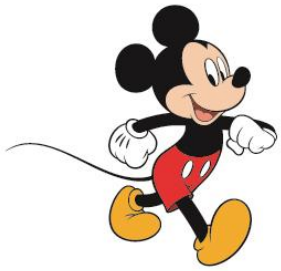

The Walt Disney Company

# Credit Suisse Communications Conference

**JUNE 14, 2021**

**Disney Speakers:**

## Bob Chapek

*Chief Executive Officer*

## PRESENTATION

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**Douglas Mitchelson** – *Credit Suisse AG*

Welcome to the next session of the 23rd Annual Credit Suisse Communications Conference. I'm Doug Mitchelson, Credit Suisse analyst covering media and cable, satellite and telecom sectors. For those mapping to a little vote going on this month for the sell-side, vote early, vote often. Remember, it's a team effort here at Credit Suisse. And particularly, I'd like to acknowledge the excellent conference team who worked tirelessly to put all this together.

Thrilled to have with us today Bob Chapek, CEO of The Walt Disney Company - 28 years now with Walt Disney and another Big 10 alum. The format is fireside chat. I have enough questions to run the full session.

Bob, thank you so much for spending some time with us today, and we'll jump right in.

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

Thanks, Doug.

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**Doug Mitchelson** – *Credit Suisse AG*

So look, you stepped into the CEO role, I reckon, in the teeth of the pandemic… have had a busy, busy first 16 months: NFL deal, Star launch, much more. You were able to put your initial stamp on the company though, with the segment realignment. So there's a lot to talk about.

Let's start from a high level. As we emerge from the pandemic, what's Disney's strategy to create value for its various stakeholders? And what does the management team have to get right to deliver that value?

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

So I would start by saying that despite the challenges of the last 18 months or so, we're as optimistic as ever about the future of our business.

As you had referenced, we instituted a reorganization to support our more aggressive push into direct-to-consumer. And most importantly, that guaranteed strong, steady content flows into all of our channels of distribution based on our strong brands and our incredible franchises. That's really our biggest competitive advantage.

At the same time, I think our more mature channels of distribution are ensuring those strong cash flows, so we want to keep those things healthy so that we can continue to make the kind of investments that are necessary to achieve our goals in direct-to-consumer.

And then we want to distribute those pieces of content in ways that really embrace both the changing consumer behavior that we're seeing and, obviously, the more short-term but very important recovery from COVID… and do that with a certain flexibility and balance between both short-term operating performance and long-term shareholder return.

In terms of our other big piece of our business, our Parks and Experiences business, we've really used the shutdown in order to fully reconsider, I'd say, every aspect of our operation, to not only improve our guest experience but, at the same time, manage our yield and accelerate the work that we've been doing in that yield management area for about the last 5, 6, 7 years. And we're happy so far because we've seen some really encouraging underlying demand as we dig out of COVID. And we've got the, I think, the ultimate test and the ultimate situation for yield optimization experience so that we can commercialize that demand but also, at the same time, improve that guest experience without having to necessarily put more people in the park in order to grow our business.

At the same time, though, I think we've really continued to invest in our intellectual property despite COVID in our parks, given that strong historical ROIC that we've had in our parks investments and the plethora of storytelling opportunities that we have across our business.

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**Doug Mitchelson** – *Credit Suisse AG*

Before we delve into all that, I did want to ask sort of one more big picture question, which is whether Disney has got the right mix of assets. And I think about… do all these assets have a purpose being together? Do you have the right amount of scale in each of them regardless of what happens around the company, in terms of consolidation or deconsolidation as the case may be?

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

Yes. We're really happy with our portfolio of assets and then the ecosystem that commercializes those assets. Storytelling, as you know Doug, is at the heart of everything that we do and, again, we have that enviable group of brands and franchises that, I think, is really the envy of the entire industry.

So let's witness the last couple of weeks because an example may be the best way to sort of - to talk about this. First, we opened up the Avengers Campus at Disneyland Resort, and that's gone spectacularly well. And then we've premiered *Loki* on Disney+. And both of those obviously being part of the Marvel ecosystem. And I think that just shows how across different businesses, across times and across geography, we can use the strength of our franchises across these distribution assets and really make the best out of it. And then we have the opportunity to do that on a global scale more than ever, not only because of the legacy distribution channels that we have, but also because of the newer direct-to-consumer distribution channels that we have across the globe.

