The Walt Disney Company

Q4 FY18 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chairman and Chief Executive Officer

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to The Walt Disney Company's Fiscal Full Year and Fourth Quarter 2018 Financial Results Conference Call. (Operator Instructions)

As a reminder, today's conference is being recorded. I would now like to turn the call over to Lowell Singer, Senior Vice President of Investor Relations. Sir, you may begin.

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

Good afternoon, and welcome to The Walt Disney Company's Fourth Quarter 2018 Earnings Call. Our press release was issued about 25 minutes ago and is available on our website at www.disney.com/investors. Today's call is also being webcast, and a transcript will be available on our website.

Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Bob will lead off followed by Christine, and then we'll be happy to take some of your questions.

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

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

Thanks, Lowell, and good afternoon everyone.

We're pleased with our results in Q4, delivering a strong finish to Fiscal 2018. Adjusted for comparability, earnings per share were up 38% for the quarter and 24% for the year. Christine will give you details about our performance in a few minutes.

My remarks are focused on two of our biggest priorities in Fiscal 2019: The successful completion and integration of our 21st Century Fox acquisition, and the further development of our DTC business – which includes adding new content and subscribers to ESPN+, gaining a majority stake in Hulu, and launching our highly-anticipated Disney-branded service late next year.

With regard to our acquisition of 21st Century Fox, we just received EU regulatory approval this week, another major milestone in the process, and we're optimistic about securing the necessary approvals from the territories that remain. Last June, we estimated it could take up to 12 months for the transaction to close, but we are increasingly optimistic it will be meaningfully earlier than that.

As I have said numerous times, the value of the portfolio of recognized brands and world-class content we're acquiring is impressive, as is the wealth of executive talent at 21st Century Fox -- many of whom will hold key positions in the combined company.

Upon completion of the acquisition, Peter Rice will be Chairman, Walt Disney Television, reporting to me, and will also serve as Co-Chair of our Media Networks Group, along with ESPN president, Jimmy Pitaro. Dana Walden, John Landgraf, and Gary Knell will also be joining us in leadership roles reporting to Peter.

Additionally, a number of 21st Century Fox studio executives will be joining Alan Horn's team at Disney Studio Entertainment – including Emma Watts at Twentieth Century Fox, Nancy Utley and Steve Gilula at Fox Searchlight, and Elizabeth Gabler at Fox 2000.

As I mentioned earlier, DTC continues to be one of our top priorities. Our strategic purchase of BamTech allowed us to enter this arena quickly and effectively – as evidenced by our successful launch of ESPN+ six months ago. More than a million users have already subscribed, and we continue to see impressive growth.

Sports fans are attracted to an ever-growing number of live-events including Top Rank Boxing, Major League Baseball, the NHL, MLS and Italy's Serie A soccer, along with thousands of college sports events, including 200 college football games this season, along with more than 2,900 college basketball matchups, including almost 550 in November alone. We'll add UFC to the ESPN+ line up starting in January.

The platform also features exclusive original content – including the groundbreaking series, DETAIL, offering Kobe Bryant's insight into the NBA. As you may have seen, Peyton Manning is now writing and hosting an NFL version.

The early growth trajectory of ESPN+ is very encouraging and we believe it bodes very well for our overall, global DTC strategy.

Our Disney-branded service – which we are officially calling "Disney+" -- will be in the U.S. market late next year, offering a rich array of original Disney, Pixar, Marvel, Star Wars and National Geographic content, along with unprecedented access to our incredible library of film and television content, including all of our new theatrical releases starting with the 2019 slate.

We've already announced a robust pipeline of Disney+ original content currently in production – including *The Mandalorian*, the world's first live-action Star Wars series, written and produced by Jon Favreau. As you know, Jon launched the Marvel Cinematic Universe with *Iron Man*; he also redefined live-action storytelling in *Jungle Book*, and he's doing it again with *The Lion King*. So, we're thrilled to have him creating content for this new platform. In addition to putting together a great story and strong cast, Jon's got an unbelievable collection of talent behind the camera, including Taika Waititi, the director of *Thor: Ragnarok*.

Over a decade ago, Disney Channel's *High School Musical* was a real success, and we're building on that success and reimagining the franchise for a new generation with a live-action Disney+ series.

