The Walt Disney Company

# Q3 FY20 Earnings Conference Call

**AUGUST 4, 2020**

**Disney Speakers:**

## Bob Chapek

*Chief Executive Officer*

## Christine McCarthy

*Senior Executive Vice President and Chief Financial Officer*

Moderated by,

**Lowell Singer**

*Senior Vice President, Investor Relations*

## PRESENTATION

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**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Walt Disney Company's 2020 Third 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. 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 Third Quarter 2020 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 a copy of the webcast and a transcript will also be available on our website.

We realize most of you are joining us today from your homes, and we hope everyone is doing well. We are also hosting today's call remotely. So joining me from their homes 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 be happy to take some questions. So with that, let me turn the call over to Bob Chapek to get started.

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

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

These continue to be challenging times for our world. The impact of the pandemic on people's lives, our communities, businesses, and way of life, has been devastating. And we remain deeply appreciative of the healthcare workers, researchers, community leaders and everyone doing their part to get us through this difficult period.

Along with the challenges posed by the pandemic, the issues of racism and social injustice have also been front and center in ours and the nation's consciousness in recent months. We have been working closely with our employees and Cast Members in this critical area and have established six new strategic pillars to achieve greater diversity and inclusion across the Company. We are committed to strongly advancing these initiatives as we strive towards greater representation and inclusion, both in our workforce and creative content.

As you know, the majority of businesses worldwide have experienced unprecedented disruption as a result of the pandemic. Most of our businesses were shut down, and this had a huge impact on our third quarter results – adjusted EPS in the quarter was $0.08 a share, compared to $1.34 a share last year. Christine will talk more in-depth about our results for the quarter.

Despite the harsh realities we are facing today, we have made some encouraging progress. Since our last Earnings Call, we've begun a responsible phased re-opening of our parks in Shanghai, Paris, Tokyo and Orlando, as well as our shopping and dining area Downtown Disney in Anaheim.

We have prioritized the health and safety of our Cast Members and guests and have instituted protocols that include a mandatory mask policy, temperature screenings, increased cleaning and disinfecting, as well as capacity restrictions to promote social distancing. We continue to work with national and local health and government officials in this very fluid situation and are making adjustments as necessary.

Along with millions of fans, we're also pleased with the return of major live sports on ESPN – including the successful resumption of the NBA and MLS seasons within the Walt Disney World bubble, and restarts of the WNBA and MLB.

Another positive development to note has been the initial restarting of some of our television and film productions, both domestically and overseas.

When I became CEO in February, I emphasized that we would continue to pursue bold innovation, thoughtful risk-taking, and the creative storytelling that is the lifeblood of The Walt Disney Company. And despite the challenges of the pandemic, we've managed to take deliberate and innovative steps in running our businesses.

At the same time, we've also been very focused on advancing and growing our direct-to-consumer business, which we see as our top priority and key to the future of our company.

Last November we successfully launched Disney+ domestically, and we've since rolled it out in a number of major international markets, including Western Europe, India, and Japan. I am also incredibly pleased to announce that, as of yesterday, we have surpassed 60.5 million paid subscribers globally – far exceeding our initial projections for the service. As our global sub numbers continue to grow, we've also exceeded our internal subscriber projections in every major market where we've launched thus far.

The tremendous success of Disney+ in less than a year clearly establishes us as a major force in the global direct-to-consumer space.

We will continue our international expansion with the launch of Disney+ in the Nordics, Belgium, Luxembourg and Portugal in September and in Latin America this November. And I'm happy to announce that we will also be rolling out Disney+ Hotstar on September 5 in Indonesia, one of the world's most populous countries. By year end, Disney+ will be available in nine of the top 10 economies in the world.

When you look across our full portfolio of direct-to-consumer businesses – at Disney+, Hulu and ESPN+ – our combined global reach now exceeds an astounding 100 million paid subscriptions.

This is a significant milestone and a reaffirmation of our strategy for growth. In fact, the incredible success we've achieved to date has made us even more confident about the future of our direct-to-consumer business, and our ability to be more aggressive in our approach. Going forward, this confidence – coupled with the trends we're seeing in the multi-channel universe – will lead us to pursue even more innovative and bold initiatives as we continue to grow the business.

I'd like to take this opportunity to share with you some of our upcoming plans, and then we'll provide you with more details at an investor presentation that we will host in the upcoming months.

We've already demonstrated an aggressive approach to our content creation pipeline – accelerating the Disney+ debuts of *Frozen II*, Pixar's *Onward* and *Star Wars: The Rise of Skywalker* …. Fast-tracking the debut of Broadway's *Hamilton* to Disney+, which has been a huge success. By combining the best elements of live theater, film and streaming, we have given millions of viewers a whole new way to experience this iconic cultural phenomenon. And last week, Beyoncé's visual album *Black Is King* premiered on Disney+ to critical acclaim. It's being widely celebrated for its diverse cast, stunning artistry and inspiring interpretation of the black experience. Both *Hamilton* and *Black Is King* have clearly shown the power of the Disney+ platform for premiering world-class content.

