MoffettNathanson

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Disney Speakers:

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

Rita Ferro

President, Advertising Sales and Partnerships

PRESENTATION

Michael Nathanson - *MoffettNathanson*

Hey, I'm back. Michael Nathanson. I'm really excited about this next session. Thank you both for being here. The woman next to me, Christine McCarthy, CFO of The Walt Disney Company. I also want to say the EVP. You've been here before. Thanks for being here.

And we have a new guest. We brought a friend, Rita Ferro. And Rita is President of Ad Sales at Disney. And I thought, because it's the first time and because of the upfront week and – congrats on the upfront yesterday, I know it was big.

But let me tell you what Rita does, okay? She's responsible for advertising sales at Disney's entertainment, news, sports, kids and family, linear, digital ad-supported and audio businesses. You also are in charge of integrated sales for Disney digital, online, mobile and social, and also direct political national TV and regional ad sales for the stations. You have a huge purview.

And under your leadership, you've created a one-stop-shop approach to leverage the breadth of your portfolio and reach audiences across all of the company's assets. And because it's upfront week and because of the pivot to Disney+ in advertising, we all thought it would be great to have you here, so thanks for being here.

Rita Ferro- *President, Advertising Sales and Partnerships*

I'm thrilled to be here. Thank you. Thank you.

Michael Nathanson - *MoffettNathanson*

Thanks for being here. So what we thought we would do is we start with some questions to Christine on Disney. And then we'll turn to Rita on advertising. And then we'll come back at the end to Christine on Disney, okay?

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

Okay. And I know you're all going to enjoy this, because this is webcast, our disclosure police, as I call them, but they keep us out of trouble, have a safe harbor on the screen. But I just have to read you a couple of things.

Certain statements today, including financial estimates or statements about our plans, beliefs, guidance or business prospects and other statements that are not historical in nature may constitute forward-looking statements under securities laws. 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 contained in our Form 10-K and other filings with the SEC as well as the legend you see here and on our IR website. So thank you for tolerating me with that fair safe harbor.

Michael Nathanson - *MoffettNathanson*

Yes. Have a good night, everyone. Thanks for coming.

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

Beautiful read.

Michael Nathanson - *MoffettNathanson*

Exactly. Okay, so on your recent earnings call just last week – it seems like a couple of years ago – you reiterated your longer-term guidance on profitability for Disney+. You also reiterated that second half subscriber growth for this fiscal year should be higher than first half but tempered your comments somewhat. Can you elaborate on how we should think about growth in subscribers near-term?

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

Sure. I think there was a lot of confusion about what was said on our earnings call, so I welcome the opportunity to clarify it. I actually may use some hand signals.

What we did say, we reiterated the long-term guidance, 230 million to 260 million. And back in November, when we reported our full year fiscal 2021 earnings, we said, looking at fiscal 2022 that a lot of our subscriber growth would be more back-end loaded, and not just quarterized equally. We made that comment. I think we reiterated it again in February when we reported Q1.

And both Q1 and Q2 came in higher than expected, so bear with me for one moment. Just don't look at anything dimensional here, but this is the first half of the year, and this is the second half of the year in our plan. When both Q1 and Q2 came in higher, we were here, so what I was talking about is the difference between first half and second half wouldn't be as great because, first half, we over-performed. So that's all it was, was the delta between first half and second half.

We still expect a strong second half of subscribers because we have two things going on. We have a lot of great content coming and we've often talked about content driving not only sign-ups but also retention of subscribers.

And we also are launching in several new markets, international markets. By the end of the year, we will be in about 150 markets. And those are going to be, the balance of what we are now versus that 150 will be rolled out by the second half.

So hopefully, people understand. We didn't change anything. Back half is stronger. It's just less strong from a difference perspective because first half over-performed.

Michael Nathanson - *MoffettNathanson*

All right. So one of the benefits coming to a conference and seeing people live is you get to see the hand gestures…

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

Yes – I get to do hand motions.

Michael Nathanson - *MoffettNathanson*

Right. So everyone in the room now has a hand gesture benefit, okay. So also on the same earnings call, to me what was most notable was Bob spoke about Disney fully going into ESPN – into an ESPN DTC model. Was he signaling a more aggressive move forward towards shifting away from linear, towards ESPN+? So help interpret that because that's also a bit of a surprise based on what's been said before?

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

So those of you who've followed us – and I know you probably remember this, Michael – several years ago, when we started talking about our pivot to direct to consumer, and it first started in sports. We were going to do ESPN+. We acquired a majority of BAMTech – that was the engine that allowed us to do live streaming, many, many simultaneous streams. It's been a great product, we were able to launch ESPN+.

But back in the day when Bob Iger was CEO, we always said that at some point in the future as consumers change the way that they consumed not just entertainment content, but all content including sports, we would look at that as a long-term outcome but we weren't going to put any parameters around when that would happen. And I will tell you today there's still linear and direct to consumer as well as digital that we provide a lot of sports information for ESPN.

