



The  
**(W)ALT DISNEY**  
Company

**Q2 FY20 Earnings Conference Call**

**MAY 5, 2020**

**Disney Speakers:**

**Bob Iger**

*Executive Chairman and Chairman of the Board*

**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**

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### **Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Walt Disney Company's Fiscal 2020 Second Quarter Financial Results 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 speaker today, Mr. Lowell Singer, Senior Vice President of Investor Relations. Thank you. Please go ahead, sir.

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

Good afternoon, and welcome to the Walt Disney Company's Second Quarter 2020 Earnings Call.

Our press release was issued about 25 minutes ago and is available on our website at [www.disney.com/investors](http://www.disney.com/investors). Today's call is also being webcast, and the webcast and a transcript will also be available on our website.

We hope you are all staying safe, and we realize that most of you are joining us today from your homes. Given Los Angeles County's safer-at-home order, we are hosting today's call remotely. So joining me from their homes are Bob Iger, Disney's Chairman; Bob Chapek, Disney's Chief Executive Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Following comments from Bob Iger, Bob Chapek and Christine, we'll be happy to take some questions. So with that, let me turn the call over to Bob Iger to get started.



**Bob Iger** – *Executive Chairman and Chairman of the Board, The Walt Disney Company*

Thanks, Lowell, and good afternoon everyone.

Obviously much has changed in the world since our last earnings call, and the challenges we're now facing are unprecedented. Like so many other companies and industries, the pandemic has hit us hard, and both Bob and Christine will walk you through the specifics.

However, as someone who's been around for a while and led this Company through some really tough days over the last 15 years - including economic downturns, natural disasters and other unforeseen events - I have absolute confidence in our ability to get through this challenging period and recover successfully. The Walt Disney Company has demonstrated repeatedly over its nearly 100-year history that it is exceptionally resilient, and I believe this time will be no different.

We entered this crisis with a strong hand and an exceptional management team, now led by Bob Chapek. And as we said in February, when Bob was announced as CEO, he and I continue to work in partnership in support of the Company's objectives and to ensure a smooth and successful transition. As you would expect when dealing with a challenge of this magnitude, the entire team is working closely together, taking an all-hands-on-deck approach to address the difficult issues we're facing.

Of course, one key to our resilience is the strength of our brands and the strong emotional connection people have to them: Disney, Pixar, Marvel, ABC, ESPN and Star Wars. In fact, recent studies have shown we've maintained that connection with consumers throughout this crisis. We also have a tremendous collection of assets. And beyond that, what we create has never been more necessary or more important than right now. In fact, it's quite possible that what we create is appreciated now more than ever, because people find comfort and inspiration in our messages of hope and optimism.



This is the same reason we believe people will resume familiar activities once this crisis ends. They miss doing the things they enjoy, things that make them feel happy and connected with family and friends, whether it's going to movie theaters to see our films, or visiting our theme parks around the world, or watching live sports on ESPN.

People want good news. They want to experience joy and the feeling of togetherness. And for all these reasons, we will continue to tell stories that uplift and enrich people's lives.

While much of our operations are shut-down, we've been fortunate to keep parts of our creative pipeline active, including a number of writing and development projects, while also continuing post-production work for our media networks, our studios and Disney+. And I've been working with our creative teams across the Company, and I am extremely excited about what's in store.

I have no doubt that we will get through this, but it will take some time.

Before I turn it over to Bob and Christine to talk about the quarter and the strategy going forward, and to answer your questions - I want to take a moment to express my sincere gratitude for all of the medical professionals across our country who are fighting valiantly to save lives, and to everyone helping to flatten the curve by heeding the advice of health officials and others. It's all making a difference.

On behalf of Bob and myself, I also want to take this opportunity to thank all of our employees around the world who continue to show incredible ingenuity, commitment, patience and understanding during these trying times. Even in the face of adversity, their dedication to our company and our mission is unwavering, and we couldn't be more proud of them.

And with that, I'll hand it over to Bob.



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

Thanks, Bob, and good afternoon, everyone. I hope you're all doing well, and staying safe.

When I stepped into this new job two-and-a-half months ago, none of us could have imagined the suffering and sacrifice that we're now seeing around the world. This devastating pandemic is like nothing most of us have ever experienced in our lifetime. It's had a profound impact on millions of lives - physically, psychologically, financially - causing tremendous hardship and loss. And just about everyone has been affected in one way or another, either personally or through someone they know - a friend, family member, neighbor or colleague.

Fortunately, amidst the adversity, we see the best of humanity, demonstrated through inspiring acts of compassion and selflessness. From the courageous healthcare workers caring for people on the front lines in hospitals across the country, to our first responders and others providing essential services throughout our communities. We're grateful for and deeply appreciative of their efforts.

Here at Disney, as Bob mentioned, we're also grateful to our own employees - starting with our local and national ABC News teams, providing critical and factual information around the clock.... our ESPN team, providing compelling programming in the absence of live sports.... our global security personnel, and key staff who are safeguarding and maintaining our parks and resorts. They're doing a phenomenal job, and we could not be more proud of them.

As you know, Disney, like many other companies, has experienced widespread disruption. In mid-March, we closed our domestic parks and hotels indefinitely, suspended our cruise line, halted film and TV productions, and shuttered our retail stores. And while these were necessary steps to ensure the safety and well-being of our guests and employees, our businesses have been hugely impacted. In the second fiscal quarter, adjusted EPS fell to \$0.60 a share from \$1.61 a year earlier, primarily due to the suspended operations I just outlined.



