The Walt Disney Company

Q4 FY20 Earnings Conference Call

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Disney Speakers:

Bob Chapek

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 Disney's Fiscal Full Year and Q4 2020 Earnings Results Conference Call. (Operator Instructions)

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

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

Good afternoon, and welcome to The Walt Disney Company's Fourth Quarter 2020 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 of this call will be available on our website.

We realize many of you are joining us today from your homes, and we are also hosting today's call remotely. So joining me from their homes are Bob Chapek, Disney's Chief Executive Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Following comments from Bob and Christine, we will, of course, be happy to take some questions.

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

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

Thanks, Lowell, and good afternoon, everyone.

As we close out the 4th quarter and reflect back on the year, I think we'd all agree it's been a year unlike any other in our lifetimes, and certainly in the history of The Walt Disney Company.

Despite the many challenges and hardships, I'm proud to say we have been steadfast in effectively managing our businesses under enormously difficult circumstances. We haven't just persevered during these tough times, we've also taken a number of deliberate steps and smart risks that have positioned our Company for greater long-term growth. And the impressive resilience Disney has demonstrated, while looking past today's challenges to set the stage for an even brighter future, is a direct reflection of our outstanding team. They've done – and continue to do – an admirable job, balancing the needs of our Cast, our shareholders, and our guests.

Of course, the real bright spot amidst the pandemic has been our direct-to-consumer business. One year ago today we launched Disney+, and it has quickly exceeded our highest expectations. We have since rolled out the service in more than 20 countries worldwide – and on Tuesday, we will launch in Latin America, including Brazil, Mexico, Chile and Argentina, followed by more overseas markets in the coming year.

The response from consumers has been overwhelmingly positive. Everywhere that we've launched Disney+, audiences have embraced the wide array of high-quality entertainment, both original and library content. I'm pleased to report that, as of the end of the fourth quarter, Disney+ had more than 73 million paid subscribers – far surpassing our expectations in just its first year. And we're continuing to see positive trends. During our Investor Day presentation on December 10th we will provide an update of our global subscriber numbers.

The growth of Disney+ speaks volumes about the strength of our IP, our unparalleled brands and franchises, and our amazing content creators…. all part of the "Disney Difference" that sets us apart from everyone else. And when you look across our full suite of streaming services we have exceeded 120 million paid subscriptions worldwide, with impressive subscriber gains for ESPN+ and Hulu, including the rapidly growing Hulu + Live TV. We expect the international launch of our Star-branded General Entertainment offering will enable us to grow our business even further in the years ahead.

Given that our DTC business is key to the future growth of our Company, we've restructured our media and entertainment businesses. By separating content creation from distribution, we've been able to streamline our processes and better align the organization toward these important strategic objectives as we accelerate our pivot to a DTC-first business model. We intend to build upon the success we've achieved thus far, and look forward to sharing more of our plans with you at our upcoming Investor Day.

While the pandemic continues to impact our Company, resulting in an adjusted loss of $0.20 a share in the fourth quarter, the prolonged situation has prompted us to find new and innovative ways to deal with the difficult and often unpredictable challenges we're facing. We've successfully made adjustments and have resumed many of our operations – clearly demonstrating the resiliency The Walt Disney Company is known for.

While much of our productions were shut down beginning in March due to COVID, our animation teams were able to work remotely and have continued production uninterrupted during the pandemic. We were also fortunate to keep other parts of our creative pipeline active, and to continue post-production work for our Media Networks, Studios and Disney+.

We've been able to develop processes and institute health and safety measures that have made it possible to resume live-action productions as well. Of course, the unpredictability of COVID may result in unforeseen impacts to current and future productions.

On the Studio side, we have restarted or completed production on all of the projects previously impacted by COVID, including ones from our Marvel Studios, 20th Century Studios, Searchlight Pictures, Disney Live Action and Lucasfilm. And we anticipate having eight new projects up and running by January.

On the TV side, we now have more than 100 live action, scripted and unscripted projects in active production – with dozens more in various stages of pre- or post-production.

Across all platforms, there's been a great response to our content. A couple of weeks ago, we rolled out the highly-anticipated second season of *The Mandalorian* to rave reviews and incredible social buzz. There's been much excitement surrounding the announcement that Disney-Pixar's *Soul* will be debuting on Disney+ on Christmas Day. And, on the broadcasting side, ABC is now ranked number 1 – delivering some of the most popular and most watched shows on television, including *Dancing With the Stars* and *The Conners*.

I want to take this opportunity to acknowledge our incredible local and national ABC News teams for the outstanding work they continue to do under very difficult circumstances. They've been working around the clock, making sure viewers nationwide have access to the most important and accurate information, particularly as it pertains to the COVID pandemic. And they've also done an outstanding job reporting on the election in an informative and balanced way.