And there's more great content coming to the service. Highlights include – Disney Live Action's *The One and Only Ivan*, which will stream exclusively on the service beginning August 21 …. and *The Right Stuff*, from National Geographic about NASA's Project Mercury, which is set to premiere this fall. And millions of fans are anxiously awaiting the highly anticipated second season of *The Mandalorian* in October. The blockbuster series was just honored last week with an incredible 15 Emmy nominations, including Outstanding Drama Series – a first for a debut streaming service.

It also bears noting that The Walt Disney Company's television, cable, studio productions and streaming entities received an impressive 145 Primetime Emmy nominations. Ninety-two were for programming content produced by our entities, which really speaks to the power of our creative engines across the Company.

As I said earlier, we've been able to begin resuming some of our creative pipeline activities amidst the pandemic. And we're confident that when we can fully resume operations, we'll be able to do so in a meaningful way with some of the best creative teams and most popular franchises in the industry.

Like many companies, we've had to find innovative ways to conduct our business during this pandemic. While we view this as a devastating situation for everyone affected, it has also forced us to consider different approaches and look for new opportunities. In the process, we're discovering ways to better serve our consumers during this challenging period.

Unfortunately, we've had to delay the release of Disney's highly anticipated tentpole film *Mulan* a number of times due to the impact of COVID on theaters. In order to meet the needs of consumers during this unpredictable period, we thought it was important to find alternative ways to bring this exceptional family-friendly film to them in a timely manner.

We are announcing today that, in most Disney+ markets – including the U.S., Canada, Australia, New Zealand, and a number of countries in Western Europe – we will be offering Disney+ subscribers the epic adventure *Mulan* on Disney+ on a Premier Access-basis beginning September 4.  The price point will be $29.99 in the U.S., and will vary slightly in other countries.

Simultaneously, we will be releasing the film theatrically in certain markets where we currently have no announced launch plans for Disney+, and where theaters are open.

We see this as an opportunity to bring this incredible film to a broad audience currently unable to go to movie theaters, while also further enhancing the value and attractiveness of a Disney+ subscription with this great content.

Given the rapid changes in consumer behavior, we believe it is more important than ever that we continue to grow our direct relationship with our customers. And to this end, I am also pleased to announce that we plan to launch an international direct-to-consumer general entertainment offering under the Star brand in calendar year 2021.

Mirroring the strategy we successfully pursued with Disney+, the offering will be rooted in content we own from the prolific and critically-acclaimed production engines and libraries of—ABC Studios, FOX Television, FX, Freeform, 20th Century Studios and Searchlight. In many markets, the offering will be fully integrated into our established Disney+ platform, from both a marketing and technology perspective. And it will be distributed under the Star brand, which has been successfully utilized by the Company for other general entertainment platform launches, particularly with Disney+ Hotstar in India.

The fact that Disney+ has grown as rapidly as it has, both domestically and globally, clearly demonstrates the value of our content. And through the addition of our Star-branded general entertainment offering, we are further extending the value of that content internationally.

Let me reiterate that we see tremendous opportunity in the direct-to-consumer space. And in light of the success that we've achieved thus far with our global DTC business – and bolstered by our ability to deliver the exceptional brands, franchises and storytelling that consumers around the world have demonstrated a tremendous affinity for – we intend to take full advantage of that opportunity.

To this end, as I mentioned, we will be hosting another Investor Day in the coming months, focused on our plans to accelerate the push into the direct-to-consumer marketplace across our Disney+, Hulu, ESPN+ and Star brands.

Personally, I am as optimistic as I could be about our way forward. And I'm excited to share more about our plans with you in the coming months.

With that, I'll turn it over to Christine.

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

Thanks, Bob and good afternoon everyone. As Bob mentioned, our financial results in the fiscal third quarter were significantly impacted by COVID-19. Excluding certain items affecting comparability, this quarter's diluted earnings per share were $0.08. I'll note this is the first quarter where results in both the current and prior year period reflect a full quarter of operations from the 21CF assets we acquired.

We estimate the adverse impact of COVID-19-related disruption on our third quarter segment operating income was approximately $3 billion, net of cost mitigations. Our Parks, Experiences and Products segment was the most severely affected, with an adverse impact of $3.5 billion, while the puts and takes across our other businesses aggregated to a net benefit, as lower revenues were generally offset by the benefit of cost deferrals and cost reductions. We expect many of these cost deferrals to reverse in future quarters, due primarily to the timing shift of sporting events.

As we reopen many of our businesses, we have incurred and will continue to incur additional costs related to addressing the safety of our cast members, talent, and guests as well as various government regulations. These include – but are not limited to – incremental costs as it relates to responsibly resuming production of film and television content, as well as the enhanced measures we have put into place at our parks and resorts. We estimate that through the end of fiscal 2021, these incremental cash costs could total approximately $1 billion. We expect many of these expenditures, particularly those related to restarting productions, to be capitalized and amortized over future periods.

