Q1 FY24 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chief Executive Officer

Hugh Johnston

Senior Executive Vice President & Chief Financial Officer

Moderated by

Alexia Quadrani

Executive Vice President, Investor Relations

PRESENTATION

Operator

Good day, and welcome to The Walt Disney Company's First Quarter 2024 Financial Results Conference Call. (Operator Instructions).

After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note today's event is being recorded. I would now like to turn the conference over to Alexia Quadrani, Executive Vice President, Investor Relations. Please go ahead.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Good afternoon. It's my pleasure to welcome everybody to The Walt Disney Company's First Quarter 2024 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 being webcast, and a replay and transcript, as well as the First Quarter Earnings Presentation, will all be made available on our website after the call.

Joining me for today's call are Bob Iger, Disney's Chief Executive Officer, and Hugh Johnston, Senior Executive Vice President, and Chief Financial Officer. Following comments from Bob and Hugh, we will be happy to take some of your questions.

So, with that, let me turn the call over to Bob to get started.

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

Thanks, Alexia, and good afternoon, everyone.

Just one year ago, we outlined an ambitious plan to return to a period of sustained growth and shareholder value creation, and our strong performance this past quarter demonstrates we have turned the corner and entered a new era.

As previously noted, we are focused on: transitioning ESPN into the preeminent digital sports platform, building streaming into a profitable growth business, reinvigorating our film studios, and turbocharging growth in our parks and experiences.

Before we dive deeper into our results, let me start by making a number of significant announcements that represent important and exciting steps forward.

First, we announced yesterday the full suite of ESPN's channels will now be available direct to consumer as part of a new joint venture with Fox and Warner Brothers Discovery to create a new streaming sports service, launching this fall. This brings together content from all of these companies' combined assets, including all the major professional sports leagues and college sports.

And in the fall of 2025, we'll be offering ESPN as a stand-alone streaming option with innovative digital features, creating a one-stop sports destination unlike anything available in the marketplace today. ESPN is also adding a sports icon to its lineup, with Coach Nick Saban joining the network as an on-air commentator later this year.

We're excited to share that in November, we will release a feature-length animated sequel to *Moana*, which joins a very robust lineup of upcoming theatrical releases.

We're also thrilled to share that we are entering into an exciting relationship with Epic Games, acquiring a small equity stake and launching a groundbreaking new games and entertainment universe that brings together Disney's beloved brands and franchises with the hugely popular Fortnite.

And I'm pleased to share that Disney's Board has declared an additional dividend, and we will be embarking on a $3 billion stock buyback program in fiscal '24.

Oh, and one more thing: next month Disney+ will become the exclusive streaming home of Taylor Swift's historic concert film, *Taylor Swift: The Eras Tour (Taylor's Version)*.

I'll be sharing more with you about these announcements momentarily, but what's clear is that the important transformation we undertook last year is bearing fruit. And looking at our results this quarter, we can say with confidence our strategy is working.

In Q1, segment operating income increased by 27% and adjusted earnings per share rose 23% compared to prior year.

We've improved our entertainment streaming operating income by a remarkable 86%, year over year, and remain poised to reach profitability in our combined streaming business by the end of fiscal '24, and build on our momentum to deliver significant, sustained profit margins in the future.

Disney's Experiences business generated all-time records in revenue, operating income, and operating margin. And we are on track to meet or exceed $7.5 billion in cost savings, as we continue to look for further efficiency opportunities across the company.

Diving deeper into our announcements, let's first talk about ESPN, which continues to deliver meaningfully for the company and will be a key value driver in the future.

ESPN's domestic sports business continues to grow, and even amid a challenging linear landscape, ESPN increased its overall audience in calendar year 2023, and it continues to break records in ratings. Ultimately, our mission is to make ESPN into the preeminent digital sports brand, reaching as many sports fans as possible and giving them even more ways to access the programming they love, in whatever way best suits their needs.

One way will be through the new streaming sports service coming this fall that we announced yesterday in conjunction with Fox and Warner Brothers Discovery. This service will bring together our collective portfolios of sports channels and direct-to-consumer services – on a non-exclusive basis – providing consumers with more of the sports they want in a single place.

It's important for us to serve the needs of consumers looking for a seamless way to access an aggregated collection of sports-centric content, including capturing fans moving away from the full cable and satellite bundle. And it's an attractive business proposition for ESPN, allowing us to command per unit economics in line with established market rates for our sports content, just like we do with any streaming or linear service where we offer our programming.

Another exciting option available to sports fans will come in the fall of 2025, when we make the full suite of ESPN's channels available as a stand-alone and highly interactive digital destination. Not only will consumers be able to stream their favorite live games and studio programming, they'll also have access to engaging digital integrations like ESPN Bet and fantasy sports, e-commerce features, and a deep array of sports stats, all of which we know will be incredibly compelling to younger sports fans in particular. It will also have very robust personalization features.

ESPN has long prioritized its desire and ability to serve sports fans wherever they are, and these steps will strengthen ESPN's ability to deliver on that promise. And as you know, we've also engaged in productive conversations with potential content and marketing partners for ESPN. We've made progress toward securing deals, and we expect to have more to share with you in the near future.

We're excited to offer a more unified streaming experience, which we expect will deliver strong benefits in terms of higher engagement, lower churn, and greater advertising potential. When we launch our stand-alone ESPN service, we will also make it available on Disney+ for bundle subscribers, just as we've done for Hulu.

