aktas, de Bodt and Roll, a qualified investment bank advisory group can generate high levels of excess value to buyers in the valuation model-building and transaction structure design [6]. Also, Gennaioli and Rossi pointed out that incentive programs and contract design of investment banks directly influence the quality of M&A transactions, which offered a theoretical rationale to examine their behaviors in a particular situation [7].

M&As are not capital activities only, as in the case of the media and entertainment industry; they also entail the combination of intellectual property and cultural assets. This industry is characterized by high uncertainty in content production and has project-based character with a more complicated valuation and risk management [8,9]. As streaming services have become prevalent, the old entertainment giants have reorganized their content base and widened their digital ecosystems by acquisitions. To take an example, the acquisition of 21st Century Fox by Disney has turned out to be an epochal occasion in the structural realignment of the entertainment sector in the world. Its size of transaction, its high level of regulatory challenge and the involvement of investment banks in large scale make it a common study on cross-border M&As in the entertainment market.

The current literature primarily concentrates on the M&A behavior in manufacturing sectors, finance or energy sector, and comparatively few researches exist on the reality of involvement of investment bank in valuation and negotiations in the entertainment sector [4,5]. Moreover, there are no studies on individual large-scale cross-border M&A in previous literatures except the quantitative analysis. Thus, the present research makes the acquisition of 21 st century Fox by Disney the primary case study, in order to determine the particular roles that investment banks play in the transaction and the effects they have on the valuation, financing and regulatory negotiations. The research shall be a combination of market reactions and the public financial data in the industry with the aim of analyzing the rationality of the transaction price and the changes in financial performance after the acquisition.

It is in the hope that this paper, which critiques cases and compares the literature provides an insight into the essential roles of investment banks in cross-border entertainment industry M&As and continues to elaborate the roles of investment banks in enhancing resource integration, risk management and long-term strategic synergy. This work does not only shed light on what is actually involved in the work of investment banks, but also provide sources of references in decision making and consultancy strategies of such cross-border M&As in the future.

2. Literature review

Cross-border M&As in the global capital market have remained on the increase in the recent years. The investment banks involved in M&A deals have over the years increased in their activities beyond being mere financial advisors to various functions incorporating valuation, financing, regulatory coordination and strategic execution. According to the traditional study by Servaes and Zenner, the original role of investment banks was to minimize information asymmetry and reduce transaction costs during M&A negotiations. Nevertheless, as the scale of M&A have grown and the complexity of cross-border M&A has increased, academic studies analyzing the role of investment banks have started to delve into extensive mechanism analysis [2].

Recent empirical research indicated that investment banks both influence the pricing of transactions by professional valuation models and the actual completion of the transaction and the

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success of M&A in the market. These investment bank advisors possess industry experience and international expertise that can significantly reduce the time of the transaction completion and the likelihood of approval by the antitrust authorities [10]. Lee and Park also reported that in the high levels of content level of intangible assets in industries like the media and entertainment sector, the introduction of content copyright and market expectation parameters in the valuation constructs by investment banks assists in enhancing the rationality of pricing and avoiding unreasonable premiums. Simultaneously, according to research by Kim, Li, and Wei, there is a considerably positive correlation between the extent of investment bank involvement and post-merger market response. Investment banks that are well known are generally treated as a signaling effect by the market, thus influencing the change in stock prices and expectations by investors [11,12].

On the responsibility mechanisms, Gennaioli and Rossi indicated based on the contractual incentives that advisory fee structure of investment banks is positively related to the amount of due diligence input - reasonable incentive mechanism has the potential to compel investment banks to invest more resources in valuation, design of the financing structure and negotiation of regulatory procedures and enhance the quality of execution of the M&As [7]. Secondly, Chen and Zhou discovered that in cases where investment banks assume more than one role in the transaction structure (valuation advisor + financing arranger + regulatory coordinator), the success rate and synergy effect of M&As are greatly improved [13].

To conclude, recent research is uniform; investment banks have become, as opposed to being financial intermediaries, strategic executors of cross-border M&As. Their mandates go beyond the notion of valuation and financing, but the marketing of regulatory coordination, market positioning and integration strategies. This gives a theoretical foundation and practical relevance to this paper to examine the particular roles and effects of investment banks in the acquisition of Disney by 21 st Century Fox.

3. Case background

The takeover of 21 st century Fox by Disney is one of the most notable cross-border mergers in the history of the entertainment business in the world. It was announced on December 14, 2017, that the purchase price was some 71.3 billion, paid in cash and stock (approximately 35% cash and 65% stock). This was done on the 20 th of March, 2019. Disney purchased the majority of the entertainment properties of Fox, which included 20 th Century Fox Film, FX Networks, National Geographic Partners and its 30 percent stake in Hulu. Following the acquisition, Fox was left with fundamental operations of news and sports and realigned into Fox Corporation.

