



The
(W)ALT DISNEY
Company

Q3 FY21 Earnings Conference Call

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Disney Speakers:

Bob Chapek

Chief Executive Officer

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations



PRESENTATION

Operator

Thank you for standing by, and welcome to The Walt Disney Company Third Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your host, Lowell Singer, Senior Vice President of Investor Relations. Please go ahead.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Good afternoon, and it's my pleasure to welcome everyone to The Walt Disney Company's third quarter 2021 earnings call. Our press release was issued about 25 minutes ago and is available on our website at www.disney.com/investors. Today's call is also being webcast, and we will post a transcript of this call to our website.

Joining me remotely today are Bob Chapek, Disney's Chief Executive Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Following comments from Bob and Christine, we'll of course be happy to take some of your questions. So with that, let me turn the call over to Bob to get started.

Bob Chapek – *Chief Executive Officer, The Walt Disney Company*

Thanks, Lowell; and hello everyone.

Today I'd like to start off by talking about our company's priorities for the future. As has been the case for Disney's nearly 100-year history, it all begins with great storytelling, which is the foundation of our special connection to audiences and guests. And our foremost priority will



continue to be to tell the world's most original and enduring stories, brought to life by the world's most talented creators.

As home to some of the most beloved franchises, we will maximize the synergy of our unique eco-system to further deepen consumers' connection to our characters and stories. And we will use the power of our far-reaching platforms and emerging technologies to better anticipate what our consumers want and deliver them a more seamless and more personalized entertainment experience.

We are executing against these priorities, and the results clearly speak for themselves. Looking across the Company over the past quarter, we are pleased with the trajectory we are on as we continue to grow our businesses despite the challenges presented by the ongoing, ever-changing COVID-19 pandemic. We ended the third fiscal quarter in a strong position, with adjusted EPS up tenfold to \$0.80, compared to \$0.08 last year.

At our Parks, Experiences and Products business, we are encouraged by some of the positive trends we're seeing and new developments we have been hard at work on, including the brand-new Avengers Campus at Disney California Adventure, where guests can team up with their favorite superheroes in thrilling ways.

At our international parks, Shanghai is celebrating its 5th anniversary this year with great fanfare, and we welcomed the first guests to our reimagined Marvel-themed hotel in Disneyland Paris.

Meanwhile, work continues on a wide array of new experiences, including the one-of-a-kind Star Wars-themed Galactic Starcruiser at Walt Disney World. And, as part of a multi-year transformation of Epcot, we'll soon introduce our extraordinary new nighttime spectacular Harmonious.



Last month, we completed our first cruise since the start of the pandemic with the *Disney Magic*, which is currently sailing short-term “staycations” for UK residents. And the *Disney Dream* set sail on its first U.S.-based cruise this week. Future bookings for all of our ships remain strong, with bookings in the third quarter in particular having benefited from the announcement of our fall 2022 itineraries, and the successful marketing launch of our fifth ship, the *Disney Wish*, which will set sail in summer of 2022.

As our parks business continues its recovery and we see demand grow, we are now putting into action some of the amazing guest-centric services that we have been developing over the last few years. These include Magic Key, our recently-announced new Annual Pass Membership program at Disneyland. It provides great value and a variety of options for our guests and will be available starting on August 25. The reaction to the news from fans has been extremely positive.

Additionally, we've made significant investments in sophisticated technology and tools, creating a revolutionary new multi-tiered service we're calling Disney Genie, that will enable our guests to more easily and efficiently navigate everything our Parks have to offer. We're very, very excited about this new service and will be providing additional details soon.

The goal of Disney Genie, which will appear in a user-friendly app, is to create a better, more personalized and customized experience for guests.... putting them in control and providing even greater flexibility and choice. They'll be able to spend less time waiting in line and figuring out what attractions or dining options are available, and more time having fun.

On the direct-to-consumer side, we are extremely pleased with the continuing success of our portfolio of streaming services. Disney+, ESPN+ and Hulu have performed incredibly well, with 116 million, 14.9 million and 42.8 million subscribers, respectively - for a total of nearly 174 million subscriptions.



Numerous breakout hits from our beloved brands, including Pixar's *Luca* and Marvel's *Loki* and *The Falcon and the Winter Soldier*, have contributed to strong engagement and new subscriber growth in core Disney+ markets.

And we have continued to launch Disney+ in new markets around the world, including Disney+ Hotstar in Malaysia and Thailand in Q3.

Disney+ is also currently available in a limited capacity in Japan and will expand to the full market in late October, followed by additional APAC markets, including South Korea, Taiwan and Hong Kong in mid-November. The launch of Disney+ in Eastern Europe has moved from late 2021 to summer of 2022, primarily to allow for an expanded footprint that will include parts of the Middle East and South Africa.

Additionally, we are excited about the launch of Star+ throughout Latin America later this month.

As we've said, our direct-to-consumer business is the Company's top priority. And among our unique advantages in promoting and growing our DTC service are our powerhouse brands and the vast array of direct consumer touch points we have across our businesses - from our media networks to our theme parks to our consumer products. This synergy enables us to raise consumer awareness and further increase engagement with our streaming services. And the power of this synergy will be on full display on November 12th when we celebrate Disney+ Day with an unprecedented company-wide cross-promotional campaign.

