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Disney Speaker:

Hugh Johnston

Senior Executive Vice President & Chief Financial Officer

PRESENTATION

Voice Over

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Steve Cahall – *Wells Fargo*

Thank you, and good morning, everyone. I'm Steven Cahall, media and cable analyst at our Wells Fargo TMT Summit, and we're fortunate to be joined by Hugh Johnston, The Walt Disney Company's Chief Financial Officer. Hugh, thank you for joining us.

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

Happy to be here.

Steve Cahall – *Wells Fargo*

There's a lot of debates that I want to get into this morning, but I thought just to start out, we could level set things. You reported the end of fiscal '25 last week, provided additional guidance for fiscal '26, including the double-digit EPS, excluding the 53rd week, and the double-digit EPS growth for fiscal '27. So, let's get your high-level expectations and key initiatives for the year ahead and then we can dive into some of those debates.

Hugh Johnston – Senior Executive Vice President & Chief Financial Officer

Happy to talk about that. First, as Steve noted, we reported what I would consider to be strong earnings for the fourth quarter and for the full year. Full year was up 19% on an EPS¹ basis. And actually, the last three years, our CAGR on EPS¹ has been 19%. So, I talked a little bit about being an earnings compounder, and that's really what we're trying to do is just continually pile on one strong year after another.

In terms of, as we look to, to '26, the strategies that we're following: number one, we really do have quite a strong film slate. Feel good about that. *Zootopia 2* is coming up, *Avatar* behind that, *Devil Wears Prada 2*, there's a *Moana* movie, so lots of things happening on the film slate front, which is always good news for The Walt Disney Company.

In addition to that, we continue to drive our DTC business. We're obviously looking to grow that aspirationally at double digits, and I think there's reasons to believe that we can do that. And a couple of years ago, I talked about hitting double-digit margins² in that business, and we will – we're looking to do that in '26.

ESPN, obviously, the biggest thing going on there is our launch of the DTC product, which is off to a very, very good start. And then Experiences, of course, we're continuing to invest in that business, and that business continues to perform very well.

So put all of that together, it was clear to us that we could guide to double-digit EPS³ on an apples-to-apples basis, and in addition to that, deliver strong cash flow for the year, resulting in strong cash returns of a 50% increase in the dividend as well as a doubling of share repurchase to \$7 billion.

¹ Refers to adjusted EPS.

² Refers to guide of operating margin of 10% for Entertainment DTC SVOD.

³ Refers to double digit adjusted EPS growth in fiscal year 2026 compared to adjusted EPS for fiscal year 2025, excluding the impact of the 53rd week in fiscal year 2026.

Steve Cahall – *Wells Fargo*

So often I hear with Disney that it's the content that sort of drives the sentiment, but it's Parks that drives the earnings. And I think maybe what's most topical after last week is just what the trends are in Domestic Parks attendance. They declined, I think, a little bit in the fiscal fourth quarter, but you did indicate you're seeing bookings up, I think 3% was the comment last week. So, what can you tell us about the health of the consumer that you're seeing and just the overall story for demand for parks?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

Our consumer, as you know, tends to be at the higher income deciles, and those consumers continue to do well. So, we certainly, broadly feel good about where the consumer is. Obviously, with the parks, we did have a strong year last year. We guided originally to 6% to 8% OI growth – or earnings growth and delivered 8%. In fact, we hit \$10 billion of operating income⁴ for the year, and it's the first time we've ever hit \$10 billion. So, certainly feel very, very good about that.

And the Domestic Parks, which is always a question people tend to focus on, also did well. Domestic grew earnings 8% for the year and 9% in the fourth quarter. So, from an earnings perspective, we felt good.

In terms of attendance, last year, the Domestic Parks were down 1% on attendance. Now recall, there was a lot of concern going into the year based on the Epic park that was coming out in Orlando. We felt like we had it managed, and in fact, it came in within our expectations.