This acquisition has a core strategic driving force based on content integration and streaming competition. At the end of the 2010s, streaming services like NetFlix and Amazon Prime have risen to prominence and made a formidable impression on the conventional media giants. The traditional box office and TV divisions of Disney became feeble, and it desperately required to gain high-quality content and intellectual property via M&A to facilitate the international setting of its streaming platform Disney+. Meanwhile, despite 21 st Century Fox possessing rich film and television resources and international channels, it was hampered by bottlenecks in digital transformation and profitability. The sale of the key entertainment properties helped Fox to concentrate on the news and sports spheres and unlock the shareholder value. Moreover, it can be said that this transaction is quite complex not only in its size, but also in the regulatory checks of most countries worldwide. Since the acquisition can have an impact on the competitiveness of the media market, the U.S. Department of Justice, as well as the European Commission, presupposed that the acquisition cannot be approved without selling assets. Several investment banks, such as

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Goldman Sachs, J.P. Morgan, Guggenheim Partners, Deutsche Bank and Centerview Partners, were involved in valuation, financing, negotiations and antitrust coordination, offering the necessary assistance to the process of the transaction to be completed successfully.

4. Valuation analysis and rationality evaluation

The acquisition of 21 st Century Fox by Disney had two phases of evaluation. The original valuation in December 2017 is 52.4 billion (equity value, excluding net debt), which included 20th Century Fox Film Studio, FX Cable Network, 73 percent of National Geographic Partners, 30 percent of Hulu, Star India and 39 percent of Sky TV in Europe, according to an official announcement of Disney. In mid-2018, as the potential of the international market was growing and the integration advantages of streaming platforms, J.P. Morgan and Goldman Sachs have performed another discounted long-term income analysis, including the premium calculations of Star India and Sky, increasing the valuation to 71.3 billion. This premium is largely an adjustment of the expectations of the returns in the Asian and European markets, a decent strategic premium [12].

A hybridized approach of similar company approach and discounted cash flow (DCF) was taken by investment bank advisors. According to the current earnings before interest, taxes, depreciation and amortization (EBITDA) of Fox of 580 million, as shown in 2017 and in the industry average of 12-14x Enterprise Value /EBITDA, its valuation range would have been between 69.6 and 81.2 billion, which is extremely consistent with the final offer. Disney was given valuation and capital structure design by J.P. Morgan and Goldman Sachs, and Fox was negotiated and asset divestiture calculated by Guggenheim and Deutsche Bank. To obtain consistency in valuations and to facilitate the smooth flow of the transaction, the investment banks changed the discount rate (weighted average cost of capital of approximately 8 percent) and the growth assumptions (long-term growth rate of 3 percent). This is the price range and the structural optimization, which indicates the professional role of investment banks in the pricing, financing and risk balance [7,10].

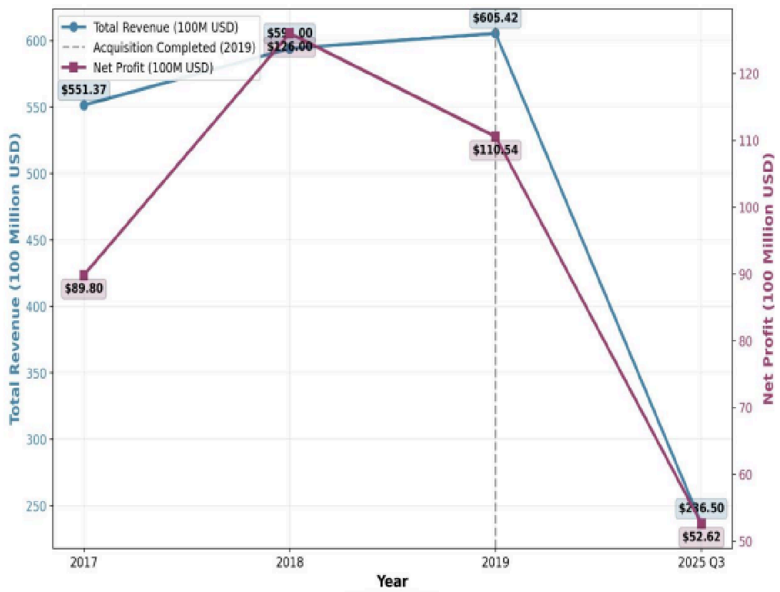

Figure 1. Display of trend of total revenue and net profit of Disney prior to acquisition of 21 st century and after the acquisition. Fox (2017 – 2025) (picture credit : original)

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In 2017, Disney had total revenue of $55.137 billion, in 2018, the total revenue stood at 59.1 billion, and in 2019, the total revenue was 60.542 billion, which decreased drastically to 23.65 billion in the third quarter of 2025 (refer to Figure 1). Its net profit also increased to 12.6 billion in 2018 as compared to 8.98 billion in 2017. It plummeted in 2019 to $11.054 billion; however, it plunged to $5.262 billion in the third quarter of 2025.