Our robust pipeline of content continues to fuel growth, and we have an incredible line-up of new programming for Disney+. On Thanksgiving Day, we are thrilled to be premiering the first of Peter Jackson's highly-anticipated six-episode Beatles documentary, *Get Back*. We also have exciting new series from Marvel, Star Wars and National Geographic coming later this year—



including Marvel's *Hawkeye*, starring Jeremy Renner and Hailee Steinfeld; *The Mandalorian* spin-off *The Book of Boba Fett*; and National Geographic's *Welcome to Earth* with Will Smith.

With respect to our current approach to distributing our feature-length films, last year, in light of the prolonged and unpredictable nature of the pandemic, we needed to find alternative ways to bring our movies to consumers while theaters were closed. And, once they began to reopen, there was still widespread reluctance to return. Therefore, we adopted a three-pronged strategy for releasing our films that consisted of theatrical releases, direct to Disney+, and a hybrid of theatrical plus Premier Access.... as we did with *Cruella*, *Jungle Cruise*, and Marvel's *Black Widow* - the top performing film at the domestic box office since the start of the pandemic.

Both Bob Iger and I, along with the leaders of our creative and distribution teams, determined this was the right strategy because it would enable us to reach the broadest possible audience. And just to reiterate, distribution decisions are made on a film-by-film basis, based on global marketplace conditions and consumer behavior.

We will continue to utilize all available options going forward, learn from insights gained with each release, and innovate accordingly - while always doing what we believe is in the best interest of the film and the best interest of our constituents.

We have an incredible slate of upcoming theatrical films, starting with *Free Guy* which premieres tomorrow, followed by Marvel's newest action-adventure *Shang-Chi and The Legend of The Ten Rings* on September 3rd.

The highly anticipated live-action musical *West Side Story*, from Steven Spielberg, is set for December, as is *The King's Man*, a prequel in the popular Kingsman series.

We have Disney Animation Studios' *Encanto*, an incredibly heart-warming story set in a magical town in Colombia and featuring music by the incomparable Lin-Manuel Miranda.



Our Marvel slate includes four feature films in fiscal 2022: the all-new *Eternals* alongside sequels to *Doctor Strange*, *Thor* and *Black Panther*.

A brand-new Indiana Jones adventure starring Harrison Ford is due in the summer, as is the origin story of another intrepid explorer in *Lightyear*, a spin-off of the beloved Toy Story franchise. It's a widely appealing slate with something for everybody.

Our goal is always to provide guests and consumers with unparalleled entertainment, whether they're visiting one of our parks or watching one of our films in a theater or on our streaming platforms. And as we continue our recovery, we believe we are taking the right steps to further this goal while growing our businesses and increasing shareholder value.

Personally, I am as optimistic as ever about the future of our company. We have a robust and growing portfolio of DTC services powered by the world's best storytellers and the greatest brands and franchises - and a parks business which extends those stories and creates a place where magic comes to life in a more guest-friendly way than ever.

With that, I'll turn it over to Christine and she'll talk in greater detail about the quarter and the way ahead.

Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Thanks, Bob, and good afternoon everyone.

Excluding certain items, diluted earnings per share for the third fiscal quarter was 80 cents – an increase of 72 cents from the prior year quarter.

I'll walk through our results today by segment – starting with Parks, Experiences and Products, where we continued to benefit from improvements and recovery at our Parks and Resorts, as



well as at Consumer Products. Segment operating income at DPEP in Q3 increased by \$2.2 billion year-over-year.

At Parks and Experiences, we continued to benefit in the third quarter from the re-opening of our sites around the world. Walt Disney World Resort and Shanghai Disney Resort were both open for the entire third quarter, whereas in the prior year quarter Walt Disney World was closed for the entire quarter and Shanghai Disney was open for 48 days. Hong Kong Disneyland and Disneyland Paris were open for 72 days and 19 days, respectively, in the third quarter, versus 10 days and zero days in the prior year quarter. And Disneyland Resort was open for 65 days during the third quarter, and was closed for all of the prior year quarter.

At Walt Disney World, third quarter attendance levels were generally at or near our daily capacity levels, which increased throughout the quarter.

Disneyland Resort also steadily increased attendance and capacity following its reopening at the end of April, and particularly after the lifting of California state restrictions on June 15th.

Guest spending at our domestic parks has been exceptionally strong, with third quarter per caps up significantly versus fiscal 2019 at both Walt Disney World and Disneyland. Guest spend has benefitted from pent-up demand and favorable guest mix, driving higher admissions per caps, as well as from spending on products related to *Star Wars: Galaxy's Edge* and *Avengers Campus*.

Looking forward, theme park reservations at both of our domestic parks remain strong, and we continue to utilize our yield management strategy to deliver the optimal guest experience and provide flexibility to our guests during these dynamic times, all while driving economic margin for our shareholders.

At Consumer Products, improved results year-over-year were driven by growth at both our merchandise licensing and retail businesses. Growth in merchandise licensing was primarily due



to higher revenue from merchandise based on several of our key franchises, including Mickey and Minnie, Star Wars – including *The Mandalorian*, Disney Princess, and Spider-Man. The increase in retail was due to higher results at Disney Stores, most of which were closed in the prior year quarter, as well as a comparison to the impairment of store assets in the prior year quarter.

