



The  
**WALT DISNEY**  
Company

## Q1 FY23 Earnings Conference Call

February 8, 2023

Disney Speakers:

**Bob Iger**

*Chief Executive Officer*

**Christine McCarthy**

*Senior Executive Vice President and Chief Financial Officer*

Moderated by,

**Alexia Quadrani**

*Senior Vice President, Investor Relations*

**PRESENTATION**

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**Operator**

Good day, and welcome to The Walt Disney Company's First Quarter 2023 Financial Results Conference Call. (Operator Instructions).

After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note, today's event is being recorded. I would now like to turn the conference over to Alexia Quadrani, Senior Vice President of Investor Relations. Please go ahead.

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**Alexia Quadrani** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Good afternoon. It's my pleasure to welcome everybody to The Walt Disney Company's first quarter 2023 earnings call. Our press release was issued about 25 minutes ago and is available on our website at [www.disney.com/investors](http://www.disney.com/investors). Today's call is being webcast, and a replay and transcript will also be made available on our website.

Joining me for today's call are Bob Iger, Disney's Chief Executive Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Following comments from Bob and Christine, we will be happy to take some of your questions. We have a lot to get through today, but we'll do our best to answer as many questions as we can. So with that, let me turn the call over to Bob to get started.

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

Thank you, Alexia, and good afternoon everyone. It's an extraordinary privilege to lead this remarkable company again, especially at this special moment in its history as we celebrate our centenary.



Since I first became CEO in 2005, I have guided The Walt Disney Company through two significant transformations.

The first was to confer greater creative control and authority to our creative businesses, and to focus on great brands and franchises. It was also aimed at embracing new technologies and expanding internationally, and it ultimately led to the acquisitions of Pixar, Marvel, and Lucasfilm.

The second transformation took place beginning in 2016, when we laid the foundation for Disney to become a true digital company. As we were planning to launch our streaming platforms, the opportunity arose to acquire numerous assets from 21st Century Fox, and that acquisition gave us a bigger library with more franchises, a broader global reach, and a talented, experienced management team, that enabled us to generate even more higher quality content. In 2019, Disney+ launched with nearly 500 films and 7,500 episodes of television from across the worlds of Disney. Three years later, its meteoric rise is considered one of the most successful roll outs in the history of the media business.

Now it's time for another transformation... one that rationalizes our enviable streaming business and puts it on a path to sustained growth and profitability... while also reducing expenses to improve margins and returns... and better positioning us to weather future disruption, increased competition, and global economic challenges.

We must also return creativity to the center of the company, increase accountability, improve results, and ensure the quality of our content and experiences.

Now the details...

Our company is fueled by storytelling and creativity, and virtually every dollar we earn...every transaction...every interaction with our consumers, emanates from something creative. And I've



always believed that the best way to spur great creativity is to make sure the people who are managing the creative processes feel empowered.

Therefore, our new structure is aimed at returning greater authority to our creative leaders, and making them accountable for how their content performs financially. Our former structure severed that link and it must be restored.

Moving forward, our creative teams will determine what content we're making, how it is distributed and monetized, and how it gets marketed. Managing costs, maximizing revenue, and driving growth from the content being produced will be their responsibility.

Under our strategic reorganization, there will be three core business segments... Disney Entertainment, ESPN, and Disney Parks, Experiences and Products.

Alan Bergman and Dana Walden will be co-Chairmen of Disney Entertainment, which will include the Company's full portfolio of entertainment media and content businesses globally, including streaming.

Jimmy Pitaro will continue to serve as Chairman of ESPN, which will include ESPN networks, ESPN+, and our international sports channels.

And Josh D'Amaro will continue to be Chairman of Disney Parks, Experiences and Products, which will include our theme parks, resort destinations, and cruise line, as well as Disney's consumer products, games, and publishing businesses.

These organizational changes will be implemented immediately, and we will begin reporting under the new business structure by the end of the fiscal year.



This reorganization will result in a more cost-effective, coordinated, and streamlined approach to our operations, and we are committed to running our businesses more efficiently, especially in a challenging economic environment.

In that regard, we are targeting \$5.5 billion of cost savings across the company.

First, reductions to our non-content costs will total roughly \$2.5 billion, not adjusted for inflation. \$1 billion in savings is already underway, and Christine will provide more details, but in general the savings will come from reductions in SG&A and other operating costs across the company.

To help achieve this, we will be reducing our workforce by approximately 7,000 jobs. While this is necessary to address the challenges we're facing today, I do not make this decision lightly. I have enormous respect and appreciation for the talent and dedication of our employees worldwide, and I'm mindful of the personal impact of these changes.

On the content side, we expect to deliver approximately \$3 billion in savings over the next few years, excluding sports, and Christine will be providing more details during the call.

Turning to our streaming businesses... I'm proud of what we've been able to achieve since the launch of Disney+ just three years ago. We are delivering more content... with greater quality... in more ways... in more places... and to larger audiences.