Christine will talk more in-depth about our results for the quarter, and the ongoing financial impact of COVID-19. Before she does, I want to share a few thoughts on the disruption we're seeing across our company, as well as our confidence in our ability to weather this storm.

While it's too early to predict when we will be able to begin resuming all of our operations, we are evaluating a number of different scenarios to ensure a cautious, sensible and deliberate approach to the eventual reopening of our parks. As you know, our parks have been closed around the world - Shanghai and Hong Kong since January, Tokyo since February, and our U.S. and Paris parks since mid-March. The approach we take may include implementation of guest capacity and density control measures, as well as health and prevention procedures that comply with state and federal guidelines.

We are seeing encouraging signs of a gradual return to some semblance of normalcy in China. And in light of the lifting of certain restrictions in recent weeks, and the successful reopening of our park-adjacent retail and food and beverage area, Disneytown, we and our government partners Shanghai Shendi Group, plan to open Shanghai Disneyland on May 11. We will take a phased approach, with limits on attendance using an advanced reservation and entry system, controlled guest density using social distancing, and strict government-required health and prevention procedures. These include the use of masks, temperature screenings, and other contact tracing and early detection systems.

Moving to Media Networks, ESPN has truly stepped up in the absence of live sports, finding new and innovative ways to deliver compelling content that fans want. This included releasing - two months early - the highly-anticipated 10-part docuseries on Michael Jordan and the Chicago Bulls, *The Last Dance*. The series, which continues through May 17, is the most-viewed ESPN documentary ever, and currently ranks as the #1 program in America amongst all key male demos since sports halted.



ESPN also took what has historically been an engaging live event, and turned it into a virtual one with the NFL Draft. This resulted in a bigger audience than ever before, with a record 55 million-plus viewers over the three-day event. The Draft was a particularly impressive technological feat, driven by more than 600 remote camera feeds from homes across the U.S.

When you look at the impact of these two events, ESPN's April primetime audience was up 11% versus last year among adults 18-49. In fact, it ranked as the top cable network among this key demographic.

Going forward, ESPN is going to be rolling out three new films as part of its award-winning 30 for 30 series. We're also going to air a virtual 2020 ESPYs on June 21. Additionally, ESPN will be bringing back several more of its marquee studio programs, beginning the week of May 11. This will expand their live and quick-turnaround studio programming to 11 straight hours each weekday.

Sports will come back strong, and when they do, we believe ESPN is best positioned to benefit with more offerings than anyone else. And if it's a gradual process, where sports return for a period without spectators in the stands, we can count on ESPN to bring the same level of innovation that we saw with the NFL Draft - and continue to deliver a great experience for sports fans.

On the Studios side, we're incredibly excited about our upcoming slate of films. However, with theaters closed and our productions shut down due to COVID-19, we've had to reschedule a number of release dates for tent-pole movies. These include Disney's *Mulan* for July 24, Marvel's *Black Widow* for November 6, Pixar's *Soul* on November 20, and 20th Century's *Free Guy* set for December 11. As many of you already know, *Artemis Fowl*, originally slated for a theatrical run, will debut exclusively on Disney+, starting on June 12.



As we've said, our Company's top priority and our key to our growth is our Direct-to-Consumer business. And I'm pleased to say that the response to Disney+, in particular, has exceeded even our highest expectations. We have been thrilled with the performance of the service since our initial launch in November, and we continue to expand into other markets. In late March, as planned and despite COVID-19, we had an incredibly successful launch of Disney+ in Western Europe, followed by a highly successful launch in India.

We announced in early April that in just five months, we had surpassed 50 million subscribers globally - a significant milestone for us. We've been quite pleased with the growth that we've seen in the four weeks since then, and there is more to come. Disney+ will begin rolling out in Japan in June.... followed by the Nordics, Belgium, Luxembourg and Portugal in September.... and Latin America will follow towards the end of the year.

This robust collection of library and original content available on Disney+ continues to grow - including with Disney's *Frozen II* and Pixar's *Onward*, which were released early as a special offering for families as they shelter at home; yesterday's SVOD premiere of *Episode IX: The Rise of Skywalker* and the new behind-the-scenes documentary about the making of one of Disney+'s most successful series, *The Mandalorian*; along with the fall premiere of National Geographic's original series, *The Right Stuff*, based on the book by Tom Wolfe about NASA's Project Mercury.

This quarter, Hulu saw the successful launch of "FX on Hulu." Nearly 45% of Hulu subscribers have accessed library, current and original content from the FX Network on the service. Also, Hulu's strong original series continue to perform extremely well, as evidenced by the critically acclaimed hit series, *Little Fires Everywhere*, amongst others. Hulu had 32 million total subscribers at the end of Q2.

We're enormously proud of what we've accomplished to date, and we're optimistic for the future.



As I said earlier, our businesses have experienced considerable disruption as a result of the COVID-19 pandemic. This forced us to implement a variety of measures to manage the short- and long-term financial impact on our company.

The first was a substantial reduction in senior executive compensation company-wide, which will remain in effect until we see a substantive economic recovery. We were fortunate, for the first five weeks, to be able to pay full salaries to those employees who were unable to perform their duties. However, with no way to predict when this crisis will end, we made the very difficult decision to begin furloughs on April 19. Unlike layoffs, the furlough process allows impacted workers to remain as Disney employees, while continuing to receive their full healthcare benefits, paid for by the company. We are fully committed to getting our employees back to work as quickly as the current situation allows.

While these were not easy decisions, I do believe they have been the right ones, given the unprecedented challenges that we're faced with.