Moving on to our Media and Entertainment Distribution segment, third quarter operating income decreased by about \$1 billion versus the prior year, as improved results at Direct-to-Consumer were offset by declines at Linear Networks and Content Sales, Licensing and Other.

At Linear Networks, operating results were lower at both our domestic and international channels.

At Domestic Channels, both Cable and Broadcasting operating income decreased in the third quarter versus the prior year.

The decrease in operating income at Cable was due to higher programming and production costs and higher marketing costs, partially offset by higher advertising and affiliate revenue. As we called out last quarter, the increase in Q3 programming and production costs was due to the return of live sports at ESPN, driven by the NBA and Major League Baseball. In the prior year quarter, a significant number of live sporting events were canceled or delayed due to COVID-19.

At Broadcasting, lower results from the ABC Television Network were only partially offset by growth at our owned television stations. The decrease at ABC was largely due to higher programming and production costs, partially offset by higher advertising and affiliate revenue. The increase in programming and production costs was due to an increase in the average cost of programming and the shift in timing of The Academy Awards, which aired in the third quarter compared to the second quarter in the prior fiscal year.



Domestic advertising revenue increased year-over-year at both Cable and Broadcasting, driven by favorable comparisons versus the prior year due to COVID-19. At Cable, the increase was driven by ESPN, where third quarter advertising revenue increased by \$400 million versus the prior year, reflecting the return of live sporting events.

Q4-to-date, domestic cash advertising revenue at ESPN is currently pacing above prior year, but bear in mind that this comparison is complicated by various COVID and timing impacts from the prior year. We're not going to provide a forecast for the quarter, but the underlying sports ad marketplace remains strong for us, particularly in a quarter in which the Olympics were held.

At Broadcasting, higher advertising results were primarily driven by increased rates and the timing of The Academy Awards, which benefitted both the owned television stations and ABC.

Total domestic affiliate revenue increased 4% in the quarter. This was driven by a benefit of 8 points of growth from higher rates, offset by a 3-point decline due to a decrease in subscribers.

Results at International Channels declined due to higher programming and production costs, partially offset by higher advertising revenue. Both of these factors were impacted by the return of live sporting events, and in particular the Indian Premier League, which held cricket matches from April 9th until the season was postponed on May 4th, versus no matches in the prior year quarter due to COVID-19.

Turning to Direct-to-Consumer, Q3 operating income improved by over \$300 million versus the prior year driven by Hulu, partially offset by a higher loss at Disney+.

The increase at Hulu was due to growth in subscription and advertising revenue, partially offset by higher programming costs related to Hulu Live. Hulu ended the third quarter with 42.8 million paid subscribers, up from 41.6 million in Q2, inclusive of the Hulu Live digital MVPD



service. Paid subscribers to Hulu Live decreased slightly to 3.7 million, from 3.8 million at the end of Q2.

At Disney+, operating results decreased versus the prior year due to higher programming and production, marketing, and technology costs, driven by the ongoing expansion of the service. These higher costs were partially offset by increased subscription revenue, reflecting subscriber growth and increases in retail pricing, as well as Premier Access revenue for *Cruella*. Note that Disney+ Premier Access revenue is included in our DTC operating results, but is excluded for the purposes of calculating ARPU.

As Bob mentioned earlier, we ended the third quarter with 116 million global paid subscribers to Disney+, up from approximately 104 million in the second quarter. Disney+ Hotstar accounted for the majority of our net subscriber additions between Q2 and Q3, making up a little less than 40% of our total Disney+ subscriber base as of the end of the third quarter. However, subscriber growth was also solid at our core Disney+ markets, excluding Disney+ Hotstar, with total quarter-over-quarter net adds in those markets consistent with net adds from Q2.

Disney+'s overall ARPU this quarter was \$4.16. Excluding Disney+ Hotstar, it was \$6.12, or an increase of about 50 cents versus the second quarter – reflecting a benefit from the recent price increases both domestically and abroad. Disney+ Hotstar ARPU also increased from Q2 to Q3, due to higher ad revenue per subscriber, reflecting the roughly four weeks of IPL matches that were played in Q3, versus none in Q2.

At ESPN+, operating results in the quarter were comparable versus the prior year. ESPN+ ended Q3 with 14.9 million paid subscribers, reflecting over one million net subscriber additions versus the second quarter.

Content Sales, Licensing, and Other operating income at DMED decreased in the third quarter versus the prior year, due to lower home entertainment and theatrical distribution results.



The decrease in home entertainment results was due to lower unit sales of new release titles, reflecting the performance of *Raya and the Last Dragon* and *Soul* in the third quarter compared to *Star Wars: The Rise of Skywalker*, *Frozen II*, *Onward*, *Call of the Wild*, and *Ford v Ferrari* in the prior year quarter, along with lower catalog sales.

The decrease in theatrical distribution results was primarily due to higher marketing expense for future releases and lower operating income from titles in release.

Looking ahead, there are a handful of items I would like to mention as you think about our fourth quarter.

At Linear Networks, we expect fourth quarter operating income to decline versus the prior year, reflecting incremental marketing and programming costs at ABC and FX, in addition to an adverse comparison to last year's benefit from the 53rd week. The increase in marketing and programming expenses at ABC and FX is driven by a more than two-fold increase in the number of series premieres versus the prior year quarter, as productions in the prior year were impacted by COVID. As it relates to the 53rd week, recall that last year we estimated a benefit of approximately \$200 million to the company, which primarily impacted our linear networks.

