Morgan Stanley

Technology, Media and Telecom Conference

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Disney Speakers:

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

PRESENTATION

Ben Swinburne - *Morgan Stanley*

We're going to get started. Good afternoon, everybody. I'm Ben Swinburne, Morgan Stanley's Media Analyst.

Quick disclosure from me. Please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures all appear as a handout available in the registration area, and on the Morgan Stanley public website.

We are really excited to welcome to the conference, our in-person conference today, Christine McCarthy. Christine is the Senior Executive Vice President and CFO of the Walt Disney Company, having been with Disney for over 20 years, and became CFO in 2015. Christine, thank you for being here.

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Thank you, Ben. And I have a disclosure statement for you too.

Certain statements today, including financial estimates or statements about our plans, beliefs, guidance and other statements that are not historical in nature, may constitute forward-looking statements under securities law. We make these statements on the basis of our current views and assumptions regarding the future and do not undertake any obligation to update them.

Forward-looking statements are subject to a number of risks and uncertainties. Actual results may differ materially from results expressed or implied in light of a variety of factors, including factors contained in our Form 10-K and other filings with the SEC as well as the legend you see here and on our investor relations website.

Ben Swinburne - *Morgan Stanley*

We're ready. Christine, I want to start - obviously, the last few years, we were just chatting back stage, have been pretty eventful to say the least for all of us.

Throughout that time though, the Walt Disney Company has really been investing substantially in the business to grow the company.

Maybe you could just talk about the investments you guys have made and sort of how you frame the growth prospects for Disney from here.

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Great. It has been an interesting two years and I'm very happy to be in a room with real people, and not a lot of little squares on a Zoom call. And so welcome to all of you.

The investments we have made continued throughout the pandemic. Our business was pretty severely impacted as those of you who follow Disney know.

We had to shut down many of our businesses because most of them were consumer-facing. And that went from everything from people going to theaters to enjoy our movies, people coming to our parks, going on our cruise ships, attending sporting events.

All of those things as we knew a couple of years ago did come to a halt. But we still invested through it. We continue to invest and we've increased our investment.

We recently disclosed that our content investment was up to around $33 billion. That was an $8 billion increase from the prior year.

Where that's going is primarily into content for our Direct-to-Consumer platforms, and our other platforms, including some Linear. About $11 billion of that, about a third, is designated for sports rights. And we disclosed that in our last quarterly earnings call, and in our 10-Q[1].

But we continue to invest not only in content, but also in improving technologies. And in - investing in not only the platforms, but the markets that we're still entering into for our rollout of Disney+.

The other side of our business that we invest in pretty consistently, and the numbers don't change that much unless there's some kind of a bubble payment, which I'll talk about in a minute. And that's in our domestic, our International Theme Parks & Resorts business. That's a global business and we have invested through the pandemic.

And we have a lot of new offerings that are opening in the current period that we're looking at. In Florida, we just opened March 1st *Star Wars*: Galactic Starcruiser. And that is a totally immersive experience - very, very unique. We also have *Guardians of the Galaxy*: Cosmic Rewind, which is a very thrilling attraction at Walt Disney World. That's opening this summer.

We have Avengers Campus over in Disneyland Paris that opens this summer. And just coincidentally, they just today celebrated their 30th anniversary. And there are lots of things like that that we continue to invest in.

We do have a little bit of a bubble this year in our theme park capex. And that's because we're taking delivery of one of three cruise ships that we ordered a few years back. The time horizon for those is a little bit lengthy, so you've got to get in front of it, you've got to get a place to build the ship. It takes several years. But we are setting sail on a ship called the *Wish,* and that will be in July. We're really thrilled about that.

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[1] Expectations for fiscal 2022 spend on produced and licensed content, including sports rights, disclosed in the Form 10-Q filed on February 9, 2022

There will be two more coming, one in ‘24, and one in ‘25. That cruise business is a double-digit ROIC business. It's a great, very highly rated experience. And those are the kind of things that we look to. Things that reinforce the Disney brand and really engage our consumers.

Ben Swinburne - *Morgan Stanley*

Thank you. The timing of this presentation worked out well for us because you had some news on Friday.

I wanted to ask you about, as we talk about Direct-to-Consumer, Christine, the ad-supported tier of Disney+. Why do you think this product strategy makes sense today?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

We … I like to refer to our Direct-to-Consumer business - when you think about Disney+ - as being a toddler. We started it in November of 2019, and it was good timing given the pandemic because it was a business that continued through the entire pandemic.