So we really think that right now, we've got sort of - at least in terms of today's environment, we've got the right balance, the right scale, as you say, to really take those brands and

franchises - which again, is the framework underneath what supports everything at the Walt Disney Company. That's our foundation, and so we're very happy with our asset mix.

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**Doug Mitchelson** – *Credit Suisse AG*

Right. That makes sense.

And next - so ever since he started the brand council at Disney in the late '90s, Bob Iger talked about a desire to get closer to the consumer. That's something you've had at the parks in your time there, but the rest of the company is essentially a wholesaler until streaming launched. And so my question is, you've developed more direct relationships with more and more consumers around the world. Is that going to meaningfully influence strategy or revenue? And when would we start to see any impact to The Walt Disney Company?

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

Well, as you said, our Parks business has had a long-standing direct relationship with our guests. And with our direct-to-consumer business now, we have the opportunity not only to grow that audience but the frequency of engagement… and look at the touch points that we've got in order to drive, let's call it, new connections between those previously separated businesses.

And you have to keep in mind that when Disney+ really launched and started to get traction, we had to shut down our Parks business. So this is really the first time we've ever been able to operate in parallel both our Parks business and our Direct-to-Consumer business, which is giving us the opportunity really to cross-market in those two businesses - across lines of businesses.

So we think that we've not even begun to scratch the surface, if you will, that cross-collateralization of market data, and mining that in a way that's going to benefit our business and our shareholders.

**Doug Mitchelson** – *Credit Suisse AG*

You talked about the parks and -- where you have those direct-to-consumer touch points. The next generation might not grow up watching the Disney Channel. It might be wrong to say, but it's hard to get their eyes un- glued from their screens, and they've got more viewing options than ever.

How do you capture the attention and the imagination of the next generation, keep the magic of the Disney brand going? I was thinking sort of relative to the allure of the parks, but perhaps this broadens out to all of the company's products and services.

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

Well, keep in mind, given our new reorganization, the creatives that might make what we would have considered our great Disney Channel content in the past are now making our young family content across the entire ecosystem. So whether or not that content may appear first on Disney Channel or may appear first on Disney+, we've still got the same talented people that are in that space that know how to speak to the audience, that have had the tremendous legacy of success making content for that audience through Disney Channel now are making it regardless of distribution channel for our Disney+ platform.

So we always looked at our businesses through two lenses, both, obviously, the media side and the experience side. And we get to leverage then all that great content that's been made through both of those avenues - leveraging the common brand and the common franchise affinity, that we're able to do that. And because of the 4-quadrant appeal of our content, it then gives us benefits on Disney+, which is a 4-quadrant outlet even more. It gives us more advantages than going to something like a Disney channel, which would be maybe a little bit more limited in terms of its overall appeal.

So we think that whether it's new content or library content, it really gives us the ability to take that ecosystem that we have, take the skill that we have in terms of those great creative people and apply it in a more broad, more general sense to appeal to a wider audience.

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**Doug Mitchelson** – *Credit Suisse AG*

That makes sense.

And so let's keep going on the Parks side of that, where you personally led $20 billion of capital investments before becoming CEO. It seems there's a lot coming up. The 50th anniversary of Walt Disney World, new cruise ships, developing Shanghai - which is still sort of relatively young, 5 years old - building out every park globally.

Would you update us on the experiences that are sort of coming up in the next 5 years, especially ones that might add to revenue capacity?

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

Sure. Sure. Well, we've got ambitious plans to expand our business.

I had just mentioned Avengers Campus a second ago, and we're encouraged by the great response we have there, but we're not stopping there because, as you know, we've been undergoing a massive transformation of our Epcot park at Walt Disney World in Orlando. And we've got a *Ratatouille* attraction that we're bringing in that first premiered in France. We've got a new nighttime show *Harmonious* that will be on the water there at Epcot, and it will be a huge guest pleaser. And then we've got our *Guardians of the Galaxy*: Cosmic Rewind attraction, our coaster, that will give us our ability to bring that whole Marvel franchise into the park.

Internationally, we're thrilled to bring *Zootopia* into Shanghai Disney Resort. You mentioned Shanghai. That's obviously a property that did extraordinarily well in the box office when *Zootopia* came out. So that will be a big hit in Shanghai.

We've got a *Frozen* installation coming into Hong Kong Disneyland.

At Disneyland Paris, we've got the two-for of its own Avengers Campus - taking off from where Anaheim has just recently launched Avengers Campus - and we've also got the Art of Marvel hotel that we're putting in.

