

Note on the Impact of Industry and Firm Factors on Firm Profitability: An Analysis of the Fortune 1000 (1996-2004)

The Walt Disney Company

Orlando, Florida Anaheim, California Tokyo, Japan

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Possible Solutions

1. Pay 100% cash for the acquisition. This would result in a large cash outflow at the time of the acquisition, but it would avoid the debt covenants associated with the loan.

2. Obtain a new loan to finance the acquisition. This would result in a large cash outflow at the time of the acquisition, but it would avoid the debt covenants associated with the loan.

Swap

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Revenue	10,000	10,500	11,000	11,500	12,000	12,500	13,000	13,500	14,000
Expenses	8,000	8,500	9,000	9,500	10,000	10,500	11,000	11,500	12,000
Profit	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000

Problem: Foreign Exchange Rate Exposure

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Bullet Loan

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Revenue	10,000	10,500	11,000	11,500	12,000	12,500	13,000	13,500	14,000
Expenses	8,000	8,500	9,000	9,500	10,000	10,500	11,000	11,500	12,000
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Hedging Limitations

	1996	1997	1998
Revenue	10,000	10,500	11,000
Expenses	8,000	8,500	9,000
Profit	2,000	2,000	2,000

- Futures Contract
- FX Forward Contract
- Foreign-Currency Swap
- Longer Maturity
- Eurodollar Debt Issue
- Euroyen Bonds

ECU Eurobond

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
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Risks

- Interest-Rate Risk
- Basis Risk
- Exchange-Rate Risk
- Credit Risk
- Maturity Risk
- Sovereign Risk

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Conclusions

- Swap (French) IRR 8.19%
- ECU Eurobond IRR 8.47%
- Bullet Loan IRR 7.75%
- Swap (Dixney) IRR 7.01%

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Problem: Foreign Exchange Rate Exposure

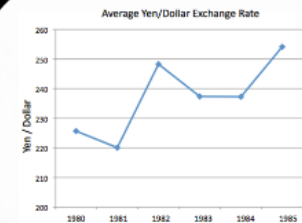
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	1984	1983	1982
Revenues:			
Entertainment and recreation	\$1,027,329	\$1,021,202	\$725,818
Film-related	344,202	165,428	302,152
Community development	204,384		
Other	100,000	110,000	107,538
Conservative products	\$1,865,977	\$1,307,937	\$1,080,250

Exhibit 1

	1984	1983
Assets:		
Cash	\$35,348	\$18,855
Accounts and notes receivable	172,782	164,748
(net)		
Taxes on income refundable	80,000	70,000
Marketable securities	82,487	77,845
Film production costs	102,452	127,910
Goodwill investments	229,424	
Intangible assets and other property	2,413,985	2,251,287
Less accumulated depreciation	(895,158)	(624,265)
	\$1,813,629	\$1,748,832
Construction and design projects in progress	94,710	168,190
Lease	28,807	16,887
Liabilities	\$1,837,248	\$1,871,800
Other assets	118,658	111,630
	\$2,739,443	\$2,361,195

Exhibit 2



From Exhibit 4

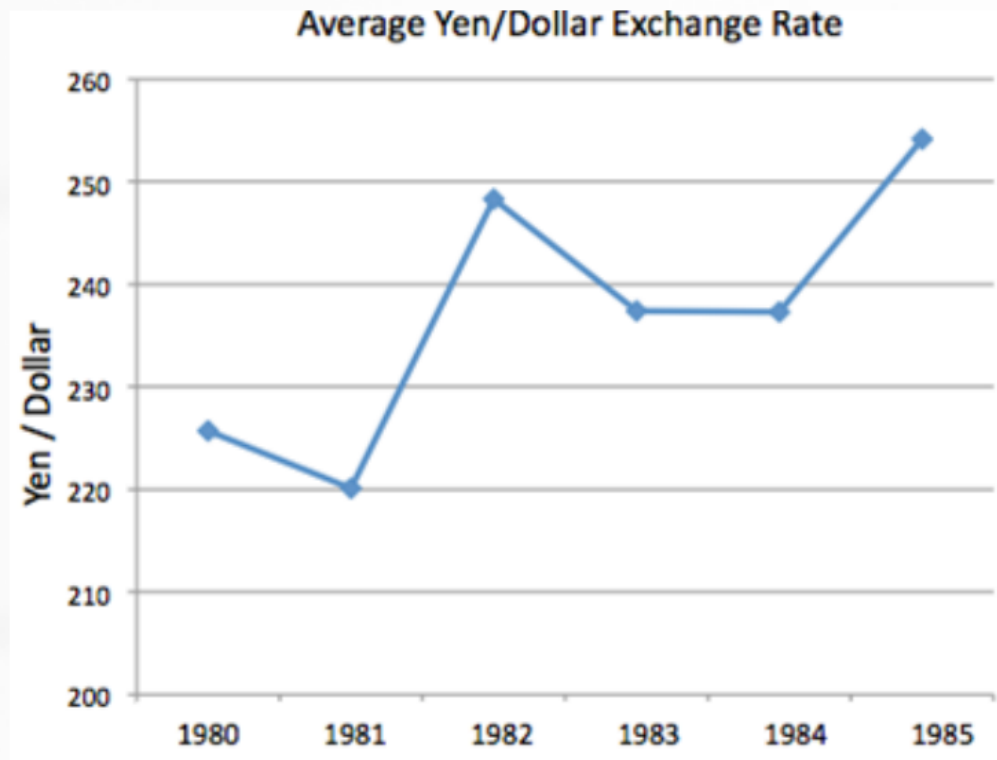
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	1984	1983	1982
Revenues:			
Entertainment and recreation	\$1,097,359	\$1,031,202	\$725,610
Filmed entertainment	244,552	165,458	202,102
Community development	204,384		
Consumer products	109,682	110,697	102,538
	<u>\$1,655,977</u>	<u>\$1,307,357</u>	<u>\$1,030,250</u>

Exhibit 1



From Exhibit 4

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A ¥15 billion ten-year bullet loan, with principle repaid at final maturity, which required interest of 7.50% paid semiannually and front-end fees of 0.75% (75 basis points)

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- Credit Risk
- Mismatch Risk
- Sovereign Risk

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- Swap (Disney) IRR 7.01%

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