



The  
**WALT DISNEY**  
Company

**2022 Bank of America Securities Media,  
Communications & Entertainment Conference**

**September 7, 2022**

**Disney Speakers:**

**Christine McCarthy**

*Senior Executive Vice President and Chief Financial Officer*

**Josh D'Amaro**

*Chairman, Disney Parks, Experience and Products*



## **PRESENTATION**

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**Jessica Reif Ehrlich** – *Bank of America*

Could not be more excited to have Disney. I think Christine McCarthy deserves, like a standing ovation for making it. You really just get kudos beyond kudos.

And couldn't be more excited to have Josh D'Amaro here for the – is this your first conference? Because we're really excited to have you.

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**Josh D'Amaro**- *Chairman, Disney Parks, Experiences and Products*

It is, yes. Happy to be here.

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**Jessica Reif Ehrlich** – *Bank of America*

We're so excited to have you. Really, this is great. So I'll start with Christine, and then we'll kind of take it from there.

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

I have to – our disclosure police make me do this. Okay, I hate doing it, but I'll read really, really quickly.



Certain statements today, including statements about our plans, beliefs, expectations, guidance or business prospects or other statements that are not historical in nature may constitute forward-looking statements under securities law. We make these statements on the basis of 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 a legend you see here and on our IR website.

Okay. We got that over with.

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**Jessica Reif Ehrlich** – *Bank of America*

So much for that. That was an amazing comment.

So with that, what do you see – this is for you, Christine. But what do you see as the key drivers of growth sitting here today to the 2024 Disney+ subscriber targets you recently updated?

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

Yeah, that's a great question. Disney+ has been around for almost three years. It's done really well. But we look at the growth from where we are today, looking forward, really coming in four different areas.

One is the content. Both original content, content for the service, content that are in other distribution platforms initially, and then will come to the service. But content is one.



The other one, and we have upcoming our launch of our Disney+ AVOD tier<sup>1</sup>. What's important about that is we really have been talking a lot about consumer choice. You'll hear more from Josh today about consumer choice in our parks businesses. But it's been one of the things that Bob Chapek has consistently talked about. Give consumers choice.

And when you look at an AVOD product, which is at the lower cost end all the way up to something which is ad-free, we're giving consumers choices. So we believe that, that's good. And we think that the AVOD product will be well received when it's launched December 8.

We've also got the Bundle. And we look at our bundle as being a real driver of a value proposition. We'll lean into that as time goes on.

And the last one is we have selectively used wholesale distribution agreements for when we either go into markets, or are just on a subscriber push. And what's important about that is it does accelerate subscribers, but it also is a vehicle that gives us much lower SAC – subscriber acquisition costs.

So you look at those four things, and those are really the drivers that we feel confident about continuing to grow Disney+. Now we have talked a lot about '24. Where we'll be in terms of subs, where we'll be in terms of profitability. We're committed to both.

And one of the things about the sub trajectory. One of the new disclosures we provided the market last earnings was to talk about net core Disney+ subscribers. That excludes the Disney+ Hotstar.

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<sup>1</sup> Disney+ will launch an ad-tier version of its SVOD service in the U.S on December 8, 2022



The reason we did that is because it is at such a different price point. And when you think about the offering that we have domestically here in the U.S., Canada, EMEA and Latin America, those are the ones that we're calling core Disney+.

And that net additions, we – they won't be linear. So there will be some noise quarter-to-quarter that you'll see in there. But we did say on the earnings call in August, and I just want to reiterate it, is we do expect to see an increased – a slight acceleration from where we added core for Q3 as we go into Q4. And we expect that to be both U.S. domestic, and in those core international markets.

So all of that adds up to – we feel really good about where we are, and we're going to continue to push on all the commitments that we've made to the market.

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**Jessica Reif Ehrlich** – *Bank of America*

And then just staying with Disney+. You recently announced your new pricing structure for AVOD, which is your old SVOD price of \$7.99. And \$10.99 for the new SVOD service.

Can you just talk about like – how did you come to that conclusion? What were the considerations you took into account?

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

Sure. Well, I think for those of you who – and I know you did, Jessica – attended the first Disney+ Day that we did back in April of 2019. And it was a kind of comical, but memorable, moment of drop the mic. My former colleague, Kevin Mayer, was doing the presentation at the time, and he talked about the price point. So we launched Disney+ at an extremely attractive price point.