So we have three ways of looking at serving our sports consumers and sports fans. I think the one thing that has never changed, is ESPN's motto is serving sports fans anywhere they want, any time they want. And so looking at the flexibility that we have is something that we're continuing to focus on.

When you look at some of the rights that we've done recently – and I'll point out two because we look at both rights for linear predominantly or rights for ESPN+ predominantly.

When you look at what we did with the NFL in the most recent renewal, it was primarily linear, but there will be some opportunity to also put some NFL content on ESPN+. If you look at the NHL, that was primarily an ESPN+ DTC renewal, while we do have some opportunity to put some key games on the linear channel.

So what we're trying to do is be flexible, and look at both of those, but there are various models that we can serve up to sports fans.

Michael Nathanson - *MoffettNathanson*

Okay. So our presumption was that ESPN+ is a supplemental service to the core ESPN. Like yes, I'm a sports fan. I got ESPN, but then I want to watch golf this week and I'll watch ESPN+.

So tell us how you are thinking about the balance shifting those rights. That's the ultimate question of having one foot on the dock, one foot on the boat. So how do you think of determining when you – or the factors that you look at to determine when you want to shift more of the core rights to ESPN+?

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

It would be a different product because what ESPN+ is today is a complement to – not a substitute for – ESPN linear. So it doesn't make any sense to just port over all of those linear rights, which come with rights expense, onto an ESPN+ at the price point that it currently is. So at the time, TBD when that would happen, it would be a different offering.

And we may have an ESPN+ always be there that would be niche, if you want to call it that. Or it would be a complementary-to, but when you look at the big rights portfolio that we have, we wouldn't just port that on the existing ESPN+ with the same pricing.

Michael Nathanson - *MoffettNathanson*

Okay. So in essence, you're saying not much has changed from the answers you've given for many years.

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

Yes.

Michael Nathanson - *MoffettNathanson*

Okay, cool. And then before I turn to Rita, a question we have for you is how should we investors think about your capital allocation decisions into the future and especially in light of the purchase of Hulu likely in 2024. So how are you juggling all of these dynamics?

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

Sure, great question, especially in a market like we're currently all experiencing. I know many people have thought that this last cycle went on and on and on. And it was great for a long time and we're now seeing that this is really a cycle. And so we're in it. Our capital allocation philosophy and strategy has not changed.

We still look at, first and foremost, investing in our businesses. And when you look at what we do in both of our segments, we invest in content and we're continuing to do so. And we also have invested decades and decades in our Disney Parks and Experiences segment. And those continue.

Why do we do that? Because we have the experience of doing it in parks. We know that our investments there drive long-term sustainable returns. And we also are doing it in the content side, the DMED side because we believe it will drive long-term sustainable returns. We're still in a ramp up mode and investment mode. So that investment mode is not at steady state now, but that's, first and foremost, what we would do.

If we found acquisitions along the way – we've always looked at acquisitions. We've done some in the past, whether it's Pixar, Marvel, Lucas, some of the Fox assets that we acquired. Those were done at a time where we believed that they were complementary to or enhanced our strategies.

Then you get to what else, and that's returning capital to shareholders. We believe in that. Right now given our – I would say, the double hit of debt that came along with the Fox acquisition and then what we've been in, in a very severe COVID downturn in 2020 – and I think not to toot our own horn, but I think we weathered it very well. We got through it. And our parks businesses and many of our other businesses were completely shuttered, but we've been able to get out of that hole. And our leverage was quite high. It has consistently come down.

We do believe that, a company like The Walt Disney Company, a strategic asset of ours is our balance sheet. And having a single-A credit rating has served us well over time. It has given us an amazing amount of financial flexibility. And so getting our leverage ratio back down to that level – and it has come down, we're improving. Our recovery, primarily driven by theme parks, has really given us the opportunity to take that leverage down, but we're still not quite there yet. Look at our financials. We're not where we want to be.

However, when we return capital to shareholders, we are going to prioritize, meaning put first in line, dividends. We know that dividends are important to our shareholders, especially in markets like we're experiencing now.

And further down the line, when we have the flexibility, we'll engage in share repurchase. That is further out. But dividends is something that's top of our mind and we will resume them at the appropriate time.

Michael Nathanson - *MoffettNathanson*

Before I turn to Rita, it's interesting because when you did Fox, no one assumed a pandemic. We assumed dividends would stay, and the – maybe buyback, because you issued stock. So the pandemic has slowed your ability to do what you wanted to do on the capital allocation side. That's what happened in our model.

So Rita, let me turn to you. Thanks for being here. So let's start out big picture walking through an overview of your capabilities at The Walt Disney Company. So walk us now through how

Disney goes to market in advertising. So give – this is an education for all of us. So how are you structured, and how you go to market.

