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Disney Speakers:

Bob Chapek

Chief Executive Officer

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PRESENTATION

Brett Feldman – *Goldman Sachs Group, Inc.*

All right. Welcome back. I'm Brett Feldman, Goldman's U.S. telecom, cable and media analyst.

It is a great thrill to welcome to Communacopia, I believe for the first time, Bob Chapek, the CEO of The Walt Disney Company. Bob, thanks for being with us.

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

Thanks, Brett. Glad to be here.

Brett Feldman – *Goldman Sachs Group, Inc.*

So COVID has clearly presented unique challenges to Disney over the last year with parks and theater closures, and while your direct-to-consumer business has actually seen outsized growth.

How do you see Disney positioned as we emerge from this pandemic?

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

Well, I think we're positioned very well. I mean, given the magnitude of what we've all experienced, it's, I think, a minor miracle. Our focus always has been on the consumer, but I believe going forward it's even going to be more on the consumer.

And that's important because our super power, if you will, at Disney is our storytelling. And it's our storytelling, particularly around our core franchises, which are powerhouses in the entertainment industry and really drive everything that's great about The Walt Disney Company.

I think where we've taken a major step forward during the last 18 months has really been on the level of investment that we're putting into our business, particularly our direct-to-consumer business, and that takes the form of two different avenues.

One is the increased investment in our content which we've talked about at our investor conference last December and everyone is familiar with. And that's going to pay huge dividends for us going forward, not only for our direct-to-consumer platform, but also for all our other distribution channels so that we can ensure that we've got all channels full with content, the way that our guests and our consumer wants.

But also market expansion, and we've been very aggressively, as you know, going into new markets with our direct-to-consumer propositions, our different brands across the world, and we're very, very pleased with how that's gone.

But not to forget parks. At the very same time, we used the opportunity, if you will, of the parks being closed. A horrible thing, but we didn't let that opportunity go by. So that we can really reconceive our whole park experience in terms of maximizing the guest experience, while at the same time, increasing the return to our shareholders through a lot of yield-generating activity.

So given the cards we were dealt and some of the challenges that we faced, we're just really pleased with how we've emerged because our goal always was to emerge stronger afterwards than we came into this, and that's saying something, but I think we've achieved that.

Brett Feldman – *Goldman Sachs Group, Inc.*

We're going to spend time on all of those topics.

I'd like to start with parks. And I was hoping maybe you could give us something of an update. You mentioned that your parks had been closed down for a long time, but obviously, they are all open.

Can you give us any insights into what attendance and demand is looking like? And has any of that been thrown off course by the Delta variant or by some of the incremental safety measures you've had to take as a result?

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

Right. Well, the last time I commented on this, I believe, was our last earnings call. And at that point, we hadn't really seen much impact at all from Delta. And then the following few weeks, we saw a bit of an impact in terms of a slowdown of our guests coming to our parks. But then Labor Day happened and all of a sudden, things started to recover quite nicely. So it was a very short sort of impact, and we like the recovery that we're seeing off that.

We've not really frankly seen any pushback from the guests as we reinstituted mask requirements in our indoor facilities. Our guests have been extraordinarily agreeable and compliant, I guess, to the health and safety measures that we've sort of led the way with.

From the very beginning of the pandemic, we made a commitment to our guests and our cast members that we would operate responsibly. And while we reopened up our parks at different points in times across the world - and in some cases, had to close and reopen - we've always done it with a sense of ultimate responsibility for people that are in our care.

And I think that's paid dividends in terms of giving confidence to our guests that they can come to a Disney park and be handled responsibly. And our guests are returning that to us at the same time. They come to us and they're acting responsibly. And so it's all a symbiosis, if you will, and that we're all … even though everyone has sort of a different take on what health and safety measures are appropriate or necessary in the midst of a pandemic, people really come together.

And I think that's what Disney does. It brings people together regardless of how different points of view that they may have. It's a place where everyone can agree.

Brett Feldman – *Goldman Sachs Group, Inc.*

You noted that Delta created at least what appears to be a temporary bump in the pace of people coming back to the parks. You'd also talked on your last call about visibility into demand. Has that been disrupted at all by Delta?

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

Well, we're glad to see that our reservations at both of our domestic parks in Q4 are greater than Q3. So that's really encouraging.

