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Disney Speakers:

Christine McCarthy
Senior Executive Vice President and Chief Financial Officer
PRESENTATION

Jessica Reif Ehrlich – Bank of America Merrill Lynch

So Christine, this has been quite a year for Disney so far. You closed on your acquisition of 20th Century Fox, I guess, one and a half years ago. And since then, you've assumed full operational control, not financial but full operational control of Hulu. You've launched Disney+; undergone a reorganization of the company management - that was senior management; become a major competitor in online streaming. You have over 100 million direct-to-consumer paid subs, of course, in your trio of services.

But at the same time, you faced a number of significant COVID-related headwinds, needless to say, including the complete shutdown of the theme parks, complete shutdown of production activity and retail. Can you give us an update on how COVID is impacting your businesses today? What's changed since Disney reported earnings in August?

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

Sure. Thanks, Jessica. Well, I'd like to say there's never a dull moment in our magic kingdom. But seriously, COVID has really thrown a wrench into a lot of our businesses. And as you mentioned, parks had to close, cruise ships stopped sailing, productions ceased. Live sports weren't continuing, and so there were no live sports on ESPN. So we really did have quite an impact and felt it very, very early on in the COVID world that we're living in now.

We're also - I'd say the one thing that's different - not different, but I think has just put a real spotlight on it, is that management has to be nimble and it has to be flexible and it has to look at new ways of doing things that we did in the past a certain way. I think the flexibility is key. And we continue to do that as we look at restarting some of our businesses and just adjusting the way we're doing business.
But just a couple of examples. As you know, parks was - all the parks were closed globally, and now they have begun opening up. So we have had to implement a lot of social distancing, a lot of precautionary measures for health and safety. We have done those, I would say, very well in the parks that are open. They're not all open, but that will continue. And we continue to work with the governments, state, local, county, national governments, especially overseas, on how we are looking at that business, resuming full tilt.

One of the businesses that I just want to mention as probably the last to come back for us will be the cruise business, and that has to do with just the nature of cruising. And when we do get back in, there will be social distancing, whatever is required at that time. But also the booking period for cruise tends to be longer. So that's probably the one that will be the last business to resume for us.

Our legacy media businesses, the one thing that I would say COVID has had an impact on is we saw and have seen, as we all know in the media business, a decline in the subscriber base from traditional multichannel ecosystem. And what we saw post-COVID was an acceleration of the decline. And we don't yet know if the acceleration was due to COVID or if that will basically revert to the way it was prior to COVID. So that could be just a secular trend that will continue, but that's another impact that COVID has basically put on our watch list more intensely than before.

As you know, direct-to-consumer is something that Bob Iger really focused on for many years, really starting back in 2015, when I first started as CFO. And we really looked at the changing universe of the way consumers consume media. And we were one of the early movers in addressing those concerns and the subscriber declines. And Bob Chapek has continued with that, our direct-to-consumer emphasis.

And one of the things we've done with our direct-to-consumer businesses have adjusted even what we had intended to do specifically on Disney+, and that is that we've moved up the SVOD
window for some of our movies. So you saw Frozen II and Onward and The Rise of Skywalker come on the service earlier than what they would have necessarily under the old paradigms. We also added some incremental content, things like Hamilton and Beyonce's Black is King. And we also moved some selected titles from the film studio to go direct to Disney+, things like Artemis Fowl, The One and Only Ivan. And of course, you've seen what we recently did, having premier access for viewing Mulan. And we believe that, that was the right thing to do given the COVID environment that we're currently operating in.

So we'll continue to adjust our strategies, Jessica, as we need to. But once again, flexibility and being nimble is key.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

So we'll get into each one of your divisions, of course, in detail. But outside of the near-term COVID disruption and the march back -- the slow march back to normalization, have your key strategies and financial priorities over the next 3 to 5 years changed at all?

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

I would say no, with the exception of we're looking at more investment in direct-to-consumer because we have announced that we are accelerating our launches and are going deeper faster. But in general, we're still investing in our businesses the way we always have.