At Content Sales, Licensing, and Other, we are expecting an operating loss in the fourth quarter, driven by a number of items, including higher marketing and distribution costs in the theatrical window due to more titles being released versus the prior year, in addition to lower results from home entertainment and third party content licensing.

We now expect our capital expenditures in fiscal 2021 to be approximately \$200 million lower than our fiscal 2020 capex of \$4 billion, due to lower spending at our domestic parks and resorts, partially offset by increased spending for facilities across the enterprise, and technology for our DTC services.



And finally, in light of the ongoing recovery from the COVID-19 pandemic as well as our continued prioritization of investments that support our growth initiatives, the Board decided not to declare or pay a dividend for the first half of fiscal 2021. Longer term, we do anticipate that both dividends and share repurchases will remain a part of our capital allocation strategy. However, for the time being, we don't anticipate declaring a dividend or repurchasing shares until we return to a more normalized operating environment and our leverage is back to levels more consistent with a Single-A credit rating.

And with that, I'll now turn the call back over to Lowell, and we would be happy to take your questions.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. Thanks, Christine. And once again, as we transition to the Q&A, let me note that since we are not physically together this afternoon, I will do my best to moderate the Q&A by directing your questions to the appropriate executive.

And with that, we are ready for the first question.

Operator

Our first question comes from the line of Michael Nathanson of MoffettNathanson.

Michael Nathanson – *MoffettNathanson*

Lowell, I'll let you choose the speakers, but here are the questions.

One is, I wanted to understand how the company is thinking about near-term theatrical releases given the steep fall off in second week box, rise of the Delta variant, international markets still unopened. So why not delay or pause release schedules?



And then, secondly, on DTC profits, I guess, more Hulu profits, it looks like continually they're getting better than expected. I think you turned profitable this quarter with Hulu. So I'm wondering why that improvement and why not revisit maybe some of the guidance that was shared earlier on DTC profitability, just given the continual improvement in what looks like Hulu profitability.

Lowell Singer – Senior Vice President, Investor Relations, The Walt Disney Company

Okay. Michael, thank you for those questions. I'll turn the first one over to Bob and then Christine can address the Hulu profitability question.

Bob Chapek – Chief Executive Officer, The Walt Disney Company

Michael, as you probably recognize we live in a very uncertain world in terms of the recovery of some of our markets and the theatrical exhibition world is certainly part of that. We've said from the very beginning that we value flexibility in being able to make as last-minute calls as we can, given what we see in the marketplace. And certainly, when we planned our schedule that we're executing right now, we did not anticipate, nor did I think anybody, the resurgence of COVID with the Delta variant that would have such a significant impact on the marketplace.

At the same time, when you work in an ecosystem, having a lot of partners, they need to be able to plan their business, too. And so at some point, we have to put a stake in the ground and say, for example, *Shang-Chi*, 'that's going to be a title that we're going to put in the marketplace', or *Free Guy*, 'that's going to be a title that we're going to put into the marketplace'. Not knowing, again, 3 months earlier when you make that commitment, what exactly the marketplace is going to look like. But what I do think that says, Michael, it says that we value flexibility, and we value following where the consumer is going to go.

And while some of that's uncertain, I think in terms of, relative to where the rest of the market is, you see that we've got more flexibility in terms of how we program. And nothing is in stone because the marketplace is rapidly changing. But at some point, you've got to put a stake in the



ground and say, this is what we're going to do, and that's where we ended up on *Shang-Chi* and *Free Guy*, which are our next two titles out.

Michael Nathanson – MoffettNathanson

Bob, can I just follow up? Why wouldn't you just add Premier Access given what you saw happen, I think successfully, with *Black Widow*, to those two titles?

Bob Chapek – Chief Executive Officer, The Walt Disney Company

Okay, good question. On *Free Guy*, obviously, this is a title that we acquired under a different distribution assumption and set of agreements. So we don't have the degree of freedom to do that on *Free Guy*.

On *Shang-Chi*, we think it's actually going to be an interesting experiment for us because it's got only a 45-day window for us. So the prospect of being able to take a Marvel title to the service after going theatrical with 45 days will be yet another data point to inform our actions going forward on our titles.

But once again, I'll refer back to my previous answer. When we planned *Shang-Chi*, that title was planned on being in a much more healthy theatrical environment. And at this point, unfortunately, due to distribution agreements that we have and due to just the practicalities of last-minute changes, it wouldn't be possible.

Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

I'll take your question on Hulu, Michael. You're absolutely correct. Hulu exceeded our expectations, and it was profitable this quarter.

There's a couple of things going on here. One is, it has continued to have subscriber growth, and also very strong advertising revenue. The advertising is coming from higher sell-through rates, a



lot of addressable advertising, and a significant ramp-up in the dynamic ad-insertion technology that we have within Hulu Live. So those are things that are driving it.

And at the same time, they are -- just like all of our other streaming services – they're ramping up their productions, programming, and also marketing expense to promote those new shows.

So, we're very pleased with what's going on at Hulu, but we're not going to update our guidance yet, because we are in the process of doing our fiscal 2022 Annual Operating Plan, and if we feel that we have to update it after we complete that, we will certainly do it.