Tokyo Disney Resort… we've got the 8-themed port over at Tokyo DisneySea. We've got two new hotels and attractions going in for *Frozen*, *Tangled* and *Peter Pan*.

And then we've got three new ships and a second island destination.

So we certainly have a plethora of new things coming, and that's really mining all the work that we had done prior to the pandemic and kept working on during the pandemic so that we would not have any sort of glitch in our supply chain of new attractions and experiences for our guests, so we can keep that growth engine of Parks going.

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**Doug Mitchelson** – *Credit Suisse AG*

Yes. And you've always been so excited about the outlook of Parks and you talked a little earlier about honing those yield management skills during the pandemic. You've talked previously about structural changes in operating costs. You also mentioned that earlier. So if we add it all up: increased capacity, smarter pricing, lower cost structure… it certainly seems like Parks can deliver margins, looking out a few years, well above its prior peak. Is that fair to say?

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

Yes. I think we're optimistic about our margin story going forward. We expect our admissions per cap to continue to benefit from our, let's call it, data-based pricing models that we've moved to over the last couple of years and strategically managing our attendance across different ticket types. As you know, Doug, there's significantly different outcomes depending on what type of ticket package a guest historically has come into our parks with. And by managing

that as a percentage of the whole, we have a significant opportunity to obviously improve our outcomes, and this pandemic is giving us the opportunity to completely reconsider how we do that.

On the cost side, we've done things, like, dramatically – you know, in the interest of sort of contactless guest experience during the COVID time - dramatically improved our mobile ordering opportunities in the park, contactless check-in at our hotels, virtual queues. We're really using those so that it sort of releases the guests more to do things inside the park and enjoy the park, have a better experience… but also have an opportunity to experience more things, and that, obviously, has a revenue impact for us. And then just to manage the guest flow and the overall experience so you can have the same number of people or more people in the park but, at the same time, give them a better experience. And these are all things that, frankly, without the stoppage of COVID, we never would have had a chance to completely reset like we've done.

So I think the margins have a chance to have an impactful, if you will, recovery. But long-term, we're going to realize some margin benefits from, sort of, being able to implement all these given the COVID shutdown.

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**Doug Mitchelson** – *Credit Suisse AG*

All right. So still with the Parks. But lastly, are consumers coming back and how does the demand look overall?

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

Yes. Our forward-looking reservations are really strong at our domestic parks.

And we're seeing also strong underlying demand at our Disney Cruise Line in terms of what we're seeing from consumers. And that's, by the way, despite the pause, the uncertainty about the cruise industry and the, frankly, limited marketing that we've done so far. And as you know,

we're going to be releasing a new ship next year called the *Disney Wish*, and we're seeing strong response to the inaugural season of that.

So we're very encouraged by what we're seeing across those businesses as the COVID restrictions get released, and the case counts go down, and governments release their constraints on us, whether they're local or federal, CDC-type guidelines. And we want to open up responsibly, and we want to do so in a way that's going to maintain that guest experience.

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**Doug Mitchelson** – *Credit Suisse AG*

So let's shift over to content. Not to date myself, or perhaps you for that matter, but we first met back in sort of 2008, a while ago, when your focus was on home entertainment and driving the DVD marketplace. And one thing that really sort of sticks with me to this day beyond your energy was just how in tune you were with the content being created and how aggressive you're reshaping how that content is being distributed.

So what are the big changes in your first year as CEO? You mentioned earlier, re-segmenting the company to separate content creation from distribution. So any bumps in the road implementing that new structure and all the new reporting lines on the content side of the house? And what's the experience been so far?

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

Despite how profound that change was for us relative to how we operated and particularly how the industry operated, it's really gotten very strong buy-in by our execs. Obviously, a lot of socialization and collaboration went into that before we did that. But, I think, everyone appreciates the clarity and accountability, and the fact that as we now double down on our content investment going forward as we announced in our December investor conference, everyone appreciates the fact that they've got more time to do what they do best, given this increase in output that we have.

We're ramping up in scale in this -- ramping up scale in this new content, and it really enables on the other end, on the distribution end for, let's call it, an objective assessment for what's right for distribution for our company from an enterprise level given those changing consumer preferences over time.

I've always said that the ultimate acid test for this reorganization would be our first 5-year plan. Because remember, everything we've done up until now has really been a plan that was set years ago, right, before this new organization was contemplated. So we were essentially living with an old plan, operating it under a new organizational model. But now with the new 5-year plan, we actually get a chance to plan from this point going forward with this new conceit and with this new structure. And I must tell you, I've been extraordinarily pleased with how well it's gone and how well everything's worked. So I think that bodes well for the future in terms of the impact of this new organizational structure on our goals to dramatically accelerate our DTC business.