From *Good Morning America* holding its spot as the number one morning newscast for the 8th straight year, to *World News Tonight with David Muir* consistently ranking as the number one evening newscast, as well as the number one program on all broadcast and cable television in the U.S. over the summer, there's no question ABC News is America's number one news source.

On the Parks side, we have proven over many months that we're able to operate our parks responsibly, following strictly enforced guidelines provided by healthcare experts – successfully reopening our parks in Orlando, Shanghai, Tokyo and Hong Kong. We also reopened Disneyland Paris for several months, although the resort is now temporarily closed due to President Macron's recent lockdown order, in response to a resurgence in COVID cases in Europe.

People have shown a willingness to visit our parks, which I believe is a testament to the fact that they feel confident in the measures we've taken. And we are very encouraged by the positive news earlier this week on the progress of potential vaccines.

Unfortunately, we are extremely disappointed that the State of California continues to keep Disneyland closed, despite our proven track record. Our health and safety protocols are all science-based and have the support of labor unions representing 99% of our hourly Cast Members. Frankly, as we and other civic leaders have stated before, we believe the State leadership should look objectively at what we've achieved successfully at our parks around the world – all based on science – as opposed to setting an arbitrary standard that is precluding our Cast Members from getting back to work, while decimating small businesses in the local community.

Our ability to operate responsibly in this pandemic environment extends beyond our theme parks. I'm proud to say that we were successfully able to host the NBA and MLS at Walt Disney World in Orlando. It's been a huge undertaking and a great achievement – just consider the NBA, for example: 94 days, 22 teams, 172 games – players, broadcast partners, referees, media, support staff and Disney employees, all in the bubble.

It was also a big win for ESPN, which broadcast the games – along with a packed schedule of other sports offerings, including the WNBA, college football, Major League Baseball and the NFL. As you look at the most watched cable shows on TV this year, more than half have been live sports – proving that sports are a powerful draw, despite the disruption of the pandemic.

ESPN Digital and ESPN+ have also performed exceptionally well, with September being the best month ever for ESPN streaming video. ESPN+ continues its positive subscriber growth, reaching more than 10 million paid subscribers as of the end of the quarter—nearly tripling in size over the past year.

As you can see, even during these most uncertain times, here at The Walt Disney Company, we are finding ways to not only operate our businesses effectively, but also take the necessary bold steps for our future growth. And we are more committed than ever to investing in our businesses, and in particular our DTC strategy, which we see as the key driver of significant long-term value for our Company.

We look forward to sharing details of our plans with you at our Investor Day next month. We also can't wait for you to see the extraordinary content that's being created for our full portfolio of streaming services – Disney+, ESPN+, Hulu and Star. It's just fantastic.

And with that, I'll turn it over to 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, the fiscal fourth quarter's diluted earnings per share was a loss of 20 cents, and our full year fiscal 2020 diluted EPS was $2.02. Our financial results continued to reflect significant impacts from COVID-19, which we estimate adversely impacted segment operating income in Q4 by $3.1 billion. Our Parks, Experiences and Products segment was again the most severely affected, with an estimated adverse impact of $2.4 billion in the fourth quarter. We estimate that Media Networks' operating income was negatively impacted by approximately $500 million due to COVID, largely due to higher rights costs at ESPN associated with programming in the fourth quarter that was delayed from prior quarters.

Another factor that affected our Q4 results was the 53rd week. While last quarter we guided to the 53rd week having a modest adverse impact on operating results, the additional week of operations actually resulted in a benefit. There were a few reasons behind this variance, but the largest driver was related to the timing of sports rights costs.

I'll now turn to our results by segment.

At Parks, Experiences and Products, financial results in the quarter were significantly impacted by restricted capacity and closures. Operating income at Parks, Experiences and Products declined significantly versus the prior year, to an operating loss of $1.1 billion.

This reflects the closures of Disneyland Resort in California and our cruise line business for the entirety of the quarter. Shanghai Disney Resort was open for the full quarter after reopening in May, while Walt Disney World Resort and Disneyland Paris re-opened in mid-July. Hong Kong Disneyland Resort was open for a couple of weeks at the beginning and end of the quarter. All of our re-opened parks and resorts were operating at significantly reduced capacities during Q4.

However, we are pleased to report that Walt Disney World, Shanghai Disney Resort and Hong Kong Disneyland all achieved a net positive contribution in the quarter, which means we generated revenue that exceeded the variable costs associated with re-opening.

At Walt Disney World, we are also encouraged by the booking trends we are seeing. Park reservations, at our reduced capacity limits, are already 77% booked for Q1, with Thanksgiving week booked close to capacity. These trends provide us with further confidence around underlying consumer demand for our parks and experiences.