We've already seen an incredible response to the beta launch of Hulu on Disney+, which has far exceeded every metric, and we are looking forward to the full launch next month.

This is all part of the ambitious streaming strategy we've been building. From our acquisition of 21st Century Fox that expanded our vast content library and strong pool of creative talent; to the launch of Disney+ as the home to a century of content; to securing full control of Hulu and expanding our streaming offerings to reach greater audiences; to our significant investments in technology; and now taking significant steps toward ESPN's streaming future.

Disney also has a great advertising story to tell, with unparalleled scale and very strong advertising technology, and our ad-supported Disney+ offering is off to a great start. We successfully expanded outside the U.S. with launches in EMEA and Canada, and grew to over 1,000 global advertisers in the first quarter – that's a 10-fold increase from launch.

More than anything, the success of our streaming services is a testament to the amazing content we create. With 6 of the top 10 most streamed movies across all streaming platforms in the U.S. in 2023, our best-in-class storytelling continues to entertain millions of people.

We received 27 Golden Globe nominations and won top prizes for FX's *The Bear* and Searchlight's *Poor Things*. At this year's Primetime Emmy Awards, we took home 37 wins – more than any other entertainment company – and we lead the industry with 20 nominations heading into the Oscars, which will air on March 10th on ABC.

We're also proud of our recent Disney branded programming successes. *Percy Jackson and the Olympians*, which premiered on both Disney+ and Hulu in December, has become a bona fide hit. Books from the series returned to the #1 slot on *The New York Times* Best Seller list, following the debut of the Disney+ series, and I'm thrilled to share that we just picked up a second season.

And the hit children's animated series *Bluey*, which is exclusive to the Disney Channel and Disney+ in the United States, was recently the #1 most-streamed show across any streaming platform.

Looking ahead, we have an exciting slate of originals coming to Disney+, including *Agatha* from Marvel Studios, *Skeleton Crew* and *The Acolyte* from Lucasfilm, *Win or Lose* from Pixar, and much more.

Additionally, later this month, Hulu will launch FX's highly anticipated saga *Shōgun* in the U.S. And in March, all seasons of *Grey's Anatomy* – our #1 streamed title globally – will join our extensive library of titles on Hulu. When the show returns next month for its 20th season, Hulu will be the only place to see the current and all previous seasons of this truly iconic series.

And speaking of icons, over the past year we've all witnessed the creative genius and sheer power of a true cultural phenomenon — Taylor Swift. When her blockbuster concert film debuts on Disney+ on March 15th, it will feature the concert in its entirety, including the song “cardigan" and four additional acoustic songs which were not in the theatrical or digital purchase release of the film. We know audiences are going to absolutely love the chance to relive the electrifying *Taylor Swift Eras Tour (Taylor’s Version)*, whenever they want, on Disney+.

Turning to our film Studios, we have an incredibly robust slate of new releases as we continue revitalizing our creativity. Just consider the lineup of titles we will release through the end of 2026. This year we have *Kingdom of the Planet of the Apes*, *Inside Out 2, Deadpool 3, Alien: Romulus,* and *Mufasa: The Lion King.*

As I mentioned at the top of the call, this November, we’ll release a feature-length animated sequel to *Moana*. This was originally developed as a series, but we were impressed with what we saw, and we knew it deserved a theatrical release. The original *Moana* film from 2016 recently crossed 1 billion hours streamed on Disney+ and was the most streamed movie of 2023 on any platform in the U.S. Along with the live-action version of the original film that’s currently in development, Moana remains an incredibly popular franchise, and we can’t wait to give you more of Moana and Maui when *Moana 2* comes to theaters this November.

Looking to our 2025 theatrical slate, we’re excited to bring audiences *Captain America: Brave New World, Fantastic Four,* Pixar’s *Elio, Zootopia 2,* and *Avatar 3*, and we’re already looking forward to 2026 and beyond with *Frozen 3*, the first *Toy Story* movie since 2019, and a new Star Wars movie that brings the Mandalorian and Grogu to the big screen for the very first time.

These films will not only reach global audiences in theaters, but as we’ve consistently demonstrated, they will become important anchors on our global streaming platforms, driving subscriptions and engagement, while also continuing to fuel growth in our Experiences business.

After all, one of the things that truly sets Disney apart is our unique ability to turn top quality IP into top quality experiences, leading to significant growth. That was certainly true this quarter. Every one of our Parks was profitable in Q1, giving us an incredibly solid foundation to build upon as we invest significantly to turbocharge growth in this business.

We've had a tremendous response from guests visiting our newly opened World of Frozen at Hong Kong Disneyland as well as our first-ever Zootopia land at Shanghai Disney Resort. And as I've said before, we also have so many untapped stories just waiting to be brought to life in our Parks across the globe as we continue to invest in this extraordinary business.

But it's not just our parks where we're creating new opportunities for consumers to engage with the characters and franchises they love. Our new relationship with Epic Games will create a transformational games and entertainment universe that integrates Disney's world-class storytelling into Epic's cultural phenomenon, Fortnite, enabling consumers to play, watch, create, and shop for both digital and physical goods.

This marks Disney's biggest entry ever into the world of video games and offers significant opportunities for growth and expansion. The new immersive universe will allow fans to unleash their own creativity and experience the Disney stories and worlds that they love in groundbreaking new ways.