And when we look at what we have done in terms of supplying additional content since the initial launch, we really look at it as we're kind of rightsizing. We were behind the market pricing when you look at competitive streamers.

But we're looking at this AVOD priced at \$7.99 as being a good entry point with some advertising on it. And you can buy it up based on other attributes if you so choose. But it's really to get it more in line with the competition.

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**Jessica Reif Ehrlich** – *Bank of America*

I don't know if we should ask you, but I mean any thoughts on like ultimate ARPU? I mean it feels like sitting here today – we just put a big note out on AVOD – that the ad tier, the AVOD tier, could actually have higher ARPU than the SVOD tier. I mean it just feels like there seems to be a lot of demand from what we hear in the market.

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

Well, we have experience through Hulu. We've had – we get the knowledge and the experience of having our Hulu AVOD product. And – but this is different because remember, the ad load that you'll see on the Disney+ AVOD is only going to be, at launch, four minutes an hour. So that's very modest.

It also has – from an advertiser perspective, certain advertisers really want to reach that demographic. Whether it's family audiences, whether it's – we do have a significant AWOK population, adults without kids. But they really look at that, at those defined markets as something that could be quite attractive.

So how does that translate? We have a wonderful ad sales team led by Rita Ferro, and she is – she knows that she has scarcity, and a lot of demand. And that's going to drive those CPMs.



So that's where you could see it. It's – we haven't launched it yet, too early to tell. But our experience with Hulu is that our AVOD is about the same as our ad-free. They're both in that twelve dollar range.

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**Jessica Reif Ehrlich** – *Bank of America*

Right. This is very exciting. So I just have so much ground to cover. We're going to switch gears a little bit.

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

Don't forget Josh.

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**Jessica Reif Ehrlich** – *Bank of America*

I know. I'm to coming to Josh, just two more questions and I'm coming right to you.

So on film, you've had incredible success with the Marvel franchise over the last decade or more. What role do the other brands play in driving your theatrical release strategy?

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

We do have a great hand when it comes to looking at all the brands that we have. These are brands, some of which we've acquired through some key acquisitions.

But we look at – when you think about the theatrical release window, we've really focused on flexibility because the theatrical market is not the theatrical market it was back pre-pandemic.



We've seen the kind of movies that do pull audiences, and the demographics that are very willing to enjoy movies with their friends and go see them multiple times. When you look at some of the success of some of the summer movies that have been out there, ourselves as well as some of our competitors. But Marvel is a genre that – or a brand that will get people into theaters. But we have some others, too.

So our upcoming releases, one thing we're going to do later this month is re-release the original *Avatar* in theaters. *Avatar* came out a while ago. I think it was – it was, not think – it was just earth shattering at the time because no one had ever seen anything like it. But I think people will go to theaters once again, it's a big spectacular movie.

They'll go to theaters to experience that, prior to the December release that we have of the long-awaited sequel, *Avatar: The Way of Water*. That will come out in December. So we have that happening.

And we've got a few other releases coming from Animation, 20<sup>th</sup> Century and Searchlight. And Searchlight, I just want to mention, it's kind – it's not an IP brand, but it is a genre brand.

So when you think about – and I know there's a lot of conferences right now, a lot of film festivals. And some of the content that is being shown at those venues are, from Searchlight, very, very well received. And we know that they've kind of been a magnet for awards, but it's really high quality, lesser budgeted, more adult dramas. But it's definitely something, when you see Searchlight, you kind of know what you're getting.

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**Josh D'Amaro**- *Chairman, Disney Parks, Experiences and Products*

Jessica, I'll chime in, if you don't mind, just to tag on to that.





But you think about things like Marvel or Pandora – or *Avatar* – those then translate directly into the theme park experience. And we're feeling that right now.

You think about Avengers Campus in Anaheim, or we just opened in Paris, for example. Guests are flocking to go experience that. And it is new guests, too. They're coming into our theme park system because of that franchise. *Avatar*, you've seen how we've used that at Disney's Animal Kingdom in Walt Disney World.

So as that machine that keeps pumping out these properties, it then kind of emboldens what we're doing on the theme park side.

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**Jessica Reif Ehrlich** – *Bank of America*

And just for the record, like the word-of-mouth in the industry is that the new *Avatar*, *Avatar 2* will be – people say, will be the biggest movie ever. Again, another *Avatar*. But it's very exciting, which will probably help theme parks as well.