Like many of our peers, we will no longer be providing long-term subscriber guidance in order to move beyond an emphasis on short-term quarterly metrics – although we will provide color on relevant drivers.

Instead, our priority is the enduring growth and profitability of our streaming business.



Our current forecasts indicate Disney+ will hit profitability by the end of fiscal 2024, and achieving that remains our goal.

Since my return, I have drilled down into every facet of the streaming business to determine how to achieve both profitability and growth.

And so, with that goal in mind, we will focus even more on our core brands and franchises, which have consistently delivered higher returns.

We will aggressively curate our general entertainment content.

We will reassess all markets we have launched in and also determine the right balance between global and local content.

We'll adjust our pricing strategy, including a full examination of our promotional strategies.

We will fine-tune our advertising initiatives on all streaming platforms.

We will improve our marketing, better balancing platform and program marketing, while also leveraging our legacy distribution platforms for marketing and programming. This may include greater use of legacy distribution opportunities to increase revenue and more effectively amortize content investment.

And, as I said before, our new organizational structure will re-establish the direct link between content decisions and financial performance. This is one of the most important steps we can take to improve the economics of our streaming business.



There's a lot to accomplish but let me be clear, this is my number one priority. We are focused on the success of our streaming business and the return it generates for our shareholders long into the future.

Before I turn this over to Christine, a few comments about the quarter.

James Cameron's *Avatar: The Way of Water*, which was easily the most successful film of the quarter, has become the 4th biggest film of all time globally with close to \$2.2 billion earned at the box office to date.

The global popularity of this film will result in the creation of more opportunities for fans to engage with the franchise, which they have been doing at Walt Disney World's *Pandora – The World of Avatar*, as well as in theaters globally and on Disney+ where the first film has delivered very strong numbers.

And today, I'm thrilled to announce that we will be bringing an exciting Avatar experience to Disneyland.

We will be sharing more details on that very soon.

Avatar represents yet another core franchise for the Company, and as you've seen time and time again, we have a unique way of leveraging creative success across multiple businesses and territories and over long periods of time.

Speaking of our parks, we had an outstanding quarter in Q1, while we continued our purposeful efforts to control capacity to preserve guest experience.



Last month we also announced some price adjustments at our parks. We are listening to guests' feedback, and we are continuously working to improve the quality and value of their experience.

We are also proud of our creative success, as we led all studios with the most Academy Award nominations, including two Best Picture Nominations – 20th Century Studios' *Avatar: The Way of Water* and Searchlight Pictures' *The Banshees of Inisherin*.

Marvel's *Black Panther: Wakanda Forever* received five Oscar nominations. And in addition to an \$840 million run at the box office, it launched on Disney+ last week... and it has quickly become one of the most successful Marvel films on the platform.

Looking ahead, we are excited about our fantastic lineup of new films coming to theaters this year, starting with next week's release of Marvel's *Ant-Man and The Wasp: Quantumania*, followed by other highly anticipated theatrical titles including *The Little Mermaid*, *Guardians of the Galaxy Vol. 3*, Pixar's *Elemental*, *Indiana Jones and the Dial of Destiny*, and Disney's *Haunted Mansion*.

Lucasfilm's *The Mandalorian*, the series that started it all for Disney+, will be back at the beginning of March for its highly anticipated third season.

And today, I'm so pleased to announce that we have sequels in the works from our animation studios to some of our most popular franchises - *Toy Story*, *Frozen*, and *Zootopia*. We'll have more to share about these productions soon, but this is a great example of how we're leaning into our unrivaled brands and franchises.

The Walt Disney Company also won more Golden Globes than any other entertainment company this year – a total of 9, including for *Abbott Elementary*, the first broadcast show to win a Golden Globe for best series in nearly a decade.





Without question, we have a world-class television business that fuels both our linear channels and direct-to-consumer services, especially with the assets acquired through the Fox transaction.

It goes without saying that the best shows lead to the most lucrative library and have the power to endure because of their quality. *The Simpsons* illustrates this perfectly. Disney+ launched back in 2019 with more than 30 seasons and it remains one of our top performers today.

Across the board, our television business is second-to-none, and that includes ABC News, which remains America's #1 news network.

The power of the ESPN brand also continues to deliver for us.

In calendar '22, ESPN linear ratings were up 8% overall and 14% in primetime, and we are also growing rapidly across our digital platforms.

We are being selective in our rights renewals and continue to approach rights acquisitions with discipline and a focus on supporting both sides of ESPN's business — traditional linear and digital.

ESPN is more than just a network, and today the team is harnessing innovative technology to deliver spectacular coverage and entertainment to audiences who have a deep connection to the brand and content.

Now, when it comes to investing in growth and returning capital to shareholders, we will take a balanced and disciplined approach, as we did throughout my previous tenure as CEO, when we invested in our core businesses and acquired new ones, bought back stock, and paid a dividend to our shareholders.



As a result of the impact of the COVID pandemic, we made the decision to suspend the dividend in the spring of 2020.