Younger audiences, in particular, are huge consumers of video games. In fact, among Millennials, Gen Z, and Gen Alpha, a significant amount of time spent on screen-based platforms is playing video games. This new universe from Disney and Epic provides us with a tremendous opportunity to not only meet more consumers where they are, but to allow more audiences to cultivate a bond with Disney's iconic brands and franchises, including Marvel, Star Wars, and much more.

Looking at the renewed strength of our businesses this quarter – from Sports, to Entertainment, to Experiences – the stage is now set for significant growth and success. In that regard, we see ample opportunity to increase shareholder returns as our earnings and free cash flow continue to grow.

Our current position of strength, and confidence in our path ahead, already led us to pay a dividend to our shareholders last month, and I'm pleased to share that the Board declared that our next semi-annual dividend, to be paid in July, will be 50% higher versus the last dividend paid in January. The Board has also authorized the company to begin repurchasing shares for the first time since fiscal 2018, and we plan to start by targeting $3 billion this fiscal year. As we continue to invest in our growth businesses and maintain our strong balance sheet, we also expect to prioritize dividend payments and share repurchases in the coming years.

I'm proud of our company's remarkable achievements and I'm grateful to a deep bench of seasoned executives who are helping guide Disney into the future. And that includes Hugh Johnston, our new CFO, who has already proven to be an outstanding addition to the team. We feel very fortunate to have Hugh with us.

And now to take you through more of our results this quarter, I'll turn things over to Hugh.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Thanks, Bob.

I joined Disney a little over two months ago, and the more I learn about this incredible company, the more excited I am about the opportunities ahead of us. I am looking forward to continuing to partner with Bob and our management team as we execute on our strategy, with the goal of delivering significant, consistent long-term earnings and free cash flow growth.

We are very pleased with this quarter's financial results. Fiscal first quarter diluted earnings per share, excluding certain items, increased by 23% versus the prior year to $1.22, and segment operating margin increased by 350 basis points reflecting both strong pricing and operating expense reductions.

Both revenue and operating income at Direct-to-Consumer, Domestic ESPN and Experiences all increased versus the prior year, and operating income across each of our business segments grew nicely, in part due to the diligent and ongoing cost efficiency work we are driving throughout our businesses, as evidenced by the realization of over $500 million in SG&A and other operating expense savings across the enterprise in the first quarter.

Moving to our results by segment…

At Entertainment, first quarter operating income more than doubled, driven by significant improvement at Direct-to-Consumer.

Entertainment Direct-to-Consumer operating income improved by about $850 million versus the prior year and by nearly $300 million versus Q4. And revenue increased sequentially by over 10%, benefitting from higher subscription and advertising revenue. Operating income in the first quarter was better than the guidance the company gave in the last earnings call, primarily due to expense favorability.

Hulu subscribers increased by 1.2 million from Q4 to Q1, and Disney+ Core subscribers decreased sequentially by 1.3 million, in line with prior guidance, driven by the expected temporary uptick in churn given the recent domestic price increases as well as the end of the global summer promotion. Those impacts were partially offset by strong ad tier net adds, due to domestic growth as well as the launch in certain international markets in the first quarter.

Domestically, we saw continued net additions to our bundled offerings in Q1, which as a reminder have significantly lower churn versus our standalone products.

Disney+ Core ARPU increased by 14 cents versus the prior quarter and by $1.07 versus the prior year, driven primarily by price increases. We expect Disney+ Core ARPU to increase in the second quarter due to the continued benefit of price increases, which should only be partially offset by the impact of adding Charter's Spectrum TV Select subs to the Disney+ ad tier.

I'll note that we are being paid on all entitled Charter subs, which will also be a key driver of accelerated Disney+ Core sub growth in Q2. We expect net adds of between 5.5 and 6 million in the second quarter. Domestic net adds are expected to be in the 7.5 million range, driven by Charter entitlements, net of cannibalization.

And international core subs are expected to decrease modestly, reflecting changes to certain wholesale deals and slightly elevated churn impacts from price increases.

While subscriber growth will vary from quarter to quarter, we are confident in our prospects for ongoing sub growth over the longer term, driven by: the continued global strength of our content slate; advancing our paid sharing efforts; technology advances that are intended to improve our content promotion and discovery capabilities, drive up engagement and lower churn; the impact of making Hulu content available on Disney+ for bundle subs and continued adoption of the bundle domestically, which should both increase engagement and lower churn

– a strategy we will repeat in Latin America this summer when we combine Disney+ and Star+; and our continued use of tiering, to provide subscribers with more choices.

As it relates to the opportunity we see on paid sharing, beginning this summer, Disney+ accounts suspected of improper sharing will be presented with new capabilities to allow their borrowers to start their own subscriptions. Later this calendar year, account holders who want to allow access to individuals from outside their household will be able to add them to their accounts for an additional fee.

While we are still in the early days and don't expect notable benefits from these paid sharing initiatives until the back half of calendar 2024, we want to reach as large an audience as possible with our outstanding content, and we're looking forward to rolling out this new functionality to improve the overall customer experience and grow our subscriber base.

For Q2, we are expecting revenue at Entertainment DTC to grow sequentially and anticipate that operating losses will be relatively in line with the first quarter. We still expect to reach profitability at our combined streaming businesses in Q4 of fiscal 2024 and have never been more confident about our path to creating a strong and sustainable streaming business – with growing subscribers over the long term and, ultimately, double digit operating margins – a business which we fully expect to be a key earnings growth driver for the company.

