



The
WALT DISNEY
Company

Q4 FY19 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

Ladies and gentlemen, thank you for standing by, and welcome to the Walt Disney Company's Fiscal Full Year and Fourth Quarter 2019 Financial Results Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Mr. Lowell Singer, Senior Vice President of Investor Relations. Thank you. Please go ahead, sir.

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

Good afternoon, and welcome to the Walt Disney Company's Fourth Quarter 2019 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. Following comments from Bob and Christine, we'll be happy to take your questions. So with that, I'll 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 now just days away from launching Disney+ -- the culmination of four years of planning, organizational transformation, and a lot of hard work....and we're excited to be on the verge of this new era. We're also pleased to have delivered a solid quarter, which Christine will discuss shortly.



Before she does, I wanted to share a few thoughts about our DTC business to give you a sense of the confidence we have in our strategy and to provide a few updates.

As you know, we began this process with the acquisition of BamTech, which gave us the means to implement our DTC strategy – putting us into the market quickly and ensuring we had the technology to deliver a quality experience.

Our first effort was ESPN+, which was an immediate hit with sports fans when it launched last year and continues to deliver steady growth. I'm pleased to announce that, as of today, ESPN+ has over 3.5 million paid subscribers – who are drawn to its unique and growing mix of original content – like the legendary NFL Primetime, with Chris Berman, now exclusively on ESPN+ – and exclusive live events including UFC, college sports, domestic and international soccer, and Top Rank Boxing. The “UFC 244” pay-per-view event last Saturday delivered one of ESPN+'s largest live audiences to date.

Viewing patterns show ESPN+ appeals to a broad array of sports fans – those who want more of everything as well as fans who are highly passionate about a specific sport, conference, or team. We believe we have numerous interesting opportunities to expand ESPN+'s live and original program offerings and to steadily grow subscribers.

As I have said, our acquisition of 21st Century Fox was largely driven by the value it brought to our overall DTC strategy, adding a number of critical elements, including control of Hulu – which opens numerous growth opportunities domestically and internationally.

We also gained a large library of quality film and television content...along with additional filmmaking capabilities and the industry's best TV production studios, great talent, great brands and franchises, like Nat Geo and FX, along with *The Simpsons* and *Avatar*. This collection of IP and talent will contribute significantly to Disney+ and Hulu, and with that in mind, beginning in March, Hulu will become the official streaming home for FX Networks.



As I have mentioned on previous calls, FX is a producer of high-quality, award-winning content and will become a key content driver for Hulu. Since 2014, FX has earned 277 Emmy nominations and won 57 Emmys. The awards FX has garnered come from programming that is recognized for its quality and its boldness...and the Hulu and FX teams have been collaborating to develop an exciting strategy to bring the full breadth of FX content and production capabilities to Hulu subscribers – with the introduction of “FX on Hulu”.

“FX on Hulu” will include all seasons of more than 40 FX series...and will offer episodes of current and new FX series immediately after they air on the linear network. Additionally, FX will produce original series exclusively for “FX on Hulu”... starting with four new series in 2020 – *Devs* from Alex Garland, *Mrs. America* starring Cate Blanchett, *A Teacher* starring Kate Mara, and *The Old Man*, starring Jeff Bridges and John Lithgow.

This is a great way to expand the FX brand – and an important step for Hulu as it adds original content to compete more aggressively with new and legacy DTC platforms.

The FX presence on Hulu – combined with original production from our ABC and Fox television studios and our Fox movie studios, including Searchlight – will greatly enhance Hulu’s consumer proposition.

Turning to Disney+, in preparation for the US launch, we tested the technology in the Netherlands – giving consumers free access to a curated collection of library content, and we’ve been very pleased with the results – including the technical soundness and reliability of the platform. The user feedback has been extremely positive – with praise for the elegance and ease of the interface and the quality of the overall experience. The ability to download the content has also been a big hit, and the brand-centric navigation has generated an elegance and an ease of use that was well-received by users.



The viewing patterns in the Netherlands test were also encouraging. Even without access to our full library or any original content, the service connected with users across all four quadrants: male and female, adults and kids, driven by the breadth of our content and the affinity people of all ages have for it.

Disney+ launches in the U.S., Canada, and the Netherlands next Tuesday...with Australia and New Zealand coming online November 19th. And, today I'm pleased to announce on March 31st Disney+ will launch in markets across Western Europe – including the UK, France, Germany, Italy, Spain, and a number of other countries in the region.

At launch, Disney+ users will have immediate access to more than 500 movies, including all of our beloved vault titles....and more than 7,500 episodes of library television content – including 30 seasons of *The Simpsons*. By Year 5, this growing collection will include more than 620 movies and more than 10,000 television episodes, along with countless shorts and features.