Now that the pandemic's impacts to our business are largely behind us, we intend to ask the board to approve the reinstatement of a dividend by the end of the calendar year. Our cost cutting initiatives will make this possible, and while initially it will be a modest dividend, we hope to build upon it over time.

Christine will provide more information on that.

And finally, on the topic of succession... the Board recently established a dedicated Succession Planning Committee. The committee is chaired by Mark Parker, who will become Chairman of The Walt Disney Company Board following our annual meeting. I'm excited to work with him in this new capacity and I'm grateful to our outgoing Board Chairman Susan Arnold for her 15 years of tremendous service.

Obviously there's a lot going on. But as I said before, I'm truly excited to be back, and to lead this great company through this necessary transformation. I'm grateful for our incredible talent and my exceptional leadership team.

And with that, I will turn things over to Christine.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thank you Bob – it's great to have you back on these calls. And good afternoon everyone.

Excluding certain items, our company's diluted earnings per share for the first fiscal quarter of 2023 was 99 cents, a decrease of 7 cents versus the prior year, as continued strength at our Parks, Experiences and Products business was more than offset by a year-over-year decline at our Media Entertainment and Distribution segment.



You heard earlier that we are embarking on a significant company-wide cost reduction plan that we expect will reduce annualized non-content-related expenses by roughly \$2.5 billion – not including inflation. In general, we anticipate these reductions will be comprised of approximately 50% marketing, 30% labor, and 20% technology, procurement, and other expenses.

Around \$1 billion of this target was included in the guidance we gave last quarter, that fiscal 2023 segment operating income should grow in the high single digit percentage range – which is still our current expectation. The bulk of the efficiencies we are realizing this year are related to reductions in marketing and headcount at DMED.

The remaining portion of the target represents incremental SG&A and other operating expense savings, which will fully materialize by the end of fiscal 2024.

Longer term, we also expect to realize additional efficiencies in our content spending, with an annualized savings target of approximately \$3 billion of future spending, outside of sports.

We will share additional details with you as we move forward on realizing these efficiencies.

Bob also gave you some details earlier on the company's reorganization. The new structure and leadership roles are effective immediately, and we expect to transition to financial reporting under this structure by the end of the fiscal year, at which point we will provide recast financials under our new segments. Until then, I'll be walking through our results under the existing segments.

Turning to Parks, Experiences, and Products, we're thrilled with the results we achieved this quarter, with operating income increasing 25% versus the prior year to over \$3 billion, reflecting increases at our domestic and international parks and experiences businesses.



At Domestic Parks and Experiences, significant revenue and operating income growth in the quarter was achieved despite purposefully reducing capacity during select peak holiday periods by approximately 20% versus pre-pandemic levels, in order to prioritize the guest experience. Per capita guest spend at our domestic parks also showed strong growth.

Quarter-to-date park attendance at both Walt Disney World and Disneyland Resort are pacing above prior year, and based on reservation bookings we expect to see this trend continue.

Disney Cruise Line was also a meaningful contributor to the year-over-year increase in domestic operating income - reflecting higher occupancy in the existing fleet as well as the Disney Wish, which generated positive operating income in its first full quarter of operations.

Domestic Parks and Experiences operating margins improved versus the prior year, despite increased costs from inflation, operations support and new guest offerings – pressures which we expect will persist into Q2 and beyond.

At International Parks and Experiences, higher year-over-year results were due to growth at Disneyland Paris and higher royalty revenue from Tokyo Disney Resort, partially offset by a decrease at Shanghai Disney Resort.

At Disneyland Paris, we remain pleased with the positive results we're seeing from the substantial investments we've made there...And at Shanghai, results reflect the fact that the resort was closed for roughly a month during Q1 of fiscal 2023.

Moving on to our Media and Entertainment Distribution segment, operating income in the first quarter decreased by over \$800 million versus the prior year, driven by year-over-year declines across Direct-to-Consumer, Linear Networks, and Content Sales, Licensing and Other.



However, we delivered a significant improvement on a quarter-over-quarter basis at our Direct-to-Consumer business as we progress on our path towards profitability, with Q1 operating losses improving sequentially by over \$400 million from Q4.

The sequential improvement at DTC was driven by higher revenue and lower SG&A costs, partially offset by higher programming and production costs.

Notably, in the first quarter, we meaningfully reduced DTC marketing expenses across all three categories: content, brand and performance.

At both ESPN+ and Hulu, subscribers and ARPU grew sequentially, with ARPU growth reflecting the impact of price increases that occurred in August and October, respectively.

And at Disney+, core subscribers increased slightly...in line with our prior guidance, from 102.9 million in the fourth quarter to 104.3 million in Q1.

Disney+ core ARPU decreased by 19 cents versus the prior quarter, driven by an unfavorable foreign exchange impact and a higher mix of subscribers to our multi-product offerings, partially offset by a benefit from the recent domestic price increase, which occurred towards the end of the first fiscal quarter.