But we also… we had some preconceived notions of what we thought consumers wanted. And we've done a lot of research, and have found that a lot of consumers, they do not mind. And some are actually more favorably disposed to services with ads than without ads.

We have also had an incredible amount of advertiser demand ever since the launch of Disney+. As you can see from our results in addressable advertising out of our Hulu business, we have more demand than supply.

Looking at this business and realizing that it's not only… it's about choice and control for the consumer. And Bob Chapek has been really consistent in talking about letting the consumer decide how they want to consume content, how they want to experience things.

And this goes right down the alley of having an ad-supported tier. Yes, it will be the lowest cost tier. That's a benefit to some.

Although I do, I just want to note, I have a colleague, he's a direct report of mine. If he has the choice to have an ad-supported versus an ad free service, he always opts for the ad-supported. Not for cost, he just likes having breaks. Breaks when he can do whatever he's doing.

But it's not that it's only people who can't afford or don't choose to pay for it, some people just don't mind seeing ads. We look at this as being something that is going to be a win/win for the consumers who want it, the consumers who couldn't afford it otherwise, that's great as an entry level point.

And it's also going to be great for the advertisers because we have a very unique audience here. It is a family audience. We will be very careful about the ads we take, how we put them into our content.

And we've learned a lot over the last couple of years about what kind of content lends itself to natural breaks. Movies, we… you do see movies on ad-supported tiers. And they can have breaks in those. But the Linear content, it's really almost written so it can have natural breaks for ad insertions.

Our ad tech stack technology that we've developed in our advertising group - and we're all unified as an advertising group as opposed to 5 plus years ago.

But we consolidated all of our advertising sales efforts so they can sell the whole portfolio of Disney offerings. Everything from the Linear to Digital to DTC platforms.

We look at this as just being another component of an offering. And it's not something that was done… it's great there could be potential upside. We certainly welcome it if it draws in more consumers, more subscribers, if it increases ARPU. But we're really doing it to address consumer choice.

Ben Swinburne - *Morgan Stanley*

And Christine, you mentioned that you guys are going to be careful with advertising. I wanted to ask you, because one of the frequent questions I've gotten since Friday is about the Linear Disney Channel historically was ad free, or essentially ad free.

How are you thinking about leveraging advertising given the brand focus of the Disney+ service?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Yeah, that's a great question. Disney Channel, we did not have ads on it. We had some interstitials and things, some promotional things, but it wasn't ads per se.

We're going to be very careful about making sure any advertising is consistent with the content, what people are watching. It's not going to be something that is going to be jarring and off topic or off brand.

Also, it will be a lighter ad load, and we're also going to make sure that everything complies with child protection policies. And any kind of COPA regulations, U.S. as well as international privacy laws.

We're going to be very, very mindful of this. And it will be a different ad-supported platform than a lot of others out there, just because the nature of the service we're providing is a family oriented one.

Ben Swinburne - *Morgan Stanley*

I imagine with the timing now, with the upfront coming up, you have an opportunity to sort of bring something like this to market. Are you positioned that way?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Exactly. But the timing was to sell into the upcoming upfront in May. And a lot of those discussions…as I know many of you cover the advertising market - a lot of those discussions really get - some of them have already started. But they really later this month really start coming, gelling and coming together.

The timing works, but also this is - suffice it to say, the advertising community was extremely pleased with this announcement. And they're really looking forward to it.

I think we'll have - once again, because we're going to be very thoughtful and mindful about what it is we're putting on in advertising and how much of it - we will be able to curate advertising that we believe is good for the Disney+ service.

Ben Swinburne - *Morgan Stanley*

And Christine, maybe just stepping away from - or stepping back from the ad-supported, and thinking about Disney+ and your long-term plans.

As you know, there's a huge debate in the market about Disney's ability to achieve its fiscal 2024 guidance, both subscribers but also breakeven. The business is going to need to reaccelerate.

When you look at the business today and the research that you guys have done, what gives you and Bob and the team confidence you can deliver on both the subscriber expectations, but also drive the financial model?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

That's a good point. We as a management team like having both targets out there in public. We either make it or don't make it. But we believe we are well suited to achieve the subscriber guidance as well as the profitability guidance.

This ad-support… I know there's been things written, is this like a Hail Mary? No, it's not. This is something that we don't need to make - and we said it, I know some people were skeptical on our last earnings call when we said that we could still make our guidance.

And this actually related to something in India regarding the IPL. But we feel good about where we are with that 230 to 260 Disney+ subscribers by 2024.