Operator

Our next question comes from Alexia Quadrani with JP Morgan.

Alexia Quadrani – JP Morgan Chase & Co.

My questions are on the Parks side, if I can. I guess the first one is we've seen really much improved results this quarter, and moving forward, I'm curious if you're seeing any recent impact from the Delta variant in the domestic or international parks that may be cause for concern, particularly as you're increasing capacity.

And then, just staying on the parks, maybe you can elaborate on how we should view sort of longer-term profitability, given the improvements you're able to make in terms of automating many aspects of the parks during COVID or while they were closed? But now, maybe with heightened cleaning expenses perhaps staying for a while and other expenses related to COVID staying for a while, given how this variant has continued to kind of make COVID still very much part of our lifestyle.



Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Alright, Alexia, thanks for the question. So Bob, maybe if you talk about Delta's impact on parks, and you may want to talk about, leading into Alexia's second question, some of the yield stuff we've been doing. And Christine, you probably want to follow up on the second part.

Bob Chapek – *Chief Executive Officer, The Walt Disney Company*

Okay. In terms of impact of the Delta variant, we see strong demand for our parks continuing.

And the primary noise that we're seeing right now is really around group or convention cancellations. In other words, large groups that are coming in relatively short-term.

But on the whole, we see really strong demand for our parks. In fact, our park reservations now are above our Q3 attendance levels, and as you just saw with our earnings announcement, our Q3 attendance levels were pretty darn good. So we're still bullish about our park business going forward.

I may also suggest, as a bridge to the second question, that we've implemented a reservation system that's going to enable us to spread our demand, increase our yield, and improve our guest experience at the same time.

And in terms of the long-lasting impacts that you mentioned, I think some of the cost implications that we need to do for hygienic purposes are going to be relatively short-lived and, frankly, in the grand scheme of operating our parks, not all that material. But what will be the long-lasting impact are the improvements that we're making with guest personalization and guest choice, therefore, affecting the tremendous yield benefits that we've been able to extract over the last few quarters. And that's only going to grow in the future with our ability to really do world-class yield management systems through our new reservation system.



Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Alexia, I'd add to that a couple of things. One is we have seen very, very strong per-caps in addition to all the yield management things Bob mentioned. But the per-caps, in my comments, I referred to them as exceptionally strong, and I would not use that word were it not for the fact that they were exceptional.

Last quarter, I said that they were up strong double digits, and this quarter was even stronger. If you look at - when a park is closed for a long period of time, as Disneyland was, as Paris was, when they reopen, the per-caps really shoot up. And we still have - even though Walt Disney World has been open now for over a year - we're still seeing extremely strong per-cap growth continue at that park.

So, in addition to all the technology things that we're implementing - as Bob mentioned, reservation systems, the dining apps - we're just seeing the consumer behavior be very favorable. And the guest experience is something that we're going to be focused on, especially as we continue to reopen.

Operator

Our next question comes from Ben Swinburne with Morgan Stanley.

Ben Swinburne – Morgan Stanley & Co. LLC

A couple probably for Christine. Christine, I was wondering if you could give us the Hulu advertising growth in the quarter. I think you've given that to us in prior quarters.

And then, also, are you expecting the IPL to come back in September at this point? And any update on the Latin American sports situation since that's part of your launch there? And then if I can ask Bob a parks question, just on technology. You mentioned the Disney Genie. How substantial of a sort of an improvement or evolution in the guest experience are you



expecting to bring to market? MyMagic+ is pretty -- it's been around for a while, and I'm just wondering if you think there's a real transformation ahead for the business as you take advantage of the last year-plus of downtime to reinvent the experience? Just maybe add some context, would be helpful.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. Ben, thanks for the questions. I think we'll start with Bob, if you want to talk a little bit about some of the technology at the parks. And then we'll go to Christine, who will talk about Hulu ad growth, IPL, and LATAM.

Bob Chapek – *Chief Executive Officer, The Walt Disney Company*

Okay. Ben, you used the correct word, transformational. MyMagic+ was us basically sticking our toe in the pond of this type of transformational work. Disney Genie, though, is that program on steroids. This is going to revolutionize our guest experience. Guests are going to spend less time waiting, and more time having fun in our parks, with a dramatically improved guest experience. That's going to make their navigation of their day and their planning of their day much easier.

Essentially, what it's going to do is take the consumer preferences that we know from our consumers, given what we know from them, and blend that with, basically, industrial engineering data that we've got in terms of how our park is operating that day, and meld those together to make suggestions on the fly that not only will lead to that improved guest experience, but at the same time lead to substantial commercial opportunities for us as the guest navigates their days. So it certainly qualifies, in my mind, for both materiality and transformational impact on our business from a yield standpoint.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. Ben, I'll try to go through yours – hopefully I can remember them all.



So Hulu. Hulu did have very strong advertising growth in the quarter, and we continue to see that growth quarter after quarter. We haven't specifically quantified it, but I would say that it is driven by higher impressions as well as rates. And, as I mentioned, the ability for us to use the dynamic ad-insertion in Hulu Live is also a benefit. I think the advertising sales team, if they had more inventory, they could certainly sell it. There's that much demand for it.