There are a few factors worth mentioning that we expect will impact Disney+ core subscriber and ARPU growth in Q2:

The Disney+ domestic price increase has been playing out as expected, with only modestly higher churn which may also negatively impact the fiscal second quarter given the timing of the December price increase. That impact, in addition to slower than previously expected growth in some international markets, suggests core Disney+ subs may grow only modestly in Q2, at a



similar pace to the first quarter. As we have said before, sub growth will vary quarter to quarter, and we expect to see higher core subscriber growth towards the end of the fiscal year.

Disney+ core ARPU will continue to benefit in the second quarter from the domestic price increase.

And while it's only been two months since the launch of the Disney+ ad tier, we are pleased with the initial response, which includes continued demand from top-tier advertisers. As I mentioned last quarter, we do not expect the launch of the Disney+ ad tier to provide a meaningful financial impact until later this fiscal year.

And like Bob said, we are re-affirming our guidance that Disney+ will achieve profitability by the end of fiscal 2024, although as I have mentioned before, our expectations are built on certain assumptions around subscriber additions based on the attractiveness of our future content, churn expectations, the financial impact of the Disney+ ad tier and price increases, our ability to quickly execute on cost rationalization while preserving revenue, and macroeconomic conditions, all of which, while based on extensive internal analysis as well as recent experience, provide a layer of uncertainty in our outlook.

We remain focused on showing incremental improvements in our DTC metrics, and we will continue to provide transparency into our progress and key drivers.

In our prior earnings call, we noted that we expected the improvement in Q2 operating results at Direct-to-Consumer would be larger than the improvement in Q1. We now expect Q2 DTC operating results to improve sequentially by approximately \$200 million, as improvements in the first quarter materialized more quickly than previously expected. Additionally, our view on Q2 now incorporates more challenging addressable advertising headwinds.



Moving on to Linear Networks, first quarter operating income decreased by approximately \$240 million versus the prior year. Domestic Channels operating income grew year-over-year...but that growth was more than offset by decreases at International Channels.

The increase at Domestic Channels was due to higher results at Cable, while Broadcasting results were comparable to the prior year quarter.

Higher Cable results were driven by lower programming and production costs, partially offset by decreases in advertising and affiliate revenue.

The decrease in programming and production costs reflects lower NFL and College Football Playoff, or CFP, rights costs.

The decline in NFL rights expense reflects the timing of costs under our new agreement compared to the prior NFL agreement...And lower CFP rights costs were due to timing shifts – recall that we had two fewer games in the first quarter of fiscal 2023 versus the prior year, as those games were shifted into Q2 this year.

The decrease in Cable advertising revenue also reflects the CFP timing shift. ESPN advertising revenue in the first quarter was down 4% year-over-year, but was roughly flat once adjusted for the CFP shift.

And quarter-to-date, domestic cash ad sales at ESPN are currently pacing slightly below prior year, when the two additional CFP games are adjusted out.

Scatter pricing remains above upfront levels, although it has softened a bit in recent months; however, we are seeing solid advertiser interest for live events such as the Oscars...and demand across sports also remains solid.



Total domestic affiliate revenue in the first quarter increased by 1% from the prior year, driven by 6 points of growth from contractual rate increases, partially offset by a 5-point decline due to a decrease in subscribers.

International Channels operating income decreased versus the prior year due to lower advertising revenue, an unfavorable foreign exchange impact and a decrease in affiliate revenue, partially offset by a decrease in programming and production costs.

As a reminder, the first quarter held no IPL cricket matches, versus thirteen matches in the prior year due to COVID-related timing shifts.

Looking ahead to the fiscal second quarter, we expect Linear Networks operating income will decrease year-over-year by approximately \$1 billion. We expect Q2 will have the most challenging comparison for Linear Networks versus the prior year, and anticipate a significantly lower decline in the back half of the year.

There are several factors impacting the Q2 guide that I'd like to walk through:

First, recall that domestic linear networks operating income increased in Q1 versus the prior year - benefitting from the timing of costs under a new agreement for the NFL and a timing impact for CFP. These impacts will work against us in Q2, and as a result ESPN is expected to account for approximately half of the \$1 billion operating income decrease.

Broadcasting and our other domestic Cable Networks will be adversely impacted in the second quarter by approximately \$300 million, driven primarily by headwinds in advertising and to a lesser extent, affiliate revenue.





And international channels account for the remaining \$200 million decrease – this includes timing impacts from BCCI cricket, with 8 additional matches versus the prior year, other contractual rights cost increases, and additional topline headwinds.

And at Content Sales, Licensing and Other, operating results decreased versus the prior year by \$114 million, as higher theatrical results were more than offset by lower TV/SVOD operating income, higher overhead costs and a decrease in home entertainment operating income. These results came in below the guidance we gave in November, primarily due to softer than expected performance of certain theatrical releases.

In the second quarter, we believe that Content Sales, Licensing and Other operating results will be roughly breakeven.