And as planned when we first conceived this service, all creative engines across our company – including the teams at Disney, Pixar, Marvel, Lucasfilm, National Geographic, Disney Channel and Walt Disney Television studios – are focused on creating compelling original content for Disney+.

At launch, we'll offer 10 original movies, specials and series exclusive to the platform – including *The Mandalorian*. The first live-action Star Wars series is unlike anything audiences have seen before on any platform – and it's a strong indication of the quality and the storytelling that will define Disney+. We recently screened a significant portion of the first episode of *The Mandalorian* for press...and the extremely positive reaction is driving tremendous buzz around this extraordinary series ahead of its debut on Disney+.



Within a year of launch, the amount of original content on Disney+ will increase to more than 45 series, specials and movies...and will expand to more than 60 original projects per year by Year 5.

In addition to creating a phenomenal product, we're supporting the launch of Disney+ with an unprecedented marketing campaign drawing on every existing connection The Walt Disney Company has with consumers. It's an historic effort to raise awareness and drive demand – one that reflects our “all-in” commitment to this strategic initiative and our determination to launch big and scale fast.

We're also very pleased with the consumer enthusiasm we're seeing, as well as the interest from partners like Verizon, which is now offering a free year of Disney+ to many of its customers.

Consumers can directly subscribe to the service for \$6.99 a month or \$69.99 a year at DisneyPlus.com – and starting November 12th they can access the service through a growing variety of partners and platforms including Apple, Google, Microsoft, Sony, and Roku. Today we're pleased to announce additional distribution partnerships with Amazon Fire, Samsung, and LG.

Disney+ will also be available in a bundle with ESPN+ and ad-supported Hulu for \$12.99 a month.

We've spent the last couple of years completely transforming The Walt Disney Company, making strategic acquisitions, and organizational changes to focus the resources and immense creativity across the entire company on delivering an extraordinary DTC experience unlike anything else in the market. With the launch of Disney+, we're making a huge statement about the future of media and entertainment...and our continued ability to thrive in this new era.



I'd like to take this opportunity to publicly acknowledge and sincerely thank the technical and creative teams – along with countless others across our company – who invested their tremendous talent and a lot of time and effort in creating an exceptional DTC experience that is worthy of the Disney name.

I talk a lot about the inevitability of change...our ability to both drive it and adapt to it. It is part of Disney's DNA...and it helps keep us relevant to each new generation, while also creating new opportunities for growth. It's exciting and exhilarating...and on the eve of launching one of our most ambitious initiatives to date, I'm more confident than ever in our strategy, and in our ability to execute it effectively to deliver compelling value to our consumers and shareholders.

I'm going to turn the call over to Christine to talk about our performance in the quarter, and then we'll 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 from continuing operations for the fourth quarter were \$1.07. We are pleased with our results this quarter and how we closed out the fiscal year. Our core businesses delivered another solid year of financial performance. We continued to make meaningful progress in integrating the 21CF businesses, while making significant investments to drive future growth.

Our Studio had another great quarter and a phenomenal year. In the fourth quarter, operating income was up 79% driven by growth in worldwide theatrical due to the performance of *The Lion King*, *Toy Story 4* and *Aladdin* in the quarter compared to *Incredibles 2* and *Ant-Man and The Wasp* last year. The increase in operating income was partially offset by about a \$120 million loss at the 21CF studio business, which was driven by the performance of *Ad Astra*, *Art of Racing in the Rain*, and *Dark Phoenix*. The loss from the 21CF studio business was about \$100 million higher than the loss we estimate the business generated in Q4 last year.



At Parks, Experiences and Products, operating income was up 17% in the quarter driven by higher results at Consumer Products and at our domestic parks and experiences business. Consumer Products operating income was up 36% due to growth in merchandise licensing as a result of strong revenue growth from sales of Frozen and Toy Story merchandise.

At Parks, our strategy of managing yield to drive greater profitability and enhance the guest experience continues to pay off. Operating income at Domestic Parks and Experiences was up 13% driven by growth at Disneyland on higher guest spending and an increase at Disney Vacation Club. Results at Walt Disney World were comparable to the prior year as increases in guest spending, occupied room nights and attendance were offset by higher costs associated with the launch of *Star Wars: Galaxy's Edge*. Domestic Parks and Experiences margins were up 70 basis points in the quarter. I'll note that Hurricane Dorian had an adverse impact on Walt Disney World, which we estimate impacted the year-over-year change in Domestic Parks and Experiences margins by about 80 bps.

Attendance at our domestic parks was comparable to the fourth quarter last year and reflects the impact of Hurricane Dorian, which we estimate adversely impacted attendance growth by about 1 percentage point. Per capita guest spending was up 5% on higher admissions, merchandise and food and beverage spending. Per room spending at our domestic hotels was up 2%, and occupancy of 85% was comparable to the fourth quarter last year.