Now, before I turn it over to Christine, let me just reiterate what Bob said, and that is: Disney is an exceptionally resilient company. With a great management team and thousands of talented and dedicated employees, we continue to deliver the exceptional brands, franchises and storytelling that consumers around the world have demonstrated a tremendous affinity for. And we are confident that we will emerge from this crisis in a strong position.

With that, I'll turn it over to Christine to talk more about the quarter, and then we'll be happy to answer your questions.

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

Thanks, Bob and good afternoon everyone. These are truly unprecedented times, and the COVID-19 pandemic has affected our company in a number of significant ways.



From a financial standpoint, we estimate the adverse impact of COVID-19-related disruption on our second quarter operating income was as much as \$1.4 billion, with the majority of that impact at our Parks, Experiences & Products segment. As a result, excluding certain items affecting comparability, earnings per share from continuing operations for the second quarter were \$0.60.

Bob Chapek highlighted a number of steps we have already taken to mitigate the impact of the pandemic on our financial performance. We have also been very focused on strengthening our liquidity position to ensure we have adequate resources to fund our operations during this crisis. Our balance sheet and liquidity remain strong. Those who have followed the company over the years know that we have historically taken a prudent approach to managing our balance sheet and liquidity, so despite the current business challenges, we believe we start from a position of relative strength.

We took proactive and decisive steps during the quarter to further enhance our liquidity position by issuing \$6.0 billion of term debt, which contributed to a cash and cash equivalents balance of \$14.3 billion to end the quarter, and a week after the quarter ended we issued another \$925 million in term debt.

Last month, we closed on a new \$5.0 billion 364-day bank facility, which, combined with our existing credit facilities of \$12.25 billion, provides us with total credit facility capacity of \$17.25 billion. I'll note that the \$12.25 billion credit facilities also serve to backstop our commercial paper program.

We are evaluating a wide range of scenarios with respect to the potential ongoing impact of the COVID-19 pandemic on our businesses, while prudently managing cash outflows, and overall we feel confident in our ability to manage through the crisis.



We continue to actively evaluate additional mitigation strategies to position our company to emerge from this crisis with the financial flexibility necessary to get back on a growth path.

From a cash flow standpoint, the Board has made the decision to forgo payment of the semi-annual dividend for the first half of the fiscal year, which would have been payable in July. This preserves about \$1.6 billion in cash, assuming we had held the dividend constant at \$0.88 per share.

We also identified opportunities to reduce our capital spending, and we now expect total capex for fiscal 2020 to be about \$900 million lower than our prior guidance, or \$400 million below prior year, driven primarily by paused construction and refurbishment work due to the temporary closing of our parks. While it is still too early to consider more specific implications for capital spending in fiscal 2021, we remain confident in our investment decisions and the resiliency of our businesses.

Prior to the disruptions caused by the COVID-19 pandemic, with the exception of Hong Kong Disneyland, the rest of our Parks & Experiences businesses were trending well ahead of prior year. As we had previously disclosed, Hong Kong Disneyland faced challenges due to significant declines in visitation from China and other parts of Asia.

Attendance at our domestic parks was down 11% in the second quarter. I'll remind you that the Disneyland Resort closed on March 14 and Walt Disney World closed March 16. We estimate the closure of our domestic parks had an adverse impact on attendance growth of approximately 18 percentage points. Per capita guest spending during the period the parks were open was up 13% on higher admissions, merchandise and food and beverage spending. Per room spending at our domestic hotels was up 6%, and occupancy was down 16 points to 77%, which reflects a 13% decline in occupied room nights. We estimate the closure of our domestic hotels had an adverse impact on occupied room nights of approximately 15 points.



As a result of the unprecedented disruptions to our businesses, Q2 operating income at Parks, Experiences and Products was significantly lower compared to Q2 last year. We estimate the disruption to our Parks, Experiences and Products businesses adversely impacted Q2 operating income by approximately \$1.0 billion.

As we look ahead, while we've announced plans to reopen Shanghai Disney Resort, there is limited visibility into the timing of reopening and the conditions under which we can reopen the rest of our parks and resorts, cruise ships and Disney stores. However, we believe the strength of our brands and our unwavering commitment to the guest experience are valuable assets that will serve us and our guests well once we reopen.

At Studio Entertainment, operating income was lower in the quarter as higher TV/SVOD distribution results at our legacy film studio were more than offset by higher film impairments, lower worldwide theatrical distribution results at our legacy film studio and a decline in our stage play business due to the impact of COVID-19.

Worldwide theatrical results in the quarter were adversely impacted by higher bad debt reserves for receivables due from exhibitors, and by lower revenue due to the closure of theaters around the world. In aggregate, the performance of key titles in the quarter, which included *Frozen II*, *Star Wars: The Rise of Skywalker* and *Onward*, was comparable to key theatrical titles in Q2 last year, which included *Captain Marvel*, *Mary Poppins Returns* and *Dumbo*. We feel the performance of *Onward* was particularly impacted by the COVID-19 pandemic given its release date relative to when theaters began to close.

Higher legacy TV/SVOD results were driven by content sales to Disney+, including *The Lion King*, *Toy Story 4*, *Frozen II* and *Aladdin*, partially offset by a decrease in sales to third parties.



The 21CF studio business was a positive contributor in the quarter as higher operating income from TV/SVOD distribution more than offset an operating loss at worldwide theatrical and general and administrative costs.

Turning to Media Networks, operating income was up in the second quarter due to higher results at Broadcasting, as Cable operating income was roughly comparable to Q2 last year.

