



The
(W)ALT DISNEY
Company

Q4 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,

Tammy Munsey

Vice President, Investor Relations



PRESENTATION

Operator

Thank you for standing by, and welcome to The Walt Disney Company's Fiscal Full Year and Fourth Quarter 2021 Financial Results. (Operator Instructions) As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Tammy Munsey, Vice President of Investor Relations. Please go ahead.

Tammy Munsey – *Vice President, Investor Relations, The Walt Disney Company*

Good afternoon. It's my pleasure to welcome everyone to The Walt Disney Company's fourth 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, Tammy, and good afternoon, everyone.

As we close out the fourth quarter, I'm pleased to say it has been a very productive year for The Walt Disney Company, as we've made great strides in reopening our businesses, while also taking meaningful and innovative steps to position ourselves for continued long-term growth.



Despite the many ongoing challenges of the pandemic, we ended the quarter with adjusted EPS of \$0.37, compared to a loss of \$0.20 last year. Christine will go more in-depth on the quarter and the coming year in her remarks.

Last quarter we talked about our strategic priorities for the future, and as we head into fiscal '22, we remain keenly focused on advancing them to drive our continued growth. First and foremost, telling the world's most original and enduring stories. Second, maximizing the synergy of our unique eco-system to deepen consumers' connection to our characters and stories. And lastly, using the power of our far-reaching platforms and new technologies to give consumers the best entertainment experience possible.

I'll briefly talk about how we are executing against these priorities in three key areas: Direct-to-Consumer, sports, and Parks, Experiences and Products.

On the direct-to-consumer side, we are extremely pleased with the success of our portfolio of streaming services. Disney+, ESPN+ and Hulu continue to perform incredibly well, with 118.1 million, 17.1 million and 43.8 million subscribers, respectively.... for a total of 179 million subscriptions. To put this growth in perspective - in the past fiscal year alone, we have grown the total number of subscriptions across our DTC portfolio by 48%, and Disney+ subs in particular by 60%.

I want to reiterate that we remain focused on managing our DTC business for the long-term, not quarter-to-quarter, and we're confident we are on the right trajectory to achieve the guidance that we provided at last year's Investor Day - reaching between 230 and 260 million paid Disney+ subscribers globally by the end of fiscal year 2024, and with Disney+ achieving profitability that same year.

This Friday, we will celebrate the two-year anniversary of the launch of Disney+ with our first-ever Disney+ Day, a global, company-wide celebration. We are enormously proud of all that



we've accomplished with the service in just the first two years - it has exceeded our wildest expectations, and we are so excited for what's to come.

With this in mind, we have numerous activations planned across the entire Company for Disney+ Day - including the streaming premiere of Marvel's *Shang-Chi and The Legend of The Ten Rings*, which has already surpassed \$430 million at the global box office.

Other content coming to the service on Disney+ Day includes: the highly anticipated Disney+ Original movie *Home Sweet Home Alone*.... the epic adventure *Jungle Cruise*.... a hilarious new short from *The Simpsons*.... and the first five episodes of Season 2 of the fantastic National Geographic series *The World According to Jeff Goldblum*. And there's more great content in the pipeline.

On the heels of Disney+ Day, we'll premiere two amazing new original series: Marvel's *Hawkeye* on November 24 and the latest Star Wars adventure, *The Book of Boba Fett*, on December 29. And, of course, we're extremely excited about the Thanksgiving holiday weekend debut of *The Beatles: Get Back*, Peter Jackson's highly anticipated three-part documentary.

Additionally, Marvel's *Eternals*, which has reached more than \$161 million at the global box office in less than a week, and Disney's *Encanto*, which premieres in theaters on November 24th, will come to the service after their exclusive theatrical runs.

In total, we are nearly doubling the amount of original content from our marquee brands: Disney, Marvel, Pixar, Star Wars and National Geographic... coming to Disney+ in FY22, with the majority of our highly anticipated titles arriving July through September. This represents the beginning of the surge of new content shared last December at our Investor Conference 2.0.

We recognize that the single most effective way to grow our streaming platforms worldwide is with great content. And we are singularly focused on making new high-quality entertainment,



including local and regional content, that we believe will resonate with audiences. Of note, we have 340-plus local original titles in various stages of development and production for our DTC platforms over the next few years.

As you know, we announced at our last Investor Day that we expected our total content expense to be between \$8 and \$9 billion in fiscal 2024. And we will now be increasing that investment further, with the primary driver being more local and regional content.

We are expanding our global reach by introducing Disney+ in additional markets around the world. The service is now available throughout Japan, and we're thrilled to be launching it this Friday, on Disney+ Day, in South Korea and Taiwan, and in Hong Kong on November 16th.

In just two short years, we are now in over 60 countries and more than 20 languages. And next year, we plan to bring Disney+ to consumers in 50+ additional countries, including in Central Eastern Europe, the Middle East and South Africa. Our goal is to more than double the number of countries we are currently in to over 160 by fiscal year '23.