We're investing in - we'll continue to invest in theme parks. We believe that those investments globally have really driven strong returns on capital for us. And you know that business, how well it's performed. Not in the COVID world, but for the last several years, that business performed extremely well in terms of not only revenue growth but operating income growth and improved margins. So we'll continue to invest there. And then we'll continue to invest in the direct-to-consumer initiatives because they're working out so well for us right now.
Yes. So let's go through the divisions because there's a lot to talk about.

So as you said - I mean this is just unprecedented having the parks shut down, but you have a number of parks open now, Shanghai, Paris, Tokyo, Orlando. COVID cases have gone down finally in Florida. Are you seeing a change in consumer behavior there?

Well, the consumer behavior that we looked at -- we do a lot of surveying ourselves as well as we look at the other consumer research done on habits and consumer behavior, what people did before COVID, what they intend to do as they would now when we don't live in a world with a vaccine -- an effective vaccine and what the intent to do things like go to a theme park, go to a movie theater, go to restaurants. So in Florida, we're not going to update more than we did on the earnings call in early August. But we have seen -- we're opening up and people are coming.

As we mentioned, there was a spike in July in Florida, and that had an impact on the visitation that we had expected because people couldn't - didn't choose to necessarily travel to Florida. So what we did was we shifted to more local visitation as well as opening it up more fully to annual pass holders.

So we continue to, once again, adjust the business, depending on what issues we're dealing with. And once again, this is such an unpredictable virus that we have to stay flexible.

And how is the reopening of hotels -- the Disney hotels progressing-- in Orlando?
Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Well, we're going to adjust -- we're really looking at maximizing -- really utilizing that yield strategy. So we're not going to be opening up things if we don't have sufficient demand. But by the end of this fiscal year, we expect to have a little over 50% of our hotels -- resorts opened. And that also includes hotels, DVCs that are being utilized currently with the NBA for housing the NBA for operating in the bubble down in Orlando.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Right. And when do you expect the 3 new cruise ships that were originally scheduled for 2021 through 2023 to be delivered?

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

Well, the cruise ships - COVID has had an impact on lots and lots of businesses and lots and lots of supply chains. And the shipyard we utilize for our cruise ships, Meyer Werft, was impacted and we encountered a delay. We're in negotiations and discussions with the shipyard to finalize dates. But as soon as we have those, we'll let - we'll make an announcement when we expect the fifth ship, which is the first of the 3 to be delivered. But it is delayed from what we had originally anticipated.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Of course. And probably, as you said, it's going to be the last business to come back.

You lowered your capex guidance for fiscal 2020 to roughly $4.2 billion, and that's largely due to lower spending at the theme parks and resorts. When you think about the next few years, have your investment plans for new rides and attractions meaningfully changed?
Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Well, what we've done, Jessica, is we've really prioritized some of our investment spending. Things that were - I call it in-flight - but they were in construction, some of those we continue to finish out even during this period. But the ones that we're really focused on are things like the Star Wars hotel that we've discussed publicly that will be in Walt Disney World, that's a priority; completion of the Avengers Campus in Disneyland; as well as Mickey & Minnie's Runaway Railway, which is also in - it's a priority project for Disneyland. There's one in Florida that recently opened just before COVID hit, and it's been very, very well received.

The interesting thing is, Mickey & Minnie's Runaway Railway is the first Mickey attraction that has been in a park. When you think about Mickey's all around the place but having a designated attraction, this is the first one. And it's once again - for true Disney fans, they like it very, very much.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Right, right. Let's move on to direct-to-consumer because we still have a lot of businesses to cover. As we said earlier, you have achieved a groundbreaking milestone, 100 million direct-to-consumer paid subscriptions. And Disney+ alone surpassed 60 million in less than a year. I mean it's just astounding really how quickly you've grown.

So what led to the strong performance relative to your - maybe not internal expectations but your public expectations? And based on the acceleration, how are you thinking about DTC subs? How are you thinking about breakeven?