At Broadcasting, the increase in operating income was due to the consolidation of 21CF, largely reflecting program sales, and, to a lesser extent, an increase in our legacy broadcasting operations. The increase at our legacy operations was due to higher affiliate revenue and lower programming and production costs, partially offset by lower program sales from ABC Studios and higher network marketing costs. The decrease in network programming and production costs was due to a timing benefit from new accounting guidance, partially offset by more hours of higher cost specials and a contractual rate increase for The Academy Awards in the current quarter.

More detail on the new accounting guidance is contained in the 10-Q filing, but I'll note that while the new accounting guidance resulted in lower programming and production expense during the first half of the fiscal year, we expect programming and production expenses to be higher in the second half of the year as capitalized costs are amortized.

Lower ABC Studios program sales reflect the prior year sale of *Jessica Jones* and *How to Get Away with Murder* in Q2 last year.

Total Broadcasting ad revenue was 3% higher in the quarter driven by consolidation of 21CF and higher political advertising at our owned stations. Ad revenue at the ABC Network was comparable to Q2 last year.



Cable results reflect the consolidation of the 21CF Cable businesses, largely offset by a decrease at ESPN, where growth in affiliate revenue was more than offset by higher programming and production costs and lower advertising revenue. Higher programming and production costs at ESPN were primarily driven by contractual rate increases for the college football playoffs and college basketball, and costs associated with the launch of the ACC network.

Total ESPN advertising revenue was down approximately 8% in the second quarter as higher rates were more than offset by lower average viewership. Total viewership was negatively impacted by the cancellation of live-sporting events in the latter part of the quarter, primarily NBA and college basketball championship week.

So far this quarter, ESPN's domestic linear cash ad sales are pacing significantly below this time last year, reflecting the current challenges in the marketplace due to the lack of live sports inventory coupled with limited advertiser demand. However, we have seen a couple of bright spots so far this quarter with record viewership for the first six episodes of *The Last Dance*, our highest-rated original documentary of all time. Additionally, the NFL Draft was the most watched ever, reaching more than 55 million viewers over the three-day event, and average audience growth of 58% on ESPN versus last year. The performance of these two events suggests there is meaningful pent-up demand from fans for compelling sports programming, and ESPN continues to be well positioned to capitalize on this demand.

Total Media Networks affiliate revenue was up 16% and reflects the consolidation of 21CF and growth at both Cable and Broadcasting. The increase in affiliate revenue was driven by 13 points of growth from the acquisition of 21CF and 7 points from higher rates, partially offset by a three-point decline due to a decrease in subscribers, which benefitted by about 2.5 points due to the launch of the ACC Network.



At our Direct-to-Consumer and International segment, operating losses were \$427 million higher in the quarter driven by costs incurred to support the ongoing launch of Disney+ around the world and the consolidation of Hulu.

Disney+ launched in a number of European markets during the quarter, which contributed to a total paid subscriber base of 33.5 million at the end of the quarter. And we are very pleased with the success of our roll-out in Western Europe and India, including the execution of previously announced deals with some European platforms to distribute the service to all paid subscribers on certain of their widely distributed tiers, and in India to convert our preexisting subscription based Hotstar service to Disney+ Hotstar. As we announced on April 8, during the third quarter we exceeded 50 million Disney+ paid subscribers. More information about those launches is available in our Form 10-Q. Because we executed a number of launches between quarter-end and today, we have decided to bring these numbers current. As of May 4, we estimate we had approximately 54.5 million Disney+ subscribers, reflecting a subscriber mix generally similar to our mix at April 8.

Segment results also reflect the consolidation of an operating loss at Hulu and a benefit from the consolidation of the 21CF international cable businesses. Results at our direct-to-consumer businesses had an adverse impact on the year-over-year change in segment operating income of about \$500 million, which came in a little better than the guidance we provided last quarter.

We expect our Direct-to-Consumer and International segment to generate about \$1.1 billion in operating losses for the third quarter. And we expect the continued investment in our DTC services, in particular Disney+, to drive an adverse impact on the year-over-year change in operating income of our DTC businesses of approximately \$420 million.

Revenue eliminations increased \$1.2 billion and profit eliminations increased \$211 million compared to Q2 last year, driven primarily by higher intersegment content sales from Studio and Media Networks to DTCI.



And finally, the 21CF businesses we acquired, excluding 21CF's stake in Hulu and net of intersegment eliminations, contributed approximately \$460 million in segment operating income in the second quarter. Consolidating Hulu's operating losses and netting out intersegment eliminations resulted in a positive contribution to total segment operating income of about \$200 million.

We estimate the acquisition of 21CF and the impact of taking full operational control of Hulu had a dilutive impact on our Q2 EPS, before purchase accounting, although it was less dilutive than we expected. This is obviously a very fluid situation, and given the lack of visibility around when some businesses will reopen fully or partially, and the conditions under which they reopen, we don't intend to provide specific guidance around our expectations for the remainder of the year.

These are uncertain times and our people and businesses are being impacted in significant ways. Despite these near-term challenges, we remain optimistic about the long-term prospects for our company.

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

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**Lowell Singer** – Senior 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'm going to do my best to moderate by directing your questions to the appropriate executive.

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

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**Operator**

(Operator Instructions) Our first question comes from Ben Swinburne with Morgan Stanley.



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**Ben Swinburne** – *Morgan Stanley & Co. LLC*

I'll ask 2 questions. The first, on the parks, completely understand the lack of visibility, but is there any way you can help us think about sort of the cash burn on that business, assuming you're closed through this quarter or even a monthly number? Just some way to kind of dimensionalize the impact on the income statement as you move through this unprecedented situation on the parks would be very helpful.