Results at our international operations were comparable to the fourth quarter last year as operating income growth at Disneyland Paris and Shanghai Disney Resort was largely offset by about a \$55 million decline at Hong Kong Disneyland, as circumstances in Hong Kong have led to a significant decrease in tourism from China and other parts of Asia. And based on the trends we saw in Q4 and what we are seeing so far in Q1, we expect operating income at Hong Kong Disneyland to decline by about \$80 million for Q1. If the current trends continue, we could see a full-year decline of approximately \$275 million versus fiscal 2019.



On the domestic front, we expect Q1 revenue growth at our domestic parks and resorts to benefit from a full quarter of *Star Wars: Galaxy's Edge* at Walt Disney World and the December opening of *Rise of the Resistance* at Walt Disney World, however the revenue growth will be partially offset by meaningful cost growth driven primarily by operational expenses associated with *Galaxy's Edge* and higher labor expense due to the impact of higher wages under new collective bargaining agreements.

So far this quarter, domestic resort reservations are comparable to prior year. We believe some guests are deferring visits to Disneyland and Walt Disney World until the complete opening of *Galaxy's Edge* at those respective locations. I'll note that awareness and intent to visit remain strong. Booked rates at our domestic hotels are currently pacing up 5% versus this time last year.

Turning to Media Networks, operating income was down 3% due to declines at Cable and Broadcasting, though results came in better than what we expected at the time we reported Q3 earnings.

Lower Cable results reflect a decrease at ESPN, partially offset by the consolidation of the 21CF Cable businesses.

At ESPN, higher programming and production costs driven by contractual rate increases for NFL, college sports and MLB programming, and higher marketing expenses related in part to the launch of the ACC Network, more than offset growth in affiliate revenue.

ESPN's domestic linear advertising revenue was down 2% in the fourth quarter, and so far this quarter, ESPN's domestic cash ad sales are pacing up +3% compared to last year.

At Broadcasting, results in the quarter were adversely impacted by lower program sales compared to last year. We sold two Marvel series, *Daredevil* and *Iron Fist*, during Q4 last year



and we didn't have comparable sales in the fourth quarter this year; we also had lower sales of *Black-ish* in the quarter compared to last year. The difficult program sales comp, coupled with higher programming expenses at the ABC television network and lower TV station ad revenue, were largely offset by the consolidation of the 21CF Broadcasting business and higher affiliate revenue.

Ad revenue at the ABC network was up modestly in the quarter. Quarter-to-date, primetime scatter pricing at the ABC network is running 47% above upfront levels.

Total Media Networks affiliate revenue was up 18% in the fourth quarter and reflects the consolidation of 21CF and growth at both Cable and Broadcasting. The increase in affiliate revenue was driven by 15 points of growth from the acquisition of 21CF and 7 points from higher rates, partially offset by a four-point decline due to a decrease in subscribers.

Results at our Direct-to-Consumer and International segment reflect the consolidation of Hulu, and ongoing investment at Disney+ and ESPN+, partially offset by the consolidation of the 21CF international cable businesses. Results at our direct-to-consumer businesses had an adverse impact on the year-over-year change in segment operating income of about \$600 million. ESPN+ had a little over 3.4 million paid subscribers at the end of the fourth quarter and Hulu had approximately 28.5 million paid subscribers.

Overall, we are pleased with our fourth quarter and full-year results, and with the progress we're making on integrating 21CF. The 21CF businesses we acquired, excluding 21CF's stake in Hulu and net of intersegment eliminations, contributed approximately \$130 million in segment operating income in the fourth quarter. Consolidating Hulu's operating losses and netting out intersegment eliminations resulted in an adverse impact to segment operating income of about \$170 million. We estimate the acquisition of 21CF and the impact of taking full operational control of Hulu had a total dilutive impact on our Q4 EPS, before purchase accounting, of \$0.47 per share.



Before I conclude, I'd like to highlight a few additional items that should help frame our fiscal 2020 first quarter and full-year results.

First, we expect our Direct-to-Consumer and International segment to generate about \$800 million in operating losses for the quarter. We expect the continued investment in our DTC services, specifically Disney+, which will launch in just a few days, and the consolidation of Hulu, to drive an adverse impact on the year-over-year change in segment operating income of our direct-to-consumer businesses of approximately \$850 million.

At the Studio, we are very excited for the release of the much-anticipated sequel to *Frozen* and the final film in the Skywalker saga, *Star Wars: The Rise of Skywalker*. We expect the theatrical performance of these films to be key positive drivers of Studio Entertainment's Q1 results, however we expect the results to be partially offset by an operating loss of about \$60 million at the 21CF film studio. While 21CF's performance will not be reflected in our prior year results, we estimate that 21CF's film studio generated about \$30 million in operating income during Q1 of fiscal 2019.