But one more question for Christine, then we have a lot for you, Josh.

So on the cost side, your – Disney's SG&A costs have, particularly in DTC, have grown significantly since fiscal '20. What's driving that increase? Is it all marketing and subscriber acquisition costs? Or is there something else going on?

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

There's a few other things going on. Remember, this is a new product. We're launching in new markets. So yes, there's marketing. There's also a lot of technology.



There's – just when you grow a business that quickly, you tend to add to your SG&A bucket. But as the launches are pretty much done from a global perspective, we take the opportunity – and we're always focused on this – really rationalizing that cost base.

There are some things when you're running fast and opening up in all these different markets, it may get a little frothy. Then you rein it back in. But we are very, very focused on SG&A.

Josh, during the pandemic, his team did a phenomenal job in his segment, DPEP. And they really took out permanent cost savings because we have a lot of different things we have in the company. We can use things at an enterprise level. We've got technologies, but we've really – that was one that the pandemic was a point in time where we made a lot of lemonade out of a lot of lemons, so to speak.

But we're looking at the SG&A for DTC. Similarly, once you get it up and running, then you rationalize it. And you'll see costs come down in marketing, in technology as everything gets built out as well as other kind of back-of-house functions, right?

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**Jessica Reif Ehrlich** – *Bank of America*

So, moving on to theme parks. My recollection, historically after a decline, whether it was like the gas prices in the '70s, or 9/11, or multiple recessions over the years. There's been a five-plus-year window of growth after a period of decline. Like, it's almost always, and it's always a long period.

This – I don't think you've ever closed the parks for more than a couple of days before the pandemic, right? Because of weather, or whatever. But can you just talk about, coming out, what has changed? To kind of continue on what Christine just mentioned, like what has changed permanently?



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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

Yeah, we did recover very quickly. And I'll tell you, the 400-plus days that Disneyland was closed, for example, was very painful. To the lemons comment that Christine just made here.

But I think one thing for sure, as I stood on Main Street at Disneyland and Walt Disney World. And these guests started coming in after they were freed from being bound to their houses for so long, it's kind of a reaffirmation of the power that the brand has, the connection that our consumers and guests have. I mean there was pure emotion as people are walking up the street, seeing the castle for the first time.

And so that shouldn't be a surprise to us. This brand is incredibly powerful, I think more powerful than it ever has been before.

There are still some opportunities for us to continue that recovery. Disney Cruise Line, and the cruise line in general, is not back exactly where we want that yet. Asia, we're seeing some up and downs with government restrictions on that front.

But we've recovered in an interesting way, too. I think you know this, and a lot of folks out here know this. Our operating income is back above where it was even in fiscal year '19, but our volumes are lower. That was a strategic calculation that we made and in large part because our commercial reactions – this reset opportunity that we had to accelerate some of these strategies – we put them in place during that 412 days that we were down. And now we're reaping the benefits of those.

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**Jessica Reif Ehrlich** – *Bank of America*

And what do you think are some of the other levers to drive growth going forward?



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**Josh D'Amaro**- *Chairman, Disney Parks, Experiences and Products*

Well, if you think about some – when I talk about the commercial changes that we've made, if you think about what we've done on this front. The first thing that we've done is we made sure every move that we made was centered on a better guest experience. Those that are inside the park, let's make sure they're enjoying their time inside the park. And that won't ever change.

But one of the things that we did is we put a cap on attendance. So we wanted to make sure that we didn't end up in a situation where, on New Year's Eve for example, it was kind of show up as you want. We wanted to make sure we preserve that guest experience, and we put a cap on that front.

We are very, and we'll continue to be very disciplined, on smoothing seasonality, making sure that we have full utilization of our assets. The combination of those two things, plus a lot of other commercial levers that we've put in place, have allowed us to much more intelligently and progressively yield. And you see that in our numbers.

Now a couple of examples, Jessica, more specifically how we've done that. We have a reservation system that's in place now. Obviously, that was a huge help to us when we were in the COVID period and we had to significantly restrict attendance. But as we came out of it, we also knew that we could use this as a tool to much better manage the capacity available for the guest experience that we wanted to ultimately deliver.

With that cap, so to speak, on our attendance, it allows us to much more productively yield. Like a hotel would, like an airline. When you set your capacity, you're in a much better position to yield.