Animation will also be an integral part of Disney+. The service will be the exclusive home of the next season of the popular Star Wars animated series, *Clone Wars*, as well as a new series based on Pixar's beloved *Monsters, Inc.* franchise.

The Disney+ platform is also a perfect home for documentary series that will allow us to pull the curtain back and give people a behind-the-scenes perspective. We've got several docu-series currently in production – including an exclusive, unprecedented look at Walt Disney Imagineering, featuring stories we've never really told before and images we've never shared.

Our studios are also creating a robust slate of original films exclusively for Disney+, including *Noelle*, starring Anna Kendrick as Santa's daughter….a live-action version of *Lady & the Tramp*….and *Togo*, an adventure starring three-time Oscar nominee, Willem Dafoe.

We're also currently developing a live-action Marvel series about Loki, starring Tom Hiddleston playing the character he's made so famous. And we're working on a second live-action Star Wars series, a prequel to *Rogue One*, starring Diego Luna.

As with ESPN+, the launch of Disney+ will just be the starting point – we plan to continually elevate the experience and enhance the value to consumers with a constant pipeline of exclusive new content as we move forward.

I visited BamTech last week and saw an early prototype of the app, which will feature elegant navigation, personalization, and content segmented primarily by our core brands: namely, Disney, Pixar, Marvel, Star Wars, and the soon-to-be-added National Geographic.

It will blend library product with original content under these 5 brand banners, and we are confident it will be a compelling consumer proposition.

We're planning an investor conference in April to provide more insight into our DTC strategy – including a first-look at Disney+ along with some of the content we're creating for it.

I'm now going to turn the call over to Christine to talk about our Q4 performance, and then we'll be happy to take your questions.

Christine?

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

Thanks Bob, and good afternoon everyone. Excluding certain items affecting comparability, earnings per share for the fourth quarter were $1.48, an increase of 38% over the prior year. We delivered another strong quarter of financial results driven by Studio Entertainment and Parks and Resorts, which also were significant contributors to the 24% growth in adjusted earnings per share for fiscal 2018. It was a very active year for the company on a number of fronts, and these financial results demonstrate a continued focus on execution of our strategy while we invest to position the company for long-term growth.

Our Studio had another great quarter and a phenomenal fiscal year. Higher Studio results for the fourth quarter were primarily due to growth in operating income from our worldwide theatrical business and, to a lesser extent, lower film impairments, and growth in TV/SVOD distribution and home entertainment. Higher worldwide theatrical results reflect the strong performance of *Incredibles 2* and *Ant-Man and The Wasp* compared to *Cars 3* and no Marvel title in the fourth quarter last year. For the year, the Studio generated a record $3 billion in operating income, surpassing the Studio's previous record of $2.7 billion set in fiscal 2016. Our Studio results demonstrate once again that a relentless focus on quality, creative excellence, and compelling story-telling can lead to consistently strong financial results.

At Parks and Resorts, operating income growth was driven by higher results at our domestic operations, which reflected a $100 million adverse impact of Hurricane Irma during the fourth quarter last year. Higher operating income at our domestic operations was primarily due to guest spending and attendance growth, partially offset by higher costs, including roughly $55 million related to a special cast member bonus we announced earlier in the year.

Attendance at our domestic parks was up 4% and per capita spending was up 9% on higher admissions, food and beverage and merchandise spending.

Per room spending at our domestic hotels was up 8% and occupancy was up one percentage point to 85%. So far this quarter, domestic resort reservations are pacing up 3% compared to prior year, while booked rates are up 4%.

Results at our international operations were comparable to the fourth quarter last year.

Total segment operating income margin was up 40 basis points compared to Q4 last year.

Turning to Media Networks, operating income was higher in the fourth quarter as growth in Broadcasting more than offset a decline at Cable and lower equity income.

Total Media Networks affiliate revenue was up 5% in the quarter as a result of growth at both Cable and Broadcasting. The increase in affiliate revenue was driven by seven points of growth due to higher rates, partially offset by approximately a one-point decline due to a decrease in subscribers and a one point impact from foreign exchange. The improving sub trends continued in the fourth quarter, so we've now had five consecutive quarters of improvement in the rate of net subscriber declines.