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

So I think it's fair to say that we are thrilled with the way Disney+ was received and adopted by many consumers and the number of subscriptions that we had. But that result that we achieved early on and continued to grow subscribers, that exceeded our expectations, too. We weren't
sandbagging. We weren't sandbagging and just intended to blow away the guidance that we had provided. But I think it really speaks to what Disney is really known for, and it's really known for quality content. It's known for its brands, its franchising and great storytelling.

Now we had planned to do - and once again, COVID threw a wrench in this, but we had a lot of really great content that was queued up to be produced and have a nice cadence as it was put on to the service. And that has slowed a bit because we haven't been able to do a lot of those productions. But what it shows is that - but we have a big library, too. And the library, a lot of people haven't seen a lot of the content for years and years and years, and we do have some new content. And we are - one thing, I think people certainly loved at the beginning when we first launched Disney+ was The Mandalorian, and we just announced recently that Mandalorian 2 will be available at the end of October on Disney+.

So we're still able to do some things and finish them out. But once again, we will continue to invest in content for the service because it's a combination of this great, rich library that we have but also being able to provide new original content.

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

Yes. What have you seen so far in regard to churn on Disney+? And then, I guess, besides that - what have you seen with regard to churn?

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

Well, churn is inevitable and we watch it. Now one of the nice things that we have that we have not been able to avail ourselves before we went - have these direct-to-consumer relationships is we have a lot of data. We have a lot of data on how people are consuming, when they consume. We know if someone is churning, is it because they just don't use it.

But our - the churn that we have experienced is in the range of what we had expected, and we're pretty pleased. And we know that there are certain things that we're going to focus on to
try to mitigate some of the churn. And a lot of that will have to do with some of the new programming that we'll be focused on and really targeting to keep some consumers and some subscribers who may have been more likely to churn.

But once again, having that data is really, really critical because, once you have it, you can sort of address the concerns and really fulfill the needs to keep a subscriber on the service.

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Jessica Reif Ehrlich – Bank of America Merrill Lynch

Absolutely. But how much more investment are you planning to contribute or invest in the next few years based on early indications of customer lifetime value?

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

Well, I think we're not going to update that now. We will give an updated number at our Investor Day for what the investment spending will be.

But we're committed to having programming that's going to be produced across our content engines and our content productions, entities that will fulfill the - basically, the needs of our subscribers or the desires of our subscribers. So we're not going to update that investment number now, Jessica, but we will be giving more guidance on that in the upcoming Investor Day.

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Jessica Reif Ehrlich – Bank of America Merrill Lynch

Okay. How much traction are you seeing for Disney+ in major markets where you recently launched, markets like India, parts of Western Europe and Japan? I mean these are markets that - where you have a huge consumer following like a real affinity to Disney brands. And Japan, of all markets, I always think of as like - is one of the highest like Disney - I don't know, how do you say, Disney affinity, I guess, is the way to say it. But once you fully roll out the service, will it be bundled with other telcos besides NTT DOCOMO?
Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

In Japan? Well, Japan is an interesting case. So the - we did a limited launch in Japan, which was through NTT DOCOMO. And we still have it on our launch road map for doing a full launch outside of just NTT DOCOMO.

And you're right, Japan, the Japanese culture, it - Disney resonates extremely well. If for - whatever it taps into in that culture, the classic characters, just the Disney folklore, it really does resonate well. But that, we will continue.

But in general, when you asked about our international launches, I think it's fair to say that we have been - all of the launches have exceeded our expectations, just like the U.S. exceeded expectations. Once again, the U.S. is such a large market, and we're based here and everybody knows Disney if you're living in the U.S. But all of the international launches have exceeded expectations thus far.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

And then what can you say about the upcoming launch of the Star-branded - or the Hulu version now being called Star, in international markets? Like just - you said you're going to launch in 2021. Will you launch in all of the same markets as Disney+? And can you talk about the plans for pricing or potentially bundling the service?

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

Well, we're in the process of getting - of refining the launch plans and the investment spending. And we will, once again, at the Investor Day, provide a full road map for how that is going to be rolled out in the international markets. But Star will look different in some of the markets. It's not going to be a one size fits all. It's really going to be based on the dynamics of each individual market.
And I wouldn't say - it is not going to be like every market will be different, but there'll be a couple of different versions of Star.