We introduced a whole new slew of products. So you heard about Genie. Bob had talked about this back in 2019 when he stood up on the stage at D23. And what this product suite does is it allows guests to experience our park in a much more productive way. And lets us be, as a business, much more productive as well.

There's a free Genie product. You basically tell Genie what you want. I like this franchise. I like these kinds of attractions. I want to eat at these places. And it constructs a path for you to visit the park that will optimize everything you want.

Why is that good for the guest? Well, they get the things that they want. Why is that good for us? Because it distributes that demand throughout our system in a way that our assets are being much more productively utilized. That's completely free. Anybody walking into one of our theme parks today can use that.

If you want to buy up from that, and you want to buy Genie+, well, you can. And that's essentially going to let you reserve a time to go back on an attraction. If you want to go on one of our most demanded, one of our newest attractions, you can buy Lightning Lane. And there's a price for that that can be yielded up and down.

So we've put in all of these new, much more sophisticated levers that let us manage the business in a much more progressive way than we have before.

What's important in all of this is range. So we want to make sure that we invite all guests to come and visit us, given that there are caps in place. And so if you think about, for example, going to visit the Disneyland Park down in Anaheim today. If you want to visit one park on one day, the price is \$104. That \$104, by the way, is the same price that it was in 2018, 2019. It has not moved. And we think that's important to make sure that guests can access the park during periods of the year that might be less demanded than others.



Of course, if you look at New Year's Eve again, the price is going to be higher, because we're going to manage demand down. We do that for tickets. We do that for Genie. You think about our hotel products, you have everything from at Walt Disney World a \$120 a night room to you can pay whatever you want, if you want to stay in more of a luxury setting. We do that with food and beverage. We do that with merchandise. We do it with every experience.

And so we're really trying to create this accordion way of addressing our guests and making sure that they can still access the product that we have.

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**Jessica Reif Ehrlich** – *Bank of America*

Is Genie+ sold out, like, all the time?

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**Josh D'Amaro** – *Chairman, Disney Parks, Experiences and Products*

Genie+ is doing phenomenally well. It is selling more than we thought that it would. So guests are really enjoying it.

The other interesting thing is that when we surveyed the guests that have purchased Genie+ and Lightning Lane, 70% of them are saying, "When I come back next time, I'm buying this thing again." So we know we're on to something with this.

It was a change to the system. So there's going to be some reaction to it, which we would expect. But we know when a guest does buy it, they're getting what they paid for, and they're feeling really good about it.

So then you add – one more, and then you can go on to another question if you want. Where else do we grow from here? Well, we're just starting with these much more contemporary tools. So you can imagine there's a lot of room inside of kind of the environment that I talked about.



But then we are investing aggressively into the park, and that means more capacity. So, if I introduce a new attraction, and that attraction carries a couple of thousand people an hour, well, then I can think about raising that cap up and yielding against the demand specifically with that attraction.

So we've got a lot of opportunity. As painful as those 412 days were, we are much better situated for the future.

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**Jessica Reif Ehrlich** – *Bank of America*

And is that on a global basis, or just domestically?

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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

We're – while the products and services might look different, while they might be rolled out at different times, the strategy is exactly the same.

Disneyland Paris is in a similar situation where they're under a revitalization period. They just launched Avengers Campus. Very healthy business over there right now. We want to make sure the guest experience is good. So we're capping attendance on certain days and yielding against that.

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**Jessica Reif Ehrlich** – *Bank of America*

I'm going to completely date myself, but I was at the opening of what was then, I guess, it was called Paris Disneyland. I forgot what you called it – you changed – Euro Disney. And I don't think it's ever been as successful as it is now. Is that right? Because it was never that crowded.



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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

That is true. And Christine can probably get into more of the detail here, but that is 100% now owned and operated by The Walt Disney Company. So that's given us the ability to invest on the terms that we want to invest on, and to focus on the things that are most important to us.

That – Bob Chapek was passionate about this. So that park is in a full transformation right now. I was there for the opening of Avengers Campus. And you have guests coming up to us and cast members coming up to us and saying, "This is Disney. This is what this feels like."

And so there's just a revolution taking place over there in that theme park. You got to get back if you haven't been in a while.

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**Jessica Reif Ehrlich** – *Bank of America*

Okay, I guess I do.

So on the third quarter – the fiscal third quarter earnings call, you shared with us that domestic demand at the theme parks continued to look robust – I guess that's how you said it.