At Parks, Experiences and Products, third quarter results largely reflect the closures of our domestic parks and resorts, cruise line business, and Disneyland Paris for the entirety of the quarter. Our Shanghai and Hong Kong resorts were also closed for part of the quarter, with Shanghai reopening on May 11th and Hong Kong reopening on June 18th. However, Hong Kong was subsequently closed July 15th due to a government order.

As a result of these widespread disruptions, operating results at Parks, Experiences and Products declined significantly versus the prior year, to an operating loss of about $2 billion. These results also reflect an adverse impact at our Consumer Products business due to the effects of COVID-19.

At Walt Disney World, we are achieving our objective of driving a positive net contribution at current attendance levels, and we expect demand will grow when the COVID situation in Florida improves. We are also closely monitoring trends at our reopened sites internationally, and in particular have been pleased with what we've seen at Shanghai since reopening in May. While uncertainty still exists regarding the timing for reopening some of our businesses, we remain committed to creating high-quality experiences for all of our guests, and are confident in our ability to generate long-term value through these assets.

At Studio Entertainment, operating income decreased in the quarter as higher TV/SVOD distribution results, lower home entertainment marketing costs and lower film impairments were more than offset by lower theatrical distribution results.

Worldwide theatrical results were adversely impacted by COVID-19. Given the closure of theaters both domestically and internationally, no significant titles were released in the quarter.

This resulted in a difficult comparison against the outstanding performance of *Avengers: Endgame* in the prior-year quarter.

Higher TV/SVOD results were driven by content sales to Disney+, including library titles, *Star Wars: The Rise of Skywalker*, and *Onward*, partially offset by a decrease in sales to third parties in the pay window.

Turning to Media Networks, operating income was up in the third quarter due to higher results at both Broadcasting and Cable.

At Broadcasting, the increase in operating income was due to lower programming and production costs, an increase in affiliate revenue, higher program sales, and lower marketing costs. These increases were partially offset by lower advertising revenue.

The decrease in programming and production costs was largely due to production shutdowns as a result of COVID-19, partially offset by a timing impact from new accounting guidance. You may recall that while the new accounting guidance resulted in lower programming and production expenses during the first half of the fiscal year, we have said that we expect programming and production expenses to be higher in the second half of the year as capitalized costs are amortized.

Higher programming sales in the quarter were driven by titles including *The Simpsons*, *Modern Family* and *The Politician*.

Total Broadcasting ad revenue was down 17% in the quarter, driven by decreases at our owned television stations and the ABC Network.

Higher results at Cable Networks are primarily due to increases at ESPN and FX Networks. ESPN benefitted from lower programming and production costs and to a lesser extent, higher affiliate revenue, partially offset by lower advertising revenue. FX Networks benefitted from lower marketing and programming costs.

At ESPN, lower programming and production costs were largely due to the deferral of rights costs for the NBA and Major League Baseball. We currently expect these games to be played in future quarters, and the rights costs will be incurred accordingly.

Total ESPN advertising revenue was down significantly in the third quarter due to the impact of COVID-19 and the absence of the NBA and other significant live sports programming.

Several live sporting events have already returned to ESPN this quarter, including Major League Soccer on July 8th, Major League Baseball on July 23rd, and the NBA just last Friday. Assuming the resumption of live sports continues as planned, we expect ESPN's ad sales in Q4, including the benefit of the 53rd week, to benefit significantly, particularly from the NBA.

Total Media Networks affiliate revenue increased 2%. This was driven by 7 points of growth from higher rates, offset by a four-point decline due to a decrease in subscribers, which benefitted by about 2 points due to the launch of the ACC Network.

At our Direct-to-Consumer and International segment, operating losses were approximately $140 million higher in the quarter compared to last year, driven by costs associated with the launch of Disney+, which expanded into several new markets during the third quarter, partially offset by improved results at Star and ESPN+.

During the third quarter, we launched Disney+ in India via our Disney+ Hotstar service, in France via a strategic partnership with Canal Plus, and in Japan via a limited launch with NTT DOCOMO. At the end of the quarter, Disney+ had a paid subscriber base of 57.5 million, which as Bob mentioned, has now grown to 60.5 million as of August 3rd.

Given the unique nature of our India offering, it's worth noting that Disney+ Hotstar comprised about 15% of our quarter-end subscribers. As it relates to ARPU, Disney+'s overall ARPU this quarter was $4.62; however, excluding Disney+ Hotstar, it was $5.31.

At Star, higher results reflect lower programming costs, partially offset by lower advertising revenue. Both of these drivers reflect the absence of cricket in the third quarter, including a shift in rights costs for the Indian Premier League, which we expect to be recognized in future quarters, and the absence of costs for the quadrennial ICC World Cup, which aired in the prior year quarter.

ESPN+ operating results improved versus the prior year quarter due to subscriber growth and an increase in UFC pay-per-view income.

Results at our direct-to-consumer businesses had an adverse impact on the year-over-year change in segment operating income of about $200 million, which came in better than the guidance we provided last quarter, primarily due to the better than expected results at Disney+ and Hulu. This outperformance, along with lower than expected expenses at our international channels, contributed to the segment's overall operating loss of approximately $700 million, coming in better than our prior guidance.