At Studio Entertainment, operating income decreased in the quarter due to lower theatrical distribution and home entertainment results.

Worldwide theatrical results continued to be adversely impacted by COVID-19, as theaters were closed in many key markets both domestically and internationally. With no significant worldwide theatrical releases in the quarter, we faced a difficult comparison against the strong performance of *The Lion King* and *Toy Story 4* in the prior-year quarter. The decrease was partially offset by lower marketing expenses.

Lower home entertainment results were driven by lower unit sales, also partially offset by lower marketing expenses. Unit sales were lower in the quarter as there were no comparable releases versus the prior year performance of *Avengers: Endgame*, *Aladdin* and *Captain Marvel*.

Turning to Media Networks, operating income was up in the fourth quarter due to higher results at Broadcasting, partially offset by lower results at Cable Networks.

At Broadcasting, the increase in operating income was primarily due to affiliate revenue growth and lower programming, production and marketing costs.

The decrease in programming and production costs was largely driven by COVID-19 related production shutdowns and cancellations of network programming, the shift of college football games to fiscal 2021, and a delay in airing new season premieres.

Lower results at Cable Networks were driven by decreases at ESPN, partially offset by increases at FX Networks and the Domestic Disney Channels. ESPN results were lower, as affiliate and advertising revenue growth were more than offset by higher programming and production costs.

At ESPN, higher programming and production costs were largely due to COVID-related shifts of rights costs for the NBA and Major League Baseball into the fourth quarter. This included 2 NBA Finals games and 16 MLB post-season games that fell into the 53rd week.

Total ESPN advertising revenue was up 26% in the fourth quarter, including the benefit of the 53rd week. The return of live sports events drove higher rates, slightly offset by viewership declines. So far this quarter, ESPN's domestic linear cash ad sales are pacing below the prior year, primarily due to shifts in college football schedules, particularly for the Big 10 and the Pac 12. Given the timing of programming remaining in the quarter, we currently expect that ESPN advertising revenue will end the first quarter higher versus the prior year.

Total Media Networks affiliate revenue increased 12% in the quarter. This was driven by a benefit of 8 points from the 53rd week and 8 points of growth from higher rates, offset by a 4-point decline due to a decrease in subscribers. The decrease in subscribers benefitted by about 2 points from the launch of the ACC Network.

At Direct-to-Consumer and International, an operating loss of $580 million in the quarter was an improvement of approximately $170 million compared to the prior year. This improvement was driven by higher results at Hulu and ESPN+, partially offset by costs associated with the ongoing rollout of Disney+ and a decrease at our international channels.

At Hulu, the improvement was primarily due to both subscriber and advertising revenue growth, partially offset by higher programming and production costs. The improvement at ESPN+ was due to subscriber growth as well as increased pay-per-view income from UFC events. Hulu ended the fourth quarter with 36.6 million paid subscribers, and ESPN+ ended the quarter with 10.3 million paid subscribers.

Disney+ ended Q4 with 73.7 million paid subscribers, or an increase of over 16 million subscribers versus Q3. Disney+ Hotstar subscriber additions were the largest contributor to this increase, driven by the start of the delayed IPL season. Disney+ Hotstar subscribers now account for a little over a quarter of our global subscriber base.

Disney+’s overall ARPU this quarter was $4.52; however, excluding Disney+ Hotstar, it was $5.30.

On our last earnings call, we said that we expected the fourth quarter operating results of our DTC businesses to improve by approximately $100 million relative to the prior year quarter. Our results came in better than that guidance, with operating income at our DTC businesses improving by approximately $300 million versus the prior year, due to better-than-expected performance across all three of our streaming services.

I will note that we do not plan to further update any of our subscriber numbers until our Investor Day on December 10th.

At our international channels, lower results were due to lower affiliate and advertising revenues, partially offset by a decrease in costs.

Switching gears, I want to take a moment to give you an update on our 21CF acquisition. We've previously stated our expectation that the deal would be accretive to EPS, excluding the impact of purchase accounting, for fiscal 2021.

While COVID certainly had an impact on these numbers, we estimate the acquisition of 21CF and the impact of taking full operational control of Hulu were accretive in both Q3 and Q4 of fiscal 2020, excluding the impact of purchase accounting. As a practical matter, given our recent reorganization and the successful and complete integration of these assets into the Walt Disney Company, it is no longer practical, nor do we believe it would be insightful into our businesses, to break out 21CF performance. Therefore, we do not intend to discuss legacy Fox results or accretion on a go-forward basis.