Finally, before we conclude, I'd like to say a few words about our focus on allocating capital in a disciplined and balanced way. As Bob mentioned, over the years we have invested in our businesses to drive growth and return meaningful capital to our shareholders. Despite the impact of COVID, which had a significant adverse impact on the company's free cash flow, our balance sheet is strong and supports ongoing investment in our businesses.

We still expect cash content spend company-wide to remain in the low \$30 billion range for fiscal 2023. The longer-term content cost reductions referenced earlier in the call are not expected to impact this year's guidance range.

We also continue to invest in our parks and experiences globally and in other capital projects across the enterprise, and expect that fiscal 2023 capital expenditures will total approximately \$6 billion. This is lower than our prior guide of \$6.7 billion primarily due to decreases in capex at our domestic parks, reflecting in part some timing shifts.



Like Bob mentioned, given our recovery from the pandemic, strong balance sheet, and commitment to cost cutting, we believe we'll be on track to declare a modest dividend by the end of this calendar year. The amount will likely be a small fraction of our pre-COVID dividend, with the intention to increase it over time as our earnings power grows.

And in terms of our current outlook, as we sit here today, we still expect that revenue and segment operating income growth for this fiscal year will be in the high single digit percentage range, and we look forward to updating you on our progress as we move forward.

I'd also like to note that shortly after today's call, we will be posting a presentation on our Investor Relations website which will summarize many of the themes that we are discussing here today.

And with that, I'll turn it back to Alexia and we would be happy to take your questions.

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**Alexia Quadrani** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Christine.

As we transition to the Q&A, we ask that you please try to limit yourselves to one question in order to help us get to as many analysts as possible today.

(Operator Instructions) And with that, operator, we're ready for your first question.

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**Operator**

Today's first question today comes from Jessica Reif Ehrlich from BofA Securities.

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

Bob, as Christine said, it's great to have you back. It seems like a very different company than when you left, even though it was only a couple of years ago. Given the cyclical, but maybe,



more importantly, the secular challenges across all of your businesses, linear, film, content competition, et cetera. So in the restructuring, what do you think are the quick fixes? And what will take longer term to see the benefits of some of these actions? And on the \$3 billion in cost cuts in content, is that largely fewer titles? And what does it mean for ultimate direct-to-consumer margins?

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

Jessica, thank you for welcoming me back. Let me take the second part of your question first. We are going to take a really hard look at the cost for everything that we make, both across television and film, because things, in a very competitive world, have just simply gotten more expensive. And that's something that is already underway here.

In addition, we're going to look at the volume of what we make. And with that in mind, we're going to be fairly aggressive at better curation when it comes to general entertainment. Because when you think about it, general entertainment is generally undifferentiated as opposed to our core franchises and our brands, which, because of their differentiation and their quality, have delivered higher returns for us over the years. So we think we have an opportunity to, through more aggressive curation, to reduce some of our costs in the general entertainment side and, in general, in volume.

In addition, the structure is now designed to place responsibility of all international programming and investment in content in the hands of one unit so that they can better decide the balance between what we make for global distribution and consumption and what we make for local distribution and consumption, with an eye toward possibly reducing expenses there as well as we balance better. Obviously, all designed to deliver the profitability that we talk about delivering by the end of '24.

In terms of your first question, I mean, indeed, it is – times have changed, although, in retrospect, or in looking back at it, not in an extraordinary way. Obviously, it's gotten more



competitive. The forces of disruption have only gotten greater. And there are certain things, certainly, as a residual of COVID, that have just gotten tougher from a macroeconomic perspective.

That said, we're still a company that is focused on creativity at its highest form. I love the fact that we are relinking the creative side of our business with the distribution and the monetization side of our business. And I think by doing that, we'll see the impact of that reorganization fairly quickly.

But when I think about the secular change that we're going through, generally speaking, I like our hand. We have an ability to balance how we take our product to market with legacy platforms, whether it's movie theaters or multichannel TV with, of course, the streamers. We have – and by the way, that helps us in a number of fronts, including advertising, monetization, stronger marketing.

And so I think that when you focus on the company's assets, in terms of our brands and our franchises, yes, it's a tough environment. But the combination of the restructuring and the fact that we've got these core brands, which, when we get right creatively, as we've seen time and time again, not only differentiates us but enables us to deliver fairly strong returns.

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**Operator**

Our next question comes from Ben Swinburne from Morgan Stanley.

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**Ben Swinburne** – *Morgan Stanley*

Bob, I'm sure one reaction you'll get today from all this news is the future of television, I think, is viewed as being streamed, with linear obviously declining. I'm sure you generally agree with that trend. So how do you think about that, about your strategy as you've laid out today in the context of that, to make sure you're maximizing the returns globally of the franchises that you've built?



And then I was just wondering, maybe, Christine, on the Parks business, really strong margins this quarter, really kind of the return to the kind of incremental margins we're used to seeing. Didn't sound like there was anything one-time. I just wanted to ask if this quarter is sort of emblematic of kind of how you see the rest of the year playing out from a trend point of view.