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**Doug Mitchelson** – *Credit Suisse AG*

Good. And I think I said 2008, but I meant 1998. I probably should have stuck with 2008.

Can you maintain quality while increasing the pace of content manufacturing? What's your level of confidence in the upcoming slate? You had a record setting run pre-pandemic.

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

Well, we certainly have a strong legacy in the past of great content driving really great business results. But I have to say that I'm encouraged going forward as well.

We've always said that we're going to focus on quality over quantity, and maintain that high batting average that Disney is known for - extraordinarily high batting average, in fact. And I think what we're seeing is that the increase in demand is really empowering our creatives to think outside the box from maybe a more limited slate and try new different things like we've

done, for example, like *WandaVision* or *Loki*. Really taking a different approach that if you are more constrained to only, say, 3 or 4 projects a year, you might not want to give it a shot. And I think that's actually been empowering and liberating for our creatives. So it's actually worked quite well.

Our creative teams are all focused on their franchise now. For example, in the past, the Marvel teams, which arguably are the best and most qualified to create Marvel content, made Marvel movies, but they didn't do Marvel television. Well, now, Kevin Feige and his team are not only making Marvel movies, but they're making all the episodic Marvel content as well. And this is part of what happened in this recent reorganization, which I think makes all the sense in the world.

And with the expansion to streaming now, people like Kevin get to branch out, not only in terms of the degrees of freedom that they've got in their storytelling to do things that are different but also different mediums, different time frames, 2-hour movies, 2.5-hour movies, but also episodic series that last roughly an hour. So it really is liberating for the creatives. And I think we're seeing the dividends from that.

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**Doug Mitchelson** – *Credit Suisse AG*

I'm not sure if this is a question or a statement, but I have an important Marvel fan asking me if you would please bring Iron Man back.

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

Well, tell your Marvel fan that we've got a series called *Armor Wars* coming up, starring Don Cheadle as War Machine. And I think that will probably scratch the itch that our fans have for more Iron Man.

**Doug Mitchelson** – *Credit Suisse AG*

How much more IP is there to mine on the Marvel side? I recall, when Disney acquired Marvel, skeptics thought Spider-Man and The Hulk and a lot of the good stuff had been licensed. Obviously, you created massive new franchises in *Guardians* and *Black Panther…* and, yes, *Shang-Chi* and *The Eternals* coming… you've got new series coming on Disney+. What are your creative teams the most excited about?

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

Well, I've always learned not to underestimate our creative teams, particularly our Marvel creative teams. You know, we've got 8,000 characters that we have to mine. And you say, "Well, 8,000 characters? Who knows what these 8,000 characters are?" But remember that all of our Avengers, for example, our *Avengers* characters, when we made the acquisition, weren't exactly household names. Take *Loki*, for example. *Loki* was the most watched season premier ever on Disney+ during its opening week. And no one knew who Loki was. Even when we got started on this journey with Marvel, no one knew who Iron Man was, or Wanda or Vision, or Falcon or the Winter Soldier… Black Widow, Shang-Chi… nobody knew who these characters were. They certainly know them now. And I think that speaks to the fact that our creatives really can take something in this universe, in this mythology, and really bring it to life through interconnected tissue and interconnected storytelling. And so not only are these series great, but we've got three feature films in the next 6 months.

So I think proof is being demonstrated that as you increase output and you go deeper and deeper into mining the Marvel mythology, that it doesn't have to sort of tap itself out. Because as we've been able to demonstrate, we've got great stories to tell, and we're telling great stories.

And by the way, now with the Fox acquisition, we have things like Fantastic Four to add into that. So I see it's pretty much an endless opportunity for us.

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**Doug Mitchelson** – *Credit Suisse AG*

Let's shift over to the distribution part of that content story. Historically, you've put content out to theaters, retailers like Walmart, and Pay TV companies. Disney has always enjoyed leverage associated with having… the importance of the company's content. Now there's connected TV platforms like Roku, and Amazon, and Apple, and Flex forming. They want to help you get customers, which is great.

How would you contrast this sort of shift in distribution with how it was before? Any concerns that they might become gatekeepers in the future and start to eat away content economics over time?

And sort of throwing it all in there, what's your vision for content distribution when you look out 5 or 10 years?