Turning to sports, we continue to build out ESPN+ with exclusive sports content that makes our DTC offering the perfect complement to the ESPN linear experience. And with every new sports rights deal, we have considered both linear and DTC - in fact, all seven of the major deals we made in the last year and a half included a streaming component.

Among them is our historic 10-year NFL rights agreement which begins in 2023. We also recently signed a five-year deal with the League for the *Monday Night Wild Card Game*, which runs through 2025.

Another example is our seven-year rights deal with the NHL - 75 of the league's live, national games are and will be available exclusively on ESPN+ and Hulu, and ESPN+ is the sole home for more than 1,000 out-of-market NHL games.



By the way, this is another reason the Disney Bundle is proving highly appealing to consumers - because live sports are a key element, and a key differentiator, of our Disney eco-system. Some 90% of the most-watched telecasts last year were sports - and they continue to perform extremely well.

For example, the NHL's opening night games on ESPN last month marked the highest-viewed season-opening doubleheader on record, with an increase of 54% over the 2019-2020 season-opening doubleheader. And we are particularly pleased with the NHL's direct-to-consumer performance on ESPN+ and Hulu.

Likewise, the hugely popular UFC, fresh off a strong card at Madison Square Garden last weekend, continues to be a top performer for ESPN+, with six of the top 10 UFC on ESPN+ pay-per-views coming in the past year.

At the same time, we continue to expand our original sports programming with innovative broadcasts like the hugely popular *Monday Night Football with Peyton and Eli*, which airs on ESPN2 and reached 1.9 million viewers by its second week, as well as highly anticipated new shows like *Man in the Arena: Tom Brady*, the multi-part docuseries about the legendary quarterback, premiering on ESPN+ on November 16 along with a host of fantastic new social/digital shows and podcasts.

We're also moving toward a greater presence in online sports betting. And given our reach and scale, we have the potential to partner with third-parties in this space in a very meaningful way.

Suffice to say, we continue to see enormous opportunity in sports, and all of this - the rights deals, our innovative programming, and the flexibility achieved through our DTC business, which saw ESPN+ subscribers increase by 66% over the past fiscal year alone... all of this is a testament to the clear ambition we have in sports.



One of the things that sets The Walt Disney Company apart is our unique access to an incredible number of consumer touchpoints across our businesses. That of course includes our parks and resorts, where we've achieved a number of important milestones since our last earnings call, including the first full quarter since the pandemic began with all of our parks around the world open to guests, albeit with some limits on capacity, and the return of our entire Disney Cruise Line.

At the same time, the U.S. government's approval of vaccines for 5-11 year-olds and the reopening of borders to fully-vaccinated international travelers are both important steps towards the recovery of our business.

But what is perhaps most exciting is the work that we have done during the time our parks were closed to re-engineer and reimagine the guest experience. We have introduced a number of exciting new offerings that enable guests to create their best Disney day.

In late August, Disneyland Resort launched Magic Key, the new annual membership program that is resonating strongly with legacy Annual Passholders, while also attracting new passholders - in fact, about 40% of current sales are to new passholders. And most Magic Key holders have purchased the top two tiers, Dream Key and Believe Key, with Dream Key selling out in just two months.

We're also seeing a great response to the new Annual Passholder program at Walt Disney World - a testament to the demand for our in-park experiences and the success of our yield management strategy.

Walt Disney World rolled out its new multi-tiered full-service app Disney Genie, which allows guests to easily and efficiently navigate everything our parks have to offer, in order to have the best experience possible. The response to the service in just its first month has been extremely positive - the majority of Genie and Genie+ users have said it improved their overall park



experience, with nearly one third of park guests upgrading to Genie+ - making it possible for them to spend less time waiting in line, and more time enjoying attractions, entertainment, dining and retail opportunities. We are very encouraged by what we're seeing, and look forward to launching Disney Genie at Disneyland very soon.

Alongside these transformative programs, we continue to invest in our parks and resorts themselves.

We introduced a host of new attractions as part of Walt Disney World's 50th Anniversary Celebration, which kicked off on October 1st. These include *Remy's Ratatouille Adventure* at Epcot, which has quickly become one of the park's top attractions, our new themed restaurant, Space 220, and two new nighttime spectaculars.

And there is lots more in store in the coming months, including the highly anticipated indoor coaster, *Guardians of the Galaxy: Cosmic Rewind* and the one-of-a-kind Galactic Starcruiser experience. As part of this immersive, two-night adventure, guests will become heroes of their own Star Wars stories. Reservations went on sale just three weeks ago, and the first four months of voyages have virtually sold out for this premium experience.

Disney Cruise Line continues to be one of the highest rated guest experiences of any of our offerings. As I said earlier, all four of our ships are now sailing, and we continue to see tremendous demand for the incredible experiences we offer at sea.

We are thrilled to be launching a new ship, the *Disney Wish*, in June of 2022, and we'll welcome her sister ships to the fleet in 2024 and 2025. Combined, these three vessels will help increase capacity and our footprint in a business that has historically generated a double-digit return on investment, driven by a premium price point well above the industry average.