We were down 1% on attendance for the year, but there was also a 1-point drag from a hurricane that occurred in the first quarter last year. So net, we were basically flat on

⁴ Refers to Experiences operating income for fiscal 2025 and guide and growth as reported, in each case, for fiscal 2025 compared to fiscal 2024.

attendance. In the fourth quarter, really a very similar story. For Domestic Parks overall, we were down 2%, and Walt Disney World was actually down 1%.

So certainly, from an attendance standpoint, it really came in very much in line. And the thing you have to keep in mind with the parks is we tend domestically to run at pretty high capacity utilization. So, when we're adding new attractions, you'll see attendance jumps. But when we're not – in a year where we're not adding something new, we're basically going to be about level. Over the long run, you'll see us, I think, balance attendance growth with pricing growth. But in any given year, it could be more geared towards one versus the other.

So, in addition to attendance, per caps were actually quite good last year. We saw per caps domestically grow 5%. So certainly felt very, very good about that.

And then from the standpoint of bookings, as you noted in the first quarter, our expectation is for bookings to grow 3%. Now, bookings is an important metric from the perspective that it obviously gives us some insight into the future. But one thing that's important to realize is only about 40% of the people who attend our parks actually stay on one of our properties. So it's useful in terms of both per caps and attendance, but you can't just directly connect one to the other. That said, when we see bookings up as we did – we have right now at 3%, and the full year is up as well. We're certainly feeling good about where parks is likely to go in '26.

Steve Cahall – *Wells Fargo*

Just to follow up on that, so with fiscal fourth quarter attendance down 2%, Disney World down 1%, but bookings pacing up 3% –

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

Correct.

Steve Cahall – *Wells Fargo*

Does it kind of imply there's just a continuation or maybe an improvement off the trend that you saw in the September quarter?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

I think it's really probably a continuation more than anything else. Even as we think more broadly about the Experiences segment for the year, you know we have two cruise ships coming on and as a result of that, there's a lot of one-time costs in the first half of the year, which suggests the earnings is likely to be more back-end loaded than you would typically see.

Steve Cahall – *Wells Fargo*

And then just to go back to your comment on the higher income decile, where you tend to index to on the consumer side, and you talked about the strong per caps spend you saw in the year, I think you've had this yield-based approach to managing your Domestic Parks over the last few years. And some of the work we've done suggests that's a lot of the reason those margins have been so strong. So, can you speak a bit about the yield-based approach and what that means for how you manage the assets?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

We do very much focus on how to basically generate incremental revenue, both at the ticket price level as well as food and beverage, and merchandise, and all the ancillary services that we offer like Lightning Lane and VIP tour guides and those types of things. So, the team has really gotten increasingly better at getting that yield up particularly in years where we're not adding capacity in a particular park. That's going to be the primary growth driver is all of that yield focus.

In addition to that, we're actually investing in creating dynamic pricing. We're doing it in Paris right now. We've been doing it for about a year. It's off to a very good start, but we're really

going to make sure we optimize it before we bring it into the Domestic Parks. So that's probably something that you won't see this year, but you may see in the subsequent years.

Steve Cahall – *Wells Fargo*

And is the kind of airline pricing model the best way to think about it?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

I'd like to not think about it that way, to be honest with you. But yes, similar. We already do it in the hotels to some degree. So this is basically just bringing it in the parks, but done in a way that obviously, doesn't create guest experience issues or consumer negative feedback and all of that. And frankly, so far in Paris, we haven't seen any.

Steve Cahall – *Wells Fargo*

And then when it comes to adding capacity, cruise is certainly the area where we're seeing that most pronounced. Can you talk about the expansion of the cruise operations and how to think about what that can mean for profit growth at Experiences?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

Yeah. So in the near term, we're adding two ships. One is coming on November 22 and then the second one is coming on in March. And obviously, there's some one-time costs associated with those as well as some dry dock costs that we've got coming into the first half of this year. But it will absolutely be an important growth driver for us.

But cruise is not the only growth driver. We're investing in the parks broadly. This coming year, there'll be a Frozen addition to our Paris business. And then getting beyond '26, Walt Disney World we'll see two Cars-based attractions, Animal Kingdom will have an Indiana Jones as well as an Encanto attraction added to it, Shanghai will see a Spider Man attraction added to it as well, and then there'll be a Lion King-themed area in Paris as well.