Moving on to Entertainment Linear Networks, the decrease in the first quarter operating income versus the prior year was due to lower advertising and affiliate revenues, partially offset by lower programming and production costs.

Lower domestic advertising revenue was driven primarily by lower impressions including from strike-related impacts, in addition to an adverse comparison to the prior year midterm-related political advertising at our owned stations.

Domestic entertainment affiliate revenue decreased by 5% in the first quarter versus the prior year, as a 5-point benefit from higher rates was more than offset by a 10-point decline from fewer subscribers. Adjusted for the non-carriage of certain networks at Charter as a result of our recent deal, the sub decline impact was closer to 7%.

Lower programming and production costs benefitted from strike-related impacts, and we also remain focused on driving ongoing cost efficiencies.

At Content Sales, Licensing and Other, results came in lower versus the prior year, and below the guidance we provided, due to the performance of theatrical titles in the quarter. We do not have any new key theatrical releases in Q2 due to production delays stemming from the strikes, and expect Content Sales, Licensing and Other operating income to come in roughly breakeven for the quarter.

Sports operating income improved versus the prior year due to strength at ESPN, partially offset by lower results at Star India, driven by higher rights costs from airing of the ICC Cricket World Cup.

At domestic ESPN, year over year growth was driven largely by a decrease in programming and production costs from the timing of College Football Playoff games.

Domestic affiliate revenue in Q1 was comparable to the prior year, as an increase of 6% from higher contractual rates was offset by a commensurate decrease from fewer subscribers.

ESPN domestic ad sales in the quarter were down 2% versus the prior year, but up mid-single digits when adjusted for various timing shifts and one-time impacts. The strength we are seeing gives us confidence that leaning into sports will continue to create value for our shareholders.

Second quarter to date, we are seeing continued healthy advertising demand in the sports marketplace, with domestic ESPN cash ad sales pacing up double-digit percentage points versus the prior year. The trend is still solid even when adjusted for the CFP timing shift of an additional game, as well as an extra NFL divisional game in Q2 of this year.

Our Experiences business posted strong Q1 results, with year over year operating income growth of 10% at Parks and Experiences and 4% at Consumer Products. Record setting results this quarter were primarily driven by our performance at Shanghai and Hong Kong theme parks; continued strength at Disney Cruise Line; and the success of *Marvel's Spider-Man 2* at our games business.

And segment margins expanded by over 50 basis points versus the prior year – an achievement delivered despite tough comparisons at Walt Disney World coming off its highly successful 50th anniversary celebration in the prior year, and significant cost pressures driven by wage increases.

We remain optimistic about the segment's continued top line and profit growth, notwithstanding the tough comps domestically in Q2, and we still expect robust OI growth at Experiences for the full year. We plan to invest approximately $60 billion into the business over the next ten years, of which approximately 70% is earmarked for incremental capacity-expanding investments around the globe, which we expect to generate attractive returns.

On a total company basis, as Bob mentioned earlier, we are still on pace to meet or exceed our $7.5 billion annualized cost target by the end of fiscal 2024. I'm pleased with how this is tracking so far; total expenses in Q1 were down 4% versus the prior year, and the efficiencies we've been realizing are a key contributor to that progress.

And we are also still on track to generate about $8 billion in free cash flow this fiscal year.

Putting all this together, we are confident in the progress we are making and the path it puts us on to become a strong cash generator and earnings compounder, starting in fiscal 2024. To that end, we expect full year fiscal 2024 earnings per share excluding certain items to increase by at least 20% versus 2023, to approximately $4.60.

You already heard from Bob about our updated plans for shareholder returns this year, and as he mentioned, we intend to continue investing in our growth businesses, while also maintaining a balanced and disciplined approach to capital allocation.

And with that, we are happy to take your questions.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Thanks, Hugh. As we transition to the Q&A, we ask that you please try to limit yourselves to one question in order to help us get to as many analysts as possible today.

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

Operator

(Operator Instructions) Today's first question comes from Ben Swinburne with Morgan Stanley. Please go ahead.

Ben Swinburne – *Morgan Stanley*

Thank you. Good afternoon. You guys had a lot of news for us to chew on tonight. I wanted to maybe start, Bob, asking you about sports since you led with that. You guys have a lot going on with ESPN, the new channels package, flagship, obviously having conversations. Can you kind of put it all into context for us and how you're sort of thinking about these different products and whether they address different parts of the market and what your sort of priorities are between the 2? And really, what are we – what is success for Disney shareholders in sports? How do we think about that kind of financially and strategically?

And I was just wondering if Hugh had an update for us on expense growth this year. I think you guys guided to slight growth overall in '24 last quarter. It seems like you're on track with your savings program. So, any update to that would be appreciated.

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

Thanks, Ben. Permit me to throw a couple of cliches your way. But as you know, ESPN has always aimed to serve the sports fan effectively no matter where the sports fan is. And so all of the steps that we've been taking and that we announced today and that we will continue to take are aimed at doing just that.

And when you think about today's environment, where you've obviously got some challenges in linear TV, a lot more competition, both for people's time and just specifically in sports, and you think about the fact that ESPN finished '23 in really good shape, ratings continue to rise, sports is still an advertiser's delight. You have to consider that ESPN has been successful in what their primary goal was. They're reaching sports fans effectively, which is why advertisers and distributors and sports leagues and organizations feel they have to kind of be part of or partnered with ESPN.