Rita Ferro- *President, Advertising Sales and Partnerships*

Great. Thank you. So in anticipation, a couple of years ago, of the merger with Fox and Hulu coming into the fold, we did a relook at our entire business, wanting to make sure that we were going to be prepared for the future we saw, which was a future of today, right. Tech and data enabled, high velocity of change, making sure that we have the right expertise.

And so that was really anchored in, I would say, three buckets. The first is really around our structure. The legacy structure was very regional based. It was very agency-based. It was very daypart, I would call it, based, so you have sport sellers and you have news sellers and you have prime sellers; very, very much siloed organizations.

And so we moved to an audience based sales approach really anchored in serving our customers and categories with category expertise and customer expertise, making sure that we were servicing every part of the marketing funnel.

So when we think of the marketing funnel, we have major marketers across the marketplace. We have our local business through our stations as well as Hulu. But we also wanted to service that SMB and programmatic and performance marketers because that's the highest growth area for us.

So that structure was really important to lay a foundation for what was coming next, which was really thinking about audience and data solutions. And so we spent a lot of time – years, I would say – really building out our ID graph, which we call Disney Select, which really has a broad range of ways that we can target and bring campaigns to market for our partners that allows us to measure and base that on outcomes – that's the ultimate goal for an advertiser.

And then the third piece was the investments in tech to be able to deliver against that. And so the tech piece was extraordinarily important because it not only services, again, our linear and our addressable businesses, it allows us to maximize the total breadth and scale of our portfolio, but it really allows us also to really focus on how do we think about self-service? How do we think of automation? How do we think of measurement outcomes?

And making sure that all of that runs through one integrated solution so that, no matter who we are talking to, we can deliver the scale that the audiences are looking for.

Michael Nathanson - *MoffettNathanson*

And on that third idea of tech investment, walk us through what type of investments you made and just even the timeline. Because I know this is something that's been going on behind the scenes for a while. So any update on that?

Rita Ferro- *President, Advertising Sales and Partnerships*

So I brought a slide that best illustrates that because there's a lot on this page so I want to walk you guys through this because it's really helpful, but it also speaks to, when you start to think about what goes into it, the importance of that.

So we have launched our Disney ad server – it is the backbone of our entire addressable business. We've been working on that for years, I would say three years-plus. It came as we've started the integration of Hulu, we realized it was so important for us to grow in addressable, we had to own our technology stack.

And so the investments we made around that were really anchored in how do we build our business using first-party and third-party data. Yield plays into that. So we always optimize for the best opportunity possible because, when there's demand in the marketplace, we want to lean into programmatic, but we do have tremendous scale in direct client relationships that we also have to serve through this.

So that takes all of that into it, managing the customer experience, advertising formats, the most opportunity in terms of what's the right ad to serve to the right client in the right time; and allows us to do sequential targeting, right? So when you see someone in one platform and they come back again in another platform, we know that, the advertiser knows that, they can deliver the right message at the right time.

The left-hand side talks to all the programmatic – the demand side of our business, if you will, the programmatic side, the self-service side, how we think about local versus national brands, programmatic brands, performance brands, which really anchor in data and expect to be able to leverage all of that data to do buys.

And that allows us to really talk about – and you and I've talked about this before – move advertisers who are brand marketers down the funnel into transaction; but also take advertisers who come into our funnel through small and medium businesses, small budgets and elevate them to the funnel to eventually become big brand marketers.

And then on the right side, it's making sure that they deliver across all of our platforms seamlessly, right. Because the importance of that is scale. And that will be something that is really important in the addressable marketplace. As people come to market, you have to make sure that you have enough volume to be able to move in the market to deliver the campaigns for partners.

And then on the bottom piece, I just want to make sure, our Disney ID graph powers all of that through all of these, the connected device IDs, the mobile device IDs and the household IDs, that really feed that, in an anonymized way, but with direct targeting capabilities.

Michael Nathanson - *MoffettNathanson*

Can you talk about how you manage that demand? You mentioned it's obviously very much yield-based, so how do you calibrate that marketplace with all of these different types of buyers coming together?

Rita Ferro- *President, Advertising Sales and Partnerships*

So we've been doing it for a long time. And obviously there's a tremendous demand coming in from small and medium businesses and our local businesses. Those are businesses that are growing at double-digits every single year.

And yet at the same time, all of the business is slowly migrating to a much more targeted world so the growth of our data-enabled business is going to continue to be a really important focus for us driven by obviously self-service, driven by automation, but really leveraging the combination and the magnitude of the size of marketplace that we have.

Today, we have thousands of small and medium businesses, over 1,200 advertisers who come in through that self-service tool who have three campaigns each. They are very different marketers. They're universities. They're hospitals. They're auto services, very different advertisers than the ones that we service directly with agencies on a multilevel – multi-market national ad campaigns.