Before leaving our parks and experiences, I want to mention the continued transformation of our consumer products business. We have almost completed the reduction of our physical footprint, which will enable us to pivot our approach with a focus on our e-commerce platform, ShopDisney, and on more compelling retail partnerships, such as 'Disney Store at Target' – which will triple its locations by the end of the year.

In short, our parks around the globe now have more to offer guests than ever before with our new offerings, and we're making it even easier for them to have the best time imaginable, tailored specifically to their individual needs and preferences in a way only Disney can.

Our company is truly unique in that we have a significant presence in the physical world through our parks and resorts, as well as media and entertainment assets in the digital world. And it is incredible to see how our use of emerging technology and insights gained through our innumerable consumer touchpoints is enabling us to transform the way people interact with and experience our stories and products in both worlds.

The Walt Disney Company has a long track record as an early adopter in the use of technology to enhance the entertainment experience.... *Steamboat Willie*, the first cartoon with synchronized sound.... our ground-breaking development and use of audio-animatronics.... we were the first to distribute downloaded content on the new Apple iPod back in 2005.... Pixar has been a pioneer in computer animation. These are just a few examples.

Suffice it to say, our efforts to date are merely a prologue to a time when we'll be able to connect the physical and digital worlds even more closely, allowing for storytelling without boundaries in our own Disney metaverse.

And we look forward to creating unparalleled opportunities for consumers to experience everything Disney has to offer across our products and platforms - wherever the consumer may be.



As we look ahead to this next frontier, given our unique combination of brands, franchises, physical and digital experiences, and global reach, we see limitless potential, and that makes us as excited as ever about The Walt Disney Company's next 100 years.

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

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

Thank you, Bob, and good afternoon everyone.

Excluding certain items, diluted earnings per share for the fourth fiscal quarter was \$0.37 - an increase of 57 cents from the prior year quarter. For the full fiscal 2021 year, diluted EPS excluding certain items was \$2.29, or an increase of 27 cents versus the prior year.

As a reminder, these results take into account that fiscal 2020 was a fifty-three week year, compared to our usual fifty-two week year in 2021. We estimate that the additional week in 2020 resulted in a benefit to pre-tax income of approximately \$200 million, primarily at the Media and Entertainment Distribution segment, creating an unfavorable comparison for fiscal year '21.

I'll now turn to our results in the quarter by segment - beginning with Parks, Experiences and Products, where fourth quarter operating income increased by \$1.6 billion year-over-year.

A profitable fourth quarter at Parks and Experiences reflects our ongoing recovery from the COVID-19 pandemic. All of our sites were open for the entire quarter, although generally at reduced capacities. In the prior year quarter, Shanghai Disney Resort was open for the entire quarter, Walt Disney World Resort and Disneyland Paris were open for approximately 12 weeks, Hong Kong Disneyland Resort was open for approximately 4 weeks, and Disneyland Resort was closed for the entire quarter.



Attendance trends continued to strengthen at our domestic parks, with Walt Disney World Q4 attendance up double digits versus Q3, and Disneyland attendance continuing to strengthen significantly from its reopening in the third quarter.

Guest spending at our domestic parks also continued its strong trend, with per caps in the fourth quarter up nearly 30% versus fiscal 2019.

Our forward looking demand pipeline for domestic guests at Walt Disney World and Disneyland Resort remains strong, demonstrating our brand strength as well as more normalized consumer behavior.

Additionally, we are looking forward to the return of international attendance at our domestic parks and resorts. However, keep in mind that due to longer vacation planning lead times, we don't expect to see a substantial recovery in international attendance at our domestic parks until towards the end of fiscal 2022.

At our cruise line business, as Bob mentioned earlier, our entire fleet has returned to sea, with guest ratings as strong as pre-pandemic levels, despite new health and safety protocols. While we expect social distancing restrictions on our ships to remain in place for at least the first half of fiscal 2022, booked occupancy on our ships for the second half of the year is already ahead of historical ranges at significantly higher pricing, and we are excited for the *Disney Wish* to set sail in June 2022, with the inaugural season already nearly 90% booked.

At Consumer Products, year-over-year operating results declined in the fourth quarter, impacted by a tough comparison in our games business due to the prior year performance of two titles, *Marvel's Avengers* and *Twisted Wonderland*.



Turning to our Media and Entertainment Distribution segment, fourth quarter operating income decreased by approximately \$600 million versus the prior year, driven by lower results at Linear Networks, Direct-to-Consumer and Content Sales, Licensing and Other.

At Linear Networks, you may recall that we guided to a decline in Q4 operating income versus prior year. Operating results at Linear Networks did decrease year-over-year by approximately \$200M, driven by a decrease at our Domestic Channels, partially offset by an improvement at our International Channels.

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

Lower results at Broadcasting were driven by lower results at ABC and the owned television stations. At ABC, the decrease was primarily driven by higher marketing and programming and production costs, reflecting a higher number of series versus the prior year due to last year's production delays - as we noted in the guidance we gave last quarter, partially offset by higher affiliate revenue. The decrease at the owned television stations was due to lower advertising revenue, reflecting comparisons to the 53rd week and stronger political advertising in the prior year.

