Is Disney's Magic Running Out?

By Shui Hu

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Disney has always been perceived as a magical place, but it is now facing the test of reality. In the recent two years, The Walt Disney Company's financial strength and popularity have been on a downward trend.

Disney's financial data, such as operating margin and debt/EBITDA ratio, is below the acceptable value. It contrasts with its competitor Comcast Corporation, whose data is often above the acceptable value.

From Yahoo Finance, Disney has an operating margin of 7.51% for the first quarter of 2022. However, this is below the average operating margin for the S&P 500, which was 10.44% for the first quarter of 2022, according to CSI Market. Disney's low operating margin indicates that its operating costs and/or non-operating costs are too high. In contrast, Comcast has an operating margin of 17.89%, about 10% higher than Disney.

In terms of Debt/EBITDA ratio, Disney's ratio is 5.13. However, according to the Corporate Finance Institute (CFI), a ratio higher than 3 or 4 gives the company a "red flag", indicating it may be "financially distressed in the future." It also implies that Disney is not really capable of paying its debt and other liabilities.

Once again, Comcast did better than Disney, with a Debt/EBITDA ratio of 3.10. Although Comcast's debt (107.26B) is about double that of Disney (54.13B), Comcast has 3 times more EBITDA (34.62B) than Disney (10.56B), which explains why Comcast has a less Debt/EBITDA ratio.

Even Disney's debt being over 100B, its highest paid member CEO Mr. Robert A. Chapek received 17.14M in 2021. In comparison, Comcast, despite having less debt and higher EBITDA, paid its highest pay member CEO Brian L. Roberts 11.38M. CEO Brian Robert's pay is about 66% of that of CEO Bob Chapek.

Yet, Disney has a market cap of 249.479B and 152,000 full-time employees, while Comcast has a market cap of 207.099B and 189,000 full-time employees. Although it is reasonable for Disney to pay their CEO higher than Comcast due to having a higher market cap and fewer employees, I believe Disney still needs to reduce the pay for CEO Bob Chapek in order to alleviate the pressure from less debt and higher EBITDA.

In addition, according to Yahoo Finance's stock chart, Disney's stock price displayed a decreasing trend from 2021 to 2022. This implies that fewer people want to buy a stock from Disney than sell it.

The decreasing stock price might be because Disney's shareholders and the public became dissatisfied with the company. The two probable main factors for their dissatisfaction are Disney's rejection of shareholder proposals and CEO Bob Chapek's public condemnation of Florida's "Parental Rights in Education" bill after initially refusing to comment on it.

First, according to Disney's 2022 Schedule 8-k, its board was against all of the shareholder proposals (#4-8 below). Those proposals include lobbying disclosure, special meeting threshold, human rights due diligence report, pay equity report, and workplace non-discrimination audit.

On the contrary, Disney was for all the other proposals that are not proposed by shareholders (#1-3 below). Those proposals include election of directors, ratification of appointment of independent registered public accountants, and advisory vote on executive compensation.

PROPOSAL	FOR MORE INFORMATION	BOARD RECOMMENDATION
Proposal 1: Election of the eleven nominees named in the proxy statement as Directors, each for a term of one year.	Page 72	For each nominee
Proposal 2: Ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accountants for fiscal 2022.	Page 73	For
Proposal 3: Consideration of an advisory vote to approve executive compensation.	Page 74	For
Proposal 4: Shareholder proposal, if properly presented at the meeting, requesting an annual report disclosing information regarding lobbying policies and activities.	Pages 75-76	Against
Proposal 5: Shareholder proposal, if properly presented at the meeting, requesting amendment of the Company's governing documents to lower the stock ownership threshold to call a special meeting of shareholders.	Pages 77-78	Against
Proposal 6: Shareholder proposal, if properly presented at the meeting, requesting a diligence report evaluating human rights impacts.	Pages 79-80	Against
Proposal 7: Shareholder proposal, if properly presented at the meeting, requesting a report on both median and adjusted pay gaps across race and gender.	Pages 81-82	Against
Proposal 8: Shareholder proposal, if properly presented at the meeting, requesting a workplace non-discrimination audit and report.	Pages 83-84	Against

Disney's Schedule 14A includes the reasons for the board's rejection of those shareholder proposals. Those reasons are basically the same: Disney has already done a good job in the problems that shareholders proposed to improve upon.