Broadcasting operating income was up meaningfully in the fourth quarter due to higher program sales and growth in affiliate revenue. The increase in program sales was primarily due to the sale of two Marvel series versus one last year, and a sale of *Black-ish* in the quarter. Higher affiliate revenue was driven by contractual rate increases.

Advertising revenue at Broadcasting was comparable to the fourth quarter last year as higher Network rates and higher political advertising at our TV stations were offset by lower Network impressions. Quarter-to-date, primetime scatter pricing at the ABC Network is running about 35% above upfront levels.

Cable results were lower in the quarter as higher operating income at Disney Channel worldwide and Freeform were more than offset by losses at BAMTech, which are consolidated in our Cable results due to our acquisition of a controlling interest in September of last year. BAMTech's fourth-quarter results this year reflect content and marketing costs and ongoing investment in its technology platform.

At ESPN, operating income in the quarter was comparable to Q4 last year as growth in affiliate revenue was offset primarily by higher programming costs and lower advertising revenue. The increase in programming expense was driven by contractual rate increases for NFL and college sports programming.

Ad revenue at ESPN was down 6% in the quarter due to a decrease in average viewership and lower units delivered. So far this quarter, ESPN's cash ad sales are pacing up compared to prior year and reflect in part a shift in the timing of the college football semi-finals. ESPN will once again air three of the New Year's Six bowl games during the first quarter. However, this year two of those bowl games will be semi-final games, which aired during the second fiscal quarter last year.

Equity income was lower in the quarter as a result of higher losses at Hulu and lower income from our investment in A&E, partially offset by the absence of equity losses at BAMTech. The higher losses at Hulu were primarily driven by higher programming, marketing and labor costs, partially offset by higher subscription and advertising revenue.

At Consumer Products and Interactive Media, segment operating income was lower in the quarter due to asset impairments, which were driven by the write-down of retail store leasehold improvements, and lower licensing income, partially offset by lower costs primarily in our games business.
Given the pending acquisition of 21st Century Fox, we did not repurchase our stock during the fourth quarter. We repurchased a total of 34.6 million shares for $3.6 billion for fiscal 2018.

Now I would like to discuss some matters pertaining to fiscal 2019.

First, as we previously announced, at the end of Q1, we will begin reporting our financial results under a new structure made up of four business segments: Media Networks; Parks, Experiences and Consumer Products; Studio Entertainment; and Direct to Consumer and International.

In early January we expect to file three years of restated financials that will reflect this new segment reporting structure.

Second, as Bob mentioned, we plan to host an investor day in April, during which we will discuss our direct-to-consumer businesses in more detail, as well as provide additional perspective on our company post the 21st Century Fox acquisition, assuming the transaction will have closed by then. And, of course, we will webcast that event.

While our full year fiscal 2019 results will be influenced by the timing of the closing of the Fox acquisition, I want to highlight some items we already know will affect year-over-year comparability.

We are extremely enthusiastic about our 2019 slate, which includes: *Ralph Breaks the Internet*, *Mary Poppins Returns*, *Captain Marvel*, *Dumbo*, the next Avengers film, *Aladdin*, *Toy Story 4* and *The Lion King*. I'll remind you that 2018 was the best year in our Studio's history. We face a particularly challenging comp in the first quarter due to the phenomenal performance of *Star Wars: The Last Jedi, Thor: Ragnarok* and *Coco*. Given the significant contributions these films made to operating income in Q1 last year, operating income from our theatrical business in Q1 this year could be down as much as $600 million versus 2018.

The theatrical success of *Star Wars: The Last Jedi* also resulted in higher licensing results for the first quarter last year, so the absence of a comparable franchise title this year will weigh on our licensing business in Q1.

For the full year, we expect cable programming expenses to be up mid-single digits driven primarily by contractual rate increases for sports rights at ESPN. However, we expect Q1 Cable programming expenses to be up 9% driven by the timing shift of the College Football semi-finals I mentioned earlier.

We will continue to invest in both ESPN+ and our yet-to-be-launched Disney+ service. The continued ramp-up of ESPN+, which includes investments in sports rights, will have an adverse impact on operating income of about $100 million for the first quarter.

We'll have more to say about our overall direct-to-consumer strategy and the aggregate full-year financial implications during the investor day in April.

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

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

All right. Thanks, Christine. Operator, we are ready for the first question.