As we've discussed on prior calls, while our liquidity position remains strong, we are continuing to manage our leverage, with a long-term commitment to return to levels consistent with a single-A credit rating. As a part of that commitment, and given limited visibility due to COVID and our decision to prioritize investment in our DTC initiatives, the Board has decided to forgo payment of a semi-annual dividend in January 2021. Our capital allocation strategy will continue to prioritize investing in the growth of our businesses, particularly in the direct-to-consumer space. However, we anticipate the payment of a dividend will remain a part of our long-term capital allocation strategy, following the return to a normalized operating environment.

As we look forward, we expect that our results in fiscal 2021 will continue to be impacted by COVID-19. Our visibility is limited and will be influenced by a number of factors, including but not limited to the recovery of theatrical exhibition, confidence in consumer travel, and the continued resumption of live sports. But as we sit here today, there are a few items we would like to highlight that may help frame expectations for the first quarter:

Our Parks & Experiences business continues to be impacted by COVID-19, and we do not have visibility into how long these impacts will last. While some of our parks are open with limited capacity, we currently anticipate Disneyland Resort will remain closed at least through the end of the fiscal first quarter. Disneyland Paris is also currently closed.

Because we have no significant tentpole theatrical releases planned for Q1, we expect that our theatrical results will be meaningfully below the prior year, during which we released *Star Wars: Rise of Skywalker* and *Frozen II*. We also anticipate that home entertainment, stage play and studio TV/SVOD results will be meaningfully lower year-over-year.

Similarly, at Consumer Products, we expect merchandise licensing results in Q1 to be adversely impacted due to comparisons versus Star Wars and Frozen merchandise in the prior year.

At ESPN, first quarter results will be significantly impacted by higher rights and production costs, due to the shift of 4 NBA Finals games and 3 additional college football playoff games into the quarter, along with incremental regular season college football rights costs shifting into the quarter. This impact is partially offset by an expected delayed start to the 2020-2021 NBA season.

We expect the Q1 operating results of our DTC businesses to decline by approximately $100 million relative to the prior year quarter, driven by continued investment in Disney+, partially offset by improved results at both ESPN+ and Hulu.

At our international channels business, we expect first quarter operating results to decline by approximately $300 million versus the prior year quarter, driven by a combination of higher sports rights costs due to timing shifts, COVID-related impacts, and channel closures.

Our capital expenditures in fiscal 2020 were approximately $4 billion, down about $850 million from the prior year, due to decreased spending at our domestic parks and resorts. We expect capex in fiscal year 2021 to be $550 million higher versus fiscal year 2020, due to increased investment at our media and entertainment distribution businesses and at Corporate, partially offset by reduced spending at Parks, Experiences and Products.

As we've previously noted, we will start reporting under our new organizational structure in the first fiscal quarter of 2021. While our reporting segments will change, we intend to provide key financial and supplemental information, including much of what we report today, particularly as it relates to our direct-to-consumer businesses. As always, our goal is to provide the needed transparency into our businesses.

We remain very excited about our future, and we also look forward to sharing more details on our evolving DTC strategy at our December 10th virtual Investor Day.

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

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

Okay. Thanks, Christine. And as we do transition to the Q&A, let me note that since we are not physically together this afternoon, I will do my best to moderate this by directing your questions to the appropriate executive.

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

Operator

Of course. Our first question will come from Michael Nathanson with MoffettNathanson. Please go ahead.

Michael Nathanson – *MoffettNathanson*

Lowell, I have two for you to shepherd. The first is on ESPN. You just announced some cost cuts, but I wondered if the company is taking a fresh look at their content rights needs and if there's any kind of update on the willingness to maybe cut back on some of the rights you've had previously. How do you think about that?

And then secondly – for whoever you want to send it to – over the years, Disney made a pretty smart decision to cut back the number of films they release every year to focus on quality and franchises. And I just wonder now with the reorganization and the new game plan at DTC, how will the quality of the franchises and the content output be managed as it's increased, right? So it looks like it's a change in terms of the output of the organization. I just want to hear about the quality management of that. Thanks, Lowell.

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

Okay. Michael, thanks. I'm going to turn both of those over to Bob.

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

All right. Thank you, Lowell. Hi, Michael. In terms of ESPN and the cost cuts, we are obviously watching our costs across all of our operating units very carefully in light of the adversity that we're facing with the pandemic. But long-term, as we look at our content right needs, we're looking at it from a shareholder standpoint. If it's accretive to shareholder value, then there are decisions that we make going forward in terms of looking at new rights as they expire and what we want to put on to our service. So we're being very deliberate and we're being very careful and analyzing everything to make sure that it would be something that would be additive to us.