I'll note that we don't expect a material increase in Studio profitability from licensing the legacy Disney studio library to Disney+.

We estimate the acquisition of 21st Century Fox and the impact of taking full operational control of Hulu will have a dilutive impact on our Q1 earnings per share, before purchase accounting, of about 30 cents per share. We still expect the acquisition to be accretive to EPS, before purchase accounting, for fiscal 2021.

We expect consolidated capex in fiscal 2020 to be \$500 million higher than in the prior year. The increase in capex is primarily due to increases at DTCL and Corporate.



And lastly, I'll note that our fiscal 2020 calendar will contain an extra week of operations, so our Q4 and full-year results will benefit from the 53rd week.

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

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

Okay. Thanks, Christine. And operator, we are ready for the first question.

Operator

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

Ben Swinburne – *Morgan Stanley*

Bob, I want to ask you about two of the most important brands of the company, Marvel and Lucas, and how we should think about the contribution of those businesses or those studios over the next couple of years. I mean, there's been a lot written about what's happening on the Star Wars front, I'd love to get your thoughts there. And on Marvel, sort of in a post-Avengers world, how you think about mining that IP broadly for the company, whether we should be expecting a bit of a gap period in terms of contribution over the next couple of years.

And then, Christine, one of the things that happens when you give us a lot of guidance is we come back to it. So I wanted to ask you about the numbers you gave us at Investor Day for 2020, in particular, around Disney+. I think you talked about \$3 billion of opex, you talked about Hulu peak losses of \$1.5 billion in '19 and ESPN+ losses of \$650 million. I'm just wondering if any of those numbers, we should be thinking have moved around materially? Or if those are still decent places to be thinking about?



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

Ben, when we think about those two businesses, Marvel and Star Wars, we think about them as more than just films and film franchises. We look at them across multiple businesses and with different -- basically creative strategies in mind. So just as, for instance, in both cases, while there will continue to be films either in development or in production, there's a lot of activity on the television front. Star Wars has 3 television series. They're in varying forms of production and more in development for Disney+, and Marvel has many more. So while in the Star Wars case, *Star Wars IX*, which comes out this December, will be the last of the Skywalker saga and we'll go into a hiatus for a few years before the next Star Wars feature – there will be a lot of creative activity in the interim.

In Marvel's case, I'll call it, in the post-Avengers world, it doesn't mean there aren't films that aren't being made with characters from the Avengers. In fact, we have *Black Widow* coming out in fiscal '20 and a *Thor 4* movie in the works, and I could go on and on. We also are mining other characters and character sets like *The Eternals*.

So as we look at these businesses, their film businesses, their TV businesses, they are still big consumer product drivers, and more and more, they have a greater presence in Parks and Resorts. And we feel really good about both the creative direction, but also their commercial direction.

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

And then -- this is Christine. On the guidance question, regarding the guidance that we provided in April at the Investor Day, it's fair to say that all of the guidance, and that goes across the 3 platforms, Disney+, ESPN+ and Hulu, is still as it was. We haven't made any changes to that. And having gone through the planning process for fiscal '20, we feel really good about fiscal '20 and achieving the goals that we've set.



Operator

Our next question comes from Alexia Quadrani with JPMorgan.

Alexia Quadrani – *JP Morgan Chase & Co.*

Just two questions on the streaming side, if I may. First, any color you can provide on the early sign-ups on Disney+ for the launch - even just sort of general color, not necessarily numbers, which I'm doubtful you might offer so early on.

And then if you can talk the advertising opportunity at some of your other streaming services, specifically Hulu, where you're seeing a really meaningful scale now, and ESPN+, which also has seen such great growth? And I think you've also recently increased the pre-roll ad loads there. I guess, how meaningful can the advertising side become for you guys?

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

Well, Hulu is a significant driver of advertising revenue and will continue to be, particularly as we grow Hulu out to essentially, the guidance that we had given back at Investor Day, that basically ad-supported Hulu has very high ARPU, which is one of the reasons, Alexia, that it's being bundled with ESPN+ and Disney+ for that \$12.99 price - because the value of an ad-supported Hulu subscriber, given the advertising revenue that it drives, is very, very high. ESPN, there are also opportunities for growth, but probably the biggest opportunity is on the Hulu front.

On your first question, just in terms of color regarding Disney+ and what we call pre-sales, we're not giving any specifics. Consumers were drawn to -- basically, the marketing messages that we had out there, which is a reaction to the brands and the content, both library product and original product that's coming. Clearly, the price was met with a great enthusiasm among



consumers, not just the single-month price, but I guess, what we are really selling was the 3-year subscription, which is a big deal for us in terms of lowering churn.