Operator

And our first question will come from the line of Ben Swinburne with Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Bob, I want to ask you about both Disney+ and Hulu, if I could.
Hulu has been around for a while. It's had this ownership structure that's obviously had multiple partners in place. So I've never seen Hulu run by a single controlling shareholder. I'm just wondering if you could talk about your vision for that product and that business post the close of the deal. I know you've got this Investor Day coming, but whatever you're comfortable sharing

with us today would be helpful because that's a business that does have some reasonable scale, but does lose money and has multiple products, and I wonder if you could it fit into your overall world view.

And then on the Disney+ service, have you guys thought about the theatrical window around Pay One? I mean, one of the things that might -- that seems like an interesting opportunity--would be shortening that window and actually bringing films from theatrical release into the Disney+ experience earlier than the usual 7 or 8 months window. So I'm wondering if you were -- if you've thought about that opportunity or at least the overall theatrical strategy for Disney+. Anything you can share there would be great.

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

Well, first of all, regarding Hulu, as you noted, we'll own 60%, which will give us considerable say in how Hulu is run. But there will be two other partners unless they decide to divest their interest, namely Comcast and AT&T Time Warner. So anything we do with Hulu will be done with an eye toward being fiscally responsible to the other shareholders even though they're minority shareholders.

That said, we think that given the success of Hulu so far in terms of subscriber growth and relative brand strength, and other things too like demographics, we think there's an opportunity to increase investment in Hulu, notably on the programming side. And with this acquisition comes not only some great IP, but some excellent talent, particularly on the television side, all this talent in both movies and TV. And we aim to use the television production capabilities of the combined company to fuel Hulu with a lot more original programming, original programming that we feel will enable Hulu to compete even more aggressively in the marketplace.
I also think Hulu is attractive in many ways. And one I mentioned, demographics. If you look at the demographics of the people consuming off-network shows in Hulu, and when you look at the demographics of the same shows on the network, you'll see what could be at times 20 years younger audience at Hulu. And that's clearly attractive to advertisers, which I think has been

somewhat underappreciated about Hulu in that it is a very strong play for advertisers because it can offer targeted ads, and it has great demos, and it's just a great user experience. The quality of the product, meaning the quality of this -- of the television programming -- is quite high. So overall, I think we've got an opportunity to invest more in Hulu, to grow its subs. I also think there's some pricing elasticity too, but notably on the multichannel front and we'll talk about sometime in the near future. I think there's an opportunity to improve or I should say, increase our pricing there. And it will focus mostly by the way, on what I'll call general entertainment programming, and we'll leave the more family-oriented programming to the Disney+ app.

On the theatrical -- the question you asked me about the theatrical window, sort of with us if it ain't broke. I know you may think that there's an opportunity, but as noted by the results of our Studio in fiscal 2018 and, of course, in the last quarter, we have a studio that is doing extremely well and a formula that is serving us really well in terms of its bottom line. And we're probably going to aim to protect that initial window.

And then the other thing that's quite clear to us is that the home video window, as it's been called, that follows the theatrical window, also continues to be quite important to us, both the sale of these films digitally as well as physical goods. And I think you'll likely see us protect that as well, although there's going to be a discussion around whether there's an opportunity to move the product from that window to what I'll call the Pay One window maybe a little bit sooner. But not -- we're not looking right now to encroach on the theatrical window.

Operator

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

Michael Nathanson – *Analyst, MoffettNathanson*

Bob, I have two for you. One first on Hulu, one for ESPN -- sorry, on Sky. So I'm not complaining that you didn't get Sky. I think we're all happy with that, but I wonder, by not getting Sky, what did you trade off in maybe the speed of timing to get Disney+ into the European market? So what were the trade-offs that you saw by not getting Sky? Has does that affect the Disney+ rollout?

And then on ESPN, as you know, in the past 3 years we, focused on ESPN and subscriber losses and now you're trending the right way. What do you think is driving this improvement in subscriber trend? And I think you have half a year of affiliate deals coming due the next year or so. Is any of this improvement coming at this point from the new deals you've done? Or is that to come as you sign more deals into '19?