And I might say that we've got very good relationships with all the leagues, and it's important. We continue to believe in sports. As a matter of fact, in 2019, 93[1] of the top 100 programs in viewership on television were sports. And as you know, we've got the most trusted brand out there in the world in terms of sports. So we believe that's a nice recipe for future success, but we realize that the world is changing and there's a lot of dynamics at play, but we'll only do continued rights deals as long as they add shareholder value.

In terms of the second question in terms of the – looking at the number of films and the amount of content that we put into the system, you're right. Over time, we've been very, very discriminate in terms of what types of films we make and how many we make. And I think that's really benefited the company. We're in a world though now in a subscription business where we're managing churn. And we've got a unique combination of assets in this company that are all at play right now in Disney+, where we've not only got the most desirable library in the world but we realize – and that really helps, by the way, minimize churn – but we also realize that new content that we put adds subscribers. It's very clear to us that new content adds subscribers. So I think you'll see a continued increase in investment in our direct-to-consumer platforms, and that will then fuel some of the growth that Christine will talk about at the investor conference that we expect on December 10th.

Operator

Thank you. Our next question will come from Alexia Quadrani with JPMorgan.

Alexia Quadrani – *JP Morgan Chase & Co.*

Just a bit of a follow-up question, if I may, on the studio content commentary.

[1] In 2019, 92 of the top 100 programs in viewership on television were sports.

I would love any color you could give potentially on what you learned from the release of *Mulan* into premium video-on-demand and really how you think about – at least how you've thought about it in the past – your decision to allocate content on different platforms. For example, why *Mulan* goes to PVOD, but *Soul* is going directly to Disney+, for example. So any thoughts there?

And then my second follow-up question is really on the Parks. You've made some real improvement in cutting your losses this quarter from the last quarter. I guess is it feasible to assume you can continue to see further improvement in that segment without Disneyland opening?

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

Alexia, thanks so much. So Bob, I'll turn them both over to you, *Mulan* and *Soul*, and then some of the trends we're seeing at Parks.

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

Okay. Great. So from a studio content standpoint, we were very pleased with the results of *Mulan* as a Premier Access title. And as you remember, that was our very first foray into a strategy like Premier Access. Unfortunately, that title met with some controversy, both in the U.S. and internationally, shortly after we released it. But we saw enough very positive results before that controversy started to know that we've got something here in terms of the Premier Access strategy, and I think we'll talk a little bit more about that at the investor conference in December.

In terms of *Soul*, we also realized though that part of the lifeblood of Disney+ is providing great content to the base-level subscribers that are in there in premier – or in Disney+. And so the idea is that we thought it was a really nice gesture to our subscribers to take *Soul* during the holiday period and provide that as part of the service. But I think what we've learned with *Mulan* is that there's going to be a role for it strategically within our portfolio of offerings. And again, we're going to talk more about that at the investor conference in December.

In terms of our opportunities to continue to improve Parks, we're actually very encouraged by what we're seeing right now in our parks across the world. There's really two dynamics that are going on. Number one, our park operators, which, as you know, are the best in the world, are becoming much more efficient and effective in operating under COVID guidelines. And we've been able to pretty materially increase our capacity and still stay within the guidelines that local governments are giving us, for example, 6-foot social distancing. And this is happening across our parks across the world. In fact, Walt Disney World, which was at a 25% capacity constraint – which was our industrial engineering estimates to keep 6-foot social distancing – now has been able to increase to 35% of capacity, so almost a 50% increase in the number of guests that we can allow in and still adhere to the local guidelines and the guidelines that are stipulated by the CDC with the 6-foot social distancing. So we're very pleased by how we've become adept at operating under these constraints.

But the second thing that's even more encouraging is the demanding – demand that's growing for our parks across the world. I think it says two different things: number one, shows the love that guests have for our experiences that we have within our parks and the tremendous IP that we have – as a company have; but I also think it speaks to the trust that people have, given the track record that we now have after months of operating across the globe with very stringent guidelines. And we're very pleased with our track record. And I think people are now – through forward bookings and reservations – showing some very encouraging signs about their willingness to come and spend time with us at a Disney park.

Operator

Our next question will come from Ben Swinburne with Morgan Stanley.

Ben Swinburne – *Morgan Stanley & Co. LLC*

Christine, I know you're not going to be providing the accretion dilution analysis going forward, and I certainly get it – a lot of moving pieces. But I'm just wondering if you could tell us whether there are additional costs that you expect to come out of the business. I think you guys had talked about over $2 billion of synergies. I'm just wondering if we look at '21 versus '20, if there's still more to go as you work through the integration, et cetera.