So the combination of all of that is really how we bring it together to make sure we're maximizing every impression.

Michael Nathanson - *MoffettNathanson*

Okay, so let's dig into that. So for those large campaigns coming in, are they still playing on the linear side because – or are they – are the large brands looking for more of the performance-based marketing that you're offering on the streaming side? So how are large brands engaging with you?

Rita Ferro- *President, Advertising Sales and Partnerships*

So what's wonderful about this marketplace is that they plan video holistically. And so when you plan video holistically and you're dealing with buyers that way, it's easy when you think of a portfolio like The Walt Disney Company because of the scale of our linear reach, which is still extraordinary. We have some of the best entertainment platforms in the planet today on the linear side that really service specific audiences.

They've been buying them for years, but there is a complement to that in the scale and reach that we have across our addressable platforms through Hulu and our television everywhere apps.

And then on the sports side, which is really an important marketplace for us today and really growing very much in demand, we have scale in both addressable and linear. And so they buy holistically across both of those. In this upfront marketplace right now that is a really important differentiator for us. It's why people come to Disney first.

Michael Nathanson - *MoffettNathanson*

Okay. And as a pivot, do you want to talk about first and third-party data? Like what advantages do you have on the first-party side?

Rita Ferro- *President, Advertising Sales and Partnerships*

Well, I mean, we know our customers across all of our platforms that – where we have registration. And so obviously that's been a piece of what we do, but we also have for a very long time worked on businesses where we – like our mobile games business – have device IDs that we use to help build our ID graph.

And so we've been very – over time, very deliberate in curating and making sure that we have the right permissioning – that's the other piece, on the data side, you have to have the right permissioning and the right ability to bring all of that data together and de-dupe it and make sure that you can bring it to market in a holistic way. So we have all of that on the first-party side.

And through third-party, we work with great companies, obviously. Nielsen is one of them, but Samba is another one where we do cross-stream measurement. We're working on building out our data clean room solutions so to be able to do third-party matching where data doesn't ever get exchanged between partners but we can use it to target media campaigns.

That's a really important piece of what we're building right now, and you're going to hear a lot about that in the marketplace.

Michael Nathanson - *MoffettNathanson*

Right. And this is happening behind the scenes. We won't see very much of this disposed to us.

So the question is you've seen tremendous success at Hulu from advertising, so what have you learned from that experience in selling Hulu? And how has Hulu's advertising tier helped drive overall ARPU? And then maybe we could posit that to Disney+, but…

Rita Ferro- *President, Advertising Sales and Partnerships*

I'll leave her with the ARPU question, but I'll answer your first part of the question. So I mean the integration of Hulu for us has been outstanding for a multiple of reasons. Obviously the obvious one is scale, but it's also our great intel and learnings to our team because Hulu was the first platform to launch advertising, right? The first AVOD platform. So they had 14 years of experience in this space.

Since we took operational control of Hulu, we've doubled the revenue. We've doubled the number of advertisers. Programmatic revenue is up five times. So it was a really important piece of our portfolio, but it also benefited tremendously from being with a company who's been in the advertising business for decades.

And so when you think of how do people measure their opportunity, again, on AVOD, when you look today, Comscore says we're in 115 million homes and – or users, right? And so those users are really valuable. And the scale of that is really valuable in terms of being able to deliver campaigns because, when an advertiser says, I want to run X amount of media, not everyone has the scale to deliver those campaigns, but it's also really set us up for the future of the marketplace is moving to an addressable-first world.

And so we have learned a ton. We have brought on great talent as part of that. And that is really setting us up for the future of a much bigger addressable opportunity as part of our go to market.

Michael Nathanson - *MoffettNathanson*

Okay. And do you want to take – handle of – the advertiser ARPU at Hulu relative to the subscription ARPU and how it's working out for you?

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

So when we think about the opportunity here. Because based on our Hulu experience, we actually have more AVOD than SVOD subscribers. We think that that will probably be a – maybe it won't be on day one, but we expect about the same percentage for both Disney+ and Hulu just based on the experience curve that we've witnessed.

And then we believe the – Rita can talk about the plans for Disney+. They're not going to be as robust in terms of pods as Hulu just because it's a different product, different market, but we do expect there to be a premium from that advertising that will enhance the ARPU. So we feel – we really feel good about this opportunity.

Michael Nathanson - *MoffettNathanson*

Okay. And there are quarters in which that Hulu-with-ads ARPU is higher than Hulu with no ads ARPU.

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

I think there is some seasonality to that. Holiday season, it's just different when advertisers – the CPMs may go up, the effectiveness. There's a lot of levers that the ad sales team can work with, but I think seasonality won't be that different as it is that we see in Hulu.