At Cable, the year-over-year decrease in operating income was primarily driven by three factors: one, lower affiliate revenue, primarily driven by the prior year benefit of the 53rd week; two, an increase in marketing costs from more titles premiering in the current quarter, which we also discussed last quarter; and finally, to a lesser extent, lower advertising revenue. These impacts were partially offset by lower programming and production costs, which generally reflect COVID-19 related timing impacts from the prior year. Costs decreased for NBA and MLB programming versus the prior year, partially offset by increased costs for college football games.



Domestic Linear Networks advertising revenue decreased in Q4 versus the prior year, driven by our Cable networks and owned television stations, both of which were impacted by the prior year benefit of the 53rd week.

ESPN advertising revenue in the fourth quarter was comparable to the prior year, as higher rates were offset by the prior year benefit of the 53rd week. First-quarter-to-date, domestic cash advertising revenue at ESPN is currently pacing above the prior year, benefitting from increased ratings for college football and the NFL.

Total Domestic affiliate revenue decreased by 6% in the quarter. This was driven by a benefit of 6 points of growth from higher rates, offset by a 7-point decline due to the 53rd week adjustment and a 3-point decline due to a decrease in subscribers.

International Channels results increased versus the prior year, driven by lower programming and production costs and higher advertising revenue, partially offset by lower affiliate revenue.

At Direct-to-Consumer, our fourth quarter operating results decreased by \$256 million year-over-year, driven by higher losses at Disney+ and ESPN+, partially offset by improved results at Hulu.

At Disney+, the higher loss versus the prior year quarter was driven by higher programming, marketing, and technology costs. These higher costs were partially offset by increases in subscription and Premier Access revenue.

Higher subscription revenue reflects subscriber growth and increases in retail pricing, and the increases in costs reflect the ongoing expansion of Disney+. Higher Premier Access revenue was driven by *Black Widow* and *Jungle Cruise* in Q4 compared to *Mulan* in the prior-year quarter.



As Bob mentioned earlier, we ended the fourth quarter and the fiscal year with over 118 million global paid Disney+ subscribers, reflecting over 2 million net additions from Q3, in line with the subscriber guidance we gave in September.

Subscribers across our domestic and core international markets, excluding Disney+ Hotstar, grew by almost 4 million from Q3 to Q4. Disney+ Hotstar subs decreased versus the prior quarter, and accounted for about 37% of our total Disney+ paid subscriber base as of the end of the fourth quarter.

Disney+'s global ARPU in the fourth quarter was \$4.12. Excluding Disney+ Hotstar, it was \$6.24, or an increase of about 12 cents versus the third quarter - continuing to benefit from recent price increases.

At ESPN+, where we ended the fourth quarter with over 17 million subscribers vs. nearly 15 million in Q3, the decrease in operating results year-over-year was driven by higher marketing and sports programming costs, partially offset by subscription revenue growth.

And at Hulu, higher operating results in the fourth quarter versus the prior year were due to subscription revenue growth and higher advertising revenue, partially offset by increases in programming and, to a lesser extent, marketing costs.

Hulu ended the fourth quarter with 43.8 million paid subscribers inclusive of the Hulu Live digital MVPD service. Hulu Live subscribers increased to 4 million, from 3.7 million at the end of the third quarter.

Moving on to Content Sales, Licensing and Other, results decreased in the fourth quarter versus the prior year, to an operating loss of \$65 million, driven by lower theatrical and TV/SVOD distribution results - both of which we noted as drivers in the guidance we gave during the last earnings call.



While theaters have generally reopened, we are still experiencing a prolonged and gradual pace of recovery in this business. Lower theatrical results were driven by higher operating losses from more titles in release as well as higher marketing expenses for future releases.

Lower TV/SVOD results were due to lower third party content licensing of film content, driven by the ongoing impact of COVID as well as our strategic shift towards distribution on our DTC services, partially offset by higher income from sales of episodic content due to lower write-offs versus the prior year.

To conclude, as we progress into fiscal 2022 and beyond, there are a number of items I would like to mention:

Our capital expenditures in fiscal 2021 were \$3.6 billion, or approximately \$400 million lower than our fiscal 2020 capex of \$4 billion. Capex for the year came in lower than the previous guidance we gave primarily due to spending delays across the enterprise.

For fiscal '22, we expect capex to increase by \$2.5 billion versus 2021, driven by the delivery of the *Disney Wish*, as well as other increased spending at DPEP and Corporate.

At DPEP, we expect that per cap spending at our domestic parks in fiscal 2022 will continue to significantly exceed pre-pandemic levels, and we are particularly encouraged by the early response we are seeing to Genie at Walt Disney World.