Can you talk about current trends? Can you tell us what you're seeing now?

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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

Yeah, I mean I think what Bob and Christine said on the earnings call stands true as we sit here today. Our demand pipeline looks robust.





So we have mechanisms, obviously, to look at demand. You think about bookings of our hotel rooms, which constitute a large portion of our attendance inside the theme park. So as we look out into the future, that remains very, very strong.

And listen, I think in part, we keep launching new initiatives to keep attention high and demand coming at us. It's the 50<sup>th</sup> anniversary in Walt Disney World right now. Our guests can't get enough of that, and we continue to launch new products. We just launched a brand-new coaster in Epcot. And so the demand profile that Bob and Christine talked about is the same.

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**Jessica Reif Ehrlich** – *Bank of America*

Right. And then I mean, obviously, recession, inflation, et cetera, et cetera. I mean just everything's more. I can go on and on about like all the things that everyone is worried about, investors are worried about. So if demand were to soften, can you talk about how you would likely respond?

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**Josh D'Amaro** – *Chairman, Disney Parks, Experiences and Products*

Yeah, I can start. Christine, you can chime in if you want.

Again, we have mechanisms to see what's coming to us in the future. But in the event that there is some volatility, whether that be seasonal volatility or, Jessica, to your point, a recession that's much more pronounced and could impact us. I think we're pretty well situated to navigate in an environment like that.

As I said before, you can kind of think about our business now with a control panel, a much more sophisticated control panel that we have now. We can see who's coming. I have a reservation system. I know who's going to be in the park that day. What that allows me to do then is situate my cost structure to match the demand that's coming our way.



For us, in the theme parks, it's a big deal. I know exactly how much labor to put out there. I know exactly what kind of operations I need up and running to service the guest experience that I'm trying to go after.

We have a pricing approach now that is much more granular than it has been before. That allows me then to toggle as I need to toggle for different demand profiles that might come my way. We're very adept from a promotional perspective at going after certain audiences that we know need to move.

So we're just in a much better situation than we've ever been before. All that said, Jessica, we're not completely immune to a recession.

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**Jessica Reif Ehrlich** – *Bank of America*

Roughly 20% or so of, well, at least Walt Disney World attendance has historically been international. Has that come back? And how much of a window – how long are their advanced bookings? Like how far out do they book?

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**Josh D'Amaro**- *Chairman, Disney Parks, Experiences and Products*

Yeah. So that 20% is about right for Walt Disney World, and we do see more of an advanced booking on international. I can say it's coming back. So we're pleased with what we're seeing.

We still have opportunity there. It's not back to the levels – I think, Christine, you talked about this in the earnings call. It's not back to the levels that we've seen historically, or even in fiscal year '19. So that even equals more opportunity for us, Jessica, as the market starts to open.



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

And there's one thing I would add, and it's easier for me to say than Josh. But his management team is proven. They not only got through the pandemic, did an amazing amount of restructuring of their business, looking to the future.

But they also had to ramp into the recovery. The recovery was not smooth. It was stops and starts. And this is a global business. So whether it's in Paris or Hong Kong or Shanghai, I mean things are on and off. As well as domestically, it was a tale of two states. We had very restrictive things here to deal with in California, and a much more lax kind of restrictions that we were able to avail ourselves of in Florida.

So this is a team that's been through a lot. But I've never seen a team just coalesce, and they keep their heads down and they deliver. So they've been through a lot.

And I think – look, we don't have blinders on. We know that there's a lot going on in the economy that could affect our business. But this is a team that knows how to respond, and respond the right way.

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**Jessica Reif Ehrlich** – *Bank of America*

Maybe just one more question for Josh. We could be here for three hours. But since I don't have that – when you think about new investments, because you kind of alluded to many things coming, could you talk about what underpins – like how do you think about the location, the IP that you use for different attractions? Like any new initiative that you have, or even some of the technology stuff that you've put in place?



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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

I dream up really good ideas. I look at Christine and I say, "Can I have the money?" and she says, "Yes." No, that's not what happens.

But we – the way we think about new investments, it's – you can actually draw parallels to the way we think about the company from our strategic pillars. How do we tell the best story we possibly can, number one. How do we make sure that anything that we're going to do, any dollar that we're going to put into a new attraction is innovative so it will surprise our guests in ways that they just couldn't expect? And then third, how are we addressing the consumer? What are they looking for? What do they need? What are we looking for in our theme parks?