Michael Nathanson - *MoffettNathanson*

Okay, so now let's pivot to Disney+ for a second. So how has that experience contributed to the decision to create a Disney+ ad tier? You have content. It's family focused where you never had ads on Disney's channel, Disney+. And you also have premium IP. Movies have never been interrupted with commercials in my world, anyway.

So how do you sell and deliver advertising that is both appropriate and sensitive to the content and the communities that you're trying to reach?

Rita Ferro- *President, Advertising Sales and Partnerships*

Yeah. So I actually brought a slide on that so that you can just see kind of the highlights. Obviously, I can't even tell you the demand that we've had for this. I remember day one that Disney+ launched. I had about four clients call me and say, okay, now give me the date. I think they assumed we had some magic date in our head where that was coming. So the response has been extraordinary as you can imagine.

I think the learnings are pretty obvious. We understand the marketplace, we understand what it takes to launch a service with advertising, we have built the tech to be able to service it through our Disney ad server, we understand that it's a – we're going to roll it out slowly. So yes, we're going to have advertising on our kids' platform to kids, but it's going to be controlled advertising with a lot of rental levers to pull.

We're not going to collect data on that. We're not going to have advertising preschool content at launch. But obviously, we're focused on four quadrant advertisers.

And so we know that the movies are the reasons people come to the platform and movies have a different ad load than you would see on Hulu, right? So that's going to impact the average. We plan to have an average of four minutes of advertising per hour. It's less than Hulu, but it's because 65% of the consumption is really happening on movies and they do have different ad breaks. But that will evolve over time.

And so, we want to start slow and so we're not going to just start with fifteen's and thirty's, but we'll evolve to the full suite of ad products, as we learn and we understand how people come online and how we use the platform.

Michael Nathanson - *MoffettNathanson*

Okay. A great thing we've had, I think about my partner Craig Moffett and I for years, maybe Alexia and everyone has debated this too. Does an hour of consumption in this new world, let's do to Hulu versus Disney+, because it's more mature, equal to more advertising dollars than our and the overall, the trade-off is let’s do by a reach, but the new world has got targeting more – some SMBs, better data.

So, like, how do you think longer term an hour of content looks monetizable by advertising in the new world versus the world that we all lived in before?

Rita Ferro- *President, Advertising Sales and Partnerships*

Yeah. We evaluate that all the time in terms of CPMs, for example, and a lot of our platforms today on linear have pass through advertising, they pass through the advertising on digital, so for ESPN we pass through the advertising on our digital platforms.

We constantly evaluate that. I think we're not there yet, but I think the demand is shifting so strategically that I think more demand raises price, right? Which, its part of the supply-demand situation that we have in linear. Every advertiser every year says, I don't understand, ratings are down 25% in Prime and the CPMs are going up 30% – supply / demand.

And so, I think more demand will create more price balance. But I also think the value of what you're getting in premium content, not every AVOD platform is the same, they're not priced the same, that's public information you can go on SMI and get that.

There is a value to the targeting, when you call a CPM, you decorate it with data that means there is a premium for targeting a premium for data.

There is also a premium for ad products and experiences, we've built the most robust ad products and experiences on our platform and all of that contributes to the opportunity that, yes, you will likely have less advertising with any a series on Hulu than you have on linear, absolutely, that's the way it is today.

But the opportunity of how we think about it, it's not exactly apples-to-apples, because we're still selling on the about 18 to 49. And when you translate that into people P2+, it's not that different, but the opportunities for upside in a targeted world are absolutely great.

Michael Nathanson - *MoffettNathanson*

You touched on it. Like many of your peers now moved on or moving into advertising on HBO Max, it’s now moving their business. I think Netflix made some noise about that on their last earnings call.

So can you talk a bit about your competitive positioning and maybe to challenge of getting to the place that you've got into all the years, so how easy to turn on the switch and do this business?

Rita Ferro- *President, Advertising Sales and Partnerships*

Not easy. We've been preparing for this moment for years. So we have been methodically thinking about the technology investment, what was the right thing to put our dollars against, how do we think about our resources around people and expertise and the partnerships that we have to have in place to do it, the way we think about the content partnerships and how you have to allow – people we buy content from have to allow us to put advertising in that. So that just doesn't happen because I decide to put advertising.

I love our hand. We have 14 years of Hulu experience, decades of Disney experience on how to go to market and sell advertising. We have the relationships in the market, people trust us and we understand, I run the kids business, so I also understand what it is to sell advertising in a kids-first platform and understand the control that we need to have around that, while being able to really fully monetize our adult business, which is a big piece of what we will have on the Disney+ platform.

So, I love our hand and I am excited about every advertiser who wants to come in – or marketer who says – or platform, sorry, platform who says they want to come into this space, because it's not easy.

And we're seeing that right now as the rollout of many, many platforms that are coming out, but they don't have the scale and the expertise that we have.