And we will - we intend to have that be a general entertainment, and we'll, once again, get more specific at the Investor Day, along with how we're going to roll it out. But we do think there's a lot of synergy in the markets that we have already launched Disney+. So we think there's some good synergistic value that we'll be able to basically draft behind.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

I'll ask one more on DTC, and then I'll move on to another division. How do you think about pricing for your DTC services in general? How much pricing do you believe - Disney+, Hulu and ESPN+, how much pricing power do you think that they have?

And when does it make sense to raise prices? How do you think about it as a company?

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

Sure. It's clear that we priced Disney+ at a very accessible price point initially. There is pricing power, we believe, but that will come as we put more original content into the services. So more content, more - just the volume of content. And once again, we've said we're doing it and we had plans, and there would have been a lot more original content on now if we had not been shut down for COVID production - I mean productions shut down for COVID.

But when more content is on the service, we'll have some pricing power. And once again, it's not necessarily every market would be done the same way. We're going to also adjust it for market dynamics in these various markets, especially outside of the U.S.
Jessica Reif Ehrlich – *Bank of America Merrill Lynch*

Okay. Let's move on to the studios. Now that the studio - sorry, now that the majority of theaters are finally open - or maybe not open here in New York, but most theaters are open and the first major box office film, *Tenet*, has finally been released, what is your outlook for the remainder of the year and 2021 with - in terms of your film slate? I mean obviously, some of the movies have been moved direct to Disney+, but what can you tell us? What's changed?

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

Well, some movies have moved to Disney+. And once again, when all the movie theaters were shut, we made the decision to move a couple, *Artemis Fowl* and *The One and Only Ivan* specifically. And as I mentioned before, we did move up the SVOD window to accommodate an earlier placement of *Frozen 2*, *Onward* and *The Rise of Skywalker*.

But when you look at the studio, 68% of the country is open. Now what's missing there is some big major markets. California, so you're missing the big Los Angeles market, you're missing San Francisco. You're also missing some big markets in the Northeast, particularly the New York area. So when we look at that, when you only have, call it, 2/3 of the countries' theaters open and you have consumer behavior - and when we have looked at the consumer behavior, there's probably about 40% that say - people say they will go to - into a theater to watch a movie, but you have to look at the demographics that some of our movies appeal to. And especially the family-friendly - the family movies, I don't believe you have 40% for people with young children. It's probably not 40% for older people or baby boomers, some of whom have a very, very strong Disney affinity.

So I think you have to look at: Where are - what demographic are we targeting? And does it make sense for us to do theatrical releases? Or would we do something that is kind of a hybrid? But we look at these on an individual basis. And once again, it's not one size fits all. We're dealing in a world that it changes more frequently than we would like because you do have
these surges of infection rate across the country and across the world that it's not steady state. And so we'll once again look at our release slate.

But we do have a pretty robust release slate scheduled upcoming. We've got - for the holiday season this year, this calendar year, we have Death on the Nile. We've got Black Widow. I'm just looking at my release slate here. We've got Soul, Free Guy and West Side Story, which is -- I'm really excited to see West Side Story. It looks fabulous to me.

And in '21, we have also some high-profile titles, things like Eternals from Marvel and The King’s Man, both of those are slated at this point. But once again, things can change. They're slated to come out in February. And then we have Raya and the Last Dragon, that's an animated film, in March. And Shang-Chi and the Legend of the Ten Rings and Cruella in May. And then we also have Luca, which is a Pixar film, that's slated for June.

So we've got a pretty robust slate. And once again, we hope that the theaters are open. A lot of our films are films that the people who choose to go to movie theaters, the experience is very different than what they would have at home. So when you look at our box-office numbers over the last couple of years, we have -- we drive a lot of people into theaters to see the Disney films. These tent-pole films become kind of part of the zeitgeist of culture, whether it's Marvel, whether it's Black Panther that was a couple of years ago, but these are movies that people like to see in theaters and talk to their friends about. So once again, we hope the theaters stay healthy and can rebound from this COVID world we're living in now.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

I have to say that even I might be tempted to go to the theater for West Side Story. I mean that's an amazing one.