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

Thanks, Ben. Nice to hear from you. I've been watching this very carefully for a long time. And what I'm talking about is the impact of technology is basically creating a huge authority shift from the producer and the distributor to the consumer. And as that authority has shifted, it's made the traditional business more complicated, more – to more challenging. And when you think about what streaming is, and we talked about this a lot as it related to multichannel TV, it is the ultimate à la carte proposition for the consumer.

It gives the consumer so much more authority than they ever had before because in reality, it gives them the ability to watch programs, not channels, not even bundles when you think about it. And because you're signing up in most cases for a 1-month subscription, you can sign up for 1 program, pay a relatively small amount of money and then end up basically unsubscribing. That's tremendous change.

And I think what's going on right now is that as the linear business continues to erode, we've been basically eyes wide open on that. Christine commented about some of the challenges related to that, the streaming business, which I believe is the future and has been growing, is not delivering basically the kind of profitability or bottom-line results that the linear business delivered for us over a few decades.

And so we're in a very interesting transition period, but one I think is inevitably heading towards streaming. So what we're – the way we're basically contending with it, and we've alluded to it today already, is that – and this, I think, is also directly related to our restructuring. We're going to rebalance a bit because those linear channels and movie theaters, too, still can provide us



with significant amount of monetization capability. They enable us to amortize the cost better over multiple platforms and create some marketing clout.

When you think about it, *Abbott Elementary* airs on ABC, then it goes to Hulu. The demographic difference in age is tremendous. It's like 60 years old or around, I'm estimating at ABC and then the 30s on Hulu. That's a perfect example how the linear platforms, while they still have an audience and could help us monetize, can still be used effectively, and we have that ability.

And so we're going to monitor it very carefully. We're not in any way stepping away from streaming. It remains our #1 priority. It is, in many respects, our future, but we're not going to abandon the linear or the traditional platforms while they can still be a benefit to us and our shareholders.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

So Ben, great to hear your voice, and I'll address the Parks question. So as I mentioned in my comments, we were really thrilled with the performance of parks in the quarter. There were no one-time items to call out.

But the one thing I would mention is, in previous quarters, we had mentioned that the recovery from the pandemic in our International Parks was lagging Domestic. And in this quarter, we had very strong performance, especially year-over-year from Disneyland Paris.

We had the opening of Avengers Campus over there in July, and that is incredibly popular in driving attendance. And we also have a new hotel that was actually an old hotel that was redone into the art of Marvel. Again, very popular and attracting a lot of consumers to come out and experience that.

The other thing I mentioned was the strength at our royalty stream from Disneyland in Tokyo. And the other thing, not to forget, is this quarter, our first quarter, of the year is seasonally one



of our strongest when you look at it relative to other quarters. But the year-over-year comparison, it was an improvement, and we feel great about our business going forward.

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**Operator**

Our next question comes from Michael Nathanson from SVB MoffettNathanson.

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**Michael Nathanson – *MoffettNathanson***

Welcome back, Bob. I have 2. The first is, when you go back to the second investment day you had for streaming, the company increased their TAM forecast, their investment spending and kind of vision for Disney+. Now that you've returned with more data and time, what's the vision for Disney+? You don't want to give us long-term targets, I get that. But what is the product vision? Is it a more narrow vision? Any type of long-term size of the investment and also profitability case of D+ will be helpful. And then on linear, to Ben's question, a big part of the cost structure are sports costs. You've signed a ton of them lately. But when you think about going forward, can you help us understand, what will change going forward on sports rights investment in terms of must-have and not necessarily must-have?

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

Well, the second question, as you know, we've locked in a number of deals already, including some of the biggest ones, which is in college football with the SEC as well as with the NFL. The one that's looming is the NBA. I know that's on people's minds, which is a product that we've enjoyed having and hope to continue to enjoy having. Because not only it's volume, but it's quality.

ESPN has been selective in the rights that they bought. I've had long conversations about this with Jimmy Pitaro, and we've got some decisions that we have to make coming up, not on something – not on anything particularly large, but on a few things. And we're simply going to have to get more selective. ESPN+ actually has grown nicely for us, and it's shown us that the ESPN brand can be enjoyed and can be expressed well as a streaming brand. And I think that we



are going to continue to look at that as a potential pivot for ESPN away from the linear business. But we're not going to do that precipitously. We're not going to do that until it really makes sense from an economic perspective.

On the first part of your question, what either what's changed or where are we headed from what was the second Investor Day, I think a few things. First of all, we were, as a company, in a global arms race for subscribers. And it was – the number of subscribers that have become kind of the primary measurement of success not only here in the company, but among in the investment community.

And in our zeal to go after subscribers, I think we might have gotten a bit too aggressive in terms of our promotion, and we are going to take a look at that. I listed a number of things on the call. That's one of them. I talked about pricing as well. That's another, where we really have to look at, are we pricing correctly? It's interesting, as Christine noted, we took our pricing up substantially on Disney+, and we didn't suffer any de minimis. We only suffered a de minimis loss of subs.