For example, for the shareholder proposal to disclose all of Disney's lobbying efforts, Disney claims that it has already enhanced its lobbying disclosure by "expanding its scope and more clearly articulating its policy — Political Giving and Participation in the Formulation of Public Policy in the United States."

But 2022 is the 7th year that this has been proposed, and it is clear that at least some shareholders are not satisfied with Disney's explanation. Those shareholders' supporting statements for the proposal include data that proves Disney's lack of lobbying effort transparency and displays their shocking amount of spending - $42,965,000 - from 2010-2020 on federal lobbying. It indicates Disney's need to further disclose their lobbying activities as well as reduce them.

Second, in March, 2022, CEO Bob Chapek called DeSantis, governor of Florida, in protest about Florida's "Parental Rights in Education" bill. This bill bans classroom discussions of sexual orientation and gender identity up to 3rd grade.

According to Disney’s tweet, some of the measures CEO Bob Chapek claimed to take against the bill include “increasing support for advocacy groups to combat similar legislation in other states” and “pausing all political donations in the state of Florida.”

Walt Disney Company @WaltDisneyCo · Mar 11

Today, our CEO Bob Chapek sent an important message to Disney employees about our support for the LGBTQ+ community: bit.ly/3pX8dbd

To my fellow colleagues, but especially our LGBTQ+ community,

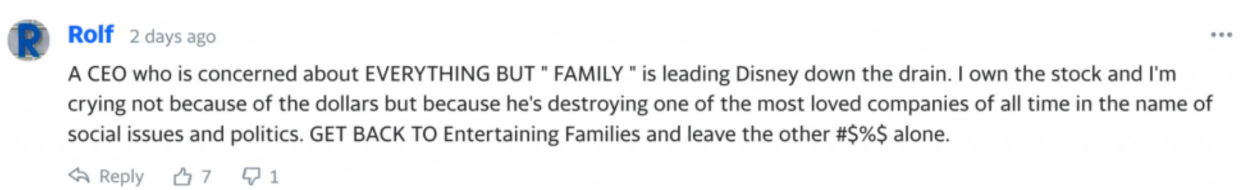
Thank you to all who have reached out to me sharing your pain, frustration and sadness over the company’s response to the Florida “Don’t Say Gay” bill. Speaking to you, reading your messages, and meeting with you have helped me better understand how painful our silence was. It is clear that this is not just an issue about a bill in Florida, but instead yet another challenge to basic human rights. You needed me to be a stronger ally in the fight for equal rights and I let you down. I am sorry.

Starting immediately, we are increasing our support for advocacy groups to combat similar legislation in other states. We are hard at work creating a new framework for our political giving that will ensure our advocacy better reflects our values. And today, we are pausing all political donations in the state of Florida

and stronger company because of our LGBTQ+ community. I missed the mark in this case but am an ally you can count on —and I will be an outspoken champion for the protections, visibility, and opportunity you deserve.

754 2,318 3,472

But some shareholders are dissatisfied. They argue that Disney, as an entertainment company, is responsible to treat its employees, customers, and shareholders of different political stances fairly. They believe the CEO should not publicly declare a political stance that represents the company and distract the company from its main purpose of entertainment.



Rolf 2 days ago

A CEO who is concerned about EVERYTHING BUT " FAMILY " is leading Disney down the drain. I own the stock and I'm crying not because of the dollars but because he's destroying one of the most loved companies of all time in the name of social issues and politics. GET BACK TO Entertaining Families and leave the other #$%$ alone.

Reply 7 1

Anonymous 5 days ago

Why is it so difficult for some CEO's to stay out of public politics? Here's all they need to say (no need for any royalty if a CEO reading this message board wishes to use this) - "We do not comment or take action on matters that do not directly impact our business. Doing so would be unfair to our employees, our customers and our shareholders all of whom have a variety of political, religious and social issues. We here at [insert company name] treat all people with the same great service/products and do not discriminate on the basis of gender, race, sexual preference, religious beliefs, nationality, etc"

Less

Reply Replies (9) 46

As a result, due to CEO Bob Chapek's public condemnation of the bill, he was criticized by some shareholders for interfering in politics, while dealing with a walkout by Disney employees who thought his condemnation didn't come soon enough.

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