And then probably for Bob. Bob, I know you're saving a lot for December 10th, but you announced a pretty substantial reorganization of the company in a year that's obviously already had a lot of disruption particularly around the direct-to-consumer business with Kevin leaving, et cetera. I'm just wondering if you could talk a little bit more about your motivation there – kind of the reaction you've gotten from your senior executives. Many have had their roles shift pretty substantially, including giving up P&L accountability. Just wondering if you could talk about your confidence that you're going to get what you want out of this from a company perspective and that you can manage the risk of separating content production decisions from monetization decisions because it's a pretty substantial change.

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

Okay. Hi Ben, it's Christine. Let me take your first question, which was on the cost savings that we achieved from the integration of 21CF. And we did meet – actually, we exceeded that $2 billion number. And so we feel really good about the momentum we have on the efficiency side. And we're also going to take the opportunity to continue looking for operational efficiencies. The one thing we've learned in this COVID environment is there are ways of being more efficient, and we'll continue to mine those. And it actually has really helped us not only in segments like our Parks business that are directly impacted but throughout the entire company. So we'll continue to drive towards greater efficiencies.

And with the – you asked about how much do we incur in the restructuring charges related to Fox. Overall, Fox restructuring charges were $1.7 billion. And $1.2 billion of that was incurred in fiscal '19. So $500 million was done this year. And in this quarter, where we had about a little under $400 million of restructuring charges, a portion of that was also Fox-related. It comes out to about a little over – a little less than 30%. So the balance was related to our cuts at – reductions in force at parks.

Ben Swinburne – *Morgan Stanley & Co. LLC*

Got it.

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

And in terms of the question on the reorganization, I would suggest that maybe given everything that's happening in the world, this is the perfect time for us to do such a reorganization. And I'm 100% confident that this is going to play out exactly as we had intended. It's going extremely well. And despite the disruption in everyone's roles, I think we have 100% buy-in.

I think we have 100% buy-in because we have clarity on accountability, which everyone really likes, and we separate out roles to what people tend to do best. Content does what they do best and the same with distribution. So distribution, who manages the P&L, will set the parameters for our annual and long-term budget framework that's been agreed to on the slate with the content creators. And the content creators then greenlight the individual projects and then shepherd development and production.

So essentially, distribution is now able to optimize the commercialization without maybe too much unnecessary regard for legacy distribution platforms. But at the same time, our creatives, who, as you know, are the best in the world, are really free to do what they do and that's just make the best content and storytelling possible. A lot of collaboration between the two groups but ultimately some level of independence in terms of each being what they can be and doing their jobs best.

Operator

Our next question will come from Jessica Reif Ehrlich with Bank of America.

Jessica Reif Ehrlich – *Bank of America Merrill Lynch*

I have two questions as well. Could you comment on the change of management at Star? Does that affect your strategy in India or outside with the rollout of the Star-branded service?

And then secondly, sorry to be negative, but the sports viewing decline – I mean there's just so much going on, and I wonder if you could give us your thoughts. There were no fans in the stadium so it changes the viewing experience. The calendar has changed. There's a lot of sports in a short period of time. Do you have any concerns about how this will impact consumer behavior post-COVID? I'd love your thoughts on the longer-term outlook for sports.

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

Okay. Jessica, thanks. I am going to turn both of those questions over to Bob.

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

Okay. I'm going to take the last one first. In terms of sports ratings – sports ratings, we feel that in context of everything that's happening, are actually holding up quite well. But we would be careful not to draw any conclusions about the ultimate health of sports, sort of the long-term impact that you suggested, during this pandemic. We really think that we're sort of looking at apples and oranges here.

I think the best comp we probably have is the NFL, which has been relatively flat. Our Monday night football viewership has been down 4%, relatively modest despite all the headwinds. I mean we've got the risk of seasons not finishing. To your point, we don't have fans in the stands. We have the risk of games individually every week being canceled. We have election news as competition. And we really can't have our fans doing what they like to do the best, which is watch in a communal setting. They pretty much are watching by themselves.

Despite all those headwinds, the fact that our Monday night football business is relatively flat in terms of viewership is really – I think really encouraging. And if you adjust, if you will, viewership over the last couple of months for the amount of available content, you see that they kind of slide together.

So we actually don't have any concerns about the long-term health of sports. Obviously, we've got some headwinds as it pertains to short-term challenges and hurdles, but we think that all in all, in context, the health of sports is pretty decent given everything that's going on.

In terms of India, obviously, we have an executive there, Uday Shankar, who we love, and we wish him well. He gave us some indication several months ago that he was thinking of moving on. We've got a really deep bench there. And we feel that we have all kinds of opportunities and a lot of success so far with Disney+. And we have no reason to believe that, that success won't continue and even accelerate going forward.

Operator

Our next question will come from Doug Mitchelson with Credit Suisse.