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

Well, on the second part of the question about ESPN, the -- it's coming from new deals that we did, but with the digital MVPDs. And so we've seen some nice growth there, including, by the way, from Hulu. And I think that we're hopeful that the take-up of the digital MVPDs will continue to grow even though I know there's been a lot said about that. I think what I talked about earlier, I think it's from a demographic perspective, these services tend to be very attractive for younger viewers. They're also less expensive, which I think is important even though I think there might be an opportunity for us to take pricing up a bit at Hulu. And the user experience is great. So we're bullish about DMVPDs. And with that in mind, we believe that ESPN will benefit nicely from that over the long-term.

The other thing by the way, that is interesting is that there are some entities out there that have gone to the space, notably YouTube, that are obviously quite committed to seeing -- to growing their service. Just look at the World Series and the amount of advertising that was in the World Series for the YouTube service. That suggest to us that we're not the only believer out there, that there are others as well.

On the Sky front, I'm not -- look, you can't cry over spilled milk, so to speak, there's nothing we can do about it. We made a bid that we thought was an appropriate bid in terms of what we saw as value to our company. We would have loved to have had Sky, both because we believe in the asset, and we thought it could have helped us in terms of introducing a direct-to-consumer service in the European market. But again, only at a price that made sense for us.

Without Sky, we're still planning on taking Disney+ out in Europe. We also plan on working with Hulu to introduce Hulu in more international markets as well. It could possibly be that it takes us a little bit longer to penetrate some of these markets, but we believe in the product that we will be launching, and we'll make sure that that product is tailored for the various European markets, not just because it needs to be -- it needs to satisfy what will be quotas for SVODs in Europe, but also because we think it needs to be locally relevant. And we're going to be selective in terms of the markets that we choose initially, but we believe we're going to win -- that we have a real opportunity there, particularly when it comes to the Disney branded service, which is going to feature Marvel and Pixar and Star Wars and Disney, of course, and then National Geographic. Those are all very attractive brands in those markets, and that's going to make that product extremely unique and in-demand.

Operator

Our next question comes from the line of Jessica Reif Ehrlich with Bank of America Merrill Lynch.

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

I have two different topics. On Fox, can you talk a little bit about the integration and your plans? The film side almost seems easier because your labels are so specific. But TV is very interesting because Fox is so strong. Can -- what would your goals or hopes be over the next 3 years in terms of integration and how you can grow the Fox business with Disney's existing TV business?

And then completely separate topic. On Shanghai, can you give us a little color on what's going on? I mean, your press release said attendance is up, but pricing is down. What's going on there? Can you talk a little bit about your investment plans for that park? I know your plans are to grow it, but can you talk a little bit about the next few years?

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

Sure. Let me -- I'll start with Shanghai, Jessica. Sometime mid to late fiscal 2018, we saw some softness in the tourism market in China, not -- just by the way, not just for us, but across the board, and we basically put in place some discounting, some lower pricing, to continue to drive attendance during what we saw as somewhat of a downturn. But we didn't necessarily think it was permanent. We've subsequently taken a lot of those promotions or those price discounting off and the results actually have been good. But I think what you'll be seeing in China is maybe a slight reduction in consumer confidence and that's having an impact on the business somewhat. But we still believe very, very, very bullishly in, not only the business that we built, but the business that we can continue to invest in. We opened up a new land since we opened Shanghai this past year. We opened *Toy Story Land*, and we have plans for continued expansion, both attractions and ultimately hotels, but we haven't made any specific announcements about that yet. We still feel great about that market for our theme park business.

And then on the integration front, I think if you look at our company's results over the last, I would say -- let's say, 5 years. You've seen incredibly impressive results at Parks and Resorts and our Studio. Businesses that, not only are doing well, but we've continued to grow year after year after year.

And if you look at our television business overall, obviously, ESPN has done well, but they've had some issues in terms of distribution or subs. The rest of our television business performance has been relatively modest over that period of time. As we look at this acquisition, not only does it come with great IP, but the television business that we're buying is, we think, very, very attractive, not just in the United States, but across the world if you factor in Star in India and the rest of Asia, and you factor in Europe, where they have substantially greater footprint of channels than we do, which by the way, may ultimately end up helping us with content and distribution when it comes to the direct-to-consumer business.