However, we also expect that while we continue to pursue strong cost mitigation efforts, certain costs will be elevated in fiscal '22 versus pre-pandemic levels – including, for example, inflationary pressure on wages, costs related to new projects and initiatives such as *Star Wars: Galaxy's Edge*, Avengers Campus and the Epcot expansion, and a ramp-up of expenses in support of our cruise ship expansion.



And as we think about fiscal '22 results at DMED, there are a few things worth noting:

First, we are excited about the nine theatrical releases we have slated for the first quarter of fiscal '22. However, we expect that the prolonged recovery we are seeing in the theatrical market, paired with marketing costs associated with each release, may adversely impact theatrical operating results in the first quarter by approximately \$300 million versus the prior year quarter, which had only two releases.

At Linear Networks, we expect that first quarter operating income will decrease by nearly \$500 million versus the prior year, reflecting factors including higher contractual sports rights costs for college football and the NFL, timing of cricket expenses at Star India, and an adverse comparison to the prior year's political advertising revenue.

Finally, as it relates to our expectations for Disney+...

Looking at fiscal '22, we are thrilled about the quality of the content coming in the first three quarters of the year, but we will not yet be at our anticipated steady state cadence of content releases. The fourth quarter will likely be more indicative of what our slate could look like once we have tentpole content flowing steadily from all of our industry-leading creative engines.

Q4 will be the first time in Disney+ history that we plan to release original content throughout the quarter from Disney, Marvel, Star Wars, Pixar, and Nat Geo - all in one quarter. This includes highly anticipated titles such as *Ms. Marvel*, *Andor* and *Pinocchio*.

And, as Bob mentioned earlier, we are also increasing our local content offerings in Asia, India, Europe, and Latin America in fiscal 2022, with the majority of those titles also releasing in the back part of the year.



As we've discussed before, we don't anticipate that sub growth will necessarily be linear from quarter to quarter, so putting this all together, and also taking into consideration the timing of our planned international launches in 2022, we expect Disney+ subscriber net adds in the second half of fiscal 2022 will be meaningfully higher than the first half of the year.

Additionally, we now expect that Disney+ will reach its peak year of losses in fiscal 2022, instead of in fiscal 2021, as better than expected revenue and lower content expenses due to production delays contributed to lower than expected losses in 2021.

As Bob mentioned, we are increasing our overall long-term content expense for Disney+, and we believe we are well positioned to achieve the subscriber target of 230 to 260 million by fiscal 2024 that we laid out at last year's Investor Day, and we also remain confident in our expectation that Disney+ will achieve profitability in fiscal 2024.

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

Tammy Munsey – Vice President, Investor Relations, The Walt Disney Company

Thanks, Christine.

As we transition to the Q&A, let me note that since we are not physically together this afternoon, I'll do my best to moderate the Q&A by directing your questions to the appropriate executive.

And with that, Jonathan, we're ready for the first question.

Operator

Certainly, our first question comes from the line of Ben Swinburne from Morgan Stanley.

**Ben Swinburne – Morgan Stanley**

Thanks, good afternoon. Bob and/or Christine, I think there's 2 areas where expectations have probably been out of line with reality this year that's weighed on the stock. One of them is the Disney+ net adds. The other is probably more recently on parks margins. And you talked a lot about both of those in your prepared remarks, but maybe you could just spend a minute really on both topics.

On Disney+, it sounds like we should think about net adds being higher in '23 and '24 than in '22 based on the surge that I think you mentioned, Bob, on the programming side. So I'm wondering if you could help us with that. I think that would help set the expectations in the right spot.

And then on the parks front, Bob, you've talked a lot about parks margins when you get back to prior peak revenues being at or maybe even higher than before. But obviously, there's also not a linear ramp on the margin front either.

So maybe you could talk a little bit about how expenses come back into the business over the course of time as it recovers relative to revenue, so we make sure we're thinking about that business the right way in this sort of unusual circumstance coming out of a pandemic.

Tammy Munsey – Vice President, Investor Relations, The Walt Disney Company

Thanks, Ben. Bob, why don't you start off with Disney+ net adds and parks as well. And then, Christine, maybe you can chime in on the expenses for parks?

Bob Chapek – Chief Executive Officer, The Walt Disney Company

Okay. Thank you, Ben. On the Disney+ side, as Christine had said, we're real pleased with where we're sitting. But again, it's not going to be a linear rate quarter-to-quarter. I think the recovery



that you mentioned in terms of getting the growth rate back up to where it's been historically, is really going to come in the third and the fourth quarters.

The third quarter will be powered not necessarily by the content, but by the number of adds that we have in terms of markets. Our number of markets that we're going to add will essentially double to more than 160 by FY23, and that will propel us in the third quarter.

And the fourth quarter will be more of a function of that.... Finally, the dam will break in terms of the content that we announced last December that will be substantial and will lead to a cadence of content throughout the quarter that will look more like what we expect to see from an ongoing standpoint.

Obviously, we're only in year 2 of the Disney+ launch and the hunger for content for the service is extraordinary. And when you have that happen at the same time that you have a pandemic and you have to shut down production that's not a good combination. And yet, we identified the need for the content way back exactly a year ago, and have prepared a very strong cadence of content, which will now hit the pipeline in the second half of this year.