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

Yes.
Jessica Reif Ehrlich – Bank of America Merrill Lynch

You elected to release Mulan through a PVOD approach at $29.99 price point, which was a pretty healthy price point, for Disney+ subscribers a few days ago, September 4, and also select theaters internationally. It's such an interesting strategy. It's so interesting to me. Can you tell us what impact this offering has had on incremental subscriber sign-ups to Disney+?

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

Well, that - it has had some, but that was not the primary reason that we chose to release it this way. We chose to release it this way because the release date - as some people who were following just what was going on with theaters not opening and just shift, shift, shift, we had moved the release date several times. And we believe that, that movie - given that there's so little new content out, that the movie was done and we wanted to get it out in the public domain. And so we chose to do it this way because we believed that it was the best way to get to the most people for them to enjoy it.

Now if they already had a Disney+ subscription, they could just purchase the movie or if they wanted it, they would have to sign up for a subscription. But that was an additional benefit, I would say. It was not the primary driver. We thought that we could drive the most revenue for us doing it this way. And we did have what we believe was a very - we're pleased with the results that we had over the Labor Day weekend, the 4-day weekend.

But we're learning a lot through this. It's the first time we've ever done one of these. And once again, we're taking the opportunity of COVID to do things we've never done before, and we're taking the opportunity to see if there's better ways of doing things than we had previously done. But once again, it's not something that we're - you shouldn't read anything into what we did with Mulan.
Jessica Reif Ehrlich – Bank of America Merrill Lynch

And in the markets that don't have Disney+, some of the international markets, you will go into theaters?

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

Yes.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

And I think with markets such as China, there's been some surrounding controversy this week over Mulan. Do you expect that to have an impact on performance?

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

I don't want to - I'm not a box-office predictor/prognosticator, but I will say that it has generated a lot of publicity, let's call it - let's leave it at that.

But let me just put something into context. The fact that Mulan - the real issue - the real facts of Mulan is Mulan was primarily shot in almost the entirety in New Zealand. And in an effort to accurately depict some of the unique landscape and geography of the country of China for this historical period-piece drama, we filmed scenery in 20 different locations in China. Now it's common knowledge that in order to film in China, you have to go - be granted permission. And that permission comes from the central government's, I think it's called, publicity department or something like that.

And it's also common knowledge in the film industry that - and it's a practice that is done throughout the world, to acknowledge in a film's credits where - you acknowledge in the film's credits the national and local governments that allowed you to film there. And so in our credits,
that was recognized, both China as well as locations in New Zealand. And I would just leave it at
that, but that's generated a lot of issues for us.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Absolutely. One last question on films because we have to move on to Media Networks. I have
so much more to cover with you.

As we discussed earlier, many of the films - many of the Disney films were fast-tracked on to
Disney+ because of COVID. But what are your thoughts on the windows - changing windows?
Will we move closer to day and date? We know that Universal made a deal with AMC for 17
days. What is the Disney view?

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

As I said before, we think the moviegoing experience to view a lot of our films, the tent-pole
films, works very well for consumers to see our movies. That doesn't mean that other mediums
aren't - or other platforms aren't useful as well. But we think just the grandeur, the scale of
some of our large tent-pole films, we like it when people can see it in the theater. So we're not
narrowing in on anything specific day and date or going to PVOD, not going - or not going to
PVOD.

And when you look at the array of films that we have now, especially with the addition of some
of the smaller films that we have coming out of Searchlight, which we acquired with Fox, you
have to look at those different films and some of them may be perfectly suited for going into a
PVOD or going directly into one of the platforms, Disney+ or Hulu. Or some of them will choose
to release initially in the theatrical market.
Jessica Reif Ehrlich – Bank of America Merrill Lynch

Right. Okay. So let's talk about the Media Networks. As you said - I mean there's been basically a precipitous decline since COVID of the Pay-TV universe. Now that major sports have returned, have you seen any change in kind of - in sub rates, ESPN, particularly? Is there any insight that you can give us as to the trajectory for affiliate growth and pricing over the next few years?