That tells us something. It may also tell us that the promotion to chase subs that we've been fairly aggressive at globally wasn't absolutely necessary. So pricing is definitely one thing. Promotion, obviously, is tied to that. It's also obvious to us is we can't get the profitability and turn this into a growth business without growing subs. So while we're taking off the table sub guidance, we're still going to look to grow subs. We just want to grow quality subs that are loyal and where we actually have an ability to continue to price effectively to those subs. In addition, we're going to lean more into our franchises, our core franchises and our brands. I talked about curation and general entertainment. We have to be better at curating the Disney and the Pixar and the Marvel and the Star Wars of it all as well. And of course, reduce costs on everything





that we make because, while we're extremely proud of what's on the screen, it's gotten to a point where it's extraordinarily expensive. And we want all the quality. We want the quality on the screen, but we have to look at what they cost us.

So we're going to continue to go after subs, but we're going to be more judicious about how we do that. We're going to look carefully at pricing. We're going to reduce costs, both in content and of course, infrastructure. There's a lot that we're getting out there. Marketing is another area, where we're going to try to rebalance marketing of the platform versus marketing of the programs.

Nielsen came out with something a few weeks ago that was stunning to us, and that was that 10 of the top 15 movies streamed in the United States in 2022 were ours. On that list was *Moana* and *Zootopia* and *Frozen*, but also *Turning Red* and *Encanto*. That suggests to us that our brands and franchises work extremely well in streaming. I mentioned how *Wakanda Forever* has done as well.

So core brands and franchises, more efficient pricing, getting better in marketing, being a little bit more judicious at promotion, all of those things is how we believe we're going to get to turn the streaming business to a growth business. And one other thing, the streaming business is going to continue to grow, albeit at the expense of linear programming, but consumption of television is not decreasing, it's actually going up.

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**Operator**

Our next question comes from Phil Cusick from JPMorgan.

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**Phil Cusick – JPMorgan**

Bob, following up on Michael, there's been a lot of talk in the last year about whether Disney should keep, spin, sell or trade ESPN. With it now as a stand-alone segment, can you give us



your view on the future of Disney and Sports, in particular, and maybe TV in general? How integral is ESPN to the company's future?

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

Thank you, Phil. We are fairly certain that when we created the structure and broke ESPN out on its own that it would lead to questions like this. We did not do it for that purpose, actually. ESPN is a differentiator for this company. It's the best sports brand in television. It's one of the best sports brand in sports. It continues to create real value for us.

It is going through some, obviously, challenging times because of what's happened in linear programming. But the brand of ESPN is very healthy, and the programming of ESPN is very healthy. We just have to figure out how to monetize it in a disrupting and a continuing – or disrupting world. That's it. But we're not engaged in any conversations right now or considering a spin-off of ESPN. That had been done, by the way, in my absence. And I'm told the company concluded after exploring it very carefully that it wasn't something the company wanted to do.

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**Operator**

And our next question comes from Doug Mitchelson from Credit Suisse.

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**Doug Mitchelson** – *Credit Suisse*

Bob, there's some investor skepticism that theme park per caps and margins are elevated due to post-pandemic benefits that might expire. I'm curious, in your view, does the theme park division still have healthy growth prospects from here, especially after a pretty good quarter this quarter? And what do you see as the major growth drivers of theme parks going forward?

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

Nice to hear your voice again, Doug. We've been through many of these calls in the past.



Well, the answer is yes on the theme parks in terms of their growth. I'm very, very bullish about our parks, and not just because of the COVID recovery. But to start with, demand on the parks is extraordinary right now. Now we could lean into that demand easily by letting more people in and by more aggressively pricing. We don't think either would be smart. Because we let more people in is going to reduce guest experience. That's certainly not what we want.

And in fact, if you looked at our results this past holiday season, we actually reduced capacity, certainly improved guest experience, and we're able to maintain profit – not just profitability, but a very, very successful or robust bottom line. We're going to continue to look at opportunities like that, which is essentially to simply get more creative in terms of managing the capacity that we have.

I'm going to come back to that in terms of growth, but let me also address the pricing side. It's clear that some of our pricing initiatives were alienating to consumers. I've always believed, by the way, that accessibility is a core value of the Disney brand. We were not perceived to be as accessible or as affordable to many segments as we probably should have been.

So after basically paying heed to what we were hearing, we started to address it. And the steps that we took were actually – were very, very positive. We got really great reaction to it. In addition, and it's tied to this is that we've put in place just basically more flexibility for the consumer in terms of how much it cost them to go.

And interestingly enough, if you look at the increase of the core ticket, let's say, at Disneyland, it has not really increased that much, maybe slightly ahead of inflation over the last few years. But one of the things that was interesting to me and coming in and examining our pricing is, we are making that available to people for only 15 days a year.

So if you look at our new pricing strategy, we made it available, I think, it was 50 days a year. So we greatly increased accessibility to our lowest price, and it is really well received.