In terms of the Park situation, we are very bullish. We're seeing incredible 30% increases in per caps, as I think it was referenced in the earnings letter. And so we're not only seeing strong demand, but it's at per caps that are much higher than we've traditionally seen.

There was a reference - and I'm not sure if everyone appreciates the gravity of this - to the Genie+ success, 1/3 of our guests at Walt Disney World are buying the Genie+ upgrade at \$15, that's per-guest per-day. And that is a very, very material increase for us in per caps, but also in margins.

So we're very bullish about both our Disney+ business - both in terms of reiteration of guidance that has been given today... but additionally, in terms of where our parks business is going to go



from a demand standpoint once we completely clear the pandemic, but also in terms of the, what we expect to be, long-lasting benefits in terms of yields.

Christine?

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

Sure. Thanks, Bob. And thanks, Ben. I'm glad you asked the question on parks expenses.

And I know you know this business well, but just for the benefit of some others that may be newer to following Disney. Let's remember that the parks expenses are in 3 buckets: fixed - which is quite substantial, semi fixed, and variable.

So variable was where we were really able to make some adjustments during COVID. But the other, fixed and semi-fixed buckets, are ones that we have to carry on regardless of the operating environment that we found ourselves in.

So as we come back online, we've also done a lot of work on fundamentally changing some of the ways we have done business on both the revenue side and the cost side to optimize margins.

What you see this fourth quarter is an overall margin for the global business for DPEP a little under 12%, and that's well below our pre-COVID levels.

I've said this before, and I'll say it again that I believe that we will get, not only back to, but have a high probability of exceeding those previous margin levels in our parks because of some of the things we've done.



We're using date-based pricing. We're strategically managing attendance. We do have some promotional offers that are really meant to balance yield with demand giving capacity on any given day or week during the year.

And on the cost efficiency side, we really made some improvements, not only to the cost side, but also that improves the guest experience. And those are things like the mobile food ordering that we have, a lot of people who've been to our parks since we reopened, really enjoy that. There's contactless check-ins at our hotels. Lots of people enjoy that as well. We have virtual queues for selected attractions. And we're, once again, really looking at even physical park improvements that allow for better guest movement throughout the park.

So while these margins will remain impacted, while we're still operating under capacity constraints, again, we believe that over the long term, that these fundamental changes are going to – are going to result in higher margins overall. So thanks for asking that question.

And the other thing I would say, as Bob mentioned, Genie... Genie, we have launched in Walt Disney World. We have not yet launched it in Disneyland. And I think when we have that exposure to the Disneyland, people who come to visit Disneyland, the response will be as strong, if not stronger.

Operator

Next question comes from the line of Alexia Quadrani from JPMorgan.

Alexia Quadrani – JP Morgan

Thank you. Just 2 questions, if I may. First, ARPU on Hotstar is obviously lower than core Disney+ subs. I'm curious if you could elaborate on the opportunity to narrow that gap over time, and does it eventually become a profitable contributor? And maybe how much investment is sort of needed, big picture, in that property?



And then just my follow-up question really is on the - your decision to kind of revert back to exclusive theatrical releases, at least for now, it looks like... even though they might be loss-incurring initially. I guess, why do you ultimately feel that's a better model? Was it piracy? Any color there? Thank you.

Tammy Munsey – *Vice President, Investor Relations, The Walt Disney Company*

Bob, why don't you start with exclusive theatrical releases, and then Christine can talk about Hotstar ARPU.

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

Okay. As you know, we have preached flexibility in terms of making decisions on distribution as we recover from the pandemic and in the mix of changing consumer behaviors... and, the extent to which, we have a number of titles released going to theatrical will eventually go to Disney+.

But what we're seeing is some recovery of the theatrical exhibition marketplace - which is a good thing, by the way, for not only Disney, but also for the industry, because most of the franchises that we've had as The Walt Disney Company have been built through the theatrical exhibition channel of distribution. At the same time, we're watching very, very carefully different types of movies to see how the different components of the demographics of that market come back. And we're watching very carefully our family films as they're released over the next couple of months to make sure that that market will come back to theatrical exhibition as the general entertainment - let's say, the films that appeal to a younger target audience - have come back.

And so we're sticking with our plan of flexibility because we're still unsure in terms of how the marketplace is going to react when family films come back with a theatrical first window.

I should say that you'll notice that the films that we are putting into the marketplace in theatrical that are family films, have a fairly short window, at least in terms of any reference



point to what history might have been. And we're doing that so that we can get our films quicker to Disney+, but at the same time, see if the theatrical market can sort of kick back into full gear as we prime the pump with these films.

But we're going to do what's best for our shareholders ultimately. And we don't announce our films that far in advance like we used to because we know that we're in a time of flux and change still.

And while COVID will be in the rearview mirror, God willing, I think changing consumer behavior is something that's going to be more permanent. And so we're reading that on a weekly basis and make our decisions going forward accordingly.