What we're really looking at is not only subscribers, but profitability. We like those two because we think it injects the right kind of - I say tension with a little "t" - but the right kind of tension for really managing the business.

And we're driving towards that, and we feel really good because of the content that we have, the brands we have, the intellectual property we have to work with. Once again, we're learning more.

As I said, we're two and a half years old, barely. We've learned a lot about this business, but we're also - we couldn't be happier with the amount of data that we've been able to get about who is watching what, when are they watching it, how many times, for how long?

Those are the kinds of things that we never had before. We were always going through intermediaries. Once we have that, we really incorporate it into our planning, our content.

We're not making content through algorithms, but we're using that information to inform what content works, or if something doesn't work, why it doesn't work.

Ben Swinburne - *Morgan Stanley*

You guys gave us some new disclosure last quarter, which was very appreciated. The regional breakdown of Disney+ was interesting to see. It's a bigger U.S. business than at least we were expecting.

Let me ask you about international. Maybe we can start, you mentioned IPL, we'll start with India. How do you think about investing in that market?

You guys have some really popular sports rights that are coming up for auction with the IPL. What's the strategy in a market like India where there's a lot of subscribers, but also unclear as far as the long-term economics?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

That's… India is a big market, we all know. There's a lot of focus on the IPL. Disney+ Hotstar, yes, people enjoy the current IPL sports program that we have on there.

But they also enjoy a lot of other sports programming, whether it's other cricket rights, other international sports, marquee, other sporting events.

But something that's very underappreciated is the amount of general entertainment and the quality of that entertainment and viewership in the Indian market. In 2021, of the fifteen top-viewed series on Direct-to-Consumer, nine of those came from Disney+ Hotstar.

There’s content that people are going to view just like here in the states. A lot of people view sports. Sports is something that is a very popular type of content to consume.

But they also consume other types of content. When you think about the number of hours and the quality of the content that is being produced in Disney+ Hotstar originals, that's something we're very proud of.

And we think that that will continue to make that business one that consumers will engage in.

Ben Swinburne - *Morgan Stanley*

How about Europe and Latin America? How would you sort of assess how the toddler has done so far? It's even younger, to extend the analogy, in those markets.

But why do you think penetration in those markets has lagged sort of what we've seen in the U.S. so far?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Yeah, there's a conversion in Latin America specifically that is really a more deliberate shift of going off of Linear to Direct-to-Consumer. A lot of times, even if it's not going to cost - if you have the Linear feed and you can get the Direct-to-Consumer, human nature is, if you have to do something to activate it, you may do it or you may not do it.

I think once again, as those Linear channels sunset, we will have the consumers who have been consuming that content now shift to the Direct-to-Consumer model. We also have Disney+ down there, we have Star+. We've got great sports programming in Latin America.

It's a different offering than we have here in the U.S., and it has all sorts of reasons - I mean if we could just have one thing that was uniform, it would make everyone's life easier, including mine.

But different regulations in different existing contracts and affiliate agreements, just… we have a basic type of offering. But there's some nuances in each market. And in the Latin America market, there are a few different, as I mentioned, Disney+, Star+ and then a combo, a Combo+.

But I think Latin America will get there. It's great content. It also, as once again we've talked about, local programming, native programming in a culture that's going to resonate with the people who live in that culture, we believe is something that is necessary outside of the U.S. in all of those markets. And we've made a big investment in those.

Including just announcing recently that we have an international content hub. We took one of our top executives and put them, who had been doing international in addition to other things, but put them over that.

And they are overseeing 340 different productions in various stages. But you'll start seeing those roll out into all the different regions probably starting in this year.

Ben Swinburne - *Morgan Stanley*

Maybe one last streaming question before we move on. On Hulu, we had your partner, Brian Roberts, on the stage this morning.

But what's your vision for how Hulu fits into the Disney Direct-to-Consumer strategy longer term?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

We think Hulu is a fabulous platform. When you think about Disney+, ESPN+ and Hulu, they really are discrete. They have - I mean they are discrete types of programming, they're discrete types of target audiences, demos that they're going after.

But we look at Hulu as being very high-quality, general entertainment. It has some next day programming, and I know Brian spoke about that. But it also has original programming, and some other licensed content.

But the new, original programming that has been developed for and launched on Hulu has really resonated. I'll just throw a couple of names out because you may know some of these.

Only Murders in the Building, that was very, very popular. I think a lot of people actually probably signed up to Hulu so they could see it.