Note that our third quarter segment results at DTCI excluded approximately $5 billion of impairment charges related to our international channels business, which is included in our calculation of "as reported" earnings per share. These impairment charges reflect the underperformance of these assets due to COVID-19, as well as the impact of our accelerated push into direct-to-consumer streaming services in the midst of declines in our international MVPD subscriber base. Additional detail can be found in our 10-Q, which we expect to file shortly.

We expect our Direct-to-Consumer and International segment to generate about $1.1 billion in operating losses for the fourth quarter. And we expect the Q4 operating results of our DTC businesses to improve by approximately $100 million relative to the prior year quarter, driven by lower losses at Hulu and ESPN+, partially offset by our continued investment in Disney+.

The 21CF businesses we acquired, excluding 21CF's stake in Hulu and net of intersegment eliminations, contributed approximately $730 million in segment operating income in the third quarter. Consolidating Hulu's operating losses and netting out intersegment eliminations resulted in a positive contribution to total segment operating income of about $490 million.

While some of our affected businesses have reopened, we remain laser focused on prudently managing our cash outflows and preserving liquidity. We further strengthened our capital position during the quarter by issuing $11 billion of term debt in May at highly attractive rates, and we reduced our commercial paper balances by close to $2 billion during the quarter. We ended the quarter with $23 billion in cash, and continue to feel we are well-positioned to navigate through this time of uncertainty and continue to invest in the long-term future growth of our businesses.

As we look ahead, there are a handful of items that we would like to give you an update on.

First, you may recall that our fiscal 2020 calendar has an extra week of operations. This year, we expect that 53rd week will actually have a modest adverse impact on operating results in Q4, due to our current expectations of NBA Finals, MLB Playoff and IPL games all occurring in the 53rd week, in addition to a modest operating loss at Parks, Experiences and Products.

At Parks, Experiences and Products, it's worth noting that while Walt Disney World is operating at a positive net contribution level, the upside we are seeing from reopening is less than we'd originally expected, given the recent surge in COVID-19 cases in Florida. We also anticipate Q4 results at our Consumer Products business will reflect a difficult comparison to Frozen and Star

Wars merchandise sales in the prior year quarter, as well as the ongoing disruption of retail operations caused by COVID-19.

Finally, we have continued to refine our capital spending plan, and we now expect total capex for fiscal 2020 to be approximately $700 million lower than prior year, largely due to lower spending at our domestic parks and resorts.

These are certainly fluid times, and we are proud of our management team and cast members for going above and beyond to position our Company well for a very exciting future. 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*

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

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**Operator**

(Operator Instructions) Our first question comes from Alexia Quadrani with JP Morgan.

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

I have 2 questions. The first one is on the studio and the second on the parks. On the studio, do you think moving, sort of, big tentpole films direct-to-consumer is going to be more of a common occurrence for Disney? Or is *Mulan* kind of a one-off? I mean, how should we think about *Black Widow*, I guess, later on in the fall?

And then on the parks, I guess, any color on how much the accretive opening of Walt Disney World is eating away the losses in the parks? I think you said, Christine, that it's eating away – or it's less accretive, maybe – than you thought it would be initially because of the surge of corona.

I'm curious, is that because demand isn't as strong as you thought it would be or because you're just having to keep capacity lower and more careful because of the surge?

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

Okay, Alexia, thanks. Bob, why don't - let's start with the first question. Why don't you take the studio question and then we'll get to the parks one.

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

Okay. We're very pleased to be able to bring *Mulan* to our consumer base that's been waiting for it for a long, long time as we've had to unfortunately move our theatrical date several times. We're fortunate that we have the opportunity to bring it to our own direct-to-consumer platform so consumers can enjoy it. But we're looking at *Mulan* as a one-off in terms of – as opposed to, say, trying to say that there's some new business windowing model that we're looking at. So *Mulan* is a one-off.

That said, we find it very interesting to be able to take a new offering, our Premier Access offering, to consumers at that $29.99 price and learn from it and see what happens not only in terms of the uptake of the number of subscribers that we get on the platform, but the actual number of transactions on the Disney+ platform that we get on that PVOD offering.

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

And then on the parks question, Bob, maybe you want to speak to demand. And then, Christine, you could jump in on some of the numbers.

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

Yes. This is obviously a highly uncertain time, and we could tell from our reservation stream that we had ample demand to go above what the 6-foot social distancing guidelines would give us. That was 6 weeks before we opened the park, when we announced we were opening the park.

And then unfortunately, COVID struck again, and all the numbers started going up. This gave some level of trepidation to travelers who are anxious about long-distance travel jumping on a plane and flying to Walt Disney World.

So what we've seen is that we have roughly 50% of our guest base still traveling from a distance, but the other 50% coming from local markets and in-state. We've also had a higher-than-expected level of cancellations once somebody does make a reservation because as the disease ebbs and flows, they might necessarily cancel.