So, we really are investing broadly to drive the parks business because as I talk about this notion of being an earnings compounder, we need to put that capex in, in order to drive that double-digit earnings growth⁵ that we're seeking to maintain.

Steve Cahall – *Wells Fargo*

And you didn't mention Abu Dhabi in that list of projects, but I know that one is a little longer term, but certainly significant. And I think the term at the Investor Day a couple of years ago was turbocharging for the parks, with maybe this is the biggest single piece of it. So maybe a bit on Abu Dhabi, and then what else you're working on to expand the international footprint?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

So, Abu Dhabi obviously represents a massive opportunity. And we have a partner that's really putting up the capital on it, so from a deal structure standpoint, we like the approach. The important thing about Abu Dhabi is, if you sort of just plot out the world, the one place in the world where we didn't have a major presence was sort of that particular geographic region, which taps into India, it taps into Eastern Europe, taps into Africa.

So, it gives us an opportunity to access really a couple of billion people that it was hard to get to a Disney experience for us. So couldn't be more excited about the opportunity there. It's going to take some years, obviously, these parks are massive, massive projects that take some time to put together. It will very likely be the most technologically advanced park that we have once we do get it up and running, and we're super excited about that.

In addition to that, as I mentioned before, we're investing in attractions across all of the parks. And then on top of that, the cruise ship business is really a spectacular business for us. Earns nice returns, the guest experience scores are by far the highest of any place in The Walt Disney

⁵ Refers to guide of double digit adjusted EPS growth in fiscal year 2026 compared to adjusted EPS for fiscal year 2025, excluding the impact of the 53rd week in fiscal year 2026.

Company, it does wonderful things for the brand. People that go on cruises, they tend to be repeat customers over and over and over again. So, we certainly feel great about that.

And our market share in cruises is relatively low. We're a premium player, but we really do have an opportunity to go much, much further with cruises.

And in particular, it's the opportunity to tap a lot of international markets that otherwise wouldn't be as easy for people to get into. And the beauty of a cruise ship is if you tap it – you drop it into a market and if it doesn't work well, you can basically move the boat some place else and drop it into another market. So, we'll be up to by 2031, I think it's 13 ships, so we've got lots more capacity coming there, and the good news is we tend to fill it very, very quickly.

With the two cruise ships that we're adding right now, you normally think with that much capacity coming on, your capacity utilization rates would go down. Right now, the capacity utilization is holding steady, so even with the incremental capacity, we're filling it up very, very quickly.

Steve Cahall – *Wells Fargo*

I think of Experiences as the biggest profit center of the company and also kind of the biggest share of where Disney sits in the consumer wallet. But switching gears to DTC, I think about that as where the competition for engagement and time, sort of your top of the funnel, with all your content in one place, and Disney+, and the expansion into other things.

So, would love to also level set how you're thinking about the DTC strategy as it's evolving. I think the guide for the year is double-digit top line growth, the 10% SVOD margin, and I think you said you expect the margin to improve in chunks, not in bits over time.

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

That's exactly the way we're thinking about it. If you think about the journey that we've been on with DTC, go back when the product was launched, and it's only a handful of years ago that it was launched, the goal was first to achieve scale as quickly as we could. And we did do that. We produced an enormous amount of content, in addition to that, priced it very aggressively. And we did achieve scale. So our recent numbers show that we're at about 195 million subscribers⁶ globally right now. That said, there's still opportunity to expand on that sub base.

As we think about the strategy, our strategy is really to offer breadth in terms of the product offering. Some of our competitors are very deep in general entertainment. They have very, very deep libraries. We, obviously, in making our own IP have a tremendously deep library as well. But in addition to general entertainment, we have all family entertainment, we have news, we have sports, and there's opportunities to do other things with the service down the road, if you think about the potential for commerce on the site, if you think about the potential for gaming at some point on the site. There's an opportunity to do things in a much broader way to become sort of the everyday thing that consumers use when they wake up in the morning, they tap into Disney+, and then they stay with us all day. And when they want to interact in any way with The Walt Disney Company, this becomes the portal for that. So we certainly feel good about the IP that we have, we feel good about the breadth that we can offer.