Michael Nathanson - *MoffettNathanson*

Okay. This was mentioned in the upfront week. Can you walk through the entire Disney portfolio, but I wanted to dig in a bit on a linear, any perspective now on how advertisers are embracing it? What's the value of the linear pitch? Why they are there? Any outsized interest from any particular segment of the market that supporting you in linear?

Rita Ferro- *President, Advertising Sales and Partnerships*

Yeah. As I said, I think most marketers are looking at video holistically. There is absolutely demand for linear platforms. We are in the upfront marketplace and there is not a single partner or client who is not interested in buying across our particular suite of linear businesses. I would say especially in sports, the demand in sports is really, really strong right now.

And I think you're seeing it across the board, across all leagues. But the value is really in how you bring it to market, making sure that we have the flexibility to deliver campaigns across.

So the beauty as we've started fluidity many years ago to make sure that when an advertiser wanted to buy a campaign that they could move across sports, entertainment, cable, whatever they want it, even streaming.

And so we bring that to market together. But there is absolutely, I would say, demand for linear and with some exceptions – you're talking about there are some categories that are down, packaged goods, for example, is down. You have other categories that are up, pharmaceuticals.

In sports you have people who came in the scatter marketplace like crypto and sports betting, they're coming into the upfront marketplace now. That changes a little bit the dynamic, right, because those are categories that are new, they tend to have more aggressive CPMs.

And so it's a mix in terms of newer markets, old markets, in terms of old traditional advertising categories, I would say, but there's definitely demand for our linear businesses. I see that continuing to be an important piece, especially when a marketer is looking to launch a product, there is no better way to do that than in broad television, right? And so that continues to be really important for us.

Michael Nathanson - *MoffettNathanson*

Okay. So let me turn to Christine for a couple. So a question I guess is on the call, but I'll ask it again, you have so many amazing brands, franchises, traditions that also set the company apart from your peers. Why not focus on those strengths and let others chase, either originally produced content and entertainment programming, the questions about streaming, right?

Is there a case to focus only on your core brands in streaming versus broadening out? So when you look at the give and takes in the ROI becoming broader versus playing to your strengths. How do you allocate that decision?

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

That's a great follow-up from earnings. I know your position.

Michael Nathanson - *MoffettNathanson*

It’s a theory, it's a theory.

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

Well, it's a theory, we can probably have longer conversation about this, but I think we do look at our brands, our franchises, the things that encompass Disney, whether it's Disney, whether it's Pixar, it's Lucas, it's Marvel, those are incredible brands we tell wonderful stories around them, it's live-action, it's animation, but when we look at the opportunity, the one thing that we hear from subscribers, especially ones who churn out – they may come back, but they're looking for more general entertainment.

And we look at and there is still, I know there's a belief out there that we already have every single Marvel and Lucas and Pixar, not true. We look at these markets and we have opportunity to grow in all of these brands. But the one we have the most potential is in general entertainment.

Now, you could say, and I think if you didn't know Disney and you didn't know the content creators that we have and the storytelling, how it so, it all begins with, the content is what we – is in our DNA.

The storytelling and just the ethos in the company is to really tell great stories. Now when you're telling stories, they aren't all wonderful, but our track record is pretty good when you compare it to the competition. So we look at our opportunity in general entertainment as being able to have a variety of content, whether it's non-scripted, whether it's scripted, that will be appealing and that will keep and retain more consumers and potentially attract even a different demographic than we have.

So we look at things, I'll just call out a few, but we showed these at the upfront yesterday, but *Only Murders in the Building*. It's a wonderful lighthearted comedy, that's general entertainment, and that you can see on Hulu, but why wouldn't you have something like that on Disney+, but we look at that opportunity and then you can have things that are much more adult, whether it's *Dopesick* – I wouldn't have my eight-year-old watch *Dopesick* – or *Pam & Tommy*. But there's things that are truly adult, but then there is a lot that are just more general entertainment.

And when you think about parents with young children, and we do have a lot of people on Disney+ who are what we call AWOKS – adults without kids – and it's about half that don't have kids that are subscribers. But they're looking for – they may love and want to relive their youth and watch some of the library content or watch the great new series that are coming out on any given month or so.

And they may do that, but they also want to see some things that are more adult-oriented or not branded. And so we look at this as being additive, not being that we're going to just be in a race that we can't win.

Michael Nathanson - *MoffettNathanson*

Because in many ways, is your first – like I said, the first 100 million subs were so incredibly efficient where you turned on the service, it really showed up, right? So the question is the next 100 million subs. But we'll see....

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

And we also have – the other thing I didn't mentioned was, I know there were some questions, why you are doing 500 shows into various stages of development, production on local language content. Well, that's because our experience – and we've seen it when it was the old ecosystem with linear channels throughout the world – people in countries that have a different culture they want to see things that resonate with them. Their world views are not necessarily homogenized.