So we kind of follow those three pillars. We have a very disciplined approach to construct proformas that I can come to Christine and Bob and say, "Listen, I think if we make an investment in this story and in this format, that we can drive some serious commercial value."

We do have a really, really good track record of building things that have not only great guest value in terms of the, "Wow, I can't believe you guys built this," but have incredible commercial value as well. If you look at our return on investment employed, pretty amazing what we've done here.

I think to – there's a great example. Epcot is right now in a massive transformation. And we're spending...

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**Jessica Reif Ehrlich** – *Bank of America*

Which it needs.



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**Josh D'Amaro**- *Chairman, Disney Parks, Experiences and Products*

Yeah. Yeah, it's a great theme park, but we know that there are opportunities there. And we thought we could put more Disney into this theme park to make it more relevant.

We know that we wanted to attract more families into Epcot to round out their experience, extend length of stay essentially in Orlando. And we wanted the things that we put in there to be timeless, that they will last a long time.

And you're seeing that come to life right now. We just launched *Guardians of the Galaxy: Cosmic Rewind*. If any of you are coaster fans and you're in Orlando, get on this thing. It's almost impossible to explain how compelling it is. But it's based off of the *Guardians of the Galaxy* franchise. So a great story.

It's, like I said, hard to explain. So it's completely innovative. The Imagineers have done a great job, and the guests are responding. It fits into that ecosystem of Genie that I talked about a little bit before. It's driving the right demand to Epcot. So it's working, and that's generally how we think about those things.

Outside of Epcot then, I mean our slate is packed. *Tron* has come into Walt Disney World, the Magic Kingdom specifically, a new coaster. Mickey & Minnie's Runway<sup>2</sup> is a big investment in Toontown at the Disneyland Resort. You think about *Frozen* in Hong Kong Disneyland coming, *Zootopia* in Shanghai Disneyland. We've launched all-new business, Storyliving by Disney, a brand-new business that we've launched.

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<sup>2</sup> Mickey and Minnie's Runaway Railway



So we don't have a shortage of stories. We don't have a shortage of ambition. And each time we put more into our theme parks, our guests are responding and the financials are responding.

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**Jessica Reif Ehrlich** – *Bank of America*

So let's transition to other parts of the business. So on advertising, the market's been choppy. I don't know if it's – if you'd say soft, but choppy. Could you just talk a little bit about what you're seeing currently? Like what's going on in the market?

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

I think choppy is a great word for the advertising market. This is not one size fits all.

We're seeing relative strength across all of our platforms in certain areas that we had seen previously. Some are not as robust, the demand isn't there. And they're for things like – and it's not going to be any surprise – it's CPG, consumer packaged goods. It's retail.

Those – and small businesses. There's millions and millions of small businesses that advertise. We tend to have fewer of those because our platforms are bigger. But smaller businesses, and I think they were – a lot of them are on social platforms. They've pulled back, but why? It's inflation and supply chain issues that they're all grappling with.

But in some of the other categories, we still see demand, especially from global branded companies who are still out there reinforcing their brand promises and advertising things. The – we just came off an incredibly successful upfront market this past spring into early summer. And we generated over \$9 billion in advertiser commitments. I know a lot of people said that they were number one, but I do believe we were number one. But it was something that we're seeing strength in some areas.



And I don't think – again, when you think about what all of you are doing, there's a lot more experiential advertising over goods. So you see it in travel. You see it in quick-serve. A lot of quick-serve restaurants are back up and running. You're seeing it in some categories of automotive, primarily the electric cars. Everyone is looking at electric cars as the future.

But we're seeing those categories quite strong. And we also – once again, this is a change that we made several years ago, but we took all of our disparate ad sales groups and combined them into an enterprise-wide ad sales group.

So they sell all the platforms. They sell across streaming, sports, broadcast. And so when we go to market, we're selling – the team sells across all the platforms, and we've also invested heavily in ad stack technology.

So just saying you're going to be in the advertising business sounds easy. It's not. It's like a lot of things in life. This sounds easy, but figure out all those things you have to do.

But one of the things we have done and continue to do is build out that ad stack technology. And that is a tool that the team can also use for really maximizing the value for the advertising community. Getting what they want, where they want it, when they want it.

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**Jessica Reif Ehrlich** – *Bank of America*

Right. And just one other advertising question. Do you think that the dollars that you're getting in AVOD when you launch, is it all a share shift from linear? Or is there – do you think some of it is incremental? How do you look at that?