Now we're still relatively small in terms of the scope of things, in terms of number of subscribers. But I think the best way for me to characterize it would be to say that we're enthusiastic about what we saw the consumer reaction to be. We certainly feel good about the product that's going into the marketplace next week, and we'll know a lot more in just a few days. But it was good.

And I should also say, I said it in my comments, the Netherlands launch was also very, very positive. And what was positive there were a few things, not just the fact that there was an enthusiasm for the service, but we had a good sense about how people were using it and what people were using it. The demographics were far broader than a lot of people expected them to be. This is well beyond kids and family. Clearly, this is a four-quadrant product with adult men and women as well as kids and families watching or using the service. We also saw that people's interest in the product itself was very, very broad, meaning across all the brands. It wasn't as specific. And that also bodes very well. And we learned that some of the features, including the 4K, the HDR movies were very, very popular. The fact that you can have four concurrent live streams - also very popular. The personalization was also quite popular. And most importantly, the ability to download without restriction was very, very popular.

Operator

Our next question comes from Michael Nathanson with MoffettNathanson.

Michael Nathanson – *MoffettNathanson LLC*

Bob, a couple on Hulu. I guess in scripted comments today, you referred to maybe a Fox Searchlight product - the movies going to Hulu. I wonder, does that represent where all the Pay1 movies go from this point on? Is that a strategic shift for Fox's studio on the film side?



The second question is, you also, in the comments, mentioned international, and how Hulu helps you internationally. So what -- is there an update on the Hulu international side based on those comments that you made before?

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

On the international side, we will have more to say after the first of the year. We're working through the formulation of the strategy in terms of what markets when. It's complicated in terms of our need to make sure that we have the right product in all the markets that we launch in and to be locally relevant and locally compliant in terms of some of the rules and regulations. So I don't have much more to say there.

Obviously, we have opportunities, and we're going to pursue them. I mentioned Searchlight briefly in the call. Searchlight is actually developing some original content for Hulu. The Searchlight and the Fox movie studios have an output deal with HBO that runs for a few more years. I think, eventually, it's likely that the output would move to Hulu, but it's premature right now to speculate.

What I mostly talked about on the call, as you know, Michael, is the fact that we're creating a huge FX presence on Hulu. And what that means is that FX is producing original programming for Hulu - original exclusive programming. We're also moving FX library, some 40 series and over 1,600 episodes on to Hulu. And we're making available current shows that air on FX available on Hulu within hours after the air, as we do with traditional network shows.

Operator

Our next question comes from Doug Mitchelson with Credit Suisse.



Doug Mitchelson – *Credit Suisse AG*

Obviously, it'd be fun to know, Bob, what you picked for Disney+ subs in the office pool, but for something you might be willing to comment on, I'm curious on sports - you mentioned inevitability of change. Does sports need to change? It's viewed live, the bundle delivers sports well, monetizes it well. Obviously, you're pursuing ESPN+. So I'd love any learnings on ESPN+ and how it fits into the future of sports and what you think there.

And Christine, just curious for Disney+ disclosures, are you going to give us U.S. subs separate from international in the future?

And then I'm just curious on Fox execution. How that Fox dilution might scale during the year? Does it sort of improve linearly during the year? Or is it sort of more of a step-function improvement in fiscal '21?

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

Doug, the answer to your first question is, I'm not aware that there is an office pool. And if there is an office pool, I am not participating in it and I don't intend to.

On the sports side, as I look at it, what ESPN+ is teaching us is that the opportunity for the company with sports is probably multi-platform. What I mean by that is I think you'll continue to see ESPN available through essentially the multichannel bundle on cable and satellite platforms. You'll see it available on a direct-to-consumer basis on ESPN+, which we intend to grow, both in terms of the product that is on and obviously, in terms of the subs. And I think you're likely to see more sports on ABC as the value of live grows on the live - basically linear channels.

So as we look long-term at sports, we look at basically making sports available to the consumer on the live traditional network on ESPN and on ESPN+. We think that will be a good way not



only to reach more consumers, but to monetize cost -- the acquisition of sports program rights in the best possible way.

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

So Doug, to your question on subs and what we'll be disclosing on a go-forward basis. As we said at Investor Day and all the conversations we've had with analysts and investors since then, we intend to be very transparent as it relates to our DTC business and the sub counts are going to be something we know people will be interested in. So we will be providing, by the different platforms, subs by those platforms. And because we'll be launching domestically, obviously, we expect Disney+ domestically to have a head start on any of the international markets. But as we go into the international markets, recognizing that it's not a big bang approach to launching all at the same time, there'll be a rollout there, but we'll give you enough guidance so you can look at the success of the rollout.