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

Well, we're not going to update affiliate - the sub numbers. But as you also know, and I think this is worth mentioning on this call, is that we get numbers with a 60-day delay. So what the distributors give us is 2 months in arrears. So the distributors have more up-to-date information than we do.

That being said, I think the return of live sports has been embraced. We've got some great games for the NBA Playoffs, and we have football returning. We have college football. We have 3 of the 5 power conferences that will be playing or intend to play. So there's a lot of good sports that people are watching.

Also, baseball's back. Now baseball is -- it has had some stutter steps, just depending on the rate of infections for some of the teams. But some of the baseball games are great, and people are watching baseball. So the return of live sports has definitely been something that I think the viewing public has embraced.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Right. So you took a $5 billion impairment charge at the international channels business in the fiscal third quarter, and you closed down more than 20 channels in APAC and EMEA. What do you see across the globe in regard to Pay-TV trends relative to streaming trends? And how are you repositioning your international business to stay on top of the changes that are taking place?
Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

That's a great question. And I spoke about it on our earnings call, and I'll just remind everyone what I said, is COVID had a global impact. So COVID had an impact on the performance of those international channels.

Also, we're seeing the same behavior, it started a little bit later, but it's still the same behavior, of a decline in the subscriber base globally. And we looked at those two things in combination with our plans and our intent to move more quickly into direct-to-consumer internationally. And we looked at that and we have shut down, as you mentioned, over 20 channels. And one of the ones that we've talked about publicly, and it's probably one that people would focus on, is we shut down the Disney Channels in the U.K. And one of the reasons is because all of our Disney content for the Disney Channels, you can get exclusively on Disney+ in the U.K.

So all of those things - when you combine a change in strategy, the market dynamics and then this world of COVID that's really impacted the business, we decided that - we didn't decide, we went through a very rigorous process of looking through the analysis and whether or not we - whether this business was worth what we had it on our books for. And that's why we took that impairment.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Right. Can you provide any update on this incredibly unusual 2020 upfront market? And what are you seeing in the scatter market?

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

Yes. Well, this is certainly an unusual time for the advertising market. A couple of things have changed. One is there was - the upfront shows were all virtual this year. I was quite impressed. I didn't watch all of them, but I did watch ours. And I thought the team - the advertising team working with the content teams did a great job putting that all together.
But the negotiation window usually kicks off in June - in May and June, right after the upfronts. This one really didn't get going until July, and it's probably going to go through all the way through to September. So that's just a delay.

Then you have what - I would give you the overall market forecast for volume in the upfront was anticipated to be down about 20%. That's a pretty big hit to the overall volume in the marketplace. But we - I will tell you that we anticipate performing far better than that 20% down. And there's also another dynamic which is a continuation of a trend, is that we've seen really good traction in digital and addressable advertising demand. So that's been very important.

And the other thing I would say is while pricing is really important to many of our advertising clients, so is flexibility, especially in this current environment. And we have worked with them on flexibility. And we believe that, that has helped us out in our results that we're pretty much - we're going to close it out. And I think we are definitely going to feel good about where we landed given the market that we're dealing with.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

And scatter? What are you seeing in the current scatter market?

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

So currently, we're in our fourth quarter because we're a September 30 year-end. So both scatter demand and scatter pricing this quarter are better than the third quarter that we just reported. And also, you're seeing -- even though it's not as good as last year, there's no question about that, but it's -- this quarter is better than Q3.

And we're also seeing that CPMs are better than third quarter as well. So the trends are improving, at least for us, quarter-to-quarter. And once again, we feel good about where we are given this tough, tough environment that we're operating in.
Jessica Reif Ehrlich – Bank of America Merrill Lynch

Right. I have two more essential questions, even though we're running out of time, so I'll just try to do it quickly. How are your negotiations with the NFL progressing? You have actually been unusually open as a company - usually pretty close-mouthed, but Disney has been pretty open about a desire to get NFL back on ABC.

How are you thinking about the rights for Monday Night Football and potentially getting more aggressive with some of the other packages?