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

We don't think it's – it's really not a share shift for us. It's a new product. New product, once again, it's different because the ad load is light. It's different because it is a very targeted audience.

And since the day we launched Disney+ back in November of 2019, even before the launch, we had a lot of demand from our largest advertisers to get on Disney+. At that point, we took the approach it was only going to be ad-free. The market's evolved. We've changed the way we're looking at the business.

And so now this is something that people have wanted that the first time they're getting. So we don't think it's going to be shifting as much for us as potentially incremental. And we do believe that this will – this ad tier will be additive to our ARPU.

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**Jessica Reif Ehrlich** – *Bank of America*

Okay. Moving on to ESPN. Bob Chapek has repeatedly discussed not being willing to do any sports rights deal that's not accretive to shareholder value. It seems like a real mantra in the company right now.

And you've shown the discipline. You walked away from IPL digital rights, and also the Big 10 more recently. Can you walk us through the framework in a little more detail?





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

When we look at sports rights, we look at them not just financially but also strategically. There's lots of different sports rights out there. And there's lots of platforms. You can go just for linear. You can go for digital. You can do some flexibility in negotiations that you're having with the sports rights owners.

But we look at these sports rights deals, and we've made a commitment, Jessica, that is we will not do deals that are not value accretive. So we have been disciplined.

I know there was a lot of focus on the IPL auction in the summer for the India cricket rights. We walked away with a package. It wasn't the package that – many people, I think, assumed we were just going to go for it, and get whatever we had in the past. But we came back with a different package.

Then we looked at ICC rights that were just recently awarded. And we've got a smaller package of ICC rights. But we're looking at this as combining different rights packages to get the right volume, get the right cadence of content on our platforms with an eye towards, once again, never lose sight of this, getting to profitability in '24. And that would include even the Hotstar India business.

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**Jessica Reif Ehrlich** – *Bank of America*

Right. And then an activist investor recently introduced several recommendations, including spinning off ESPN. And this is something that the company has considered over the years and has decided against, at least so far.



I mean the rationale is to spin the entity off with a lot of debt, improve your capital structure. And as a stand-alone entity, possibly the market would give greater value to the asset than as part of Disney.

What we see, there's two sides to that potential. I mean it also seems like there would be a ripple effect that could be very damaging to the company, not just to your direct cash flow but also to your advertising business. Can you give us your thoughts?

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

Sure. ESPN, it's funny, back – a few years back, it was the only thing people wanted to talk about was ESPN. And then we got into Disney+. And they only wanted to talk about Disney+. Now we've got a lot of different things people want to talk about.

ESPN did come back in the spotlight when Third Point put out a letter suggesting that perhaps it's better spun off. As a management team, we always look at our assets. And look at them – is our portfolio made up of the right group of assets? Are we leveraging things across the business so it's more than just a stand-alone business kind of barnacled on to a larger company?

ESPN is a great business, and it is fully integrated into how we think about delivering entertainment with compelling content to consumers. So when you think about it, sports, live sports, very compelling. You mentioned advertising. Right now, with – and some of it's seasonal, but we're in college football, that just kicked off. We've got Monday Night Football. We've got the Disney+ AVOD coming up. There's a lot of enthusiasm around things, but a lot of it is sports-related.



The U.S. Open is playing right now. It's on ESPN. That's doing really well. Different kind of outcome, I think, than a lot of people were hoping for, but still some compelling stories. And so we look at ESPN as being part of our overall portfolio.

That being said, we always look at, you know, are there other alternatives where we would be better off doing something different. And we've gone down that route very deliberately and rigorously with my finance team and strategy teams. And we like the hand we have with ESPN, and the way we have integrated it into our product offerings.

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**Jessica Reif Ehrlich** – *Bank of America*

And then a question, I guess, for kind of both of you. But you have a lot of data coming into the company, a lot of data from the theme parks, much more automated. I mean you talked about the reservation system. You know what people are doing, what they want.

And then you have all of this data now from Disney+. How do you use that? How will you – or how can you use the data to really drive new businesses and become more efficient, but also offer more, I guess, products and services to Disney fans, Disney consumers?

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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

You want to start?

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

Why don't you start? You're – I think you're co-chairing that project.