Doug Mitchelson – *Credit Suisse AG*

On the Fox dilution, the pacing during the year, is it a step-function improvement into fiscal '21? Or is there sort of a linear improvement in Fox dilution throughout fiscal '20?

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

Well, what we said about Fox dilution is we are reiterating that we will be accretive in fiscal 2021. And we haven't gone into any more specifics than that.

Operator

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

Jessica Reif Ehrlich – *Bank of America Merrill Lynch*

A couple of questions. On Disney+, I have one more question. Can you talk about your plans and - I'm sorry, I can't speak today - your plans for further third-party distribution? You haven't said



anything about Pay TV operators? And what are the key trade-offs with these third parties - whether as they're billing, but you have access to the data? Will the subs come in through your apps, you have the data?

And then on the Parks, you called out in your press release, lower attendance at Disneyland, which seems a little surprising. Are consumers waiting for the second attraction, the second Star Wars attraction? And your price increases in the past year have been on the high end of the historic range. Can you talk about the outlook for pricing in the next year or two?

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

All right. I'll take the second part of your question first. Price increases at the parks, really, we don't look at just as increases. We look at it as an overall strategy that, as Christine said in her comments, is designed to basically grow yields or yield management. We're trying to basically increase the park experience by spreading demand out and by making the parks more affordable during periods of time that – basically lower peak periods and, obviously, more expensive during peak periods to limit the number of people that go in.

There was, we believe that there were some delayed visits – it was some delayed visitation to Galaxy's Edge, both at Disneyland and at Disney World. People waiting for the second E-ticket attraction to open. It opens in less than a month in Disney World, and will open in January at Disneyland. And so we sense that there are people that are just waiting for the whole thing to be open, which is fine.

In the meantime, those two lands have been far more successful than has been reported. They've had a significant lift on per caps on merchandise and in food and beverage as, for instance. Just to give you one crazy stat. The *Millennium Falcon* attraction has carried over 1.7 million people already since they've opened across both places, so... And the guest experience, guest satisfaction, is very, very high and ride availability or attraction availability in the high 90s. That basically means that a very, very complex technological attraction is running really well.



The first part of your question regarding Disney+, we're certain the apps will be made available in most traditional apps-selling stores or platforms. I don't have a comment on the access to -- an access to consumer data if the MVPDs are distributing it or selling it. We do have access to some data obviously, following both the law and some of the other platforms, including Verizon, as a for instance, but I just don't have the answer to the question, if it's sold by an MVPD. As you know, we did announce today the deal with Amazon, and they are added to a long list of other distributors, including Apple and Samsung and Google and Microsoft and LG and others.

Operator

Our next question comes from John Hodulik with UBS.

John Hodulik – *UBS Securities LLC*

Great, thanks. Maybe first on the Verizon deal. It looks like, Bob, you're going to have access to about 20 million households or just under 20 million households that have eligibility for -- to Disney+ for free. Anything you can tell us about the wholesale arrangement you have with Verizon? T-Mobile, with its distribution of Netflix for free, got about 50% penetration. Are you guys ready for that kind of scale in -- with Disney+ soon after launch?

And then if I could, just one more follow-up question. You talked about putting more sports on ABC. Just any thoughts that you have on potentially bidding for maybe an extra NFL deal and putting that on the broadcast network?

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

We're -- to your first question, we believe and we're confident that we're really ready for scale. That BAMTech platform has been tested under pretty interesting circumstances, including this past Saturday night, when you have hundreds of thousands of people signing up for a pay-per-view event in a very, very short concentrated period of time. We believe that the people who are signing up for Disney+ will not sign up in as concentrated a way. Now there will be many



more of them, we certainly hope. But we feel that the platform is robust enough and that all the elements that need to be in place to manage that kind of scale, are there.

The second part of your question was...

John Hodulik – *UBS Securities LLC*

Just anything on the wholesale agreement.

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

Yes. The wholesale agreement, we're not prepared to give you any more information about that. But I can say that the deal is positive for us from an economic perspective. Because it's just not being given away. In other words, we're not just giving it away. We're getting paid a certain amount for it, but I won't get into specifics regarding that.

And then the last part, I think we have an interesting opportunity here to use our platforms in a variety of different ways, including with live sports. And not just take a sort of a one platform approach or a two platform, but to really look at the different ways this company can now reach consumers. And we've done that with simultaneous coverage of – say, the NFL draft would probably be a great example of that.

We have a very unique reach as a company right now in terms of these multiple platforms that, in some respects, is unrivaled. The launch of Disney+ went a long way to us reaching more customers in a different way. When you add that to ESPN and its channels and you add that to ABC, that's an opportunity.