And the DTC business, my expectation is we'll continue to grow margin in chunks. And in addition to that, as I've said, we're looking to get that top line growth up around the double-digit level because frankly, it's a business that has enough growth opportunity that we should be able to do that. In terms of margin⁷ improvement in the future, the way I think about it is we need to be thinking in percentage points, not basis points, and that's over, as I think, over the next three or four or five years, that's the trajectory that we're trying to put the business on.

⁶ Refers to number of Disney+ and Hulu subscriptions as of the end of fiscal 2025.

⁷ Refers to Entertainment DTC SVOD operating margin.

Steve Cahall – *Wells Fargo*

And is the revenue growth the biggest driver to the chunky margin expansion? Or are there additional margin drivers?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

No, I think it's revenue, but it's also to the degree that we can drive engagement up, that actually allows us to improve retention. To the degree that engagement and retention are high, marketing is a place where we can actually look to reduce our spending relative to where we are right now.

In addition to that, SG&A is an opportunity for us as we put the two services together into one. There'll be some SG&A opportunities. They're not massive, but they're not insignificant either. Where we will invest is in technology as well as local content internationally. But in terms of those investments, I don't expect the growth in those expense items to exceed the revenue growth rate. So, we'll still get P&L leverage out of that as well. But certain areas, I think, are going to be reduced, others will be increased, but at a rate of growth less than revenue.

Steve Cahall – *Wells Fargo*

And how do we think about just the app convergence over time? Disney+ is the native Disney experience, Hulu came through an acquisition process, so less of sort of a clean sheet, and now we're starting to see those be more tightly integrated. So how do you think about that strategy? And importantly, what does it mean for the margins and the profits of the segment?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

So the way I think about the unified app experience, is first and foremost, it's really for the consumer. Right now, it's a little bit hard for the consumer. Disney+ is there, we've got the Hulu tile on right now. But a lot of people still kind of – their habit is to go through Hulu or their habit is to go through ESPN. The idea is ultimately make it super easy for the consumer. If I want

news, if I want sports, any of those entertainment options, Disney+ is the portal in which you go in.

What does that mean? I think it means that the ease of use will drive increased engagement. So we certainly would feel very positively about that. It will increase retention and reduce churn. And in addition to that, as we take it internationally, even more assertively over time, I think it offers us the opportunity to add international subs in a substantive way because it does scale the business in effect. And as a result, makes the offering much clearer for consumers.

Steve Cahall – *Wells Fargo*

What's the gating factor to that operational integration? Just customer experience?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

More than anything, we just need to get the technology. It's getting the product right. So – and we've been investing in that. And Adam Smith, who came over to us from Google has actually done a terrific job building out the product, but it is literally building a product. So, we're doing it the way you would do technology products traditionally. You put something out there and then you just steadily improve it over time. And that's really what that team is doing and they're working double time to get it done.

Steve Cahall – *Wells Fargo*

Let's talk about content for a little bit. So, it's interesting the path we've gone through on content spend in the media industry. And I remember, I think it was in 2021, the peak content guide, which was over \$30 billion. That was pre-strike, post-COVID, maybe the peak of the gold rush. I think this year, the guidance is for around \$24 billion. So, excluding sports, how do you just think about the right mix of total content spend, how you spread that across the studios since this is really the lifeblood of Disney?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

So if you take our \$24 billion, which is up about \$1 billion year over year, it splits about half Sports and then half the Entertainment side of the business. And I think that that mix is likely to hold reasonably well. If anything, Entertainment may grow a little bit faster than Sports.

As we think about where the growth will likely be in content, more than anything, I think you'll see us investing in local content that is very specific to certain markets. We've got a strategy around expanding internationally with individual markets that we find attractive, and we think we have the right to grow.

And if you think about it, we have rights to succeed from the perspective of Disney content, which travels globally and is well received, but we need to supplement that with local content to ensure that we keep engagement high and we keep retention high. So, the strategy is very much to do that.