And then I was curious, you guys are - you're probably going to be approaching the low end of your 2024 guidance on direct-to-consumer subscribers potentially by the end of this quarter based on the growth you're seeing, but certainly over the next couple of quarters. Given that faster ramp and what's happening with people staying at home and streaming more, I'm just wondering if that's impacting your plans around investing in the business, or - and if you think you'll reach profitability sooner than originally laid out.

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

Okay, Ben. I'm going to turn those over to Christine to answer the first and start with the second.

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

Okay. Ben, hope you're doing well and your family's well.

Let me answer the question on parks as best I can. As you know, we're dealing with a situation that's very fluid. And things are changing. So the results that you saw for the second quarter reflect approximately 2-ish weeks of our domestic parks being closed - because we closed Disneyland on the 14th and World on the 16th. And then you had the Asian Parks closed- Shanghai closed fully in January, on the 25th. Hong Kong closed on the 26th. Tokyo, which is a royalty revenue stream that we get, that closed on the 29th.



So the \$1 billion that was attributable to Parks, Experiences and Products for the quarter - just for that second quarter, about \$1 billion - you could roughly think of it, that the 2 weeks domestic is a little over half. And then you have the Asian - or the international parks, and cruise which are the balance.

So when you think about Hong Kong, we already had issues that related to their own domestic issues. So we had already telegraphed that there would be some softness in Hong Kong. And then this closure of the park just accelerated the losses there. And Shanghai had been doing quite well up until the moment that we closed.

I'm going to ask Bob Chapek if he has any other thoughts that he would like to add to that.

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

No, just that we were doing everything we can to mitigate the impact of the cash burn while we're obviously in this situation. And we're trying to be as responsible as possible both short-term in terms of operating expenses and labor, but also longer-term in terms of how we allocate capital.

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

Okay. And then I don't know, Bob, do you want to start on the second question around Disney+? And then, Christine, if you want to add anything, feel free.

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

Sure. We're obviously thrilled with the progress of Disney+ and how we've been able to increase the base there. We're not really prepared to update our guidance, and certainly wouldn't give any projections in terms of when we would reach profitability. But we know that in terms of the actual investment in Disney+, that new programming - hit new programming, like *The Mandalorian* - certainly drives that business. And so I think we'll continue to make the planned



investments into Disney+ as we always have, with new and exciting programming to drive those subscription rates and retention.

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

And Ben, I would just add that we are still launching in new markets. So while we have had a really good start to Disney+, we still think it's early, and we'll update when it's appropriate.

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**Operator**

Our next question comes from Alexia Quadrani with JP Morgan.

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**Alexia Quadrani** – *JP Morgan Chase & Co.*

I hope everybody is safe and well. Just 2 quick questions, one follow-up and then a second question.

Just following up on your comments on the parks - I wonder if you could tell us or speak generally about what capacity you guys can operate at the park profitably? And we assume, obviously, when you do open - which I know is very fluid and we can't pinpoint that right now in terms of domestic opening... just trying to get a sense of what sort of capacity you think could still sort of get you to breakeven or profitability?

And then my second question is just on the Studio side of the business. *Mulan* is one of the first tent-pole movies scheduled to be released late July. And I guess are you comfortable with opening that movie to what will most likely be minimal capacity at the theaters? I guess, overall, how much of a consideration is also the international theater openings in your decision to begin to start releasing films in this climate?



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

All right, Alexia, thanks for the questions. Bob Chapek, I'll turn that over to you.

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

All right. Alexia, in terms of how we look at our park reopenings and what hurdle we need to make to have it make sense - we actually look at it as a positive net contribution to overhead and profit. In other words, it's not about breakeven point for profitability necessarily, but just making a positive contribution at the net contribution level. So what we're thinking is that while every site is completely different, that's the approach that we're going to take. And frankly, we would not reopen any park unless we can make at least a positive contribution to that overhead and operating profit level.

In terms of the second question, in terms of the studio and what type of audiences will *Mulan* see when it opens up, we're going to get a pretty good idea of that because there's a competitive movie that opens up one week before our film does. And at that point, we're hoping that there's some return to a semblance of normal in terms of the number of screens that are opening and the number of showtimes for those movies. So our fingers are crossed.

Obviously, that's our first big movie out of the gate. But again, between some balance of limited number of seats and theaters as social distancing is practiced by the exhibitors, combined with what's got to be an incredible pent-up demand, I think we'll certainly find out and maybe we'll find out the week before with the competitive movie.

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**Operator**

Our next question comes from Doug Mitchelson with Credit Suisse.



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**Doug Mitchelson** – *Credit Suisse AG*

2 questions as well and a clarification.

Following along the lines of Ben's question, given the crisis has accelerated the shift towards streaming around the world, any change in your plan to pursue Hulu international launches next year? I could understand reasons to accelerate. I could understand that the potential... sort of cost of launching Hulu, could also have you considering delaying that.

On the film side, when do you think large-scale productions like Marvel films can start back up in terms of principal photography? And any comments on windows? There's a lot of buzz these days on launching a new premium VOD window to try to replace some of the theatrical revenue that might be lost.

The quick clarification - the Shanghai reopening, the masks are just for employees or for employees and for guests?

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

Okay, Doug. Thanks. I'm going to turn those over to Bob Chapek.

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

Okay. In terms of our interest in Hulu internationally, given everything that's happened, you said you can make an argument either way. Frankly, we, long-term, are still bullish about Hulu International. Right now, though, given the cash situation and the sort of uncertainty around our overall business, we've got no plans immediately to make any investment in that business internationally. But that, again, is a short-term, only, because of the COVID situation that we're sort of faced with.