Just to put some context around it, because I think it's a precursor of what the upfront showed, is that the – we came out of a very strong upfront, but we had about 40% of the total upfront dollars into streaming and digital. And a lot of that is not only across Hulu, but also across our other entertainment and sports platforms. So I think that just shows that the kind of advertising that's going through Hulu is certainly a growth driver.

The IPL is coming back. It's scheduled to come back on September 19, and it will run through, I believe, the last, final match is scheduled for mid-October, around October 15. When you think about Disney+ Hotstar, IPL is certainly a very, very important component of the offerings, but it's only one, because we also have a very broad portfolio of general entertainment, as well as other sports. It has a lot of original content – library content in it from all of the Disney+ brands and IP. And we added over 18,000¹ of original local programming every year. So we feel really good about not only the IPL, but also Star – Hotstar+.

In LATAM, we will be – the launch for LATAM is later this quarter, but I don't have any updates to anything new on the sports side.

Operator

Our next question comes from Doug Mitchelson of Credit Suisse.

¹ Hours

**Douglas Mitchelson** – *Credit Suisse AG*

So two questions. It's certainly nice to see the U.S. parks profitable in fiscal 3Q, and I note that operating expenses are back at 81% of 2019 fiscal 3Q levels, while revenues are about 60% of 2019 levels. And that seems consistent with commentary that you made in the past that you have to ramp overhead in advance of consumers coming back to the park. So my question is, is the overhead now sort of re-ramped at the parks? Can we look at this as the right overhead level? And from here, it's variable cost growing with consumers continuing to come back, and that's how we should think about modeling the parks going forward?

And then the second area is just on streaming. I hope you could discuss the health of Disney+. How was engagement trending in the quarter? How was churn trending in the quarter? What was the impact of Star as you merged in with Disney+ in Europe? And anything else you want to note on the health of Disney+ would be appreciated.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, Doug, thanks for the questions. Bob, you may want to start on the streaming question, and I don't know if you want to make some comments on, kind of, parks' cost ramp. And then, Christine, you may want to jump in on that as well.

Bob Chapek – *Chief Executive Officer, The Walt Disney Company*

Okay, in terms of the health of Disney+, we feel really great about our sub trajectory. We've got world-class content, from the world's best storytellers, plus our international launches, plus the power of the Disney bundle.

And you asked the question about churn - we're really pleased with churn. We've taken some price increases over the past few quarters. And what you're seeing is that our churn has declined, including in Latin America, where we went up - I mean in Europe, sorry - by €2 when we added Star brand as a sixth brand tile.



So our retention is very healthy across the globe. We're really, really pleased with that. And I think, again, it really goes back to the price value that we're offering our guests. When you take out *Luca*, *Loki*, *Falcon and the Winter Soldier*, there's something essentially new each week. You blend that together with a tremendous local investment that we're making in our international territories, and it's really a price value proposition that is really great. So the fact that our churn is so low, our engagement is so high, our retention is so high amongst the local quarters where we're taking price increases, I think, says everything about it.

In terms of - and I'll start this off, Christine, on the cost side and what we expect to see in terms of our parks profitability - but right now, you can use a lot of different metrics to look at our business. In California, we've got all three of our hotels open, for example. We've got 70% of our available rooms open in Walt Disney World. So you can see that we're not quite 100% available at this point. But I think that a lot of the costs from here on out are variable. Obviously, as we scale our business and we get up closer and closer to 100% capacity, our efficiencies in operating become much, much higher. So I think you'll see disproportionate benefit as we go from here on. Christine, I don't know if you want to elaborate.

Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Yes, I would just add that our parks - our plan - and once again, this is - we'll monitor the trends with what's going on with the Delta variant, but we're expecting to have our parks domestically be fully staffed up by the end of this calendar year, calendar 2021. And we're going to be increasing capacities as we have the demand, and we're also being able to train - thoroughly train our employees as they come back in.

And once again, this is an ever-changing landscape with COVID, but we're going to be particularly careful, and we're also going to bring our capacity online aggressively, but measured. We're not just going to open up the doors and fling them open. So we're doing this in a measured fashion for the health and safety of not only our guests, but also our cast members in the parks.

**Operator**

Our next question comes from Jessica Reif Ehrlich of Bank of America.

Jessica Reif Ehrlich – *Bank of America Merrill Lynch*

I have one on Disney+, and one on film. You mentioned that you're opening in Japan - fully opening in Japan in October. It's such a big country with a huge affinity for everything Disney. I mean the parks are doing really well there, and it's a very affluent country, so wondering if you could give us any color on market size and ARPU.

And then on film, the industry has undergone such massive change over the last two years towards streaming. But obviously, the pandemic has had a big impact, but it was moving in that direction anyway. With the jury out on, like, how much the box office will come back to pre-COVID levels, how do you think about the success of a film in today's environment? And how does that impact the way you attract talent, the way you compensate talent? And what changes do you expect to make, if any, in your film strategy from here?

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, Jessica, thanks a lot. Bob, why don't you take the film question? I don't know if you want to make any comments on Japan and Christine, you may want to jump in on that one as well.