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

I think the vision is really getting closer and closer to the consumers. You made a reference to how we started this whole process off, when we started our direct-to-consumer initiative earlier. It's really about having a granular understanding of what the consumption patterns are and then speaking to the consumers in a way that's going to be relevant to the content that they want specifically for themselves. And by doing so, we'll drive engagement and consumption.

In terms of actually the relationship that we have with our distribution partners, the key is having a win-win, having a strong symbiotic relationship. And that's what we've got, as they really want Disney content and we bring that value to their platform. So as long as we have a symbiotic relationship, where we bring something they need, we get something that we need. It's a healthy relationship. And with the wide variety of content that we have in our machine, I think we'll continue to have that very positive, very productive, very symbiotic relationship.

**Doug Mitchelson** – *Credit Suisse AG*

So let's turn over to the pricing side of that content distribution. So consumers historically paid a premium for Disney's offering. Now it happens at the parks, that happens at cruises, that happens in home video. Disney+ was priced at arguably a very, very attractive level to spark initial demand, particularly in the United States. And the service's subscriber success has been impressive as a result.

So how much value do you feel you're delivering at this point in time to consumers with this service? What's the path of rightsizing pricing over time to capture that value? And just to give the U.S. example, where you had a recent price increase of about $1, does $1 a year get you there in a reasonable enough time frame relative to the value you're delivering?

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

In terms of, I guess, an objective way to look at the price value relationship, the growth rate that we've experienced on Disney+ sort of stands out as the headline there. But you're right, we did launch at a very attractive price-value opening point. And the first price point - or our first price increase that you mentioned in the first 16 months happened recently, and we've seen no significantly higher churn as a result of that.

In Europe, as a matter of fact, we took a price increase twice as high as we took domestically more or less. And we - that was with - commensurate with the integration of the Star brand as the sixth brand tile. But our churn actually improved, right? So we took an even higher price increase and our churn improved because we added more content.

And I think that investment in the content at an attractive price point gets you strong retention, and strong retention, obviously, is one of the key factors towards overall platform growth. But that doesn't mean that in the future as we continue to add more and more great content, that

we wouldn't necessarily reflect that in the value that we add and then price it accordingly. So we think there's some room there as well.

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**Doug Mitchelson** – *Credit Suisse AG*

Do you see the potential for Disney+ to evolve into a platform the company can sort of leverage beyond its current, call it, offering of video streaming? So for example, do you envision including consumer products, connections to your parks, gaming, et cetera? What does Disney+ look like to the consumer in 5 or 10 years?

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

Well, our franchise machine is really important to us, and we're always evolving it and employing our franchises in the best way possible to benefit our business across line of business, across geography and across time. And we believe, as I mentioned earlier, that our direct-to-consumer business will now enable sort of new connections, if you will.

So what we want to do is start to marry our databases and mine those things. And frankly, we're very ambitious about our thoughts about how we can do that in ways that we've not yet been able to do it, whether it's because of COVID or because we just got through our launch.

I mean we're just now getting to the point - keep in mind, we're still sort of in the launch phase across the world of Disney+ - and some of the more refined ways of thinking about this so that we can manage this as an ongoing concern and do what we do best, which is to operate our businesses. We've had a great launch, but it's been under far less than ideal circumstances. Well, those more normalized circumstances are coming, and we're going to get to do what we do best, which is, to operate our business in a way that benefits the consumer and our shareholders, and we're just getting started.

**Doug Mitchelson** – *Credit Suisse AG*

Well, I've got, as you might imagine, a couple more follow-ups on that, again, notwithstanding that you still have part of the world left to launch. I'm still sort of curious about the long-term strategy here.

I think from the video streaming standpoint, do you envision Disney+ having an advertising-supported entry to your -- around the world? Certainly, audiences around the world are used to seeing the Disney Channel advertisements, which is different than what you have in the United States.

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

We're always reevaluating how we go to market across the world, but we've got no such plans now to do that. We're happy with the models that we've got. But again, we won't limit ourselves and say no to anything. But right now, we have no such plans for that.

**Doug Mitchelson** – *Credit Suisse AG*

And the other part of that is, I wanted to ask about taking the brand tiles that you have in the service to more of an à la carte format because, I think, Disney is relatively unique in terms of the number of standout brands that you could even do something like that. So for example, Marvel, Star Wars, National Geographic - instead of as part of just "you get all of this with the Disney+ service", have you thought about sort of selling each of those on an à la carte basis? And the rationale would be, you could expand consumer choice, you could broaden out the subscriber base and allow Disney to price, and sort of resource its product based on the value of each brand, each genre, sort of more specifically in that format.