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**Josh D'Amaro**- *Chairman, Disney Parks, Experiences and Products*

So I'll start just on the DPEP side specifically. You're right. We have – not only have we had a lot of data historically, with the new systems that we have in place in our theme parks, for example, we're able to gather a lot more information about our guests that, again, makes their experience better. But also gives us information on how to better move them around a park, how to move them around our products and services, what new products and services we need, how that affects our commercial levers.

But more broadly speaking, from a company perspective, as we generate more and more information, our objective is to tie that information together in a way that we can understand the holistic Disney consumer, kind of a unified consumer up front. When we have that all together, when you think about ESPN or you think about a new film coming out or you think about a new business I might launch or an existing business that I have, well that information is tied together.

There is no other company in the world that will be able to do the things that we'll be able to do. Move people seamlessly through our experiences, understand a pattern of behavior that will result in somebody wanting to check out a new part of our business. It's incredibly powerful.

And with Christine's support and Bob's support, we have a very aggressive stance on this right now. On how we accelerate bringing that information together and really taking full advantage of The Walt Disney Company product portfolio. I'll let you add on that.



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

Yeah, no, it's just something that we think about. The way the company is now structured, and having these two segments where you have a wealth of data in Josh's DPEP segment, and in the DMED segment, which is the content side. Merging those two, it allows us to really deliver on the promise of what Disney is.

And I know tomorrow is Disney+ Day, and there's some news stories out about some of the offerings we're doing. And I think looking at some of the coverage, I think it really shows why is Disney different than any other company. Either in the streaming business or in the entertainment business.

And I think you look at the portfolio of businesses that we have within the company, and it's everything from the cruise business to the parks to consumer products to theatrical across a wide spectrum of genres, and episodic television. We've got so much, and it's so rich.

But when we think about utilizing some of those things to cross-pollinate our businesses, I think Disney+ Day and some of the promotions that are – they're very short-lived. They're not out there evergreen, but they're very short-lived. I think people look at that and say, "Wow, there's a lot that appeals to me as a consumer."

So I think that really – having that data and then being able to cross-pollinate across our segments is – that's where the future is.



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**Jessica Reif Ehrlich** – *Bank of America*

Just one more for Josh. I know we're like basically out of time, but you just mentioned cruise ships. Now I really just need to ask you, you just launched a ship in July. You have two more coming in the next few years. Can you just talk about what you're seeing on the cruise ship side of the business?

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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

Yeah. We just launched the *Disney Wish*, I guess, a couple of months back now. The ship is amazing. It's another thing, Jessica, you got to go check out if you haven't had a chance to do yet.

But the experience is amazing. And quite frankly, the experience across our fleet is amongst the highest experience ratings that we get out of anything that we do. So very, very powerful.

We're a relatively small player in the cruise market. But when it comes to family cruising, there's nothing to compare. In fact, when we talk to our guests, 40% of the families that come and cruise with us never would have considered cruising had we not entered the market. So we're a pretty powerful player in that regard.

Cruising is – it's a piece of our business, but it's not a massive piece of our business today, which is why we continue to invest in this because we truly believe in it. But we're bullish on the new – the two new ships coming. As I mentioned earlier in our discussion, I think the cruise line in general still has some room to recovery as it was the first impacted and probably will be the last out. But we really believe in these experiences.



And kind of back to this idea of flywheel, the cruise line fuels the rest of our business. So you think about somebody coming to Florida to get on the *Disney Wish*, for example. Where do they stay? They stay in our hotels. What do they do before they cruise? They come into our theme parks.

Those cruisers are also the ones that maybe they decide I'm taking – this is my year off from going to Walt Disney World. So instead, I'm going to cruise. So we've got this really complementary portfolio of offerings, and the cruise line fits perfectly into that. But we're bullish on the future there.

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**Jessica Reif Ehrlich** – *Bank of America*

Right. Great. Thank you. I can't believe we're out of time, but thank you so much.

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**Josh D'Amaro** - *Chairman, Disney Parks, Experiences and Products*

Thanks for having us.

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

Well, 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 potential future growth, opportunity and anticipated drivers of growth, long-term plans or focus, the expected impact, timing and performance of our product, experience or service offerings or business decisions, guidance, subscribers, future financial drivers, consumer and advertiser demand and behavior, future commercial flexibility and resiliency, recovery, strategy, future business and spending decisions, future demand and market fluctuations; 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 and consumer preferences; 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; the advertising market for programming; 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.