What we also get is a great television studio that's been run by Dana Walden and others, and what we aim to do there is we aim to create in a combined entity, a very, very successful television studio that will be aimed at creating product, not only for the traditional businesses that we're in, namely the channels and the network, but also for our direct-to-consumer services. So there's a very, very important strategic play here in terms of what the studio and the people that will be running the studio can do.

And then, of course, we bring -- we've made these announcements. We're bringing Peter Rice in, we’re bringing John Landgraf in. We're bringing in executives that not only have a lot of experience, but a lot of success under their belts on the television side and the ability to not only strengthen the existing Disney television businesses, but to create a television business that is basically designed to service both the, I'll call it, the present as well as the future of the combined entity.

Operator

Our next question comes from the line of Alexia Quadrani with JPMorgan.

Alexia Quadrani – *Analyst, JP Morgan*

Bob, looking at the successful launch of ESPN+ and how it's rolled out ahead of expectations, is there anything like that you learned specifically that you could share with us that perhaps influences your strategy on the Disney+ launch ahead?
And then just a follow-up on the domestic parks. How should we think about or frame the opening of the Star Wars Lands, I think both in Anaheim and Orlando, when we think about

drivers to the parks next year or next calendar year, I should say? I'm assuming bigger than Pandora. Is it as big as Cars Land? Anything -- Any color on that would be great.

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

Well, on the Star Wars Lands, these are the biggest lands that we've ever built, and in both cases, not only are they big in size and scale, they're huge in ambition in terms of both the experience that we aim to create, meaning the immersive experience, as well as the specific experiences people will have in the attractions, namely in both cases two, very, very innovative, and we believe compelling and exciting, E-ticket attractions. And so we think that they're going to have a major impact and Disneyland, clearly, it's the biggest thing that we've ever done at Disneyland since it opened in 1955. And we think it's going to drive huge increase in demand, and we think we're going to have some interesting challenges on our hands to manage that demand, but that's a good problem to have.

And then in Florida, we have 4 parks. Star Wars Land there is going into the Studios park, the Hollywood Studios Park, where we opened *Toy Story Land* not that long ago, and we aim to actually grow the attendance to that park, which has lagged a bit over the last number of years because we haven't invested anything that is this close to size or scale or compelling nature of it.

So we think in both cases, they will have a dramatic impact positively on both businesses.
On the first question about ESPN+, I think there are a few things you have to consider. First of all, we've learned positive things. It clearly is working in terms of interest in -- from users and subscriptions, which continue to grow. From what we gather from the research we've seen and just generally anecdotal information, it's a product that is considered a good consumer experience, easily -- easy-to-navigate, easy-to-use and very high quality in terms of the quality of live streaming. And we've put on to that product a fairly strong inventory of all kinds of different sporting events, and we've seen consumption that's actually quite interesting for things like MLS during the regular season, which is soccer. We've seen some nice uptake in some of the college football numbers, and we are putting on, by the way, just under 3,000 college basketball games

in the next few months, 550 of them alone in the month of November. And then we put the UFC on, where the big UFC fight, biggest -- first big one after the first of the year will be exclusive to the platform and the 30-some-odd UFC fight nights as thereafter 20 will be on and exclusive to this product.

So I would say, we're kind of just in the early innings to use a sports analogy of where we're going to be product-wise. And then we're also in the early innings in terms of where we're going to be from a feature-set perspective. Last week, I was in New York at BAMTech, and they gave me a great presentation on personalization and customization, the technology that they've – the engine that they're creating to better serve the consumer in that regard, because we know there's a huge opportunity there given people's interests in very specific teams or specific sports or specific leagues or specific geographic territories.

So I'd say what we've learned is quite positive, a product that is working. And it gives us reason to have great optimism as we add more content, and we will add more technology features. And then we haven't really even begun marketing it. Someone pointed out earlier when we talked about -- actually it was Christine McCarthy -- as we talk about putting more college sports on. The affinity that people have to the colleges that they've gone to is extraordinary, and we're just beginning a process to start marketing very specifically to alumni from different colleges who may not be able to find sports from their college on local and national sports networks, but we're going to serve them well on this platform.

Operator
Our next question comes from the line of Doug Mitchelson with Crédit Suisse.