So what we've done is use our strategy for yielding and made sure that every day, we're pretty close to the percentage of the park that we can fill and still maintain the social distancing. We just replace local and annual passholders with some of the falloff that we've necessarily seen from the long-distance travelers.

I will say that our research indicates that – and our bookings indicate – that we should be in good shape once consumer confidence sort of returns. And so we're very optimistic about that. But we're very happy that we're returning a positive net contribution, as Christine said, because that was our goal in the first place, while at the same time operating very responsibly.

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

Alexia, I'll put a little context into what we're referring to as a net positive contribution. On our last earnings call, Bob mentioned that we would not be opening a park unless we believe that we could, shortly after opening, generate revenue that exceeded the variable costs. So we are able to do that, although it is to a lesser extent because of the current COVID situation in Florida.

As we said, as that abates, we expect the demand to pick up. But right now, it's not as high as we had expected, but we're still in the net positive contribution level. And I'd also like to mention Shanghai has consistently been operating in that net positive contribution area as well.

**Operator**

Our next question comes from Ben Swinburne with Morgan Stanley.

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

I wanted to ask about the international general entertainment DTC launch, which I think is not a huge surprise that you're moving forward – although calendar '21 might a bit earlier than we were expecting. But doing it under the Star brand is an interesting twist versus Hulu. I'm wondering if you could just give us a sense for the strategy there and what you're looking at in terms of case of deployment. Anything you can tell us – I'm sure there's a lot coming in the Investor Day about that strategy because obviously that's big news.

And then just following along on direct-to-consumer. Forget about *Mulan* for a second, but Premier Access as an offering is an interesting strategy. I'm just wondering what your research tells you about that approach versus offering more content as part of the Disney+ subscription. We haven't seen sort of this idea of subscription service with kind of a pay-per-view element on top of it, which is really interesting. I'm wondering if you're thinking about using that on a regular basis globally on the Disney+ platform.

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

Thanks for the questions, Ben, and I'll turn those over to Bob.

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

Okay. In terms of the general entertainment offering internationally, we want to mirror our successful Disney+ strategy by using our Disney+ technical platform, rooting it in content that we already own and distributing it under a successful international brand that we also already own – which is of course Star – and then bringing it to market in very close association to Disney.

I think in terms of you being surprised that this isn't being launched under a different brand name, I think it's important to look at the differences in how we plan on going into the market. And the first thing is that Hulu aggregates third-party content while this will not. This will be rooted in our own content, from ABC Studios, Fox TV, FX, Freeform, Searchlight and 20th Century. And Hulu also, I must say, has no brand awareness outside of the U.S. and nor does Hulu have any content that's been licensed to it internationally. So this gives us the ability to market this under the Disney umbrella and have synergies with our existing platform. So that's our basic rationale, Ben.

In terms of the Premier Access idea…as you probably know, Disney tentpole blockbuster theatrical films can be fairly expensive to make and produce in order to get the quality that consumers expect from us and frankly, to get the quality that we expect from us. And rather than simply rolling it into a free offering, we thought we would give – again, because we can test almost anything when you have your own platform – we thought we would give it a try to establish a new window, a Premier Access window, to try to recapture some of that investment that we've got. And the good news, as I mentioned in my opening comments, is that we're going to have a chance to learn from this and to see whether that makes sense.

All I'll say about our research is that it shows that such an offering under a Premier Access offering not only gets us revenue from the original transaction from the PVOD, but also acts as a fairly large stimulus to sign up for Disney+.

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**Operator**

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

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

A couple of questions. First, could you provide updates on some of your past guidance, specifically on Disney+? You've exceeded your low end of your 5-year outlook, but you haven't said anything about reaching breakeven sooner or not.

And within Disney+, if you could give us some color on Japan, which has always been a very enthusiastic Disney-branded market.

But the other update was on Fox, the Fox synergy, the $2 billion that you've given us in the past.

And then just moving on to kind of current stuff. On production, I mean, obviously with the new protocols, costs will go up. If you - can you give us any color on what percent or how you think about that? And who will be bearing the cost of that? Will you – do you expect to get a national insurance plan in place? I mean there's so much complication there. And then I was just hoping you could, say, talk about maybe the original ramp. How will you prioritize getting back to work on production?

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

All right, Jessica. We'll – it's good to hear from you. We'll try to get to as many of your questions as we can. So Christine, let's start with Jessica's question about Disney+ guidance, and Japan, and synergies. Let's start with that group.

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

Okay. Jessica, we'll see if I can remember all these in sequential order.

So on updating guidance, we're in the process now of working through our long-term plan – just because of COVID and all the disruption to our businesses, it's a little bit delayed from our typical schedule. But we are not going to update piecemeal. We're going to give you a full update of the guidance we provided at the original Investor Day, when we do the upcoming Investor Day in a few months. So you can expect to hear a fulsome review of the guidance and what we're looking for now, because obviously things have gone better than expected, and we are growing into momentum here.