We have *Nine Perfect Strangers*. There's a new one that's just coming on, *The Dropout*. I think that's a story many of you know. And that's one that's just launched.

But there's a lot of different programming on Hulu that is original and only seen on Hulu. So it's really part of our overall offering.

Ben Swinburne - *Morgan Stanley*

Maybe before we shift to the Parks business, I wanted to ask you just one more on media. You announced last week that you were pausing release of theatrical films in Russia.

Can you talk a little bit about Disney's business in that market and in Ukraine? And sort of the exposure in general?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

It's a very unfortunate situation. I think all of us know that, I don't need to elaborate on it. But theatrical release of films in Russia is not the only thing that we have. Many parts of our business have different relationships or business ventures in Russia.

I'd like to put a context on what it means for us in terms of operating income. And that's about 2% of our operating income. And that's for the region, Russia and Ukraine. And just to scale it between the two, Ukraine is about 10% of that 2%.

It's not a significant number for us. I hate losing any operating income, but I just want to put it in context because I think this is one that, we’ve had some licensing businesses and theatrical distribution. But that's what the overall exposure of our company is.

Ben Swinburne - *Morgan Stanley*

Thank you. Shifting now to the DPEP segment and the theme park business.

You had record performance in the calendar fourth quarter, fiscal Q1. And the number that everyone brings up is the per-capita spending growth of 40% over '19 levels. What's driving that? I don't think it's all ticketing.

Can you give us a little bit of context, and sort of how sustainable growing that number can be when you start lapping these comps and thinking about the long-term for the Parks business?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Our parks had a remarkable recovery. As I mentioned, they were all closed. Disney World came back online before Disneyland. Disneyland was closed for over 400 days. It opened about a year ago, last spring, actually in April of last year.

But the performance has been outstanding. And it has not been driven just by… I know we get a lot of focus on ticket prices. We have a wide range of ticket prices.

And not that dissimilar to what we're doing in an ad-supported tier in Disney+. We have a very steady, stable, entry level price for our parks that has not been raised since 2019. There's an affordable level.

Now, you don't get everything, you don't get every day, you don't get peak periods. But you could go at the lowest price. You can go into the park like anybody else.

And so that's just something that, I think is a philosophy, that we do want our products and our services to be accessible. But like any business, there's things that you can buy up or trade up for, just a more engaged experience, or more accessibility, or more flexibility.

Our ticket price, yes, it's some of the increase in per-caps. But most of the per-cap increase came in food and beverage. When we do immersive experiences, we also try to make the food and the beverage part of that overall experience.

Our merchandise spending was incredible. There have been lines for hero T-shirts in parts of Walt Disney World when they drop something. These are just T-shirts, but they're limited.

But the amount of spending, and part of it is because people could not go to our parks for a long period of time. Especially in California. And when they came back, they wanted to spend money. They were there, they wanted to basically maximize their experience. So we have those parts.

We also have introduced some things like Genie. Now Genie is a mobile device, it's on your cellphone. You can download it. And there's a free version. What the free version does, it allows you to plan your day, and you'll have a better experience.

It will tell you right on your phone how long the wait lines are, and maybe you should eat at this time, or do something else at that time if you want to get into a certain attraction.

And then just like you can buy up, you can buy up to Genie+ and you can get access to - it'll tell you when you can get faster access to something called Lightening Lane. Which is sort of like the old FastPass. And you can do that.

But then for the most attractive, the most-wanted attractions, the ones that are really popular on any given day. You can buy up even more to get a specific time that you can go to that attraction.

Those things, people can decide whether or not - how much they want to spend on these. But those have also lent to just a better experience for people trying to maximize their day.

And some people - look, some people have more time than they do money, and some people have more money than they do time. I think this really is in response to that sort of personal choice in equation.

Ben Swinburne - *Morgan Stanley*

You guys also talked, Christine, on the call about limiting capacity. I think some of the live event stuff has still not been completely back to normal.

What does full capacity mean looking forward at the parks, and can you give us any sense of sort of where you guys are today?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

We are coming back to full - towards full capacity. We're not yet there. But one of the things we were able to do when the parks were closed was really look at some of the underlying technologies for how we could run the business better and give a better consumer experience.

One of the key lynchpins on this was a reservation system. Now, we needed that when we were limited, severely limited in capacity when the government restrictions were such that you could only allow 10%, 20%, 25% in.

But then we saw that we could actually use this even when the restrictions were lifted. That we know how many people are going to the park on a given day. And if they've filled up a certain amount, or how many reservations would be left for people just walking up at the last minute.