Doug Mitchelson – *Analyst, Credit Suisse*

I'm curious, Bob, what factors will influence when you would take Hulu or a Hulu-like service international or global? And on the BAMTech side, what else needs to be done, if anything, to be ready to launch the Disney service in the year? Obviously, you're pleased so far with the execution that you've built there. But I'm just curious if sort of everything's in the can and ready to go or whether there's a lot of work left to do.

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

I can't really say much yet about Hulu in terms of international markets, although we're just looking at basically a set of priorities in terms of how we're going to launch Disney. And then after the deal closes and after we have the 60% ownership, we'll meet with the Hulu management team and the board and discuss what the opportunities are in terms of both global growth and investing more in content. But that's something that we have to do after the deal closes.

Your -- the second question, what needs to be done on the BAMTech side? Really, very little in the sense that I mean, there's a lot that needs to be done, but it's being done. I saw an iteration of the app last week and I was very impressed with it. It will -- It's not quite ready for prime time because it's still being iterated, but there -- it will be elegant, it will be very brand-centric, which we believe add navigational features that typically don't exist on other platforms, namely that there'll be segments under the brand -- program segments under the brands Disney, Pixar, Star Wars, Marvel and then National Geographic. So we think there'll be an elegance to it and ease of use, and we're going to super-serve the most ardent fans of those 5 different brands by creating experiences and environments that are more tailored or customized and personalized to those brands.

We have obviously a very stable product when it comes to live streaming, as I said earlier. That's been tested already on the sports front. We believe that our ability to both attract and ultimately retain consumers is strong from a technology perspective, and now obviously, we have to aid that effort with programming. And I'd say right now, aside from the development that's being done at BAMTech on the app itself, mostly what's going on at the company on the Disney+ side is ramping up our production and continuing to commit to new product.

We mentioned a few today on the call, a Marvel series specifically, another Star Wars series and a number of movies and docu-series, and this activity across the board at our company in terms of increased production investment specifically for this app. And it will take some time, obviously, to see the kind of scale we're going to need on the steady-state because it takes time to make these products, particularly given the high production values that they will represent. But besides that, we think we're in great shape. We have a game plan in place to bring the product to market. And we hope to show you a fair amount about the app, the app itself and some of the programming and some of our strategies, including our pricing strategy when we have the investor meeting that we talked about having in -- sometime in April on the call earlier.

Operator

Our next question comes from the line of Kannan Venkateshwar with Barclays.

Kannan Venkateshwar – *Analyst, Barclays*

So just a couple. First on the approval time line. Bob, I think you guys seem a lot more comfortable with the timeline being more in the first quarter instead of the first half. And obviously, you've got approval in the EU earlier this week. So I just wanted to understand what brought the timeline ahead. And secondly on ESPN+. Is there an opportunity for the app to be an aggregator for content that you don't own? Is it a possibility for you to essentially create a bundle of content that others own and then have a revenue-sharing kind of a model for that app?

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

Our current plan at ESPN+ is to license and produce content that is basically solely owned and controlled by us, obviously, on the license front in many cases from third parties, which is usually the case with sports rights. We think it will quickly get very complicated if we aggregate content that was really owned fully by other entities. And we think we'll have -- we have enough there right now, and we'll be able to continue to license more.

On the timeline, when we first announced this deal in December of '17 and then when we made the deal later in the year, we talked about a timeline first that was 12 to 18 months and roughly, I think we talked about 12 months from what was June. And since then, we gained approval in the United States, the U.S. Justice Department, and then this week with the EU, those are two very significant markets. And for an acquisition of this size and its complexity, we assume that it would take a certain amount of time for the regulatory authorities to consider all the various marketplace issues that they had to consider. And we are optimistic today because we have been able to gain approval, not only in those two, but in multiple other markets and countries around the world. We still have a few important countries to go. We're well into those processes and based on what we know, we were able to say earlier on the call that we've gotten more optimistic about our ability to close much earlier than the June timeframe that we talked about. And then I think it's just best to leave it at that because frankly, we don't know specifically when it will be.

Operator

Our next question comes from the line of Steven Cahall with Royal Bank of Canada.

Steve Cahall – *Analyst, RBC Capital Markets*

Bob, I was wondering if you could update us a bit on what the strategy is for some of the rights that you currently license to some of your partners domestically. Do you have active negotiations with those partners to try to get those rights back for Disney+? Or is the strategy just to wait for those rights to reach their term? And then secondly on Hulu, you talked about a tighter integration with things like the Fox studio and FX. Should we expect over time that things like FX and Searchlight that Hulu is their exclusive SVOD partner and sort of complete integration there?