On Japan, Disney+ launched on June 11th in Japan. And it wasn't a full – I would call it a limited launch. It was an exclusive alliance with NTT DOCOMO. So that was not provided – you had to be an NTT DOCOMO subscriber in order to have that ability. So you shouldn't be looking at that as a full country launch. So I think you can anticipate that once it is launched, there will be more demand for Disney+ in that market because you're absolutely right, there's a very, very high affinity for the Disney brand in Japan.

I think you also had a question on Fox synergies. We are still on track to achieve the synergies that we had discussed originally. And that is going along, even despite COVID, we're still proceeding.

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

And then Jessica had a question about restarting production as well. Christine, do you want to take that one?

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

Sure. In my prepared comments, I said that we would incur around $1 billion of costs between now and the end of fiscal '21. And that's a variety of things. It's everything from ramping up productions. And you can imagine these productions, they have everything from distancing that you have to accommodate for, site preparation, stage preparation, all the testing that has to go on… so there's a lot of increased costs. And what those also will result in, is increased days to produce episodes. So all of those things will incur costs.

As I mentioned, we will be capitalizing many of those costs that are related to productions, and those will be amortized in future periods.

And also in parks, as you've heard from us, there's considerable costs that have been put in place to achieve safety and health measures. And those largely are expensed in the parks.

**Operator**

Our next question comes from John Hodulik with UBS.

**John Hodulik** – *UBS Securities LLC*

Just maybe 2 quick ones. First, Bob, you talked a bit about some of the new programs you're going to have on the Disney+ platform in the fall. Are you confident that you've got a strong-enough lineup that you can sustain the growth that you've recently seen both in the U.S. and some of these international markets, given the production halt and the need to restart that?

And then secondly, although it's not as immediate of a concern, but you guys suspended the dividend. I think that was on the last call. Any thoughts to sort of reinstating that and sort of just capital allocation as we look forward, especially with the new sort of more aggressive stance on DTC?

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

Okay. John, thanks for the question. Bob, why don't you take the production question for the fall? And Christine, you'll take the dividend question.

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

As you may suspect, while we've had to slow down production and cease it altogether, in some cases, during the COVID time, we've been busy developing new content. And we're extremely excited about some of the things that we've got not only to sustain that linear growth that you talked about for Disney+, but actually go beyond that and grow it.

We've got of course *The Mandalorian 2*, which we've announced is coming in October, but we've also got a slew of Marvel content that's going to be coming that we're very excited about. And these require us to re-enter into production, but it's such a priority that we're hopeful that this will be coming shortly to enable us to, again, not only sustain but continue to grow. And I would tell you that the content is fabulous – *Loki*, *The Falcon and The Winter Soldier* and *WandaVision* – are 3 Marvel properties that we're really, really excited about.

And one of the things about Disney+ that we found is that new content to bring – new content tends to bring in new subscribers, but catalog increases engagement and helps us retain subscribers. So I think that this new content, having so much of this all at once – that I think it's really going to go ahead and propel the business forward. Christine?

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

John, so let me just make a couple of comments on the dividend. As you know, management recommended, and the Board decided to accept that recommendation, not to pay a dividend for the first half of fiscal '20, and that was the payment that would have been made in July. And we all believe that decision provided the company with additional financial flexibility, given what we were seeing in the COVID environment we're in and all the uncertainty that we're dealing with and continue to deal with.

So our Board would typically determine whether or not to declare a dividend for the second half of fiscal '20 in the latter part of the calendar year. It would be very late November, early December. And in making the recommendation to the Board, we again are going to take into consideration where we are with COVID and the impact that it's having not only on our financial performance but what measures we're taking to mitigate the COVID impact. So we'll take the full financial picture into consideration.

It is part of our overall capital allocation principles. But first and foremost, we are going to invest in businesses that we believe are going to drive long-term shareholder value. And you're seeing what we're doing in the direct-to-consumer initiatives not only domestically with Disney+, internationally with Disney+, and now internationally with the general entertainment channel.

So we feel like that's certainly top of the list. But we are also looking at other measures like a dividend.

But we won't make that decision or recommendation until – to the Board until the end of the – close to the end of the calendar year.

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**Operator**

Our next question comes from Michael Nathanson with MoffettNathanson.

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**Michael Nathanson** – *MoffettNathanson*

I have 2 for you, Lowell. One is on the rollout of the new channel, Star. Can you talk a bit about how you think about either the AVOD-SVOD hybrid that's worked in the U.S.? Is that the template to think about globally?

And then there's just a concern about college football and pro football not being in a bubble. And I wonder just generally, what risk is there to affiliate fees if those seasons don't get completed? So anything you'd help us on ESPN and maybe those sports that are not in bubble, and risk to your affiliate fees longer – in the next 6 months or so.

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

Okay. Thanks for the questions, Michael. Bob, do you want to take both of those?

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

Yes. In terms of the Star offering that we announced today, we see this as part of a – sort of a sequential domino strategy in terms of getting towards an offering on Disney+, starting with the PVOD going through some transactional window after we have an exclusive on Disney+ for the PVOD – details to be announced later – and then eventually going to Disney+ where it will live in perpetuity.