As we look to the future, we're obviously mindful of, one, the state of the multichannel ecosystem; two, where people are spending their time and their money with media. And you have to basically serve them effectively there. We've been saying for a long time that taking ESPN in the direct-to-consumer direction was inevitable and that we were looking for partners to do so.

This is really not a first step. It's a second step. The first step was launching ESPN+ some years ago, which has actually been quite successful. The second step is finding these partners to distribute basically the equivalent of a multichannel, sports-centric tier via app. So, one, we're serving sports fans well. Two, we're doing it with partners. Three, we're doing it in a more modern way. Rather than cable and satellite in this case, it's app based.

And that's a big step for us because we know that there are a number of people who have never signed up for multichannel television. This gives them a chance to do so at a price point that will be obviously more attractive than the big fat bundle. Two, there are people who have left that ecosystem because they didn't want all those channels or that cost. And this is a way of basically preserving a relationship or creating one with those that are no longer part of the multichannel ecosystem.

The next step after this, and we announced today that we'll launch it in probably August of '25, is to bring out ESPN flagship. I say on its own, but it will be bundled ultimately with Hulu and Disney+. And that will be a very, very immersive, very obviously sports-centric app, which will have features that this combination with FOX and with Turner – Time – Warner Discovery will not have such as integrated betting, integrated fantasy, likely to have some sales arm or merchandise capabilities, obviously, deep dive into stats and high degree of customization and personalization. Again, another kind of feature that we'll bring out to engage with sports fans.

I can't tell you right now how that ultimately will fit into all of this, except it will be a progression. We haven't really talked much about how it will be – further how it will be bundled except with our own services. But I think success will be, for us, in this basically migration, would be to maintain ESPN's position in sports in general and the affinity that its fans have with ESPN and the attractiveness of ESPN to advertisers and sports leagues. That simple.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Right. I'll take the cost side, Ben. You're right. In the past, we've talked about slight growth in operating expenses year-over-year. We obviously have terrific momentum on cost management coming out of the first quarter. And the team is relentlessly looking for further opportunities to drive cost savings, both to reinvest back in the business to continue the growth momentum that we have as well as deliver margin growth to the bottom line. Net no change in guidance versus what we said previously. We should do at least as well as the guidance we previously committed to, which was slight growth in operating expenses year-over-year.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Thanks, Ben. Operator, next question please.

Operator

Absolutely. Our next question today comes from Michael Nathanson with MoffettNathanson. Please go ahead.

Michael Nathanson – *MoffettNathanson*

Thanks. One for you, Bob. One for you, Hugh. Bob, in answering Ben's question, we're still kind of wondering, how does Hulu Live fit into the long-term picture here, right? It stopped growing.

YouTube is twice the size. When you think about the future of your offerings, how does that fit into what you just announced with direct over-the-top ESPN and then sports bundle?

And then for Hugh, you broke some news, too, with a double-digit margin target for streaming. Any help on a timetable that gets us there? Or what factors do you think will drive you from here to double digits in the next couple of years? Thanks.

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

As you know, Hulu Live more reflects the bigger, fatter bundle of television channels of – like many other services that are out there. It just happens to be integrated or attached to Hulu if you subscribe to it. So this, in a way, I guess, you'd argue, competes with Hulu Live directly but it doesn't compete with Hulu because this will be bundled with Hulu. So, if you're a Hulu subscriber and you want to get this new sports service, you can buy that as an add-on to Hulu.

And as we see it, that's a real positive because if you consider the fact that Disney+ and Hulu will be together once we come out of beta in March – they're already together in beta – and then you add a sports feature with so many sports that this new joint venture will offer, that's very, very compelling in terms of reducing churn for Hulu and increasing engagement. So we look at this as a huge positive for Hulu.

You know, we're realistic about Hulu Live in terms of the impact this could have, but that Hulu Live is certainly a nice, important feature of our Hulu business, but the critical part of that business is Hulu itself.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

And Michael, I'll take the question on DTC profitability in double digit. For the first time, we put out that our objective is to get to double-digit margins. In some ways, it probably shouldn't be a surprise to investors because the goal has always been to build what I would characterize as a good business. What does a good business look like? Number one, it's got growing subscribers; and number two, it has attractive margins, which we're defining as double digits. So I know in a sense it's news, but in a sense, it shouldn't be news because we've always wanted to build a good business in that regard.

In terms of how we get there, it's really in many ways the way that we've gotten from where we were to the point we're at right now. Number one, we're going to grow subscribers. Number two, you'll see some level of pricing. And both of those things will probably be similar to what you've seen over the last couple of years, maybe a slightly different balance but roughly similar. And then we'll actually get some leverage out of marketing spend, content and technology spend. All of those will grow a little bit less – at a lesser rate than the rate of revenue growth.

In terms of the specifics on how do we get there with sub growth, I think it will be a couple of things. Number one, paid sharing is an opportunity for us. It's one that our competitor has obviously taken advantage of and one that sits in front of us. And we've got some very specific actions that we're taking in the next couple of months, which I discussed earlier, which will benefit us to some degree in the back half of this year and very much next year. Number two, we'll see lower churn with the bundles that we're looking to put out. Number three, international remains a growth opportunity for us.