And so doing things in the European markets that really speak to those sensibilities or doing things in Latin America or doing things in Asia, those are stories that they're not all transportable, now we do hope that there are some stories and shows that we create that we will be able to transport across different regions.

But once again, people in those markets, they don't just want to see content that was made for the global audience or the U.S. audience.

Michael Nathanson - *MoffettNathanson*

Okay. And then let's talk about the theme parks. You hosted that event back in Orlando in March. It was really worth the while to go. What about the park business do you think is the most underestimated by Wall Street today?

And should we be worried about this? You get all time the sharp rise in per caps too. So what don't we understand of about the Parks? We know they’ve been around for a long time.

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

Yes. Great question, and I think with the – you hadn't been down there for a couple of years because of the pandemic, but I think – and tell me if this resonates with you – I think when you're down there and you could be in World, you can be in Land, you could be in one of our international parks, there is three things that I don't think are that appreciated or not appreciated as much.

And the first I would point out is our cast. When you see the people working in the park, they are there to make you have a great time and they are so engaged on what you're there for and what they are doing. A lot of them get into character, it's actually really amusing to watch them I mean, it's like these people love their jobs, can you imagine if everyone loved their job like that! But they want to engage, they want to talk whether they're putting you on a ride, whether they're in a parade, but they are there to entertain you.

And I think when you're there you sense this is – what are they feeding these people! I mean this is a wonderful, wonderful environment because people want to have you have a good time. So cast is one.

The other thing I think is underestimated is creativity. And I think you experienced it when you went through some of the new attractions that we have and certainly the new, we don't even call it a hotel, it’s the interactive immersive experience of Galactic Starcruiser, you go in there and you see creativity that you can't experience any place else, it's not like you're just going on a ride – you're going into an experience, you're going into the pre-show to an attraction, but it's all very creative.

Even some of the food and beverage options. We have great food and beverage teams there, you will have food and beverage that you can’t get any place else except at one of our parks, whether it's the shape, the size, the stories around it. So that’s the creativity part that I think people when they are there think like this is really cool.

The third thing is what I would call, relevance in keeping the parks relevant. So our parks have been around for a long time. Disney World is celebrating its 50th. Disneyland is just celebrated its 65th, it's now 66, soon to be 67.

But if you went there in the 1960s or the ‘70s or the ‘80s, it's not the same experience and even if you hadn't been there four or five years you will go and you will find something that was updated, it may be a seasonal update, it may be something that we've pulled in from some of our great content, something that's not yet really in the parks.

I think you see it with something like *Encanto*. What was really just wonderful in the music. Elements of that could be incorporated into the park experience, some of it will be transitory, some of it will be more permanent. Certainly, when we put like a Marvel or Avengers Campus, that's more permanent. But we can do things with entertainment that really are relevant.

So I would say its cast, creativity and relevancy. And that unless you're there with your eyes open and letting your – let you experience the heart and the mind, I don't think people appreciate that.

Michael Nathanson - *MoffettNathanson*

Okay. And then on per caps?

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

Per caps. So per caps, this is once again math and I hope people get it. I'd even put it in the arithmetic category. We have had...

Michael Nathanson - *MoffettNathanson*

There's no hand gestures?

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

I may use hand gestures. So what you have to think about per caps is, we have had amazing – from our yield strategy and it's not just ticket prices, it is food and beverage, merchandise, as well as some ticket prices, but there's a wide range of ticket prices depending on what the consumer chooses to do, but that all factors into per caps.

The growth – and we look at the base year not as 2020 we look at it as '19 because '19 was the first – it was at the time a really high watermark for us, but we compare it to '19. And our per caps are up significantly versus our per caps in '19.

But when you think about, now we've had some really big versus last quarter or versus '19. Now, we still expect growth, but once again, we're lapping really big increases, so the percentage increases are not going to be what we saw, because now we're already lapping really strong per caps.

Michael Nathanson - *MoffettNathanson*

Right, the optics.

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

Yes. So once again strong per caps, but you will have the percentage increase versus the prior year which was also high, but it won't be as much.

Michael Nathanson - *MoffettNathanson*

Okay. So let me – I have one last one for you and one last for Rita. We have to talk about the box office and historically the dominance you've had at the box office.

How you are now viewing the film industry, what are the changes that you think are in place now post-pandemic? And how those changes help or hurt your ability to create franchises and monetize IP?

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

Well, some things have changed. And I think one thing is that, the consumption of a movie can be in the theater or at home. I think one thing we have learned is that, all movies are not created equal. The audiences are not created equal.

So those people who are choosing to go to theaters they tend to go to theaters for different product. The ones that have and it's not just our movies it's the industry, the movies that have done the best so far as movies have reopened, are action, super hero and I would call it adventure.

You saw what we did with *Dr. Strange* – great opening, continues to perform well, we think – but that's a superhero movie and we knew that, we believed that our film guests were going to show up in the theaters and they did.