Bob Chapek – *Chief Executive Officer, The Walt Disney Company*

Okay, obviously, this world has been disrupted by COVID, and we're all reacting to a very fluid situation in terms of the marketplace. We're very grateful for the fact that we had the ability to take out a lot of titles, both, not only in the theatrical marketplace for those that prefer to watch a film that way, but also, at the same time, through our Disney Premier Access, and that was a winning strategy for us to give consumers the choice for those that decided that going back to a theater was not for them at the same time. That said, these films, Jessica, were really



conceived under a time when we did not know what was going to be happening with consumer behavior three-four years later and certainly didn't know about COVID at the time. So, we're dealing under a different sort of set of conditions than we thought.

What I will say is that, just like we've done many times before, as the business has evolved and transformed, we've figured out ways to fairly compensate our talent, so that no matter what the business model is that we have to go to market with, everybody feels satisfied.

And I will say that since COVID has begun, we've entered into hundreds of talent arrangements with our talent. And by and large, they've gone very, very smoothly. So we expect that would be the case going forward. Certainly, this is a time of anxiety in the marketplace as a lot has changed recently. And again, these films that we're releasing right now were imagined under a completely different environment than, unfortunately, fate has delivered us.

But we're trying to do the best thing for all our constituents, and make sure that everybody who's in the value chain, if you will, feels like they're having their contractual commitments honored, both from a distribution and a compensation standpoint.

What I'll say before I turn it over to Christine on Japan is that, remember that heretofore, as we've launched Disney+ around the world, in Japan, we've done it with a fairly limited distribution system, and that's about to change going forward. But at the same time, that market is under, as they call it, a state of emergency. And that certainly has disrupted that marketplace as we go from a fairly limited distribution now to a much more broad distribution. Christine?

Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Yes, Jessica, we fully agree with your assessment of the market, and the high degree of affinity that the Japanese market has for Disney IP. So we're in total agreement.



We did, as Bob said, did a soft launch with a partner last year, but it was only to a small part of the market, and we're really excited to do the full launch that will be in this coming October for Disney+. And we'll see how that goes, but we have been very cautiously optimistic, as we always are. But we believe that that IP is going to resonate.

We don't, as you know, break out ARPU by individual markets. So we'll just be giving you the Disney+ ARPU the way we currently are doing it.

Operator

Next question comes from Jason Bazinet of Citi.

Jason Bazinet – Citi Research

So I think your digital pivot is incredible, impressive, but I want to ask a question that will come across as bearish, and it's really not. It's an honest question.

I think in the salad days of pay TV, maybe we had, I don't know, 75-80% pay TV penetration, and people who were paying - U.S. households - \$70 per month, or something. And the most mature SVOD platform out there is probably at 50% penetration, with ARPUs that are, sort of, 1/5 of pay TV ARPUs, and not really growing. And I just wonder what - if you guys have any thoughts on what that means for the broader sort of digital pivot?

And are there things that the industry needs to do, as an example, if you think it's tethered to piracy, or something like that, that could sort of give you another -- or the industry, including you – another leg of growth in terms of net adds that people aren't thinking about?

Lowell Singer – Senior Vice President, Investor Relations, The Walt Disney Company

So Bob, do you want to take that? Thanks, Jason, for the question by the way.

**Bob Chapek – Chief Executive Officer, The Walt Disney Company**

Jason, I'd like to think of it like we're in the first inning of the first game of a very long season. We've not even been at this right now, as Disney at least, for two full years. Despite that two full years, as you suggested, we've gone into 61 countries in 21 months. So we're very proud of that. We're proud of the success that we've had.

I would caution not to come to any conclusions about the size of the market. We've got a TAM of 1.1 billion households across the globe, and we've only just begun our journey.

And, as I think you see, what's really going to make the difference for Disney is our spectacular content, told by the best storytellers against our powerhouse franchises. You put that in the context of also all the local investments that we're making, and I think we're going to have a bright future ahead.

And I understand the benchmark that you're using, but I think this is a different marketplace. And I think we're charging forward to maximize the opportunity, given our unique combinations of not only distribution platforms, but intellectual property and storytelling.

Operator

Our next question comes from Brett Feldman of Goldman Sachs.

Brett Feldman – Goldman Sachs Group, Inc.

Earlier, Bob, you were talking about the power of the Disney bundle. And in the U.S., you've really taken a bundle-centric approach to the market. I was hoping you can give us some insight into that power. Whatever you can share to help us understand why the bundle is so successful, either the portion of your subs, Disney+ subs, that are in the bundle, or the portion of the gross adds or engagement. Whatever you can offer would be great.



And then, just expanding on that a little bit, if the bundle really does appear to be the most compelling product in the portfolio, why not just make it the core product, and eliminate the complexity to the consumer in terms of thinking about which elements of the Disney entertainment ecosystem they want, and just give it all to them at once?

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Alright, Brett, thanks for the questions. I'll turn them over to Bob.

Bob Chapek – *Chief Executive Officer, The Walt Disney Company*

Okay, in terms of the bundle, you see that the majority are not - maybe not the majority, but a good chunk of our marketing now is going towards the bundle. And that's because the - while we enjoy extremely low churn rates on our individual services, the churn rates on the bundle are even lower - surprisingly low, even for us. And I think what that says is that our customers enjoy the price value of the bundle that we offer. They are getting an incredible amount of content for a really good price. While I can't comment on some of the specific percentages that you're probably looking for and - but I will make a comment on sort of going forward.