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

Thanks, Alexia, for your question on Hotstar ARPU.

Just to make something very clear, that Disney+ Hotstar is included in our overall Disney+ guidance that we reiterate to be profitable in 2024. So I just want to make sure that everyone understands that.

But as it relates to ARPU specifically, there's been a lot of noise in the Indian market, a lot of which has been around sports. So when you look at the ARPU for Hotstar, on a linked quarter basis from Q3 to Q4 this year, it actually decreased and that was a result of lower per sub advertising revenue because there were fewer IPL matches this year. In Q4, there were only 18, and I believe the number was 29-ish in Q3. So you had a linked quarter reduction in games, therefore, lower subscriber advertising revenue.

And when we think about ARPU overall, there's several levers here:



There's the price value relationship over time, high-quality content. And the content in India is really 2 things. It's not only the IPL, but other key sports beyond cricket. So you have things like the English Premier League and Pro Kabaddi.

And also, there's a big general entertainment component. We have all of our Disney+ content over there from all the different labels that we have, Disney, Pixar, Marvel, Star Wars and so on. But they also have over 18,000 hours of original local programming that is produced every year.

So once again, I think the upside potential is when all things are working, all cylinders are working, and we'll be able to take price up as the market allows.

Operator

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

Michael Nathanson – MoffettNathanson

Thanks, hey Tammy. I have 2. One is, I appreciate your view that the content cycle will get better and it will drive sub growth, but I really want to focus on the U.S. What do you see confidence that that's what is the reason for the slowing growth? And are there any cohorts, any demographics that you're underpenetrated, and perhaps the widening out of content is an issue versus just more new content? That's one.

And then 2 is, we have covered Disney a long time, but I've never seen this much inflation before. I don't think any of us have in 30 years. And I wonder, how will you mitigate that inflation? And at what point does it start becoming a more meaningful drag on the margin recovery that you've identified?



Tammy Munsey – Vice President, Investor Relations, The Walt Disney Company

Thank you, Michael. Bob, how about if you talk about the Disney+ sub growth in the U.S. and Christine can talk about inflation.

Bob Chapek – Chief Executive Officer, The Walt Disney Company

Michael, your first question was about sort of the kink of the supply chain, if you will, of new content coming into the service and its impact on our net sub adds.

As you can probably suspect in a world of direct to consumer, we have a lot of information, a lot of data. And we have a pretty good idea of what the marginal impact of a particular title might be to our service.

And we always say that library titles tend to increase engagement and minimize churn, but new titles, new content, whether they're movies or series, actually add new subs. And that is actually the reason why we're pretty confident that the increase in content flow towards the second half of fiscal '22 will actually lead to the types of results that we're anticipating.

And so we've got some pretty good data that suggests that, that is the case, given our history.

While we only have 2 years, that 2 years has represented a number of titles, and you can start to build models, as I'm sure you can understand, every time that we have a title, we have a pretty good idea of what the net impact of that is going to be both from a retention and an addition standpoint. So we're pretty confident that, once we get to more of a normal content flow in the second half of the year, that some of the vacuum that we've had over the last couple of months will not be the case.

Christine, do you want to handle the... oh and sorry, there was also a question about cohorts widening. I'll handle that one as well.



It is true that Disney+ is a four-quadrant service. And as such, we need content that's going to be broad in order to appeal to each of those demographics.

If there's an opportunity that we're working on right now, it's sort of our preschool area. We believe that there's an opportunity for us to sort of assert ourselves in the direct-to-consumer way, the same way we did in the Linear Networks with Disney Channel.

So that would be the biggest opportunity. And I can tell you that, in sitting through our creative reviews, the new content that we've got, the new storytelling that we've got in the area of preschool is absolutely extraordinary. And I think we're going to see a resurgence of sort of Disney in that area in terms of content that's really going to become the cultural zeitgeist and then drive our subs amongst that particular cohort of potential sub ads for Disney+.

But it is true that being a four-quadrant service, we need to be broad in our approach. And that's why we fired up the engines, the production engines of our Fox teams that we've gotten in acquisitions, Fox Searchlight and just our general, Disney general entertainment team, making content both for Hulu and for Disney+, as well as our services internationally. Christine?

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

Thanks, Bob. Michael, I think you asked a question that's on the minds of every CFO and every senior management team of companies out there.

Inflationary pressures are something we are all looking at and trying to assess and think about how do we manage through it. This is also one that, I'll just mention, we've already experienced in some parts of our business.

So over the past year or so, we've talked about the increase in the price of content. You see the content that, because of just the competition for talent, for everything that's involved in productions, content costs have gone up.



Where we see it directly in our parks business is primarily through the hourly wage inflation that we've seen through contract renegotiations and our commitment to paying our park workers well.

And then we have things on the cost of goods side. And it's interesting. Just last week, maybe it was - yes, just last week, I was talking to our parks senior team about things we could do there. And there are lots of things that are worth talking about. We can adjust suppliers. We can substitute products. We can cut portion size, which is probably good for some people's waist lines. We can look at pricing where necessary.