And if not, do you still see this as sort of - continue to offer in the United States, Disney+, ESPN+, Hulu on a stand-alone basis? Do you think it will be all one offering at some point in time, like Netflix is today?

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

I think our more aggregated model right now is serving us well, and I also believe it's serving our guests well. It gives us a very nice price-value, which we just talked about being so key to ourselves. And it also gives us efficiencies versus having to market, let's say, if we have 5 brand tiles, 5 different offerings at the same time. That would get pretty expensive from a marketing standpoint. But again, it also has some benefits with our customers in terms of being able to give them a wide offering, because there is sort of a large overlap between people that like Marvel versus people that like Star Wars and people that like Disney.

Now the caveat there is that we already have some different models, as you know, across different markets across the world, given customers' preferences, our own assets that we've got, different viewing situations and habits that our customers have.

So again, we won't say no to anything in the future. But right now we're really happy with our more highly aggregated model that we have, both from a cost standpoint and from a market opportunity standpoint. But again, who knows? It could evolve over time as we learn more and more in different regions across the world.

**Doug Mitchelson** – *Credit Suisse AG*

All right. Understood. So one question we're increasingly getting from investors is how much each company needs to invest in content to compete in streaming, particularly with Netflix as the leader. You've talked about how important content is to driving new subscribers. At the same time, the strength of your brand should give you an advantage. What have you learned after 18 months in the marketplace?

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

Well, it all starts with the strength of our brands, in those franchises, in those -- the promise of the content to come. I mean we've got built-in benefit. Once you have a brand, you have a built-

in machine, you have built-in momentum. Because if people like *Wanda*, they know they're going to like *Falcon and the Winter Soldier*. They like *Falcon and the Winter Soldier*, they're probably going to like *Loki* and so on and so forth. And you build up a reputation.

But if you really think about it, in addition to that, I think what we've done is reaffirmed our strategy. And our strategy is really based on, from a content standpoint,that we're going to work globally off those 5 core brands that really do have broad appeal. We're going to emphasize more than ever our general entertainment content, both in the Star, Star+ and Hulu formats. We're going to really focus in on some local content and really double down there in our international markets. And we've got the machine to do that now. And we're going to focus in on Hotstar both from an entertainment standpoint and a sports standpoint, given its benefits in those regions. So I think what we've learned is that we're going to continue to do more of what we're doing.

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**Doug Mitchelson** – *Credit Suisse AG*

And I've got a few follow-ups sort of on this concept because I think it's really intriguing. I mean how much engagement do you need to earn the price you charge? And how do you decide what the right amount of content is?

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

Right. Well, we spend a tremendous amount of time making sure that engagement is high, and that's really what our distribution team is charged with. And part of that is about the value of any one piece of content. And if -- you can look at it in 2 different ways, right? There's the incremental marginal benefit of a single piece of content and what that does to the service, but then there's really what it adds to the overall portfolio and incrementally to the overall service. So we really tailor our content in terms of the number of active hours that are needed to maintain healthy engagement.

So you look at it individually, but you look at it holistically at the same time. And then we don't just do this, though, overall for the service, we do it overall for specific engagement groups and customer constituents within the service so that you're building it by constituent, by type of content, both individually for that piece of content and overall for the overall service, and you try to work up sort of the best overall scenario, if you will.

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**Doug Mitchelson** – *Credit Suisse AG*

One of the things I wanted to clarify is, you've said in a couple of different occasions that you'll have new content on Disney+ every week soon. Is that a new TV series or movie starting each week? Or is that a new episode of a TV series or movie each week? I'm curious if you will continue to do an episode at a time versus dropping the entire series at once.

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

Yes. Our plan is to do - hit that cadence this year in terms of a new product every week. And what we mean by that is a new movie or a series, meaning, a new production or library add every week. And that's not counting new episodes, if you will, but it does count new seasons. So we count new seasons. We don't count new episodes in that. And something new can be a new movie or a new piece of content or something new added to the library. So that's how we're defining that.

And that's the plan right now. But just like everything we've talked about, we're going to evaluate and iterate that going forward, but we've got such a - again, such a great opportunity to mine our content and create new things and have had such success at it that our plan is to continue with that one per week defined by the way that we just did.