And your second question was, again?



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**Doug Mitchelson** – *Credit Suisse AG*

Production, large-scale production and windows.

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

Large-scale production and when will it -

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

Yes. In terms of large-scale production, we're going to go through the same process with our productions as we do our theme parks, in terms of absolutely guaranteeing that we're going to be responsible in terms of how we put both our own employees and other filmmakers that are partners with us as they do these productions.

So we've got no projections of exactly when we can do that, but we will be very responsible in terms of masks and the same type of procedures that we would hope to implement into our parks when we sort of proceed.

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**Doug Mitchelson** – *Credit Suisse AG*

And any thoughts on premium VOD window to try to offset any of the sort of implications around restrictions at theatrical in the coming months?

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

Okay. Yes. So we very much believe in the value of the theatrical experience overall to launch blockbuster movies. As you know, we had 7 billion-dollar films in calendar year '19. But we also realize that either because of changing and evolving consumer dynamics or because of certain situations like COVID, we may have to make some changes to that overall strategy just because theaters aren't open or aren't open to the extent that anybody needs to be financially viable.



So we're going to evaluate each one of our movies on a case-by-case situation, as we are doing right now during this coronavirus situation. I think you know that *Artemis Fowl* is moving over to Disney+ given the demographics of appeal of that film, which was not originally the plan. But all our other tent-pole movies have been rescheduled theatrically for later in the year. So we very much believe in the power of that launch platform for our big movies.

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**Doug Mitchelson** – *Credit Suisse AG*

And then just lastly, masks for guests and/or employees in Shanghai?

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

Yes. In terms of Shanghai, it's going to be masks for guests and employees. The only characters that will not wear masks are the face characters, and they'll be at a distance from crowds.

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**Operator**

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

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**Jessica Reif Ehrlich** – *Bank of America Merrill Lynch*

I hope everybody is okay. 2 questions. One...

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

Jessica, speak up a little bit, please?

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**Jessica Reif Ehrlich** – *Bank of America Merrill Lynch*

Sure. The first question is how are you thinking about longer-term changes in your business model as a result of this crisis? And however you think about that - whether it's sports, how much you will bid or how many contracts you need? Or conversely, is this an opportunity versus competitors, capex, resizing the business, et cetera?



And second question is can you remind us what percent pre-crisis cruise ships were in terms of revenue and operating income? And since this seems like the last business that will come back, can you cancel the orders for your pending ships that are being built?

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

So I'll turn the business model question over to Bob Chapek, and then I think he and Christine can address the cruise question.

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

Okay. In terms of the future rights and the business models, we think that live sports remain incredibly valuable to us, and we continue to have an interest in live sports rights given the unique slate of assets that we own, with ESPN, ESPN+ and ABC. And we're going to do that, though, as we always have done, in a very disciplined manner. Existing consumer trends play a real big part on how we think about the value of sports rights as they make the transition from linear over to digital. And I think it really - it's a bit premature to give any specific details on what the strategy is other than we're obviously highly interested in those. And we think we want to make the evolution along with the consumer as they go from linear to digital.

In terms of the capex question, obviously, we had a lot of really big plans in the parks. And we still continue to have big plans. Those good ideas before COVID are going to be really good ideas after. And as Christine said in her opening remarks, there are certain trimmings that we're doing here and there to be responsible from a financial standpoint. But we have such great intellectual property, and our Imagineers over at our theme parks, where the majority of our capital goes, have done such a tremendous job of planning out future experiences for our guests that we're just going to go ahead and take a slightly finer tooth comb, if you will, through those expenditures but essentially plan on investing behind those businesses like we always have.



And in terms of the cruise ship business, we agree that, that will probably be the last of our travel-oriented businesses to come back online. Interestingly enough, long-term, all of our data and our research shows that our guests will be just as interested in cruising with us long-term. Obviously, not in the next few months, but much more resilient than any of the competitor businesses because of that love for Disney and assurance that they feel, that they trust our business to act in a responsible way to help, to the extent possible, protect them against some of the woes that have plagued the industry since COVID has hit.

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

And Christine, do you want to just talk about the cruise component of that segment?

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

Sure. Jessica, we don't break down our individual businesses within the segment. But - so for the percent of revenue and operating income, given the size of our global parks business, that includes the cruise business, and now it includes consumer products, it's a relatively small percentage of operating income and revenue.

But that being said, and this just builds on some of the things Bob said, this is a business that is one of our highest-rated businesses in terms of guest satisfaction. And it also has a very high intent to repeat the experience. So a lot of people who go on one tend to go back for multiple cruises.

And it's also a business when we look at it from an ROI perspective - ROIC perspective, it's a very nice returning business, creating value long-term for shareholders.

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**Operator**

Our next question comes from Michael Nathanson with MoffetNathanson.



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**Michael Nathanson – MoffettNathanson**

I have 2. One is - I wonder, for Bob Chapek, how do you staff the parks in anticipation of an opening? What signals do you look for? And what drives your optimization? Is it the number of... does basically the experience you want to have, measure up to a park full opening? So any type of signals, any type of history you have to staff up in anticipation of an opening? That's one.

And then two for Christine. In answering Ben's question, you were helpful in giving us the impact of COVID. But then you guys furloughed employees in April. So how would that answer change in a furloughed employee world? So how much of the cost base becomes variable post the furlough? So those are my questions.

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

Okay. Thank you for the questions. Bob Chapek, do you want to start with the first one?