That's not necessarily the same for, let's say, adult dramas. A lot of adult dramas, they don't need the big screen, they don't need the wonderful sound – maybe people like it, but you don't need it. And so some of those people say, I'm just fine watching those at home.

So when we think about the kinds of franchises that we build, we have found it's great to utilize theatres because you can have the crowd experience in the theater, people can hoot and holler and high five each other when they see something, but we also saw that we could develop a franchise on Disney+.

The Mandalorian is a case in point. A new storytelling, it came out of the Lucas' *Star Wars* kind of group, but it was a new brand and story. That was – we've had two seasons, there'll be another one coming, but that's a franchise.

So we know that we can do both. It's great that we can do it, but where, we have, we know that we will be able to attract people to go into the theaters. That's why we've talked a lot about the flexibility, it's just not one size fits all.

Michael Nathanson - *MoffettNathanson*

Right. And now with advertising capability set you apart from a people business and that's something that, I think the narrative has to be told.

Okay, last question for you Rita. It's kind of geeky, so thanks to Benny Rosner who you know from working at Disney. He has done a ton of work on the opportunity mid-funnel, right?

So television always been top of funnel, brand building, surged by funnel, engagement… so talk a bit about how you see AVOD or SVOD moving into the middle of funnel and what type of, again, targeting are you able to do to really engage people in a way in advertising that were not before. So any examples of how you are moving people from top of funnel to mid funnel? And do you agree that there is a huge opportunity for someone like yourself?

Rita Ferro- *President, Advertising Sales and Partnerships*

It absolutely is. So when we brought Hulu onboard, one of the great things at Hulu had started was this whole self-service tool beta. And it was because they wanted to talk to performance marketers.

And so performance marketers obviously have very different smaller budgets, they are more nimble, they tend to have multiple creative, you have to help them with creative. So unlike a major marketer who shows up and he has his beautifully produced multimillion dollar commercials, a lot of these advertisers require us to help them with creative and creative generation.

And so the subsurface tool really allowed us to do that. But it was also the tools that we bring to market to service those types of advertisers. How we think about measurement? How we think about the types of environments that they're going to serve and price. Right? Because those marketers tend to be more opportunistic, smaller, last minute, so the price models had to be there and so that tool is really important.

And as we think about performance marketers we learned a lot in that space, right? What it takes to launch a campaign? How they measure? What are the metrics that they're asking for that helped inform some of our brands, the big marketers, multinational marketers and a lot of those, as you know, have started to really look at their customer throughout the funnel.

So they do brand marketing, but they also want to start to measure outcomes. And so, we start to learn a lot of those tools and services that we could bring to those marketers to bring them down the funnel and they have engaged with us in different ways and bought basically experiences they wouldn't necessarily have bought in a traditional media campaign.

We also have small and medium businesses who came in and all of a sudden realized, hey, I want to be part of the Oscars. I want to be part of a major sporting event that wasn't really core to how they thought about coming into the funnel. And that has happened as well.

And so, the beauty of what we're seeing now is marketers may come in through a different part of the funnel, but we absolutely can move them and that's really been identified mostly through our local businesses. So we've had our stations teams who merged with our Hulu local team, we had multiple teams side it, and they've really been able to drive that together.

So the growth in that space has been double-digits every year and they're talking to different types of advertisers because, obviously, from our stations, they had very different relationships than in the Hulu performance and local teams, but bringing them together has really been where we've been able to magnify and amplify the opportunity.

Michael Nathanson - *MoffettNathanson*

Okay, Rita. Thank you, Christine. Thank you. Really appreciate it.

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

Thank you.

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 and plans; demand; strategy or priorities; investments; business opportunities; financial or performance estimates or expectations; future financial priorities; advertising outlook, plans, products and strategies; technology capabilities; future subscriber levels and growth; growth strategies and drivers; direct-to-consumer expansion and performance, including new subscription offerings; consumer demand and behavior; anticipated demand, timing, availability, utilization or nature of our offerings (including experiences, direct-to-consumer offerings and content within our products and services); advertiser demand and behavior; business recovery; impacts of COVID-19; and other statements that are not historical in nature. These statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements.

Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives 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 or pressures from competitive conditions; changes in consumer preferences or demand; changes in the advertising market; health concerns and their impact on our businesses and productions; international, regulatory, political, or military developments; technological developments; labor markets and activities; consumer or advertiser demand and behavior; adverse weather conditions or natural disasters; legal or regulatory changes; and timing, availability and performance of content; 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): our operations, business plans or profitability; demand for our products and services; and the performance of the Company’s content.

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 2, 2021 under the captions “Risk Factors,” “Management’s Discussion and Analysis,” and “Business,” and subsequent filings with the Securities and Exchange Commission, including, among others, quarterly reports on Form 10-Q.