In terms of where we were a few years ago at the \$30 billion, really, I think almost everyone was, in a lot of ways, overproducing at that time. And we've talked about the fact that we were – and frankly, we weren't happy with some of the quality because we were pushing so hard to produce content. I think we've got it dialed in pretty well right now. I think you'll see content expense continue to grow, but it will grow at a rate that's substantially slower than the revenue with the DTC business.

Steve Cahall – *Wells Fargo*

Just to go deeper on that, kind of dialed in on quality, Disney has such iconic studios with Disney, Pixar, Marvel, Lucas, how do you think about allocating capital even between those? *Andor* was probably my favorite show of the year so far, but each of those studios is kind of in a different point in its life cycle.

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

Yeah, it's an interesting question. Obviously, we go in with a point of view, and strategically, we're touching different market segments, so we're obviously evaluating those market segments and allocating based on where we think the growth may be. But there's also an element to it of where are the best ideas coming from?

So as an old CFO, one of the things I've often said is, money does not attract ideas, ideas attract money. So, in a lot of ways with the storytelling we do, it's really where the best ideas come from and the judgment of our operating executives in the Entertainment business to allocate the capital based on where they think we're likely to have the highest level of success.

Steve Cahall – *Wells Fargo*

And just lastly on content, you have a big piece of content coming at the end of the year with *Avatar*. Just wondering if you've seen it yet?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

I've seen pieces of it, I haven't seen the entire piece. It is absolutely spectacular. It also cost a lot of money to make, but it is absolutely spectacular. So we're certainly optimistic about the movie from the standpoint of being a repeat of what you've seen Jim Cameron do in the past. But as I said, there – those movies aren't – they're not cheap.

Steve Cahall – *Wells Fargo*

At Sports, so this is probably the most transitional year that ESPN has had maybe in a couple of decades, certainly in the last decade with the launch of the streaming app. It seems like it's off to a strong start. Can you talk about just how it's performed versus expectations, and also the engagement trends that you're seeing in terms of some of that traction?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

So, it really is off to a very strong start. We're quite pleased with it. First, from the standpoint of the product itself, because this is an enormous product launch for a brand that's obviously a superb brand. So, really, when you do these things, first and foremost, you just want to make sure that you don't screw it up. You actually launch the product successfully, you don't have a lot of technical issues and things like that. And thankfully, we didn't see any of those things.

Second, in terms of the product features that we've put in, whether it's SportsCenter for You – and by the way, if you're a sports fan, in the app on Verts inside of the app, lower right-hand corner, check out SportsCenter for You. I wake up every morning, it's tailored to my teams, it's AI-driven, and it really gives me about a five- or six-minute snapshot of what happened last night. If you love sports, I think it's an absolutely fantastic piece of product.

But it's not just the SportsCenter for You piece. There is also game Catch Ups, there are other highlights that are embedded inside, really – multiview is another piece where you can actually watch multiple games simultaneously or multiple versions of ESPN simultaneously. So, the product is really a significant advancement. It's not just taking ESPN's content and putting it on digital, it's adding lots of value.

And then of course, we have other things on in terms of Fantasy, in terms of betting, in terms of merchandise opportunities. So, it really is very much a digital product that's much more interactive than sort of watching through the traditional way that people have watched sports. So, product-wise, feel very, very good about it.

In terms of the numbers, they're off to a very, very good start as well. Importantly, about – we're obviously interested in bundling as a part of this, and 80% of the people who are subscribing at retail are subscribing with a bundle. So that obviously benefits ESPN, but it also benefits the rest of our DTC business and will drive engagement as well as retention.

And then in terms of the people who are authenticating through their MVPDs or the DMVPDs, we're getting a pretty high rate, pretty quickly of people authenticating and playing with the app and wanting to watch their sports through the app. So overall, very, very happy with the start.