And when it comes to our cruise ships, we see that demand in the second half of '22 is, in terms of bookings, is actually greater than the first half of '22. So that trajectory that you're talking about, while there's, again, some noise week by week, we're really pleased with where it is.

And I think that says something about, again, the consumers' confidence in Disney and providing a great experience for them, even under the most dire of circumstances.

Brett Feldman – *Goldman Sachs Group, Inc.*

During your opening remarks, you alluded to the opportunity to improve the yield on your parks business by taking advantage of what you were able to learn and change over that period of time where you were shut down.

Could you elaborate a little bit more on that? What are some of the most significant measures, and how are we going to see that flow through the financials at Disney?

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

Well, our goal is to improve the guest experience, while at the same time being able to yield that in ways that we haven't done before. And again, the shutdown enabled us a chance to sort of reengineer things, and build the systems necessary to do that.

The backbone of the whole thing, though, is our reservation system, because it gives us the ability now to really, on a real-time basis, direct people, ensure that we have the right mix of guests in the park, and control the demand in ways that, frankly, we've never been able to do.

That then enables all the consumer interfaces that we've recently put in place, things like Genie - either the free part of Genie, the complimentary, if you will, part of Genie - that's going to improve everyone's visit to our parks and ensure that they minimize wait times and maximize the fun, if you will.

But at the same time, it's also an enabler for our Magic Key program at Disneyland Resort, and our new annual pass program at Walt Disney World. So that reservation system is really key to do all those. But each one of those, because it really changes the mix of who comes on what day, also gives us a chance to benefit our shareholders and manage that yielding process.

So it's all made possible by the reservation system, but we have several interfaces at the same time that each guest can take advantage of to essentially customize and personalize their experience in a way that they couldn't do before.

Brett Feldman – *Goldman Sachs Group, Inc.*

Is all of this implemented now? Or are there still things that are going to unfold as you fully reopen the parks at full capacity?

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

Well, I think the benefits of it will unfold, and we'll continue to add utilities. You know, Genie is what Genie is when we launch it, but it will continue to become even more and more robust over time.

So this is not something that you pour the concrete and it dries and it is what it is. We learn over time. Every day is going to be a different situation, and Genie is very responsive to that. And I think we'll continue to add utilities over time as we continue to learn about how to use this new utility.

Brett Feldman – *Goldman Sachs Group, Inc.*

All right. Let's spend some time talking about your direct-to-consumer business. As of your most recent quarter, you had 174 million total subscriber relationships across your range of products. Actually not that far away from Netflix, which is currently the industry leader. But that's not just Disney+, that's Disney+, that's Disney+ Hotstar, it's Hulu, it's ESPN+.

So you really create an interesting mix of services for your consumers. You also have a varied approach to bundling them in different markets and the type of content that you're putting on them.

Which is a really long way of asking, why have you chosen a more diversified and nimble approach to what your products contain and how they're packaged versus, say, a Netflix, which has really just gone down the all in one route?

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

Right. Well, we really do it on a market-by-market basis, depending on consumer preferences, what assets we have, whether we have sports rights. And what we're finding is that consumer choice is the lowest common denominator, if you will, in terms of what drives our decision.

We want to be able to give consumers the ability to à la carte if they choose to à la carte. But if they want a bundle, we have plenty of bundling options, but those look completely different in each market. Again, because of how important general entertainment is to the mix, how important family entertainment is to the mix, how important sports may be to the mix and really sort of customized.

The other thing it does, it gives us a lot of testbeds around the world. So that if we want to make changes going forward, we have some experience with how to do that, and what the relative value is when you add the second platform or the third platform, and how that might affect the price value relationship with consumers.

So I think we're really happy with our propositions, how we go to market in each of the countries. But that doesn't mean that there's not opportunities in the future to change as the situation changes, as the environment changes, or as the consumer changes.

So we're learning. Keep in mind, we're only in the first year and a half of this wonderful experience of our direct-to-consumer business and we're in inning one of this thing. And we've got a lot to learn, but we're really pleased with the way it's gone and how we have gone to market in each of those individual markets.

Brett Feldman – *Goldman Sachs Group, Inc.*

All right. So speaking of going to market, you just launched the STAR+ service across Latin America last month. And you are planning a broader launch of Disney+ in Japan next month, and Asian Pacific markets in November. And then next year, you're planning on launching Disney+ in Eastern Europe, parts of the Middle East and South Africa.

So I'm going to start off by asking, can you provide any initial update on the launch of Star+?