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

Well, I'm not going to get into specifics, but let me just say that the NFL is an extremely important partner for us. We've been in business with them for a long, long time. If we believe a deal that delivers the economic value, that we believe delivers long-term value to our shareholders, we would be more than happy to do that kind of a deal with the NFL.

And we approach all of these negotiations in a very, very disciplined manner. And we remain interested in deals that, once again, create shareholder value. And I'll just leave it at that.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Okay. And then last question, sadly, because we're out of time. After multiple debt raises post - since COVID begun, at very favorable interest rates, I would say, and suspension of your dividend in the first half of fiscal year '20, you've maintained a really strong balance sheet. You've got $23 billion in cash on hand.

Do you need such a big cash cushion? And how are you thinking about the reinstatement of the dividend and what your capital allocation priorities are for fiscal '21? I mean we're essentially in fiscal '21.
Sure. Let me just address that cash position. So when COVID hit, it hit us hard. We're not making any bones about that. And we know that liquidity is essential to the functioning of a company. And we didn't have any idea how long this was going to go. So we - once again, you could say we're conservative or prudent when it comes to managing liquidity or our balance sheet.

We took the opportunity to raise in two large debt issuances, one in March and one in April, significant monies at very, very attractive rates. And we were also able to use that long-term debt and exit reliance on the commercial paper market. Once again, just not knowing how stable the commercial paper market was going to be, we just decided to, so we could all sleep at night and not have to worry about liquidity, do this.

Now where we wound up for the end of this quarter, think about one of the things that we're not spending money on, and that is productions. And that covers television. It covered - this is Q3. It covered television. It covered studio. And it also - we weren't producing - we weren't having ESPN crews all over the place doing games or matches. So when you look at all of that, that had also the benefit of having higher cash balances.

But once again, we don't intend to be carrying excess cash on a long-term basis. We do intend to be paying down debt, getting our leverage ratios back down totally consistent with an A rating. We believe that, that gives us lots of financial flexibility, and we think our shareholders have enjoyed that financial flexibility by some of the things that we've been able to do.

And lastly, I would say, as it relates to capital - shareholder returns, we look at those, and that's - it's a longer-term outlook. And excuse me, my gardeners are making a lot of noise outside, but I'm almost done. We have - we will look at specific decisions with a COVID lens, and that would - that's how I would address the issue around our dividend. We just have to look at where we are, what the prospect is and how long we'll be in this COVID world.
And lastly, one more thing, we still will invest in our businesses. That is the key thing that has driven long-term value for our shareholders, especially with our intellectual property and fabulous brands that we can utilize across the entire company.

Jessica Reif Ehrlich – Bank of America Merrill Lynch

Couldn't agree with you more. Thank you so much, Christine, for joining us today. Really appreciate it.

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

Okay. Thanks, Jessica.
Forward-Looking Statements

Certain statements in this discussion may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding The Walt Disney Company and its subsidiaries’ (“our”) business or financial prospects, position, strategy, plans, investments, resiliency or growth; financial or performance estimates or expectations; estimates of the financial or business impact of certain items, accounting treatment, events or circumstances; the anticipated availability, timing or nature of, or offerings (such as content) included within, our products or services; future resumption of operations and related impacts, timing, conditions, precautions or market responses; future consumer sentiment or demand; workforce matters; the continuation of external circumstances (including COVID-19); and other statements that are not historical in nature. These statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments, asset acquisitions or dispositions, integration initiatives and timing of synergy realization new or expanded business lines or cessation of certain operations) or other business decisions, as well as from developments beyond the Company’s control, including:

- changes in domestic and global economic conditions, competitive conditions and consumer preferences;
- adverse weather conditions or natural disasters;
- health concerns;
- international, regulatory, political, or military developments;
- technological developments;
- labor markets and activities;
- and each such risk includes the current and future impacts of, and is amplified by, COVID-19 and related mitigation efforts.

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

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

Additional factors are set forth in the Company’s Quarterly Report on Form 10-Q for the quarter ended June 27, 2020 and subsequent reports.