I think you have to also look at the opportunities we have for our other programming as well. The Fox acquisition brought with it some great creative talent and some very, very successful television studios or production entities, which gives us the ability to produce more and own more of our programming. When we then take that programming and put it on ABC and our



other live linear channels like Freeform, FX, Disney Channel, and then we move it through a system that ultimately ends up on SVOD or Hulu, or Disney+, for that matter, that's an extraordinary way to reach more consumers and to monetize our investment in this product in a much more effective way. And it does give us a competitive advantage of sorts to other companies we're competing with who don't have as many platforms or as many ways to both monetize product or reach consumers.

Operator

Our next question comes from Jason Bazinet with Citi.

Jason Bazinet – *Citigroup*

I just had a question for Mr. Iger. Maybe the most common question we get from investors is how consumers are going to navigate a world with so many apps out in the marketplace. So I just wanted to run a hypothesis by you and see if it resonates with how you're thinking about the world. Do you think it's reasonable that there will be 3 or 4, for lack of a better word, broadcast apps – meaning they're sort of broad-based in their offering, they sort of serve the masses – and then there will be dozens of, I'll call them niche apps, which are more like cable networks that sort of super serve a customer with a narrow interest. So that's my question. Do you agree with that? And if that's true, is Hulu sort of your broadcast app and ESPN+ and Disney+ positioned as niche apps? I heard your comment about the four quadrants. But if you could just react to that, that would be helpful.

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

Well, the second part of your question, I don't think any of these are niche apps necessarily. And I think what we're trying to do as a company is not to look at the apps as entities unto themselves but look at the apps as part of a broader production, creativity, distribution, monetization play.



What I mean by that is if you look at Disney, with Disney+, you obviously have films that are monetized in two windows: one, theatrical window, then what I'll call the home video window. And then they move on to this SVOD platform. And it's also -- which is also a place that's monetizing the vast library. The same thing can be said for the television programming that we're creating -- although a lot of it for Disney+ will be original or exclusive to Disney+, so there's nothing to be... although there's nothing to keep us from then putting some of it on maybe a Disney channel down the road.

But we're not looking at any of these in an isolated way. I talked about Hulu, but I also talked about it in the context of ABC, of FX, and of Freeform. Interestingly enough, if you look at current viewing patterns, as some of our hit shows on ABC, *Grey's Anatomy*, *The Good Doctor* would be two examples. They're on ABC Live, they go through that Live + 3, Live + 7 or Live + 8 cycle... ultimately, they end up on Hulu. By the end of the run of a show after one month, often, these shows have tripled in terms of their consumption once they're made available on Hulu, and that's only a month. It could be on Hulu for years to come.

So again, I think to the second part of your question, Jason... again, we're not looking at any of them in isolated form right now. As it relates to your first question, which I guess is consumer choice, consumer confusion. I think a lot about it as it relates to the website consumption patterns, and even the current app patterns, where no two people use the same websites or the same set of apps. But there's obviously a lot of overlap with the most popular ones.

And then there's a lot of fragmentation. I think you're going to see that in these sort of, I'll call it, video-centric or program-centric apps where there are going to be "haves" and "lesser-haves". There are going to be a lot of them available and they have varying levels of consumption and the viewer or the consumer will be able to navigate basically relatively easily because they're easy to find. Hopefully, they'll be easy to buy or use, and they'll be easy essentially to place on mobile devices and on desktops.



And I actually think that if you're thinking about just these TV and movie apps or however you want to describe them, they're probably going to be fewer of them than there are apps for games and apps for -- everything else that you can currently use. So I don't -- it's not a concern.

I do believe, though, that brands will matter as we have been saying as a company for a long time. And if you're in a list of choice for sports and you have ESPN on as your name or for other kind of products that it says Disney or the other brands, I think that immediately rises to the top of a list in terms of consumers' interest -- because of the recognition factor and the trust they have in these brands.

Operator

Our next question comes from Dan Salmon with BMO Capital Markets.

Dan Salmon – *BMO Capital Markets*

Great. Good afternoon, everyone. Bob, I recognize there's obviously a lot of focus on the DTC business of late. But the Media Networks business also working through a number of major renewals. We'd love to maybe just hear a little bit of an update on your near and medium-term outlook for linear subscribers, both at the traditional sorts and the VMVPDs? And then maybe just more broadly, how conversations with the MVPDs are evolving as your DTC story emerges.

And then just a quick one for Christine. Maybe just an update on your conversations with the agencies -- the rating agencies, to be clear -- how they're viewing your leverage and maybe the potential to resume a buyback at some point?

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

Dan, before I answer your question, I just want to clarify two things. My number on the number of people, or "carries", who have been carried on the *Millennium Falcon* attraction was way low. Usually, I pride myself on being right with statistics. It's 5 million, not 1.7 million.