Steve Cahall – *Wells Fargo*

So do you think about the revenue opportunity here as incremental in terms of the data you're seeing that these are largely incremental subs or incremental engagement? Do you think it's preventing the decline of linear? Or what is the early data show you about cannibalization of linear versus incrementality?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

It's so early that it's hard to read. The objective we have here is to reach the sports fan how they want to be reached. So, if they want to come in through an MVPD or a DMVPD, great, they can authenticate and they can engage with us that way. If they want to have a direct but full access to ESPN, ESPN Unlimited is a terrific way to engage with us. And if they want more limited access, ESPN Select is a less expensive option and is also a terrific way to engage with us.

In terms of incrementality, it's a little early to say that. I think though over time – because now with this direct relationship with the consumer, we'll have the opportunity to monetize those relationships in newer and different ways. And we're obviously thinking about a lot of ideas on how we do that. So I'm optimistic it will be incremental to us over time.

Steve Cahall – *Wells Fargo*

And I think you said 80% are in the bundle. So is that the Trio bundle?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

That's the Trio bundle.

Steve Cahall – *Wells Fargo*

Or something like it. And what does that mean for just Sports and DTC as a more combined entity?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

I mean, we know generally speaking, bundling works really, really well. Whether it's bundling that we've been doing inside of the DTC service before we launched ESPN. ESPN is just another value add inside of the bundle, so we are extremely optimistic about the level of retention that we're likely to get out of it, and we can already see the engagement numbers move up when people are in the bundle.

Steve Cahall – *Wells Fargo*

Just lastly on Sports, so I think the NFL deal is pretty notable, I think you are the largest purchaser of NFL content, I think that they're your largest content within the sports portfolio. And now we have this 10% stake in ESPN coming⁸, which is the first time we've seen a league take ownership. So what does that deal mean for the company? What does it mean for the Sports business longer term?

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

We think it's obviously a very positive thing, which is why we worked so hard to get a good deal done for both parties. The NFL, obviously, is incredibly popular and has phenomenal followership and fandom.

In terms of the deal itself, there are a couple of elements to it, which we think will be really terrific for us. Number one, once the deal closes, we will take over the NFL Network and all of

⁸ Refers to an agreement for ESPN to acquire the NFL Network and certain other media assets owned and controlled by NFL Enterprises LLC in exchange for a 10% noncontrolling interest of ESPN (NFL Transaction), which transaction is subject to certain regulatory approvals, including from federal and foreign antitrust authorities, and other customary closing conditions.

the content that comes with the NFL Network. And that's true both for the network itself, but also to bring the network into ESPN. So opportunities to move content around that way. In addition to that, we'll be putting our two fantasy businesses together which obviously offers us the opportunity to scale that. And in addition to that, to invest even more in services that will, I think, be very appealing to fantasy football fans.

And then in addition to that, it gives us the opportunity to distribute – market and distribute RedZone, which is obviously a super, super popular product. And I think from that perspective, we'll basically be able to create more relationships with fans using RedZone as a vehicle.

Separate from that, we do have a commercial agreement as well and the commercial agreement gives us more games. So obviously, that's terrific. We now have more NFL games on ESPN than we've ever had in the almost 50-year history of ESPN.

And then from a financial perspective, when it closes⁹, and that's probably about a year or year and change or so, the deal will be about \$0.05 accretive at the outset. So financially, feel great about it, strategically feel great about it. We think it's just another tailwind for ESPN.

Steve Cahall – *Wells Fargo*

And then finishing up our chat – excuse me – just on capital allocation and free cash flow. So fiscal '26: \$10 billion, including the capex guidance of \$9 billion, but you have a lot of cash tax movement in fiscal '26, which I think implies underlying is an extremely strong growth year on the cash side. That's a question I've received from folks over the last week, so would love for you to unpack the strength in the cash flow guidance.

⁹ The NFL Transaction is subject to certain regulatory approvals, including from federal and foreign antitrust authorities, and other customary closing conditions.

Hugh Johnston – Senior Executive Vice President & Chief Financial Officer

So it obviously begins with strong earnings growth. So double-digit earnings growth obviously creates a significant amount of additional cash. In addition to that, we are getting some tax benefit as most other companies are and as a result, we're able to drive significant cash flow growth across the company.