Douglas Mitchelson – *Credit Suisse AG*

Lowell, I got two quick ones and then a main question. The quick ones are the math on India. I think if I have it right, based on Christine's comment around $5.30, you're around 11 million subs, which would be about 2.5 million added in the quarter. I just wanted to make sure that was in the ballpark. And I was looking for an update on the cruise ships that were on order.

But the main question is, having re-upped some Disney+ distribution deals, what changes are you seeing now? Now that you are out of the uncertain launch phase and the value on both sides is better defined for you and for the distributor, does the economics of those deals change? Or should we think about the cost of that marketing channel as locked in? And I also ask because as you add more and more original content to your streaming services, I would think the benefit starts to shift in favor of the distributors as you add more and more value to those services. So that would be helpful.

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

Okay. So I'll let Christine sort of quickly address your India question, and then I'll turn over the cruise and the Disney+ questions to Bob.

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

Okay. Doug, we're not – the comments that I gave on the Hotstar Disney+ India subs, we just don't comment on those economics. So unfortunately, we can't give you any more detail on that.

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

And in terms of cruise ships, as you know, we just got new guidelines from the CDC that are quite thorough, let's say. And they really entail some really high hurdles in terms of not only testing by – the potential guests that we host on the ships but also a process that has to happen in order to certify our first sailings. Those will necessarily result in delays beyond what we had hoped in terms of getting our ships back in service and making magic for our guests. I guess the best news out of all of it is that we now do see some light at the end of the tunnel. I think we have an opportunity to create sort of a Disney bubble, if you want – if you would, on each one of our cruise ships. And demand is very, very strong for our cruise ships. We're seeing extremely strong demand in the back half of fiscal year '21 and all of '22 in terms of bookings.

That said, that then creates the demand for the new ships that you asked about. And right now, we're anticipating delivering our first new ship, the *Wish*, in summer of '22. And then we have our next two ships in '24 and '25. And so after a slight delay of roughly 6 months on those ships, we think that we're going to be able to bring them on to service. We hope and expect that the world will back to normal by then and anticipate having a fine time trying to fill up the demand of those ships. And we think there's going to be so much pent-up demand that we don't expect to have much issues, given the love that our guests have for Disney Cruise Line.

In terms of the distribution deals and sort of changing the landscape over time with those, we're really pleased with our partnerships to date. We try to limit them. We don't do too many, but we use them to strategically pursue growth of our subscriber base and lower subscriber acquisition costs. So as you know, we have one or two of these in each market. That's about it, but it really does help us sort of provide a base during our growth phase. And we've got full flexibility over time to either ramp those up or ramp those down as we see fit.

Operator

Our next question comes from Jason Bazinet with Citi.

Jason Bazinet – *Citigroup Inc.*

Just a question for Mr. Chapek. Can I go back to the reorg that you announced? The more content it seems that you put on the DTC side, the lower your earnings will be but the better the sub growth will be and the higher the stock price will be. And so, as those decisions are being made today and next year and the year after, are there guardrails in place that sort of mean this will be a gradual transition? Or is it really whatever the right business decision is the right business decision, and you'll do it even if it means maybe different near-term financials in terms of profitability than the Street is expecting?

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

Okay. Thanks, Jason.

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

Yes. I think the guardrails are good common sense as it pertains to managing cash. With our parks business sort of being -- having an anchor on it, if you will, that we can't properly operate our parks business like we'd like to, we have to be a little bit more careful today than we might have to be in the future. But I'm just going to suggest that when we talk to everybody on December 10th, I think you're going to see that we're going to put a lot of wind in the sails of our Disney+ business and heavily invest in it. And so the guardrails are just the only ones that would be the constraints that we face today in terms of cash. Other than that, everything is really full speed forward.

And of course, we've got our linear networks that we're managing. We've made some reductions just this last week at ESPN as we manage the transition from linear to more of a digital experience and a direct-to-consumer experience. And so as we toggle that balance between sort of the legacy, old media businesses to the new media businesses, we'll do it aggressively, but we will watch it from a cash standpoint in the meantime.

Operator

Our next question will come from John Hodulik with UBS.

John Hodulik – *UBS Securities LLC*

Maybe just a quick – couple of few follow-ups to Jason's questions. Bob, in terms of the cash, you got $18 billion on the books. I guess can we expect a significant – like you said, a significant ramp in the content spend? And can we assume, as a result of that, that the progress you guys have made in terms of DTC losses – doesn't mean that those losses have peaked at this point?

And then can you talk a little bit about content spend as it relates to entertainment programming going into Disney+ and Hulu and Star and ESPN+. ESPN+ obviously has been a – there's some nice growth there getting up to 10 million subs. Do you expect to shift more of your portfolio from – or simulcast it – from linear to the DTC platform? Or should we expect some investments in new rights?