**Doug Mitchelson** – *Credit Suisse AG*

And you've emphasized Disney having a significant amount of relative local content for streaming service overseas. Can you offer more details on that aspect? Because you've sort of emphasized a couple of times that you'd be strong there.

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

Yes. We spend a tremendous amount of time now with our regional production teams, which are - have, frankly, been recently, if you will, internally grown through the help of our Fox acquisition, and they've been ramping up. They're focusing on general entertainment, obviously, that's relevant to the local region, but there's nothing to say that, that content that's created, say, for Latin America or created for Europe or created for Asia can't have legs and really travel sort of elsewhere.

In some cases, it's looking at sports and the benefit of adding sports in some markets. And as you know, we've done that in places like Latin America. But make no mistake, our foundation is always going to be those global franchise-oriented businesses that we've been able to make the foundation of our entire company essentially.

**Doug Mitchelson** – *Credit Suisse AG*

Yes. And you're sort of taking me right to my next question, which was news and sports. Others are starting to focus on those genres for their streaming services overseas. Does Disney need to invest more in content for streaming to sort of maintain share of engagement over time? Or are the franchises and the brands you're delivering enough to drive your services already? It's almost as if each company is recreating their own mini Pay TV bundle, and we're always struggling with how many can win in this marketplace.

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

Right. Well, we're going to look at those opportunities selectively. You look at our Star+ business, which we're locating - or launching, sorry, in Latin America on 8/31, and that's general entertainment and sports. So in that case, yes. And then you look at how deep are we going? And when we go into it, we're going big. For example, in Argentina, we're going to have 10,000 live sporting events per year in Argentina.

So if we're going to do something, we're going to do it right, we're going to do it big. But it really is a market-by-market evaluation. And that's one of the ways that we're approaching this DTC business is not to assume that every market is the same, and we're going to have one global approach. We're going to customize what we do by market. And if it gives us slightly different ways to go to market or look at what assets we need to get, then so be it. We're going to do what's right for each market, and so it depends.

**Doug Mitchelson** – *Credit Suisse AG*

So continuing on sports… ESPN, that's one of the areas, I'd say, of greatest uncertainty for those not investing in Disney. And frankly, I understand that you have little incentive to discuss taking the main ESPN network to a la carte streaming until you've completed at least the Comcast and DISH renewals and finish up a full cycle since the company started shifting to direct-to-consumer. So I thought we would try it this way. What would you say to those skeptics that ESPN – regarding the health of ESPN, call it, sort of 5 years from now?

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

Well, we're committed to sports because we value live sports, which drives viewers and interest like nothing else. We all know what the statistics say about who tunes into what and live sports always leads the way. So sports are important in terms of being able to bring in the viewers. We know ESPN is at the top of their game and the leader in live sports. And ESPN can do it across the linear methods of distribution, the digital methods of distribution and the DTC platforms.

And that linear also happens to benefit - have the benefit of providing a tremendous amount of cash flow, which is really funding the operation, not only in a post-COVID standpoint, where we're trying to recover from that, but also given the extraordinary investment that we need to make in direct-to-consumer. So it's really providing a very strategic purpose for the organization right now.

That said, over time, if that were to change or our reliance on that business would become lessened, that we would reevaluate our options. We always say we're going to be in a business if it increases our shareholder value and sports is no different. So we'll reevaluate that over time. But right now it's operating very well for us and doing something that we really need, which is generating a lot of cash for us.

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**Doug Mitchelson** – *Credit Suisse AG*

So I imagine you're not going to want to put a time frame on as to when ESPN network will shift to a la carte, though, we'd certainly welcome that today if you wanted to. But is there visibility you can offer for investors on the front-end, like a period of time where you know it's highly unlikely and wouldn't make sense? I mean the math seems challenging in the next few years when I think about it in terms of downside risk to linear revenue versus streaming upside. Is it fair to say that ESPN a la carte is unlikely in the next 2 to 3 years?

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

Well, I'm not going to comment on specifically when we believe that timing is going to be, but I would point to the fact that we bought flexibility into every new media rights deal that we've done in terms of sports rights, and I think you recognize that. So the speed of the transition will be dependent on the speed of the evolution of the consumer behavior.

Ultimately, we will be guided by our returns to shareholders. And so we believe that's best served by keeping our eye on what the consumer wants. And when full content migration to

such a platform makes sense, we'll be prepared to do that. We don't believe that time is right now, but when it is time, we'll be prepared to do that.