So if you put all of those pieces together, it's kind of doing a lot of what we've been doing with maybe some slightly different tactics to get to a level that, again, we would characterize as a good business. Not going to put a specific time frame on that right now. Some of that is going to be driven by the marketplace. Just know that we feel a sense of urgency in getting there, and that's probably the way we're going to operate the business. We'll feel urgency, but only to get to a good, sustainable business.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Thank you. Operator, next question please.

Operator

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

Jessica Reif Ehrlich – *Bank of America*

Thank you. You guys covered so much ground tonight. So, I have 1 question and 2 follow-ups. You announced – or Hugh, for the first time, I've heard you say this, that in Parks, 70% of the $60 billion in CapEx that you outlined over the next 10 years, like – I'm sorry, that 70% of that will go to incremental capacity, so like over $40 billion in new parks and attractions. Can you give us some color on timing and location? There's been speculation that you may open a fifth gate in Florida.

And then just a follow-up to a couple of things you said. One, on paid sharing crackdown, which came up twice. Have you sized the number of borrowers? And on the sports JV, how do you plan to attract non-pay-TV subs to what sounds like it might be an expensive sports service without a significant decrease in traditional pay TV subs who would actually save money? Like how do you not cannibalize?

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

Okay. You asked a lot of questions on a lot of different subjects. I'll take the first one on Parks timing and location. We're already hard at work at basically determining where we're going to place our new investments and what they will be. You can pretty much conclude that they'll be all over, meaning every single one of our locations will be the beneficiary of increased investment and thus increased capacity, including on the high seas, where we're currently building 3 more ships, and in a business that is obviously extremely positive to us, we may look expansively, at least in the next decade in that direction.

I'm not going to really give you much more of a sense of timing, except that we're hard at work at getting these things basically conceived and built. And we've got a menu of things that we'll basically start opening in ‘25, and there'll be a cadence every year of additional – basically additional investment and increased capacity. I'll let Hugh take care of the paid sharing. Hugh?

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Yes.

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

On the sports service and the pricing, I think the way you have to look at it is, the sports service is going to be substantially less expensive to consumers than the big bundle that they'd have to buy to get those same channels on cable and satellite. And again, designed for 2 things. One, we believe there are a number of sports fans out there that want to watch sports on television but didn't want to sign up to the big cable and satellite bundle. And so we think they will be accretive to us.

We also believe that either consumers have left the bundle because it wasn't serving them well or they may leave the bundle, and we want to make sure that we grab them, too. So we view this whole thing as, one, being a good proposition for sports fans because of the cost and certainly being positive for us because of the dynamics in the marketplace right now.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Okay, and Jessica, I'll handle the paid sharing question. We have sized it. I don't want to put a specific number out there right now because these numbers are obviously rough estimates anyway. Suffice to say that the opportunity that we see on a percentage basis probably isn't all that dramatically different from what our competitor has found in terms of their subscriber base.

In terms of getting at it, there's a couple of actions that we've taken in order to do that. Number one, we have some – made some changes to the user language that we have in the U.S., Canada and certain markets so that we'll actually have the opportunity to act on the paid sharing opportunity. Number two, the accounts that we think are doing unpaid sharing right now will get communication this summer, and we'll give them opportunities to allow their borrowers to start new subscriptions. And then later this year, we'll actually also have account holders who want to allow further individuals to access their accounts from outside the household. They'll be able to access the account, but they'll be able to do so for an additional fee.

So, we've got a number of tactical actions to take in order to take advantage of what we think is a pretty good-sized opportunity in front of us, and it's one of the things that gives us confidence in our subscriber growth numbers.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Thank you. Operator, next question please.

Operator

Thank you, and our next question today comes from Steven Cahall with Wells Fargo. Please go ahead.

Steven Cahall – *Wells Fargo*

Thank you. So, Bob, you mentioned a lot of content in your remarks. It seems like the operations are really starting to hum again. But I think the lifeblood of the company is always going to be the Studio output. It drives so much culture. I think that's an area you've said that you've been spending a lot of time on. Do you feel like the content is also now turning the corner like you've seen in the operations? And if so, when do you think we might see some of the results of that renewed focus on the Studio output?

And then, Hugh, I think an inevitable question with the buyback announcement is what you expect you might end up ultimately paying for Hulu. Just wondering if you have any sense on the timing of that outcome or situation. And related to that, I think the exceed $7.5 billion in savings was a bit new. Curious just where you found those extra buckets of cost savings. Thank you.

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

Steven, I feel great about where we are with the Studio. Let's not lose sight of the fact that in the last year, the Studio had some real success, not to suggest that we didn't have some films that were not successful that we were really disappointed in, but we also had some great success, too, with the *Guardians* sequel and *Avatar* at the end of calendar '22 but part of fiscal '23.

One of the things that I've been saying before is that volume sometimes can be detrimental to quality. And in our zeal to greatly increase volume, partially tied to wanting to chase more global subs for our streaming platform, some of our studios lost a little focus. So the first step that we've taken is that we've reduced volume. We've reduced output, particularly at Marvel.

When you fix or when you address these issues with – in movies, you do 3 things. You get aggressive at making sure the films you're making can be even better. Sometimes you kill projects you don't believe in. And of course, you put new things in the pipeline that you do believe in, that you have much more confidence in. And we're doing all of that.

I've also observed over the years that managing creativity sometimes is best done with great partnerships. And I have established great partnerships with the people at our company that really manage creativity, Alan Bergman with the Studio, Dana Walden on the television side, Jimmy Pitaro at ESPN. And the partnership that Alan and I have is a strong one, and we believe that the time that I'm now devoting to this and the attention that the 2 of us are giving this business not only will bear fruit, but it's already starting to.