Now I should also say that we think that the Star brand itself, in terms of its offerings, we've got a utility here. We've got a utility that is enabled on all Disney platforms. I did mention to you that we will have the ability to use the same platform across both Disney+ and Star. So that if theoretically we can afford to do something on one particular platform like Disney+, we should be able to do it on a Star platform. It's not something we've talked about or entertained, but the capability is there.

In terms of the Fox, our – in terms of the college football and the likelihood that it plays, I don't really want to comment on the possibility of us going on – the seasons going on because I think that's really up to the league commissioners. That being said, we feel that we've got certain covenants that we have to meet in terms of – like programming hours with our partners. And we feel confident that with the way that we see all of the sports going on right now, we feel confident that we're going to be able to reach that.

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**Michael Nathanson** – *MoffettNathanson*

Right. But Bob, just the AVOD-SVOD strategy as you did with Hulu in the U.S?

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

Yes. Well, we have no planned AVOD-SVOD on Star itself, but we've got obviously similar capabilities as we've got to Disney+ if we ever so chose to do that, but we've got no plans to do that now.

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**Operator**

Our next question comes from Jason Bazinet with Citi.

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**Jason Bazinet** – *Citigroup Inc.*

I love that you guys are always conservative with capital and recognize – you said it was a low cost of debt in terms of the latest capital raise. But the $23 billion of cash that sits on the balance sheet, it seems excessive even under the most dire scenarios in terms of free cash burn that you could anticipate. So can you maybe just explain a little bit behind your thinking behind that quantum of capital and what it might be used for?

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

Okay. Jason, thanks for the question. Christine, do you want to take that?

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

Sure. Thanks, Jason. You're right. We do take somewhat of a conservative approach to managing liquidity. And when we raised that money, it was back in March and April, we were able to achieve some pretty favorable interest rates, but we also did not have any visibility into how long this environment was going to continue. We also saw some weeks in the spring when there weren't consistent capital markets conditions – so you'd have some weeks when spreads gapped out, sometimes they tighten up. And we took the position that – get it when we can. And because the demand was so high, we decided to take it because we view it somewhat as an insurance policy.

But when we look at the overall balance sheet, we have it, and we see COVID continuing for a while. But one of the – there's a few things that have happened in our businesses, and one is just the way that we have probably been much better at cost mitigation than we anticipated. The whole company is aligned towards tightening the belt. And we've done, I think, a great job on that.

But as we are opening up the parks, remember now, we furloughed over 100,000 people, and we're bringing them back for the most part, not all are back yet, but a lot are back. So we will be spending more money just in terms of labor than we did in the third quarter. So in the fourth quarter, you'll see some of our costs actually go up to resume some of our businesses.

So I look at this as – as we all know, what kills a company is the lack of liquidity. And as a CFO, I would never want to be in that position of not being able to fund all of our obligations.

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**Jason Bazinet** – *Citigroup Inc.*

That makes perfect sense. But none of that capital was really earmarked to sort of pulling the minority stake in Hulu that you don't own? That was not part of the thinking?

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

No. That's – if you look at that, that's out a couple of more years. So – and the other thing is we do have debt maturities coming up. We still have another about $1.1 billion this fiscal year and, if my memory is correct, I think $3.5 billion for fiscal '21. So we've got some debt maturities that we don't have to go-to-market. And if this cash is still on our balance sheet, we can just certainly repay that and not refinance.

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**Operator**

Our next question comes from Kannan Venkateshwar with Barclays.

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**Kannan Venkateshwar** – *Barclays Bank, PLC*

Thank you. So a couple, if I could. So first is, Christine, the $5 billion charge that you took for international markets, I guess this is a question for Bob as well, but broadly, does this mean that you could potentially use this as a way to pull more channels and go direct-to-consumer in other markets? I think you've done a little bit of that in the U.K. with some channels, but could that become a bigger possibility in other markets now that you've written down this asset?

And then secondly, Bob, from your perspective, when you look at ESPN, obviously, cord-cutting is accelerating, just given what the cable companies have said so far. Is there an alternative state of the world where ESPN could go direct-to-consumer? And have you looked at that model in terms of an SVOD perspective?

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

Kannan, thanks for the questions. Christine, why don't you speak to the $5 billion charge? And Bob, you speak to ESPN?

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

Kannan, so that's a great question, and I'm glad you asked it so I can put some color around this impairment. So the best way I would frame it is: this impairment reflects an underperformance of the international channels business that we were already seeing, and then that was exacerbated by the impact of COVID-19. Coupled with that, we've learned a lot with the launch of Disney+. And we have, as you've heard today, accelerated our push into DTC consumer streaming and – with the same time, you're seeing a decline in the subscriber - MVPD subscriber base outside of the U.S. So you add all those things up. And we're not – this impairment does not include the value of DTC. That's intact. What this impairment is about is the linear channels.