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

Okay. John, thanks for the questions. I'm going to let Christine take the first question around cash, and then, Bob, talk a little bit more about programming investment.

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

John, it's Christine. You're right that our cash and cash equivalents are a very healthy $18 billion. That's down from $23 billion in the prior quarter. Just to put some context around the reduction, we lowered our commercial paper balances by almost $5 billion. And we also had some bond maturities, over $1 billion that we took care of. But we are still generating operating cash, and we are investing in our content now. We're spending – a lot of our productions are back up and running. So we're going to manage this. But as we ramp up even more additional – new productions, we will be spending more cash on that. But we'll follow this up. And when the peak of investment is anticipated, we will update you with that information on December 10th.

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

And my answers are going to be relatively the same in terms of the programming between our linear and our DTC business. First of all, Christine will talk about sort of the guidance at the investor conference, specifically in terms of – have our losses peaked, which was your direct question. I must say though, additionally, we will be investing heavily. We'll talk again about – more about this at the investor conference, but we are going to continue to ramp up our investment in DTC. And we will be heavily tilting the scale from linear networks over to our DTC business as we see that, as we said in our opening comments, our primary catalyst for growth as a company. So again, we're going to talk a lot more about this on December 10, but you will see a heavily – a heavy tilt.

Operator

And our final question today will come from Michael Morris with Guggenheim.

Michael Morris – *Guggenheim Securities, LLC*

Two from me. First, can you talk about the ad revenue per Hulu subscriber decline in the quarter that you referenced in the release? Just given the strength that we're seeing in the sort of connected TV marketplace, I was kind of surprised to see that. So I'm curious, your take on how that business is going and how we should think about that.

My second question is really a follow-up to one of the early ones around sports and sports content. And I'm curious how you think about expanding sports content availability to consumers that don't have a pay-TV package. I think at this point, there's 30 million or 35 million households in the U.S. Bob, you just referenced some of the stability in ratings, so maybe that would imply that people who want sports still take pay-TV, and so it's not an issue. But I'm curious if the leagues have any increasing urgency to sort of reach those cord-cutters or cord-nevers and maybe what some of the considerations are for you, whether it's financial impact or whether it's rights limitations or things like that?

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

Okay, okay. Mike, so I'm going to let Bob take the sports question, and then we'll go to Christine on the Hulu question.

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

Okay. In terms of the – sort of the cord-cutters and solutions for the cord-cutters, I won't speak to what the leagues' thoughts are. I'll leave that up to them.

But I will tell you that we've got a product that we're really excited about and has experienced some rapid growth, and that's Hulu + Live TV. And it really gives the utility that consumers might normally find from the cable or satellite subscriber and be able to get it over-the-top directly to their homes. And I think this will increasingly act as a solution to those households that have walked away from their traditional – more traditional cable type of subscriptions and potentially slide it over to Hulu + Live TV.

And that's one of the reasons why we're really bullish about that business. I'm a personal big fan of it. I use it. And it's really slick. It's very elegant, and it really is a big solution provider. It's really the complete solution, I think. So we're excited about that in terms of solving a consumer need for those consumers, as you mentioned, that have walked away from that particular way of distributing and receiving content.

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

Mike, and on Hulu, overall, I would say that we're seeing very, very strong demand for advertising on Hulu in the addressable market. But the year-over-year comparisons were negatively impacted on a per-sub basis by what we're seeing in the advertising market overall in Q3 and Q4. But we're going to talk more about Hulu advertising in more detail at the Investor Day. So just hold on until December 10th, and hopefully, we can answer all your questions then.

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

Okay, Mike. Thank you, and thanks again, everyone, for joining us today. As Bob and Christine have mentioned, we are looking forward to sharing a lot more with you at our December 10th Investor Day, and we look forward to seeing a lot of you then.

Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website. Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, expectations, beliefs or business prospects 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 great rest of the day, 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 regarding our business or financial prospects, position, strategy, plans, investments, resiliency or growth; financial or performance estimates or expectations; estimates of the financial impact of certain items, accounting treatment, events or circumstances; the anticipated availability, timing or nature of, our offerings (including content included within our products and services and theatrical releases) ; future resumption of operations (ours or others') and related impacts, timing, conditions, precautions or market responses; future consumer sentiment or demand; workforce matters; the continuation of external circumstances (including COVID-19); plans to give guidance in the future; 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 our reorganization announced October 2020, 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 Annual Report on Form 10-K for the year ended September 28, 2019 under Item 1A, "Risk Factors," Item 7, "Management's Discussion and Analysis," Item 1, "Business," and subsequent reports including, among others, subsequent Forms 10-K and Forms 10-Q, which risk factors should be read together with the above factors.

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