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

Sure. So with Star+, it was a very ambitious launch. Because we call it "Latin America", but keep in mind that for us, that's 18 markets, that's 8 distribution agreements in 7 different currencies across 6 different platforms. So that's quite ambitious. And I'm very, very happy to say that we've really not had any technical issues despite the complexities of that launch.

I will tell you, though, that our experience inside Latin America with Star+ is almost identical to what we saw when we launched Disney+[1] just a few months ago. And what I mean by that is that you're somewhat dependent in Latin America on a lot of your partners in order to get your proposition out to the consumer. And we saw that that was a slower ramp-up on Disney+ than we might have expected. But very quickly, we caught up, and then really hit an inflection point.

And I think we're seeing pretty much the same thing with Latin America with Star+ is that it's a little slow going in the beginning as we get our partners sort of mobilized and outreaching to their consumers. But at the same time, I think our trajectory is going to change very quickly just like it did with Disney+.

So we're very encouraged by what we… the opportunity that we see within Latin America.

Brett Feldman – *Goldman Sachs Group, Inc.*

So just given what you're seeing with Star+ and the view that it's on a similar trajectory, I also believe the IPL restarted this weekend, and so that helps your Hotstar product. Can you give us any update on Disney+ trends this far, at this point in the quarter?

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[1] In Latin America

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

Yes. Well, in terms of the IPL, what we're doing is seeing the combination of two things happening at once in India. Number one, there is that shift of timing of the IPL season which is really an important factor. And it happened to be coincident with the annual expiration of a large cohort of subscribers.

And I think as you know, in India, they're annual subscriptions - but when they end, there's no auto renewal. So every time you lose the cohort, you've got to get that cohort back.

And so we've got sort of the - the good news is we've got IPL coming. So it's going to be plenty of incentive to get some of those folks back, but you have to take a step back before you take a step forward in terms of those renewals.

So it takes a little bit of time for people to re-subscribe. So you've sort of got those things all happening at the same time.

The thing I think that's really important about sort of taking a more global approach to our direct-to-consumer business, and this is one thing that I think we're not exactly aligned with the Street on, is the quarter-to-quarter business is not linear.

I think people looked at our projections last December and said, "Oh, they want to get to 230, 260 or whatever the numbers are" and they divide it by the number of quarters and say "they need to add x per quarter."

What we're finding out, as you've seen from our last several quarters in terms of our earnings, is that these numbers are - tend to be a lot noisier than a straight line. They're not a straight-line relationship quarter to quarter to quarter. And indeed, we've seen some of that this current quarter.

We're very confident about our long-term sub growth as we have been.

In Q4, I think what you can expect to see is that our global paid subs will increase by low single-digit millions of subscribers versus Q3. But importantly, our core market sub growth will continue both domestically and internationally in Q4, but we hit some headwinds.

Two of the headwinds I already talked about. Latin America, again, trying to mobilize the partners, get that thing going just like we saw with Disney+. In India, the IPL shift and the fact that you have got to go back and reclaim all your subscribers all over again, which we're confident we can do, but obviously, it's sort of day by day. It's a claw back, if you will.

The third one, though, is something that's actually impacting us across the globe, and that's the impact of COVID-induced production delays, which then is a kink in the supply chain for new content coming to the service.

Now this is very short-term. In fact, it's so short-term that right now, our studio alone has 61 new movies in production, and they've got 17 different episodic programs that are in production.

Our TV group has hundreds of new programs in production, and we've got 200 local productions across the globe in production. So the supply chain is healthy just like we talked about last December, it's flowing, but the resurgence of COVID and Delta did impact some of our productions so that we've got a lighter product quarter in Q4 than we might have expected.

All to say, again, we're very bullish and confident about our long-term sub growth, but we're going to see a little bit more noise than I think maybe the Street expects in terms of our ultimate projections quarter-to-quarter.

Brett Feldman – *Goldman Sachs Group, Inc.*

That's great color. And just to make sure we got it right, the low single-digit millions, that's the Disney+ global subscriber base, global net adds. That's what would be low single-digit millions.

And I think you said within that there would be growth in the core product, which generally means the product exclusive of Hotstar. Was that the point?

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

Correct.