You notice that across the world, we've got different business models. We've got different business models for two reasons. Number one, the unique situation that we find ourselves in each market, whether it's Europe or LATAM or Asia or North America, tend to be different in terms of what rights we have, and what the consumers are actually looking for. But that also gives us an opportunity to test out different propositions. Obviously, the proposition that we have in Europe with Star as a sixth brand tile looks significantly different than our relatively unbundled approach that we have in North America. Again, we're in the first inning of the first game of a long season, and we're taking all this into account.

There may also be certain constraints that we're under that could, at least from a short-term standpoint, limit our ability to do what long-term we might feel was ideal. But frankly, we don't



know what's ideal yet. I will say that we're extremely pleased in every market² that we've launched our direct-to-consumer services. We've exceeded our expectations in every marketplace². So in terms of the way that we've approached the market so far, it's worked really, really well.

Is there an opportunity for improvement by considering something different going forward? Possibly. But we're going to continue to learn, and as we learn, I'm sure we'll refine our offerings in the marketplace as time goes on.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, thanks, Brett, for the questions. Operator, given the time, I think we will take our final question.

Operator

Sir, our final question comes from John Hodulik of UBS.

John Hodulik – *UBS Securities LLC*

Maybe the 2024 guide, I think, included 30% of subs coming from Hotstar. I mean given the strength in Hotstar, does that guidance still hold?

And then, given the content release schedule that we have in the second half of the year, do you expect the net add trends in what I'd call the core Disney+ markets to improve in the back half?

And then lastly, just anything you could tell us on this Disney+ Day in November in terms of how you expect to promote? Is it global or U.S. or just -- or any new content that could be launched, and anything you could tell us on that would be great.

² Region



Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, thanks, John, for the question. Bob, why don't you start on Disney+ Day, and then, Christine, you can take the question about Hotstar guide, et cetera.

Bob Chapek – *Chief Executive Officer, The Walt Disney Company*

Okay, Disney+ Day will be a balanced approach between global and local product. We're going to have a real exciting lineup, as you might guess, as we approach those consumers who have not yet signed up for Disney+ with a really attractive group of titles to be announced. But I think it gives us an opportunity to provide a focal point for consumers that have not yet tripped over to Disney+. And I think it's going to give us a focal point of excitement and energy that will not only pay benefits in the U.S., but globally as well.

In terms of the net add question, and how that's going to improve, first half versus second half, again, we feel really great about our sub trajectory. As we learn, though, we're finding out there's tremendous seasonality in this business that we may not have known about before we really got into it, at least in terms of above expectations.

Also, I want to caveat that our sub adds aren't necessarily going to be linear. I think a lot of the marketplace expects these things to sort of be straight-line math, and it's not really turning out that way. And as we've indicated before, we do believe our first half adds this fiscal year will be stronger than the second half adds. That said, we really feel great about our trajectory.

Christine, do you want to take it from there?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure, and I would just add one thing on the Disney+ core markets. In this third quarter, when you exclude Disney+ Hotstar, we saw solid sub growth quarter-over-quarter net adds consistent with what we saw in the previous quarter. So we feel really good about the continued growth in our core markets.



And on Hotstar, at Investor Day, we said that we anticipated Hotstar to be between 30% and 40% of total Disney+, and we're not updating that guidance at this point.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, thanks for the question, and I want to thank everyone for joining us today. Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website.

Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, expectations, beliefs or business prospects and other statements that are not historical in nature may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements. Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our annual report on Form 10-K, quarterly reports on Form 10-Q and in our other filings with the Securities and Exchange Commission.

We want to thank everyone for joining us today. Hope you have a good rest of the day.



Forward-Looking Statements

Certain statements in this call may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business or financial prospects, position, strategy, plans, investments, resiliency, growth or future; financial or performance estimates or expectations; estimates of the financial impact of certain items, accounting treatment, events or circumstances; the anticipated availability, timing or nature of, our offerings (including content included within our products and services, theatrical releases, experiences and business openings); future operations (ours or others’) and related impacts, timing, conditions, precautions or market responses; future consumer sentiment or demand or market acceptance; workforce matters; the continuation of external circumstances (including COVID-19); the future impacts of COVID-19 on our business; future matters related to our contracts; and other statements that are not historical in nature. These statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements.

Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including our reorganization announced October 2020, capital investments, asset acquisitions or dispositions, integration initiatives, new or expanded business lines, or cessation of certain operations) or other business decisions, as well as from developments beyond the Company’s control, including:

- further changes in domestic and global economic conditions;
- changes in competitive conditions and consumer preferences;
- health concerns;
- international, regulatory, political, or military developments;
- technological developments;
- labor markets and activities;
- adverse weather conditions or natural disasters;
- and each such risk includes the current and future impacts of, and is amplified by, COVID-19 and related mitigation efforts.

Such developments may further affect entertainment, travel and leisure businesses generally and may, among other things, affect (or further affect, as applicable):

- demand for our products and services;
- the performance of the Company’s theatrical and home entertainment releases and other content;
- the advertising market for programming;
- construction;
- expenses of providing medical and pension benefits;
- income tax expense; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 3, 2020 under Item 1A, “Risk Factors,” Item 7, “Management’s Discussion and Analysis,” Item 1, “Business,” and subsequent reports including, among others, quarterly reports on Forms 10-Q, which risk factors should be read together with the above factors.

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.