Based on the general direction of revenue and profit of the figure, Disney has experienced a growth trend in its total revenue and net profit between the year 2017 and 2019 and then experienced a significant decrease after the year 2019, reaching a low level in 2025. In 2019 (highlighted by the gray dotted line in the figure), Disney made the acquisition of 21st Century Fox. The total revenue and net profit of Disney were at a high level in 2019, shortly after the acquisition, which shows that the acquisition to some extent, supported the revenue and profit of the company in the short term. Nevertheless, they both plummeted later, probably because of inadequate integration of the acquisition or alterations in the market landscape that have had a tremendous influence on the financial standing of Disney.

Table 1. Valuation of 21st Century Fox

Valuation stage	Valuation amount	Scope of valuation assets
December 2017 (initial valuation)	$52.4 billion (equity value, excluding net debt)	1. 20th Century Fox Film Studio 2. FX Cable Network, 73% stake in National Geographic Partners 3. Star India, 30% stake in Hulu 4. 39% stake in Sky TV in Europe and superhero Intellectual Property adaptation rights
June 2018 - March 2019 (final valuation)	$71.3 billion (equity value, excluding net debt)	Consistent with the initial valuation asset scope, adding premium calculation for "long-term returns of international market assets (Star India, Sky)"

The Walt Disney Company To Acquire Twenty-First Century Fox, Inc., After Spinoff Of Certain Businesses, For $52.4 Billion In Stock - The Walt Disney Company. Table 1 shows that there are two valuations of 21 st century Fox. Its equity in the first valuation December 2017 had a value of $52.4 billion without taking into consideration net debt. The properties that have been involved in this valuation were; 20 th century Fox film studio, 73 percent ownership interest in FX cable network, interests in National Geographic partners, 30 percent interests in both Star India and Hulu, 39 percent interests in Sky television in Europe and interests in superhero intellectual property adaptations. Subsequently in the last valuation June 2018 to March 2019, the equity value is increased to 71.3billion without considering net debt. The assets were the same as in the previous time; however, this time they added an additional value known as a premium according to the long-term profits expected of the international assets such as Star India and Sky. Based on this, it can be observe that Fox value increased by more than 36 percent within a low period. This did not occur as they added new assets it is because the market believes that their assets abroad will earn them more in the future. This demonstrates also that these foreign investments are more important in the overall value of Fox.

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5. Financial performance before and after the acquisition

Table 2. Disney's revenue, market share and coverage in various fields before and after the acquisition

Indicators	Before acquisition (2017~2018)	After acquisition (2019~2025)
Total annual revenue	2017: $55.137 billion 2018: $59.4 billion	2019: $60.542 billion 2025: $23.65 billion
Annual net profit attributable to shareholders	2017: $8.98 billion (-4%); 2018: $12.6 billion (+40%)	2019: $11.054 billion 2025: $5.262 billion
Film and television market share	2018: 30% in the U.S.; 15%-20% globally	2019: 40% in the U.S.; 25%-30% globally in 2025
Streaming coverage rate	0% (no independent platform)	2025: Disney+ 22%; Hulu 19%
Sports media coverage rate	ESPN: 60% in the U.S.	ESPN: 85% in the U.S.; Star India: 90% in India

Table 2 indicates that, as per the annual report issued by Disney, Disney actually offered (equity value) of 52.4 billion in December of 2017 and 71.3 billion in 2018. The operating income of the company has grown before the acquisition (2017-2018) by three percent, compared to 55.14 billion, and the net profit has grown three times compared to 8.98 billion. The total revenue was increasing after the acquisition (2019-2025): in 2019, it was $60.5 billion, and it will increase to 236.5 billion in 2025, yet the net profit reduced in the short term $5.26 billion in 2025, the scale and cash flow of assets of the company continue to increase. This implies that Fox initial integration attracted financial strain; however, the prospects of their earnings in the long term are high.

Market share-wise, the inclusion of Fox content has given Disney a lot of strength concerning the market share. The U.S. in terms of film and television market share has grown to 40% (2019) as compared to 30% (2018) with a global market share of 25-30% (2025) as compared to 15-20%. Moreover, the growth in the streaming segment is quite impressive: Disney+ has already reached 22 percent global coverage and Hulu 19 percent (2025), which creates a multi-layer content, platform, and area integration. In the sports media, ESPN market share in the U.S. grew by 60 percent to 85 percent and Star India reached up to 90 percent in the Indian market. Such statistics indicate that this M&A has greatly enhanced the competitiveness and control of media of Disney in the diverse global markets.