Brett Feldman – *Goldman Sachs Group, Inc.*

Okay. Well, I want to talk a little bit more about Hotstar then, because if we think about the initial guidance that you gave, and then you increased that significantly with your next analyst meeting, I think an element of where you might have outperformed at least the Street's expectations was with the Disney+ Hotstar product, which I believe represented almost 40% of the customer base as of the most recent quarter.

Why do you think you've been so successful with the product in that market? And how does the fast start with Disney+ Hotstar shape your view on what the addressable market is for Disney+ over time?

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

I think one of the reasons we're successful in India, and in the Southeast Asian markets increasingly, is the fact that we're really tuned into why those markets are different. Our whole approach with our direct-to-consumer offerings across the world is that one size does not fit all.

That's why you see us go to market with different propositions, different utilities, and different offerings. And in the case of Hotstar, we've got unparalleled content. We've got sports, we've got 18,000 hours of local content that we create a year for that market.

But it's not just about the content - although primarily about the content - because it's also about having those distribution arrangements with the local mobile carriers, and that even once you have that, you've got to have the consideration to deliver your product with low bandwidth, because that's what that market requires.

So again, it's far different than what we're seeing, but we're making more and more core Disney product available to the consumers there, which is also what they love, but there's things that are unique.

And I think it's really being sort of tuned into what's required. And, hey, let's not forget all the sports offerings that we have at the same time. IPL is really an important asset there, and we're lucky to have it.

Brett Feldman – *Goldman Sachs Group, Inc.*

Market launches have obviously been a big part of the growth of the Disney+ service because it's still a fairly new service, and as we talked about, you still have market launches coming up.

But you've made a point that really over time, it's really going to be original content that's going to be a much more important driver of subscriber growth to the platform, and that you should be at a steady state of new content releases by fiscal '23. That's the commentary that I believe you've given before.

At a high level, how do you think about curating the cadence of new content to both lower churn, but also to bring in new gross adds?

And a more specific way that sometimes people will ask me that question is they'll say, "Hey, at this point, isn't every Star Wars and Marvel and traditional Disney fan already a subscriber? So why would the next Avengers or Marvel or Star Wars piece of content on the platform bring someone in?"

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

Okay. So I believe that our special alchemy, if you will here, is a combination of great new content that never seems to end… I mean let's just look at *Shang-Chi* and what that does in terms of the Marvel fans, and that will bring in new Marvel fans, I'm convinced.

But at the same time, as you know, in a subscription business, it's not just how much you add, it's the absence, or the presence, of how much you lose on a churn basis. And I think it's that combination of really a very small churn for our direct-to-consumer businesses, at the same time that you've got novel product.

Whether it's the upcoming *Eternals* for Marvel or whether it's something like *Shang-Chi*, or whether it's movies that have had Disney Premier Access offerings with relatively short windows, or the whole myriad of distribution strategies that we've gone to.

But the idea about the curation is that we want something new all the time. And that's why it was a bit of a challenge in Q4 when we had the COVID impacted production kink in the supply chain. We didn't exactly have as much new product as we wanted.

But going forward, with that cadence of new product that I described to you, we're going to have plenty of product flowing through all of our distribution channels so that we don't have to sit here and say, okay, we have an asset, where does that asset go? That is not going to be the way that we're engineering this.

So really, constant pulse of new product to make everyone happy, to increase subs, but also minimize churn at the same time.

Brett Feldman – *Goldman Sachs Group, Inc.*

Okay. On November 12, you're going to celebrate Disney+ Day with what you described as an unprecedented company-wide cross promotional campaign. Can you elaborate on what that is and what the objectives of the day are?

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

Well, the objectives of the day are for us to celebrate Disney+, and celebrate all the people that are fans of Disney+. But we at The Walt Disney Company have something that is unique in the industry. We have a machine, we have a flywheel. We have consumer products that can jump in and celebrate Disney+ Day. We've got our news organizations. We have our media networks. We have our cruise lines. We have Disney+ itself and all of our other platforms.

So this is going to be a company-wide activation, a company-wide celebration with plenty of surprise and delights, as we like to say in the Disney Company, to really surprise people with offers and things that they may not have expected. This will be an annual thing.

But most importantly, what this is going to be, we are going to have new content released against every one of our key franchises so that there's going to be this influx of new content that I think will be real crowd pleasers and things that they like. Things like *Shang-Chi* coming to the service for the first time, or *Jungle Cruise* coming to the service for the first time for everyone to see for free.