I do feel very optimistic about where we are from a cash flow perspective and we're looking to continue to drive cash flow growth in the coming years. Disney really is a company that's capable of being a cash machine and my expectation is that's exactly what we will be.

Steve Cahall – Wells Fargo

Cash machine. We can turn that into then capital allocation priorities. So, \$7 billion buyback, I think is the guidance for this year, which is 2x, give or take, last year.

Hugh Johnston – Senior Executive Vice President & Chief Financial Officer

Correct.

Steve Cahall – Wells Fargo

And the 50% dividend raise, which I think raised a lot of eyebrows. So, would love for you to speak about those two things, and also the context of additional investments. You did Epic Games last year, you took in the rest of Hulu, so maybe you can put all of that into context for us, Hugh.

Hugh Johnston – Senior Executive Vice President & Chief Financial Officer

Happy to. I mean as we think about capital allocation, very simply, obviously, our first priority is to ensure that we're investing in the business to make sure that the business continues to thrive and grow and basically enable that earnings compounding that I was talking about earlier. In addition to that, obviously, we're focused on paying and increasing the dividend over time.

And in addition to that, to the degree that we see small opportunities for tuck-in acquisitions and things like that, that's something that we've always done, Epic is a good example of that. But even after all that, because we're generating such strong cash flow, we certainly feel good about our debt levels at the level they're at right now. We're not – we're a single A, we're not looking to go any higher than that and we certainly don't want to sit on excess cash. So, I think you'll see us continue to drive strong share repurchase into the future because we do have the ability to do it. And frankly, we do find that to be a good use of cash.

Steve Cahall – *Wells Fargo*

I'm a media analyst first and foremost. Lately, I feel like I'm an M&A analyst second, and it's changing by the week. I think you got the question last week as to how Disney looks at strategic mergers and acquisitions, given that there is some real-time news flow around that. Would love for you to just make a final comment as well.

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

Happy to talk about that as well. Okay, part of my job and our job is to look at everything. So of course, we're going to look at everything. But that said, we're very, very happy with where the portfolio is right now.

A lot of the things that people are talking about doing with other media companies, Bob Iger and the team did at Disney a number of years ago, whether it was Pixar, Lucas Films or the Fox acquisition. So, we don't think we need to add additional IP into our portfolio.

And more broadly, we really don't see the need for major M&A. We're really very happy with the portfolio as it exists right now. So, I guess we'll sort of watch what happens with everyone else, but we feel good about where we are.

Steve Cahall – *Wells Fargo*

Great. Hugh, I want to thank you for taking the time with us today.

Hugh Johnston – *Senior Executive Vice President & Chief Financial Officer*

All right. Thank you, Steve. Appreciate it. Thank you all.

Forward-Looking Statements

Certain statements made during in this conference may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our expectations, beliefs, plans, financial prospects, trends or outlook and guidance; financial or performance estimates and expectations (including estimated or expected revenues, earnings, operating income, cash flow, timing and margins) and expected drivers; business plans and opportunities, including transactions for which conditions to close have not been satisfied, including entering into additional agreements, regulatory or other approvals or other conditions; future programming and production costs, capital expenditures and investments, including opportunities for growth and expansion; plans, expectations or drivers, as applicable, for direct-to-consumer profitability, growth, subscribers, product acceptance and enhancements, changes to subscription offerings and margins; anticipated demand and drivers, timing, availability or nature of our offerings (including experiences and business openings, content within our products and services and content releases and distribution channel); shareholder returns, including share repurchases, and capital allocation; consumer or advertiser sentiment, behavior or demand; cost reductions and available efficiencies; strategies and strategic priorities and opportunities; completion and expected benefits of new initiatives and future projects; value of our intellectual property, content offerings, businesses and assets; estimates of the financial impact of certain items, accounting treatment, events or circumstances; and other statements that are not historical in nature. Any information that is not historical in nature 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 streaming services and linear networks;
- health concerns and their impact on our businesses and productions;
- international, including tariffs and other trade policies, 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;
- taxation; 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 most recent Annual Report on Form 10-K, including under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business,” subsequent 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,” “Disney,” “we,” and “our” are used above and during this conference to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.