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**Doug Mitchelson** – *Credit Suisse AG*

So looking across the linear networks, in general, how did the upfront go and what was the sales strategy - volume versus price? We did have Jeff from NBCUniversal earlier say the upfront is done for them. Fox said, well, almost done. Where is Disney at?

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

Well, this is our first year of consolidated sales across our entire enterprise into one ad sales group. And so for us, the results were really, really encouraging across our portfolio, I should say. We had price increases versus '19 - which is, again, probably the best base year to evaluate it against - that were all significant. And our total upfront revenue was up by double digits. And I think that's sort of a nice headline, if you will.

But 40% of our sales this year were actually in streaming and digital, which, I think, speaks to the nature of how this business is rapidly changing. And obviously, we're well-positioned to do that as the business continues to evolve. So we're really happy with the upfront. Our sales team did an extraordinary job.

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**Doug Mitchelson** – *Credit Suisse AG*

So let's add it all up on sort of the network side of the house. The linear networks business was an awfully good one for Disney the past few decades. Will the pivot to streaming allow Disney to sustain or grow its historical profitability in media, making up for linear's inevitable decline? Or is that unrealistic given the costs that come from being a video streaming retailer and how competitive that will be relative to competing within what was a pretty cozy Pay-TV bundle for a long time?

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

Yes. Well, we believe - so we believe that we started this early enough while sort of the legacy business is still strong enough that those lines, when added together, will continue to grow into the future, and we'll have a strong growth engine in media going forward.

Now as I mentioned many times, that linear business does offer us an attractive cash flow, and it funds that content generation across our ecosystem as we make that accelerated pivot to DTC and, if you will, the hunger for new content that such a new platform sort of requires. But we've only just really begun that content roll-out internationally. And I think as we grow, we develop and control those DTC relationships, capturing a higher percentage of the economics as well.

Let's never forget about the difference in the keep rate on some of these different platforms. All platforms are not created equal, if you will. And so that gives us the opportunity to take one business and trade it for another that might actually, as we go direct-to-consumer, give us a higher capture rate, if you will.

So we're just in the beginning of this journey, but we're really optimistic that the media business is going to be a growth engine for us for the -- not only the mid-term but the long-term as well.

**Doug Mitchelson** – *Credit Suisse AG*

So an interesting discussion today across all of your businesses. I wanted to leave with sort of a final question. Will the Board restore the dividend? And what will guide that decision, Bob?

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

Yes, that is a Board decision. And as you know, they meet a couple times a year just to discuss this issue. And they'll take into account what they've taken into account in the past, which is what's our strategic investment outlook, what are our alternative uses of capital and what are

those priorities, what's our financial leverage look like coming out of COVID, what's the operating environment look like in terms of the release of restrictions that we've got that might constrain our business going forward or at least give us some time to actually ramp back up to full operating mode, if you will, and what's really just the overall recovery of our businesses across the entire enterprise.

Our first priority, though, I can pretty much guarantee you, will be funding our DTC growth. That's going to be our first priority. And then after that, we'll look beyond that and see what our next priority is going to be in terms of that dividend.

I should say that our dividends will be a part of our long-term capital allocation strategy, for sure, but that's once we have a normalized operating environment. And I guess it's in the eye of the beholder as to what's a normalized operating environment, given that we're just now in the next week coming online with our final theme park reopening in Paris and our cruise line still not yet operating.

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**Doug Mitchelson** – *Credit Suisse AG*

That's right. So with that, you nailed it on time. It's a great way to end. And Bob, thanks so much for the thoughts today. Thank you for all your time. Thank you for everyone listening in. And as we noted earlier, we look forward to having these meetings in person rather than virtual. Thank you so much.

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

Thanks, Doug. Appreciate it.

**Forward-Looking Statements**

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, growth or future; financial or performance estimates or expectations; expected drivers; 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, theatrical releases and business openings); future operations (ours or others') and related impacts, timing, conditions, precautions or market responses; consumer sentiment or demand; workforce matters; the continuation of external circumstances (including COVID-19); the future impacts of COVID-19 on our business; our hopes, strivings and goals; 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, 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;
- changes in competitive conditions and consumer preferences;
- health concerns;
- international, regulatory, political, or military developments;
- technological developments;
- labor markets and activities;
- adverse weather conditions or natural disasters;
- and each such development 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):

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

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended October 3, 2020 under Item 1A, "Risk Factors," Item 7, "Management's Discussion and Analysis," Item 1, "Business," and subsequent reports including, among others, quarterly reports on Forms 10-Q, which risk factors should be read together with the above factors.