6. Market reaction and investment bank roles

Regarding the market, on the announcement day (December 14, 2017), the share price of Fox increased by 7.5 percent, whereas the share price of Disney declined by 2.8 percent which is a normal merger premium effect [13]. Nevertheless, when the transaction was closed, Disney stock price increased over 10% in a year and went on increasing after the Disney+ was introduced, which signifies that the market was slowly realizing the long-term worth of this purchase.

At the level of execution, the investment banks, in addition to offering the valuation models, were being involved in the transaction financing as well as the coordination of compliance. To facilitate the liquidity of transactions, Goldman Sachs has advanced a bridge loan of approximately 9 billion dollars, J.P. Morgan has facilitated the antitrust discussions with U.S. Department of justice and the European Commission and planned the asset sales to meet the regulations. This multi-level involvement proves the opinion of Kim et al.: top investment banks can greatly enhance the location

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of the transaction rate based on the professional networks and experience of compliance in cross-border M&As [12].

Comprehensively, the acquisition of Fox by Disney is indicative of a shift in investment banks mode of operation which has moved away with that of valuation counselors to that of strategic implementers. They struck a balance between financial rationality and strategic premium in the valuation link, fund availability and safety of capital structure in the financing link, global resource integration and containment of policy risks in the market and regulatory links.

In financial terms, the acquisition of Fox by Disney resulted in profitability in the short-term, but demonstrated a tendency for slow development of strategic benefits in the long-term. The company has seen a rise in revenue following the acquisition with a revenue of 59.4 billion in 2018 before the acquisition and 60.5 billion in 2019, and is projected to have a revenue of 236.5 billion in 2025, which indicates that the integration of content assets has given the company a great push in revenue growth. Nevertheless, the net profit after taxes to shareholders decreased in 2025 as compared to 2019, to 5.262 billion, showing incurred high initial integration and platform building expenditure following the M&A. The gross profit margin decreased by 41.8 per cent in 2018 and further to 15.4 per cent in 2025, which is another indication that the M&A exerted strain on profit efficiency in the short run. Nonetheless, it is worth mentioning that Disney has demonstrated conspicuous growth of asset structure and market coverage. The asset-liability ratio decreased to 42.1% following the acquisition, which demonstrates that the company has achieved progress in the solvency and optimization of the capital structure.

More to the point, the success of this M&A strategy has been confirmed by the performance on the market. Disney+ coverage rate and Hulu coverage rate shot up by 0% to 22% and 19% respectively, and ESPN coverage rate in the U.S. soared to 85 percentage and Star India rose to 90 percent in the Indian market compared to before the acquisition of 60 percent and 15 percent-20 percent, respectively, and film and television content market share rose to 40 percent and 25 percent-30 percent relative to 30 percent and 15 percent-20 percent, respectively. These statistics reveal that this M&A has successfully fulfilled several objectives of content ecosystem integration, platform strategic layout and market expansion in the region. The integration of financial and strategic aspects, as well as market one, makes this M&A a successful case with short-term financial pressure and significant medium and long-term synergy.

7. Conclusion

Using the acquisition of 21 st Century Fox by Disney as the object of the research, the biggest cross-border M&A in the worldwide entertainment sector, this paper analytically examines the essence of responsibilities of investment banks in valuation modeling, financing structuring, negotiations with regulators and strategic promotion, coupled with publicly accessible financial data, shifts in market shares and indicators of industry covers. The study findings demonstrate that despite the fact that this M&A has resulted in financial strains, in terms of decreasing gross profit margin, net profit pressure and increased integration costs in the short-term; in the long and medium-term, Disney has experienced tremendous growth in film and television contents, streaming platforms and sports media networks, with a massive increment in global market share, which means that the resource integration effect of the M&A has been converted into real strategic gains. In general, the case can be considered as a successful entertainment M&A of a long-term strategic level across borders.

This work is a valuable insight into similar transactions in the future. To acquire companies, they ought to be concerned about long-term synergy and not short-term profits in valuation, pre-merge planning (PMI) and take advantage of the synergy potential between content, channels and

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platforms. In the case of investment banks, this is demonstrating that they have further expanded the role they have in their traditional financial advisors to strategic advisors. They ought to enhance industry research capabilities and special valuation model construction in the future to enhance the rate of accomplishing transactions and the promotion of synergy. A more transparent approval mechanism must be implemented at the cross-border regulatory level, and enterprises should also pay attention to the planning of the asset sales and compliance plans to enhance the success rate of the complex cross-border M&As. Overall, the Disney-Fox case is an essential source to refer to the cross-border integration in the entertainment sector, and it also demonstrates that the professional competence of the investment banks in the large-scale deals serves as the most significant driver to the implementation of the transaction and value creation.

Authors contribution

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

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