And so we have, in this calendar – this fiscal year, have already closed down more than 20 channels. Most of those were closed in this third quarter. And they were primarily in APAC and in EMEA. Now when I say APAC, not in India, these are in other parts of Asia. But that's where the channels were closed.

And we're taking a look at going more quickly, as you said, into direct-to-consumer. And these channels, shutting them down and taking those platforms direct, is certainly what is behind this impairment.

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

And in terms of the ESPN question, let me first start off by saying that on a macro level, I think we understand the value of live sports. ESPN is the strongest brand in sports, and sports continue to be a driver of viewing interest. I think it's evidenced by the fact that sports accounted for over 90 of the 100 most viewed telecasts on broadcast and cable in 2019. So we've got a really strong position from a brand standpoint in a market that consumers love. So then the question is, how do we get it to the consumer?

And certainly, you asked if whether we've looked at a stronger direct-to-consumer proposition for ESPN. Absolutely. We've looked at everything, and when we think that we've got the most effective way to maximize shareholder value from the brand, the way we are right now - but as that changes over time, we're certainly open to any and all options in terms of how we may be able to get our programs out to our consumers. And hopefully, we can talk a little bit more about this in our investor conference when we meet in the next few months.

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**Operator**

Our last question comes from Steven Cahall with Wells Fargo.

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

Maybe first, just wanted to clarify on parks, Bob. With the lower contribution margin in Orlando, could you just help us think through some of that disruption that you had? Was that more about not being able to get as many people in the parks? Or was that more of a per capita spend or pricing issue that caused the contribution margin to come in lower? And maybe you could update a little bit on what you're seeing in terms of pricing and occupancy at the hotels as well.

And then on Disney+, I'm curious, I mean, you've had this amazing ramp-up to the low end of guidance. As you think about the next stage of growth for Disney+, does it make more sense to kind of go after a bigger market of subscribers, which can be pretty expensive in terms of original content? Are you more kind of focused on getting to more of a plateau with Disney+ and driving it more towards profitability with the content that you've already got planned in the pipeline that's more around the film slate and the existing characters?

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

All right, Steve. Maybe, Christine, you want to just at least start on the parks metrics? And then, Bob, you may want to comment on parks and then talk about Disney+ as well.

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

Steve, so when we were talking about the net positive contribution opening up Walt Disney World, what we were referring to was that because there was a surge of COVID in Florida, which limited the amount of inbound travel that we had originally anticipated – so it's more local – that overall is having a little bit of a dampening effect on it, but it's still positive. And once again, it will pick up when there's more regular travel patterns going into Walt Disney World.

And as it relates to sort of pricing and occupancy of the hotel, it's really – like there's so many hotels that are not yet reopened. And so those are kind of meaningless numbers right now. So once, I would say, the travel patterns get a little more normalized, and we see people going in and staying for regular vacations like they used to, we'll be providing occupancy and booking numbers.

But right now, the one thing I would add is per caps are very, very strong. And you could say that that's probably because people haven't been in the parks for a while. There's a pent-up demand, and let's not forget that we just opened the full – the Rise of the Resistance as well as the Star Wars lands fully in the beginning of this calendar year. So you had a lot of people, even Floridians who are just traveling locally, who have not yet had an opportunity to go in and experience that. So the per caps are great. And I think it's because people haven't been able to get into our parks for quite a long time.

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

All I'll follow up on the parks question is that, as you know, different guests, depending on where they're coming from, have different relative values in terms of their contribution as a guest to the park. And typically, someone who travels and stays for 5 to 7 days is marginally more valuable to the business than someone who comes in on an annual pass and stays a day or 2 and consumes less merchandise and food and beverage. So the way I would look at it is that it's just as that constituency changes a little bit, so do our overall margins change. But it's not because of price reductions or anything like that. And I think Christine handled the pricing and occupancy in hotels.

On Disney+, we absolutely are going after a bigger market of the number of subscribers as opposed to over-rotating to try to get to a profitability number much sooner than we thought. Although I must say the prospect of us hitting our goals as quickly as we are is very encouraging. But what we plan to do is invest even more in our content in order to keep that machine cranked and going. As I mentioned, one of the biggest things in terms of subscriber acquisition is having new, hot tentpole content to bring to the service, and you get that by making investments in new content. So we'll be investing in content first, and then trying to grow the service, both from a marketing standpoint and from an installed base standpoint.

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

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.

Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, expectations, beliefs or business prospects 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, our quarterly reports on Form 10-Q and in our other filings with the Securities and Exchange Commission.

This concludes today's call. Thanks, again, everyone, for joining us, and have a great rest of the day.

**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 or financial prospects, position, strategy, plans, investments, resiliency or growth; 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, or offerings (such as content) included within, our products or services; future resumption of operations (ours or others’) and related impacts, timing, conditions, precautions or market responses; future consumer sentiment or demand; workforce matters; the continuation of external circumstances (including COVID-19); 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 new or expanded business lines or cessation of certain operations) or other business decisions, as well as from developments beyond the Company’s control, including:

- 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 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):

- 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, which risk factors should be read together with the above factors.

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