But it allows us to better balance load throughout the year, throughout the week, throughout the month. And so that's something that has really given us a toggle for how we're going to manage attendance.

Some of the attractions which are great for capacity management are things like nighttime attractions, the parades. When those happen, people aren't on rides or attractions, they're watching those nighttime spectaculars, or watching a parade that they're seeing go down Main Street.

The other thing that has not yet come back, but should be coming back soon, is character Meet & Greets. For any of you with children or grandchildren, you probably know that little kids love being around those beloved Disney characters.

And those character Meet & Greets also take people out of lines for going on Space Mountain or Mickey & Minnie's Runaway Railway. I mean, there are just things that you load balance the park better.

When we can get all of those back on, and they should be all coming back on this year, but they're all not back yet. I think with the trending of COVID, we're definitely going to see some of those face-to-face interactions come back.

Ben Swinburne - *Morgan Stanley*

I know that you and the team - or the team at the Parks really focuses on yield. Is that going to be the focus going forward? Or do you think you can go back to the kind of attendance levels we saw before, or are you managing the business a little bit differently?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

We're managing the business differently. You'll see yield. We're looking at yield. But we also want to - once again, the consumer experience, when you're a guest in the park and you can't do things and everything is too crowded, your guest experience is going to go down. Your intent to return is going to go down, and word of mouth will not be as good.

We're really balancing. We don't want to have the parks bursting at the seams. We want to have them so that they are a great experience. And when you're there, if you're having a good time, you're probably inclined to spend more money.

That has been our - the results we have had to date since we've reopened. Yield is important. The other part of yield is we did some things on the technology - utilization of technologies.

Whether it's mobile dining apps, as I mentioned. Keyless, contactless checking into hotels. Those are things also that have allowed us to really take a hard look at our cost base.

And where we can use technologies, and I think in today's world, a lot of people would rather deal with their phone necessarily than standing in line dealing with a person. If they can do it themselves, that also impacts our cost base, which also impacts yield.

Ben Swinburne - *Morgan Stanley*

Got it. Actually, that's a great segue to my last question as we get close to the end of time here, which is on margins. Your Domestic Parks margins in the first quarter, you're almost essentially back to '19 levels, which is pretty impressive.

What are the variables we should be thinking about going forward on the cost front? And do you think you can exceed prior peak margins over the near- to medium-term at the U.S. Parks?

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Our Park margin this past quarter was -- and this is for the Parks & Resorts, Domestic - 32%. That's pretty darned good.

You have to appreciate that in that calculation is also our Disney Cruise business, which is not back. The first quarter of our fiscal year, which we just announced, for the first time since the pandemic, we had all 4 of our existing ships on the seas.

Now, they were at significantly reduced capacities, and people were still having a great time on them even with all the health and safety protocols that we are very strict about. But that's carrying that.

And so, when you're seeing - when the cruise business comes back on, when as we've talked about, you can let more people in, not necessarily filling it to the gills. But we can let more people in, very thoughtfully on how we're going to balance these loads, you'll see, I believe, that I don't think the best is over for Parks.

Ben Swinburne - *Morgan Stanley*

That's a perfect way to wrap up, Christine. Thank you so much for being here. Please come back.

Christine McCarthy - *Senior EVP and CFO, The Walt Disney Company*

Thank you very much.

Forward-Looking Statements

Certain statements in this discussion may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the Company’s future performance; business or financial prospects; strategy or priorities; investment and business opportunities; financial or performance estimates or expectations; investments; future subscriber levels, growth strategies and drivers; direct-to-consumer expansion, including international expansion and new subscription offerings; consumer and advertiser demand and behavior; advertising and content offerings, opportunities and expenses; new and returning attractions, experiences and cruise ships; recovery and expansion of businesses; 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 business decisions, as well as from developments beyond the Company’s control, including: further changes in domestic and global economic conditions; changes in or pressures from competitive conditions and consumer preferences or demand; health concerns and their impact on our businesses and productions, including COVID-19; international, regulatory, political, or military developments; technological developments; labor markets and activities; adverse weather conditions or natural disasters; legal or regulatory changes; the advertising market for programming; and timing, availability and performance of content; each of which may impact our operations, business plans or profitability.

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 2, 2021 under Item 1A, “Risk Factors,” Item 7, “Management’s Discussion and Analysis,” Item 1, “Business,” and subsequent filings with the Securities and Exchange Commission.