And also, we have new countries, as you mentioned a little bit earlier, coming online at the same time. So it will be this ultimate crescendo of everything that's magical about The Walt Disney Company and really starting to use Disney+ as that company-wide platform that goes beyond a movie service. And I think that really speaks a lot to our ambitions going forward.

Brett Feldman – *Goldman Sachs Group, Inc.*

All right. Well, since you launched Disney+ in November of 2019, we have seen several other direct-to-consumer services come to market. We've also seen further M&A as your competitors look to gain scale as global streamers.

To what extent do you think you may need to adjust your strategy in this rapidly shifting landscape? And just to maybe be a little more specific, do you think Disney needs to either further amplify its investment in content, either through more production or maybe more M&A and acquisitions of IP?

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

As you know, last December, when we had our Investor Day 2.0, we announced a pretty big amplification of our content. And right now, our focus is making all the things that we said we would make. Ramping up our production, but most importantly, not just making more stuff, but making great stuff.

And that's the thing that's pleased me the most out of everything that came out of Disney+ Day… is the quality and the resonance of everything across all of our different brand platforms, how great it is.

So for us, it's now about executing what the plan was, as opposed to going out and buying more or even amping up our production again. But what we have done since then, has taken even our Fox Studios and really amplified what they're making for our services. And then you've got the local productions that I mentioned across the world.

So we've got plenty of product in the pipeline coming. And I think that's going to be enough to fuel that growth, again that we're confident about delivering in the long term.

Brett Feldman – *Goldman Sachs Group, Inc.*

All right. So as of the most recent quarter, you had 43 million total Hulu subscribers. And I think you noted the service was actually profitable last quarter, driven by very strong advertising revenues.

But your direct-to-consumer strategy on a global basis is really primarily focused on ad-free subscription-based services. So the question is, what's driving the strength in ad revenue in Hulu? And to what degree do you see advertising driving more of Hulu's revenues over the long term?

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

I think what's driving it is a combination of great content that draws a lot of eyeballs and draws a lot of interest and a lot of viewership. But at the same time, really sophisticated modeling and technology that we have that enables our advertisers to target exactly who they want, when they want, and how they want.

Now in terms of this extendibility to other - our other platforms, I think it's important to realize the different target audiences of the platforms, and, for example, Disney+ has a lot of kids that watch it. And the taste for us to consider advertising on something like Disney+ would be completely different than it might be on Hulu.

So then, again, you take that individual, no one-size-fits-all type approach that we're looking at across the world and you say where do we have that opportunity, where do we not have that opportunity?

And then how does that change over time as we look at combining things or keeping things separate, à la carte? And so all this is malleable. Again, it's soft clay right now.

And we're very pleased with what we're seeing with addressable advertising on Hulu. And I would say does that lead us to think big thoughts about what could happen in other markets across the world? Certainly, it does.

But for right now, we're, again, really happy with sort of the à la carte mode that we have with this bundling opportunity and keeping things the way they are. But that doesn't say that in the future, we might not look at different opportunities for an increased level of addressable advertising across our platforms.

Brett Feldman – *Goldman Sachs Group, Inc.*

Sports is not a core element of the core Disney+ product, but you do have sports embedded in many of your other streaming products. So you have ESPN+ in the U.S., it's part of Star+ in Latin America and it’s obviously included in the Disney+ Hotstar product as well.

So really, this is a high-level question. Where do sports fit into your global direct-to-consumer strategy?

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

Sports are important for us because it's important to our viewers. There's nothing that's going to gain viewers like a live sporting event. And we see that in Asia, and we see that domestically, and we see that in Latin America. So it's an important component to us.

Again, the execution of that may be slightly different, or substantially different, in different parts of the world, depending on, again, the consumer proposition and what they're looking for there. But it's important to us.

I think it's - you've noticed, I'm sure, that we've been very aggressive in going out and getting rights. And all those rights give us the flexibility to evolve towards a more robust and complete direct-to-consumer platform even than the ones that we have right now.

And I think we'll take advantage of that when it makes sense for our ultimate shareholders' interest to go ahead and make that. Right now, our sports platforms tend to deliver a tremendous amount of cash flow, which particularly in the environment of a pandemic is very, very valuable to keep the fires going with that increased investment behind content for our direct-to-consumer platforms.

As time changes, that will give us a little bit more degrees of freedom in order to be even more aggressive in terms of our stepping onto that new platform for an even more robust direct-to-consumer sports proposition for our consumers. And so we're looking longer-term at those possibilities.