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

Yes. In terms of the signals we look for park opening, our hypothesis is because of pent-up demand that if we open up, it's something less than 50% of our standard capacity that we're probably not going to have trouble filling that. So whatever level we state that at, whether it's 10%, 25% or 50% of typical crowds, that's what we'll be able to have at our park. Therefore, we'll staff accordingly to that type of level, whatever that level will be eventually.

In terms of optimization and sort of how we'll approach that. Obviously, labor is a huge component of our cost base. And so that will slide with the attendance. And that's why I said when we're looking at the decisions for what that level would be inside the parks and what we're going to be targeting for, it's really looked at as a contribution to net contribution and profit as opposed to saying that we're going to sort of cover the entirety or not. Therefore, that gives us the ability to make our decisions on a variable basis and keep as much of that cost



structure variable as possible. Obviously, we'll practice the yield strategy overall, just like we always have.

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

And Christine, do you want to take the second question?

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

Sure. Michael, on the furloughed employees, so the impact that we saw on our parks full segment for Q2 included fully paying everybody. We continued to do that until - in early April, when we did furlough, company-wide, over 100,000 employees. But most of those employees were in the parks segment by just sheer numbers. So while they are furloughed, we are still paying their portion of their medical benefits. So they're not out-of-pocket for any of their benefits. We thought that was very, very important to do.

And when we think about our costs too for the parks, we think about it as 3 levels. There's the fixed component, which is depreciation, taxes, property taxes and insurance. The big chunk of that, depreciation, is a non-cash item. The other 2, obviously, are cash items. Then you have the variable costs, and those are cost of goods sold, and that's where you do have significant flexibility pretty early on, on the time curve. And then there's another chunk of costs where we would put in labor, and that is what we call semi-fixed. And they're fixed in the short-term, just looking at how long it took to do what we had to do to furlough employees.

Once again, we're not - we wouldn't have done it until we had more information that indicated that the parks would be closed for not just a couple of weeks, but we're now in 2 months.

And it also includes - then we have more variable costs in that semi-fixed, and that includes the labor, also SG&A. So we've been taking measures there to eliminate whatever costs we can and other operating expenses. So the furloughed employees will benefit Q3, but we've also done things in the SG&A area that we believe are appropriate given the current state of being closed.



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**Operator**

Our next question comes from Steven Cahall with Wells Fargo.

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**Steven Cahall – Wells Fargo Securities, LLC**

Just wanted to follow up on the parks question and talk a little bit about how you're thinking about contingency plans and sort of brand safety. I imagine if you opened it far below attendance, as you talked about, you would have a lot of pent-up demand. And then you kind of got to decide who gets to come in and what the screening measures are. And it seems like a whole Pandora's box. So I'm just wondering about your willingness to sort of wade into that debate versus waiting for a vaccine.

And then second on Hulu, kind of modest sequential growth in the live product, but ARPU was up a lot. Can you help us think about how much of that was the pricing versus the ad ARPU or the subscription versus the ad ARPU? And how are you thinking about driving both subs and ARPU on that product going forward?

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

Okay. Bob Chapek will take the first question about parks, and then I'll ask Christine to take the Hulu question.

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

Okay. In terms of sort of contingency plans going forward, one of the ways that we're going to deal with the situation in Shanghai, and that's no promise that we'll deal with that the same way domestically, but is through dated tickets, so that you don't have a whole bunch of people showing up at your gates and then finding out that we've reached our limit by 9:00 a.m. and then they go back disappointed. So we're very conscious of that particular oversubscription, if



you will, relative to demand that we're going to have. And so we'll handle that through either dated ticketing or something very similar.

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

And on the Hulu ARPU, Steve, I think you're really looking at the live TV ARPU. That was up 29% year-over-year, and that was because we took a price increase in the quarter. And that's reflected in that 29% increase. It's roughly \$15 per sub. On the SVOD product, it actually declined a little bit year-over-year. But the one thing I would mention there is there's some seasonality to advertising on Hulu. And coming out of the holiday period, which is our first quarter, that's what is reflected in the SVOD number.

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**Operator**

Our next question comes from Jason Bazinet with Citi.

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**Jason Bazinet – Citigroup Inc.**

I just had 2 questions from the Q. One was your decision to continue to pay the sports rights owners even though there aren't sports. If you could just elaborate on that and how long that could endure if sports don't come back soon?

And then the second one is on the dividend. Can you just provide a little bit of color in terms of how you're thinking - what are the major swing factors in terms of not potentially paying a dividend beyond just the one dividend that you decided not to pay?

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

Thank you, Jason. I will ask Christine to take both of those questions, so paying on sports rights and dividend.



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

Jason, and I'm impressed that you're already into the 10-Q. On cash payments paying to the leagues, we're not going to get into discussing the specifics of our various agreements. But what I can tell you is that we are working very, very closely with the leagues and the conference partners. And we're looking forward to the return of live events, and we are in active discussions with them now. So I'll just leave it at that.

And on the dividend, really, these are always very, very tough decisions. But we are - we made a decision for this quarter. We don't have a crystal ball that allows us to see into the future for how long this disruption is going to keep our businesses closed partially or fully. So we'll address the dividend again in the next 6 months.

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**Operator**

Our next question comes from John Hodulik with UBS.

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**John Hodulik** – UBS Securities LLC

Maybe 2 quick follow-ups on the parks and then a second question.

First, can you tell us what the capacity limitations are on the Shanghai Park when you guys open up next week? Number two, anything you can tell us about U.S. Parks attendance in terms of what percentage of typical attendees, say, in 2019 drove versus flew? Trying to get a sense for how many of the visitors are local versus from, say, out of state.

And then second question is anything you could tell us on sort of ad revenue trends in April or thus far in May, that would be great.