But we aren't going to go just straight across and increase prices. We're really going to try to get the algorithm right to cut where we can and not necessarily do things the same way.

As I mentioned, we're also using technology to reduce some of our operating costs, and that gives us a little bit of headroom also to absorb some inflation. But we're really trying to use our heads here to come up with a way to kind of mitigate some of these challenges that we have.

But it's a great question, and I'm sure it's one that you could ask every single company in your coverage universe. Thanks.

Tammy Munsey – Vice President, Investor Relations, The Walt Disney Company

Thank you, Michael. Operator, we have time for one more question.

Operator

Certainly. Our final question for today then comes from the line of Jessica Reif Ehrlich from Bank of America Securities.



Jessica Reif Ehrlich – Bank of America Securities

Two, of course. First, could you talk about the advertising outlook. There's a lot of moving pieces here between strong upfront, good sports ratings, but supply chain issues affecting some categories. And within advertising, if you could talk a little bit more about Hulu advertising, what's going on there with your ad-light service versus pure premium subscription.

And then the second question is, I know Bob mentioned in his prepared remarks, sports betting. Can you frame or give us any color on the opportunity? Obviously, it's an area of growth as more states are approving it, and it affects advertising, which should be good for the stations. But how can you participate in a bigger way while still protecting the ESPN brands?

Tammy Munsey – Vice President, Investor Relations, The Walt Disney Company

Thank you, Jessica. Bob, why don't you address sports betting and Christine can talk about advertising?

Bob Chapek – Chief Executive Officer, The Walt Disney Company

Ok, will do. Jessica, you're right. We do believe sports betting is a significant opportunity for the company. And it's all driven by the consumer – particularly the younger consumer that will replenish the sports fans over time, and their desire to have gambling as part of their sports experience. It's not necessarily a "lean-back", it's a little bit of a "lean-forward" type experience that they're looking for. And as we follow the consumer, we necessarily have to seriously consider getting into gambling in a bigger way.

ESPN is a perfect platform for this.



We have done substantial research in terms of the impact to, not only the ESPN brand, but the Disney brand in terms of consumers' changing perceptions of the acceptability of gambling. And what we're finding is that there is a very significant insulation.

Gambling does not have the cache now that it had, say, 10 or 20 years ago. And we had some concerns as a company about our ability to get in it without having a brand withdrawal. But I can tell you that given all the research that we've done recently that, that is not the case. It actually strengthens the brand of ESPN when you have a betting component, and it has no impact on the Disney brand.

Therefore, to go after that demographic opportunity - plus the, of course, not insignificant revenue implications - that is something that we're keenly interested in and are pursuing aggressively.

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

Okay. I'll take the advertising question, Jessica. So overall, the ad market is strong across our entire DMED portfolio. And the sports market is strong, and it's really being driven by football at both the college and professional levels, NHL and the NBA.

We are seeing some impact from supply chain issues impacting certain sales categories. And the two that I would just call out are autos and technology, and those are for obvious reasons, that we all know about the chip shortage.

On Hulu specifically, we're really pleased with the advertising demand we've seen for Hulu. And we believe the overall addressable market in the U.S. market will continue to grow.

Hulu, we believe, also has some real strategic advantages in this space. We've got a great slate of premium content, and we've developed the ability to use our data to offer that targeting advertising that advertisers really desire. And we also have a purpose-built and unified ad



platform. I mentioned this last quarter, but that's really helped us grow in addressable advertising.

So we'll continue to make investments in technologies that are going to allow us to continue to exploit this advertising that we see on Hulu. And it's automating the sales process with programmatic and advertiser self-service channels, that we think are really going to continue to show good growth.

So we expect advertising to continue to be an important driver of Hulu revenues going forward.

Tammy Munsey – Vice President, Investor Relations, The Walt Disney Company

Jessica, thanks for the questions. 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 or outlook, position, strategy or strategic priorities, business plans, investments, resiliency, growth, expansion, ambitions, innovation, expectations or future; financial or performance estimates or expectations, including expenditure, cost or spending estimates; profitability or loss estimates or expectations, including timing thereof; expected drivers; estimates of the financial impact of certain items, accounting treatment, events, circumstances, products or other offerings or innovations; future subscription levels or nature, timing or drivers of subscription growth; the anticipated availability, timing or nature of our offerings (including content included within our products and services, theatrical releases, experiences and business openings, cruise ships, cross business offerings, new businesses and technology); future operations (ours or others') and related impacts, timing, conditions, precautions or market responses; future consumer sentiment, demand or spending or market acceptance; workforce matters that are not historical; the continuation of external circumstances (including COVID-19); the future impacts of COVID-19 on our business and recovery timing; 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, cessation of certain operations or creative decisions) 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 or pressures from competitive conditions and consumer preferences;
- health concerns and their impact on our businesses and productions;
- international, regulatory, political, or military developments;
- technological developments;
- labor markets and activities;
- adverse weather conditions or natural disasters;
- availability of content;
- 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.