We're very bullish about the films coming out. We mentioned *Inside Out 2*, and we talked about *Deadpool* and the *Planet of the Apes* film. We feel good about that. Obviously, the end of the calendar year, we've got *Mufasa*, prequel to *Lion King*. We are very excited about the addition of *Moana*, which was the #1 streamed movie of – across all streamers in the U.S. in '23 and is at over 1 billion hours of consumption on Disney+. And that's now going to be released in November. And then I mentioned what we're doing after that.

I'd say we're leaning a little bit more into sequels and franchises, some that we feel great about, like *Toy Story* is – for instance, obviously, *Star Wars*. *Avatar*, we've talked about. Marvel is starting to focus on some of its stronger franchises going forward, but I'll leave it at that. And I think given the environment and given what it takes to get people out of their homes to see a film, doing that, leaning on franchises that are familiar is actually a smart thing. So we've got work to do still. We're not resting on our laurels or sitting on our hands. We're working hard at it, but I feel quite good about the trajectory.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Right, and Steve, from my perspective, regarding Hulu – timing on that, we've got a pretty clearly defined process. That process is going to take a little bit of time based on the work that needs to go into valuing the business. I would expect before we get to the end of the year that we should have this figured out and closed.

Regarding cost savings, it's pretty well spread out across the board. One of the things you tend to find is when a company goes on a cost effort, once you start to build momentum on that, people tend to find additional opportunities. And that's what gives us the confidence around the numbers to at least meet if not exceed them. So no one specific area. It's content side as well as the SG&A side. And I think we just have momentum on managing our expenses more tightly, which is great news, I think, for investors.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Thank you. Operator, next question please.

Operator

And our next question today comes from Bryan Kraft with Deutsche Bank. Please go ahead.

Bryan Kraft – *Deutsche Bank*

Hi, good afternoon. Since there's so much discussion about bundling and distribution, I was wondering if I could ask you if you could share any observations related to Charter integrating Disney+ into its pay TV programming tiers. Is there anything you could say about the percentage of customers actually using it or engagement levels relative to the average Disney+ subscriber?

And maybe lastly, do you think that this is a model that you'd like to replicate with other pay TV distributors over time as your agreements come up for renewal? Thanks.

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

Thanks, Bryan. It's really early. They didn't start introducing this to their subscribers really until January, and they didn't roll it all out right away. And so we're seeing some stats on this that are somewhat encouraging, but I want to be careful that because it's early, we're not sure whether those trends will continue or not.

I do think that this kind of arrangement is one that we'll likely see with other multichannel distributors. It seemed like it was a win-win for both of us. Important to us, obviously, because it gives us access to more of their customers and important to them in terms of bundling this service with their multichannel customers. So I think it's – again, I think you'll see more in this direction, but too early yet. We may have more to say about this next quarter when we know a lot more.

Bryan Kraft – *Deutsche Bank*

Thank you.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Operator, we have time for one more question.

Operator

Thank you, and our final question today comes from Michael Morris with Guggenheim. Please go ahead.

Michael Morris – *Guggenheim*

Thank you. Good afternoon. One follow-up on the sports JV first, and that's how did you get comfortable that the availability of the service won't drive accelerated cord-cutting and become an economic drag on your business and the business more broadly? And how do you expect this to impact your renewal discussions with your distribution partners? That's my first.

And then my second, Bob, you've seen several iterations of the video game strategy during your tenure. Can you talk a little bit more about why this investment in Epic Games is the right move for you here and what a product might look like and when that may come to market? Thank you.

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

Sure. Let me take the second part of the question first. Yes, you're right. We've tried our hand at video games in a number of different directions. And actually, the one that ended up being the most successful for us was the license. And in fact, we've licensed, I think, 9 billion-dollar franchises, including the Spider-Man franchise, which is the most successful video game last year[1].

After I came back, I sat down with Josh D'Amaro, who runs our Experiences business, and his executive who actually manages games, Sean Shoptaw. And one of the things they showed me – actually, the first thing they showed me were demographic trends. And when I saw Gen Z and Gen Alpha and even Millennials and I saw the amount of time they were spending in terms of their total media screen time on video games, it was stunning to me – equal to what they spend on TV and movies. And the conclusion I reached was we have to be there, and we have to be there as soon as we possibly can in a very compelling way.

We knew through our relationship with Fortnite that there was already success when some of our characters and franchises were expressed or showed up in Fortnite. And we knew Tim Sweeney at Epic because we were involved – he was involved in our Accelerator program, I think in 2017.

And so, I met with Tim, and Josh and his team started a discussion about what if we create a gigantic Disney World a la Fortnite that could live next to Fortnite and be completely interconnected with it. A world where people could play games that we create, could create their own games, could watch. You can imagine the creation of short-form videos or may – we may even use the platform to actually distribute some of our content. Also the people that

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[1] *Marvel's Spider-Man* is the best-selling superhero game of all-time

could interact with one another, and ultimately, some form of shopping as well and other forms of creation. Obviously, there'll be some – the opportunities to buy digital goods, but maybe even at some point, physical goods. And I just think that given the demographic trends and given the success of Fortnite – and by the way, they're experiencing really a great era of both customer satisfaction and growth as they return to some of their roots. The numbers at Fortnite have been really compelling.