And secondly, we will have access to a significant amount of user data when people use our apps that have been purchased through MVPDs.

To your question about MVPD renewals, I can say that we have reached a deal in principle with AT&T, and we're in the process of papering that, which is significant in terms of our progress. We've been candid and transparent about sub trends, as Christine mentioned, updating that today. There's been some continued erosion. It abated somewhat last year. It's gone a bit now. We can't predict where that goes. We just feel that as a company, the MVPD platform is still very important to us and very valuable to us. And I think quite viable as well.

I happen to believe long-term that people will be interested in lesser channel -- less channels. It doesn't mean that they don't subscribe at all to multichannel services. But I think the trend will be in the direction of fewer channels rather than as many, or certainly more. And that's where the app business could benefit because I think people will buy into the app side of it and maintain some channel relationship. But I don't know what the floor is, nor do I think the floor is anything close to being in sight. But we're looking, again, holistically across all of our businesses and the platforms with an eye toward the broadest form of monetization and consumption.

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

So Dan, on the rating agencies, we do have an active dialogue with the agencies. It's a combination of me, the IR team and our treasury team and we keep them very up-to-date on our plans as well as our performance. We have a schedule. We go in and see them a couple of times a year. We're planning on that shortly, we'll go back in and see them. But we – I think people saw that we had a significant bond offering in August, a \$7 billion bond offering. The ratings were affirmed at that time across all 3 agencies as mid-single A.

And if you look at our leverage at the end of this quarter, you can calculate it, it comes in around 2.7x on a gross and about a 0.3 turn less on a net basis. And although the agencies make some



adjustments to those calculations, suffice to say that even when they calculate using their adjustments, the agencies are still well below 3.0x.

Operator

Our final question comes from Steven Cahall with Wells Fargo.

Steven Cahall – *Wells Fargo Securities, LLC*

I was wondering, first off, just how you think about the right amount of content spending for Hulu, maybe cash basis of both total and originals? And do you think you'll need to do things like lock up some of the FX show runners like some of your peers have done?

And then maybe just, Christine, one on the Park side of things. How do you get comfortable that you're not seeing any underlying weakening demand, and it's all just deferrals? And since you think that is the case, is there a point in the year where you think that you might start to see some acceleration in the attendance at the domestic parks? Thanks.

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

Steven, we're facing what is obviously an extraordinarily competitive marketplace for talent, in television and in films. That's not just creative and/or producing and writing and directing talent, but acting talent as well. It's a good time to be on that side of the business. We're making deals selectively based on both the talent of the people involved, but also the cost. We're trying to be mindful of the need, both to fuel our platforms with enough high-quality talent, while at the same time managing the bottom line. We're not changing our guidance in terms of when we believe that these DTC businesses will achieve profitability, and that's based on what we think is a reasonable amount of original content that will be made for these platforms, at a cost, at least in today's world that we think is deliverable.



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

Steve, on domestic parks, we still feel very good about the demand for our domestic park product. We do a lot of research in our Parks business, guest satisfaction is something that we track, when people come and their intent to return. And also, we have metrics that look out year-over-year, what the booking trends are and as I mentioned in my prepared comments, our booked rates at our domestic hotels are currently pacing up 5% versus prior year. So given everything that we've talked about previously, especially as it relates to *Star Wars: Galaxy's Edge* and the complete opening of that land in both 'World and Disneyland, we feel really good about the momentum we have going into '19 for domestic parks.

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

Thanks again, everyone, for joining us today. Please 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. In our remarks, we provided estimates of the performance of certain 21CF businesses in periods of the prior year. These estimates are based on an analysis of 21CF records but are nonetheless unaudited estimates and are not precise measures of historical results before the acquisition.

Let me also remind you that certain statements on this call, including financial statements 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, quarterly reports on Form 10-Q and in our other filings with the Securities and Exchange Commission.

This concludes today's call. Have a good evening, everyone.



Forward-Looking Statements

Management believes certain statements in this call may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements such as financial or performance estimates or expectations, the financial impact of certain items, the anticipated availability, timing or pricing of our goods or services, our business plans and other statements that are not historical in nature. These statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments, asset acquisitions or dispositions, integration initiatives and timing of synergy realization) or other business decisions, as well as from developments beyond the Company’s control, including:

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

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

- the performance of the Company’s theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- demand for our products and services;
- construction;
- expenses of providing medical and pension benefits;
- income tax expense;
- performance of some or all company businesses either directly or through their impact on those who distribute our products; and
- achievement of anticipated benefits of the transaction with 21st Century Fox.

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended September 29, 2018 under Item 1A, “Risk Factors” and subsequent reports.

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