But for right now, sports has been a very high free cash flow business for us, and we're glad we have it, and our consumers love it.

Brett Feldman – *Goldman Sachs Group, Inc.*

You've scaled so much in direct-to-consumer without sports being the central feature of that product. We do commonly get the question, where does ESPN fit into your portfolio over time? And does it need to be something that you own as you just continue to grow globally as a streamer?

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

Well, again, we love sports, and we love ESPN as a brand. And right now, it's kind of the third leg of the stool for us domestically, and we love the way that operates for us.

We think that while certainly, there are sports fans, sports is such a broad foundation for so many peoples' viewing habits. And I already mentioned the fact that the #1 most viewed thing every year tends to be sports, something like 9 out of 10 of the top viewership events in television are sporting events.

And we know that's important, and we're going to continue to invest in that because if it's important to our viewers, it's important to us. And we think it's a nice way to round out our portfolio.

Again, who knows what the future will bring, but it’s certainly part of our important guest offerings and consumer offerings across The Walt Disney Company.

Brett Feldman – *Goldman Sachs Group, Inc.*

One last question on ESPN. There's been some media reports that you're looking to license out the brand name to some sports betting companies. Do you think that in light of the growth in sports betting, inevitably, it has to be embedded into the ESPN business model?

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

Yeah, I think there's a long way between embedded into the ESPN business model and licensing out, right? There's a lot of room between there.

Let's just say that our fans are really interested in sports betting. Let's say that our partners with the leagues are interested in sports betting. So we're interested in sports betting.

Strategically, what sports betting gives us is the ability to appeal to a much younger sports fan viewer who can be very strong in their affinity for those sports. And so it's definitely a place we want to be.

I think you're seeing we're becoming more and more aggressive in terms of our taking a stance with partnerships. It's not something that we would do necessarily solo or alone in the gambling area.

But we believe that our brands have the degrees of freedom to enable us to go ahead and expand our presence there. And I think you're seeing us starting to take some pretty big steps along that way.

Brett Feldman – *Goldman Sachs Group, Inc.*

All right. So last year, you reorganized the company so that the content production is managed separately from content distribution.

Can you give us an update, how is the new org structure working for Disney? And can you cite any early evidence as how it has improved your ability to be nimble as your DTC business grows in this shifting landscape?

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

Yes, I'm thrilled with the way the organizational realignment has gone. I mean if the pandemic wasn't reason enough, the ultimate change in how consumers are consuming our content and the changing consumer behavior is another more long-term reason to go ahead and do it.

What we want is to really have our great unbelievable content creators focusing on what they do best, which is now making more and more and more. I mentioned the number of movies and television series and episodic things that we've got going in the company, and they're very, very busy.

But at the same time, use almost a clutch device to say, okay, in this new world with all the changes that are happening and Disney's desire to be on the front end of the wave - not on the back end of the wave - where should that content go? What should the windowing strategies be?

And I think you're seeing that throughout, in terms of your evidence, of what's happened. We've gone primarily … we've mentioned 3 strategies, right? Direct to theatrical with the first window, Disney Premier Access with theatrical, and then direct to our services, our DTC services.

And you've seen not only all 3 of those strategies being present over the last year, but you've seen a shift over time as the theatrical business becomes a little bit healthier as we're seeing with *Shang-Chi* and more and more people coming… we called it exactly right.

In other words, we're - we not only have the right portfolio of the three strategies, but I think we're making the right calls at the right time given the vast uncertainties in terms of what's happening in the marketplace. We're shifting that clutch to the right point at the right time.

So that in the future, we now have experience with all these different opportunities, and we'll have enough content coming in that we could actually employ our content into each of those in a much more planful way than you do in the middle of a COVID pandemic when you're a little bit short on product and you've got this direct-to-consumer service that you need to feed in order to minimize churn.

So really, really happy with the way it's worked out, and I think it's going to be one of the keys to our success in the future.

Brett Feldman – *Goldman Sachs Group, Inc.*

I know we're not out of this yet, but as you pointed, you had this ability to experiment. You didn't really plan to experiment, but inevitably, that's what this last two-year period has been for everybody.

In terms of what you've learned from this three-pronged approach, is there anything that you've kind of locked in on as probably being a more permanent element of how you go to market with your content based on what you've seen so far?