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

I don't think I'm going to talk much about exclusivity, except to say that when we think about FX and Searchlight and some of the other Fox entities as well by the way, as ABC, for instance, and Freeform, we think we have an opportunity if we create a television studio that we aim to create with all the talent that we have and the access to great creative talent as well. And we're going to have an engine at the company coming from the different entities at the company that will be able to supply Hulu with a lot of high-quality content and more than that they currently have. That is the goal. And again, one of the reasons why we announced the structure that we announced is because we believe that's the best structure for us to execute, not just the strategic plans that we have, but to continue to drive growth and results at the traditional businesses.

And then on the first question about what I'll call third-party rights or existing agreements, there has been some reporting about this that we're in the market seeking to amend the terms of some of those agreements. I think it would be best if I simply confirm that we are in some discussions about this, but I'm going to leave it at that. I don't have many details I can give you.

Operator

And our last question will come from the line of Todd Juenger with Sanford Bernstein.

Todd Juenger – *Analyst, Sanford Bernstein*

Always a lot of pressure of being the last one in the queue. I actually had a couple of questions I'd really love to ask, all about the linear TV businesses and how they really tell this. So the first one is on the Disney Channels Kids side I guess here in the states. There was a note in the press release saying that there's actually a positive source of profit growth year-over-year from the factors including decreased marketing spending, decreased programming spending, increased sales content, which I think might have been to Hulu, among others. Is that something we should expect to see as a trend if you think about the role of those linear kids networks with the pending launch of Disney+? And just more broadly, how do you think about the role in the future of those linear kids networks? The second part of the question, made quicker, was just -- we hear about the broadcast network, ABC. I guess, it's fair to say it has the least amount of sports content of -- among the big 4 broadcast networks. Obviously, it's related to the fact that you own ESPN. Do you think it's important to have ABC maybe participate more strongly in sports generally as you think about the future of the broadcast network business?

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

We made a decision some years back that because the ESPN brand and ESPN business was so significant and so important to us that, that should be our priority when we license sports, to put it on ESPN. We also felt that we needed to service ESPN with the kind of programming necessary to drive subscriptions, both in terms of the price as well as the number of subscribers. And it was the right thing to do. ESPN will also be called upon to use some of its licensing capabilities to service ESPN+. So while I think that there were some sacrifices associated with it, we think it was the right thing to do for the company. Going forward, we haven't made any decisions as to whether we would put more sports on to ABC or back on to ABC. I imagine we'll be opportunistic about it. If the opportunities exist, we will consider it. But right now, ESPN and ESPN+ are the priorities.

In terms of the Disney Channel comment and the linear networks, we're in linear television in a number of different fronts, and we're going to be in more of it once this deal closes, both here and the United States and around the world, when you consider FX and National Geographic, and you add Freeform and ABC and Disney Channel, and of course, ESPN.

We don't intend to get out of those businesses nor do we intend to what I'll call deprioritize them or sacrifice them as we move into this other space. But we're also realists, and we see what's going on in the marketplace, and we see the growth of new platforms of program consumption versus channel consumption, of disaggregation and of the potential for disintermediation, which basically means the ability for us to take both our channels and our programming direct-to-consumer.

We intend to do what is best for the company over the long run. If that means continuing to support the linear channels because we believe in their value to the company from a bottom line perspective, we'll do that. And if we see the opportunity grows more and more to, not only invest in, but to move programming over to the direct-to-consumer platforms, we'll do that. We can't, right now, in any way, estimate if that will happen or when it will happen. But we're going to be nimble as I think we've already evidenced by just the fact that we're going into the direct-to-consumer space as aggressively as we're going into it. We're looking at the marketplace. We're seeing disruption, and we're reacting to it, hopefully on a timely basis, so we can take advantage of the trends that we're all seeing today in television.

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

Thank you, Todd. And thanks again, everyone, for joining us today. Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website. Let me also remind you, certain statements on this call, including financial estimates and statements as to the expected timing, completion and effects of the proposed transactions, may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements. Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. Thanks again for joining us today, everyone. Have a good afternoon.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.