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

Thank you, John. Bob, do you want to take the parks questions? And then, Christine, do you want to take the ad trends question?

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

Sure. You got it. In terms of Shanghai Disney Resort, our capacity tends to be 80,000 a day. The government is putting a limit on that of roughly - they want us to be at about 30% of that. So it's 24,000 a day. We're going to actually open up far below that just to have our training wheels on with our new procedures and processes to make sure we don't have any lines backing up either as guests enter into the park or as they wade through the park. So we're going to approach that very, very slowly. But after a few weeks, we'll actually be up to what the government's guideline is. And at that point, there could be some lifting of even those restrictions of the 30%. So those are the metrics there.

In terms of U.S. park attendees, it really depends on which park you're talking about. Obviously, the Anaheim Park has much more of a drive-in market and a lot less folks that stay overnight - a lot less guests that stay overnight; where Orlando has a big predominance of folks that actually - families that actually fly in to go visit there. So we have a fairly robust annual pass program at both parks and a big drive-in market as well. But it's significantly different in terms of the overnight guests and those that might fly in Orlando.

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

John, and to answer your question on ad revenue. Obviously, this whole COVID-19 pandemic, it has had a significant impact on our ad sales. I think that's fair to say for anyone in the advertising business on one side or the other. And it's really due - for us, due to the lack of live sporting events and the pullback from advertisers in categories that are most impacted. So we've seen declines in demand from industries like movie studios, restaurants, travel/tourism, retail, domestic auto. Those are all the things that have – that we're seeing pullbacks in.

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But on the other hand, we've seen some advertisers opportunistically increasing their spend. And some of those industry groups are things like financial services, tech, telecom, the DTC or streaming services, and also consumer packaged goods. Well, when you net all of that, the net impact is what we are expecting as a significant decline in ad sales. And we'll see it more at ESPN because of the lack of live sporting events than we will at the broadcast network.

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**Operator**

Our final question comes from John Janedis with Wolfe Research.

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**John Janedis – Wolfe Research LLC**

Maybe one quick one. You spoke to live sports and the hope that we'll start to see sports come back over the next couple of months. Depending on timing, there can be, I guess, a lot hitting in the fourth quarter. And at the same time, there might not be a lot of scripted programming for primetime. So can you talk about your ability to maybe air some of the content that would traditionally be on ESPN on ABC? And how are you thinking about the fall or winter season in terms of programming? And then maybe, Christine, a quick one as a follow-up to John. Can you give us any kind of order of magnitude in terms of maybe sports relative to non-sports on advertising?

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

John, thanks for the questions, and welcome back. Bob Chapek, do you want to take the first one? And then we'll turn it over to Christine.

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

I think if our executives over at ESPN and ABC have shown anything over the last 2 months, it's the fact that they can be nimble and be very creative at being nimble. So in terms of being able to toggle between one outlet and another, whether it's between ABC to ESPN or ESPN to ABC or ESPN to ESPN+, as you know, we've made quite a number of changes given the changes in the



environment. And I suspect that we would be able to do that same toggling going forward into the future, depending on what happens in terms of what sports come back, how they come back and look at everything essentially through the lens of our guests and our consumers - how they want to enjoy, how they can enjoy.

I also point out to the fact that the NFL Draft was such an unbelievable success for us. And that is a perfect example of being nimble. We had over 3 nights, over 50 million households, which is obviously a huge increase. And I think that speaks volumes to the fact that our cast and our executives over those networks do a phenomenal job of being able to adjust on the fly.

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

John, and on your question about the order of magnitude of sports versus non-sports for ad sales declines. As you may remember, we combined our ad sales into one unit back in 2018. And we are now - we have one group who sells across the Media Networks segment. So we haven't really - and we don't really intend to break out sports versus non-sports. However, it is fair to say that sports, i.e., ESPN, is being more significantly impacted, and you can do the math around that with your expectations, but there's definitely more ad sales decline year-over-year hitting ESPN.

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

Okay. Thank you, John. Thanks for the questions, and thanks again, 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. Also, later today, we will post to our IR website a document that includes more information about our treatment of intersegment content transactions.

In our remarks, we provided estimates of the performance of certain 21CF assets in periods of the prior year. These estimates are based on an analysis of 21CF records but are nonetheless unaudited estimates and are not precise measures of historical results before the acquisition.



Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, expectations or beliefs, 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 obligations 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.

Once again, please stay safe, everyone. Thanks for joining us today, and this concludes today's call.

**Forward-Looking Statements**

Management believes 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 prospects, position, strategy, plans, investments or resiliency; 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 products or services; future resumption of operations (ours or others’) and related timing, conditions, precautions or market responses; future consumer sentiment; workforce matters; 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 capital investments, asset acquisitions or dispositions, integration initiatives and timing of synergy realization) or other business decisions, as well as from developments beyond the Company’s control, including:

- changes in domestic and global economic conditions, competitive conditions and consumer preferences;
- adverse weather conditions or natural disasters;
- health concerns;
- international, regulatory, political, or military developments;
- technological developments;
- labor markets and activities; and

each such risk includes the impacts of, and is amplified by, COVID-19 and related mitigation efforts.

Such developments may affect entertainment, travel and leisure businesses generally and may, among other things, affect:

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

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended September 28, 2019 under Item 1A, “Risk Factors,” Item 7, “Management’s Discussion and Analysis,” Item 1, “Business,” and subsequent reports, including, among others, quarterly reports on Form 10-Q and Current Reports on Forms 8-K.

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at [www.disney.com/investors](http://www.disney.com/investors).