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

Well, I think the thing that we've - and this will be an interesting juxtaposition - what we've locked in is flexibility. So I think that's the only lock is flexibility.

That and being a consumer-first organization, making sure that we're first catering to the consumer. I think - we love theatrical exhibition. I think we've seen the power of that throughout the last several decades, and we've certainly seen the power of that with *Shang-Chi*.

But at the same time, we know that our service is strategically the most important thing our company is doing. But you've got a combination where it's not all of one or all of the other. We've got some movies that will have very short windows that will come out to theatrical exhibition - we mentioned *Encanto* - and then after 30 days go to the service.

And so you can look at that as are you making a trade-off between those two distribution channels? I don't think so. I think a relatively short theatrical window that captures 99.9% of the viewers that would go see that movie anyway, but at the same time, then shifting that over to have that film available for Disney+ for Christmas.

So Thanksgiving for theatrical, Christmas for Disney+. I don't think that's going to dampen in any way our viewers' enthusiasm to see *Encanto* on Disney+ for Christmas.

I think it's going to essentially whet their whistle. I think it's only going to amplify their desire because they're going to hear so much about it. If they so choose not to see it in the theater. So I think there's a win-win-win here for everybody involved throughout the value chain.

Brett Feldman – *Goldman Sachs Group, Inc.*

The expanded use of direct-to-consumer platforms for releasing original content, particularly films, has somewhat up-ended some long-standing models for compensating Hollywood talent.

How do you see that compensation model evolving? And what advantages do you think Disney has in terms of being the place that that talent wants to work in an increasingly direct-to-consumer-oriented market?

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

Well, Disney has had a long history of having very symbiotic and cooperative deals with the talent, and we will continue to. Certainly, the world is changing. And I think the talent deals going forward will have to reflect the fact that the world is changing.

But we're in a moment of time, just like so much of what we've talked about so far, we're in a moment of time where films were envisioned under one understanding about what the world would be because, frankly, it hadn't really changed much.

But remember, those films were made three or four years ago, those deals were cut three or four years ago. And then they get launched into the middle of a global pandemic, where that pandemic itself is accelerating the second dynamic, which is this change in consumer behavior.

So we're sort of putting a square peg in a round hole right now where we've got a deal that's conceived under a certain set of conditions that actually results in a movie that's being released in a completely different set. So there's a bit of a reset that's going on right now.

And ultimately, we'll think about that as we do our future talent deals and plan for that and make sure that that's incorporated. But right now, we've got sort of this middle position where we're trying to do right by the talent. I think the talent is trying to do right by us. And we're just sort of figuring out our way to sort of bridge the gap.

But ultimately, we believe that our talent is our most important asset, and we'll continue to believe that. And as we always have, we'll compensate them fairly per the terms of the contracts that they agreed to us with.

Brett Feldman – *Goldman Sachs Group, Inc.*

We have time to squeeze in one last question. On your most recent call, you had said that you expect to reinstate your dividends and your buybacks once we're in a more normalized operating environment and when you have your leverage that's more aligned with your Single-A credit rating.

As we come out of this, what do you ultimately expect to drive your capital allocation priorities? And then really, why does the Board believe that a dividend should be a permanent part of that allocation?

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

Great. Well, once we get back to a more normalized operating environment where we're back to Single-A, and our cash flow is such that we're not - we don't have the concerns that we've had over the last couple of years. I think what we're going to do is, number one, our clear priority, and the Board agrees with management, that the clear priority is funding our new growth businesses that we've got.

But once we get to a point where, again, our cash flow is funding that, handling some of the debt that we've got, then everyone agrees that it would be a great thing to reinstate that dividend and do share buybacks.

But that's sort of in the distant future, and we're not going to entertain doing that until we can reach that Single-A level, and we have clear sailing from here, and this pandemic is in the rearview mirror.

Brett Feldman – *Goldman Sachs Group, Inc.*

Bob, thanks for joining us at the 30th Communacopia and we hope to see you next year.

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

Thank you very much. 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, performance, or subscriber 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, experiences, business openings, and new businesses); future operations (ours or others’) and related impacts, timing, conditions, precautions or market responses; future consumer sentiment or demand or market acceptance; workforce matters; the continuation of external circumstances (including COVID-19); the future impacts of COVID-19 on our business; future matters related to our contracts, dividends or buybacks; 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:

- further changes in domestic and global economic conditions;
- changes in competitive conditions;
- 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 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):

- 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.