And we just think this is – just as we take our IP from our movies and our television and have them expressed in our parks, this is a great way to do it in games. And for us, it's a way to have skin in the game with them with the investment of $1.5 billion, strengthen a partnership because we have skin in the game, but also build a world where we're actually not creating too much risk for the company. So as we see it, this is the best of all worlds in many respects from a business venture perspective and certainly great for consumers who love to interact with our characters already in video game format. So I'm actually really thrilled about it.

And the second – or the first part of your first question, accelerating cord-cutting. Understand that we're going to get paid in this new joint venture for our channels at a level that's commensurate with the level that we get paid for those channels in the multichannel ecosystem. And so if a consumer moves out of that and then into this, then what we get paid for our – certainly, these channels that are in it, is equal to what we get paid there.

We have some other channels that are not part of this new bundle. But frankly, if you look at our company and you look at what we've done with FX on Hulu, with the Disney Channel on Disney+, with National Geographic on Disney+, we're really very well positioned to withstand, basically, the continued challenges that the multichannel ecosystem will have.

And while there might be some de minimis economic impact on us with more cord-cutting for those channels, we're backstopped in all of those channels with the content that exists or that we ultimately put on Hulu and Disney+. So it's – for us, it's very low risk and actually, as I talked earlier, potentially quite accretive to us in terms of signing up sports fans that have never signed up for the bundle or that may no longer want it.

Alexia Quadrani – *Executive Vice President, Investor Relations, The Walt Disney Company*

Ok, thanks for the question, and I want to thank everyone for joining us today.

Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website.

Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, guidance or expectations and drivers, including future revenues, profitability, DTC subscribers, free cash flow, adjusted EPS and capital allocation, and other statements that are not historical in nature may constitute forward-looking statements under the securities laws.

We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors. These factors include, among others, economic or industry conditions; competition; and execution risks, including in connection with our business plans, potential strategic transactions and our content; cost savings; the market for advertising; our future financial performance; and legal and regulatory developments.

In particular, our expectations regarding DTC profitability, subscriber levels and ARPU are built on certain assumptions around subscriber additions based on the future strength of our content slate, churn expectations, the financial impact of the Disney+ ad tier and price increases, the impact of bundling and availability of Hulu on Disney+, technological advances and paid sharing efforts, our ability to continue to execute on cost rationalization while preserving revenue, and macroeconomic conditions, all of which, while based on extensive internal analysis as well as recent experience, provide a layer of uncertainty in our outlook.

For more information about key risk factors, please refer to our Investor Relations website, the press release issued today, and the risks and uncertainties described in our Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission.

We want to thank you for joining us and wish everyone a good rest of the day.

Forward-Looking Statements

Certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business or financial prospects, trends or outlook; earnings expectations and expected drivers; business plans or opportunities; demand pipeline; financial or performance estimates or expectations (including revenues, operating income, operating results, programming and production costs and cash content spend, capital expenditures and investments, profitability, margins and any guidance); future performance and growth; leadership decisions; plans, expectations or drivers of, as applicable, for direct-to-consumer profitability, advertising, revenue and subscriber growth and levels, pricing, product acceptance and enhancements, expansion, changes to subscription offerings, churn, engagement and margins; estimates of the financial impact of certain items, accounting treatment, events or circumstances; future adjusted EPS and free cash flow and funding sources; anticipated demand, timing, availability, pricing, utilization or nature of our offerings (including experiences and business openings, content within our products and services and content releases and distribution channel); business recovery; shareholder returns and capital allocation, including dividends or share repurchases; consumer and advertiser sentiment, behavior or demand; expected growth and drivers of performance or growth; cost reductions and source; available efficiencies; strategies and strategic priorities and opportunities; expected benefits of new initiatives, including for which definitive agreements have not been signed and may not be consummated or subject to regulatory approval or other conditions, and other strategic transactions; value of our intellectual property, content offerings, businesses and assets, including franchises and brands; and other statements that are not historical in nature. Any information that is not historical in nature included in this call is subject to change. 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, new or expanded business lines or cessation of certain operations), our execution of our business plans (including the content we create and IP we invest in, our pricing decisions, our cost structure and our management and other personnel decisions), our ability to quickly execute on cost rationalization while preserving revenue, the discovery of additional information or other business decisions, as well as from developments beyond the Company's control, including:

- the occurrence of subsequent events;
- deterioration in domestic and global economic conditions or a failure of conditions to improve as anticipated;
- deterioration in or pressures from competitive conditions, including competition to create or acquire content, competition for talent and competition for advertising revenue;
- consumer preferences and acceptance of our content, offerings, pricing model and price increases, and corresponding subscriber additions and churn, and the market for advertising sales on our DTC services and linear networks;
- health concerns and their impact on our businesses and productions;
- international, political or military developments;
- regulatory and legal developments;
- technological developments;
- labor markets and activities, including work stoppages;
- adverse weather conditions or natural disasters; and
- availability of content.

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

- our operations, business plans or profitability, including direct-to-consumer profitability;
- demand for our products and services;
- the performance of the Company's content;
- our ability to create or obtain desirable content at or under the value we assign the content;
- the advertising market for programming;
- income tax expense; and
- performance of some or all Company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2023, including under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," quarterly reports on Form 10-Q, including under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and subsequent filings with the Securities and Exchange Commission. The terms "Company," "we," and "our" are used above and in this call to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.