So we're going to manage capacity very, very carefully. Some of that, by the way, has enabled us to essentially shift mix to – from annual pass holders to people who may come just once in a lifetime or once. They tend to be good customers of ours because of their per cap spending when they're there. That's really helpful. Some of the things that we put in place to manage basically annual pass holders was done to help us manage capacity without having doing too much damage to the bottom line.

Lastly, we have learned that when we invest in increasing capacity, the Star Wars Lands would be a good example of that, Pandora was a great example of that, we can grow our business. In fact, if you look at the results when we put Pandora and Animal Kingdom from year-to-year, they were stunning in terms of how many more people visited Animal Kingdom. I mentioned on the call that we're going to bring a version of *Avatar* to Disneyland.

We have other opportunities as well. I've talked to Josh D'Amato about this very recently, like this morning, again, to really look at all the great franchises of the company and see where we can invest in them in the parks to increase capacity while – by preserving guest satisfaction.

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**Alexia Quadrani** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Operator, I think we have time for 1 more question.

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**Operator**

And our final question comes from Steven Cahall with Wells Fargo.

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**Steven Cahall** – *Wells Fargo*

I'll ask you a question that we've asked Christine a lot over the last year, which is you made the comment about ESPN+ expressing some success in streaming and sports. And there's probably now about 40 million homes who've decided to not be in the bundle. So what do you need to see out there in the linear world to decide that an ESPN à la carte sports service in streaming should be the big leap for Disney?



And then just a small one. You mentioned about how a lot of content can amortize in places other than streaming. You talked a lot today about cost cutting. Should we think about licensing as also being a potential sort of big profit pool over the next few years?

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

I'll take the second part first, Steve. Yes. The answer to the second part is yes. Now when you say big, I don't know yet. We're not really there. But when we bought Fox, we greatly enhanced our television production and film production capabilities, bringing into the company great talent in both the movie and the TV side.

As I've talked about getting more aggressive at curating general entertainment, by the way, we're not getting out of that business, but we're going to curate it more. We have opportunities using the great talent that we have to create for third parties, and we're going to look at that very seriously. I actually think there's a nice opportunity to create a growth business for the company, but it's way too soon to predict what that can be.

Regarding ESPN and when we might make the shift, if you're asking me is the shift inevitable? The answer is yes, but I'm not going to give you any sense of when that could be because we have to do it obviously at a time that really makes sense for the bottom line. And we're just not there yet. And that's not just about how many subscribers we could get, it's also about what is the pricing power of ESPN, which obviously ties to the menu of sports that they've licensed.

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**Alexia Quadrani** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. Thanks for the question. I want to thank everyone for joining today. Note that a reconciliation of our non-GAAP measures that were referred to on this call to the equivalent GAAP measures can be found in our Investor Relations website.

Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, guidance, expectations, beliefs or business prospects and other



statements that are not historical in nature may constitute forward-looking statements under the securities laws.

We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including economic or industry factors and execution risks, including in connection with our organizational structure and operating changes, cost savings and efficiencies, workforce reductions and DTC business plans relating to content, future subscriber and revenue growth and profitability. For more information about key risk factors, please refer to our Investor Relations website, the press release issued today, and the risks and uncertainties described in our Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission.

We want to thank you all for joining us and wish everyone a good rest of the day.

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**Operator**

Thank you. Today's conference has now concluded. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.



### **Forward-Looking Statements**

Certain statements in this call may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business or financial prospects, trends or outlook; business plans; demand pipeline; financial or performance estimates or expectations (including estimated operating income, operating results, programming and production costs and cash content spend, capital expenditures, profitability and any guidance); organizational structure and leadership decisions; future subscriber levels; estimates of the financial impact of certain items, accounting treatment, events or circumstances; anticipated demand, timing, availability, pricing, utilization or nature of our offerings (including policies governing our products and services, experiences and business openings and cadence, content within and value of our products and services and content releases and distribution channel); business recovery; capital allocation, including dividend payments; impacts of COVID-19; consumer sentiment, experience, behavior or demand; expected growth and drivers of performance or growth; cost reductions and source; productivity gains; available efficiencies; strategies and strategic priorities; value and longevity of our intellectual property, including franchises; direct-to-consumer expansion and changes to subscription offerings; and other statements that are not historical in nature. These statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements.

Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments, asset acquisitions or dispositions, new or expanded business lines or cessation of certain operations), our execution of our business plans (including the content we create and IP we invest in, our pricing decisions, our cost structure and our management and other personnel decisions) or other business decisions, as well as from developments beyond the Company’s control, including:

- further deterioration in domestic and global economic conditions;
- deterioration in or pressures from competitive conditions, including competition to create or acquire content and competition for talent;
- consumer preferences and acceptance of our content, offerings, pricing model and price increases and the market for advertising sales on our DTC services and linear networks;
- health concerns and their impact on our businesses and productions;
- international, regulatory, legal, political, or military developments;
- technological developments;
- labor markets and activities;
- adverse weather conditions or natural disasters; and
- availability of content.

Each such risk includes the current and future impacts of, and may be 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;
- the performance of the Company’s content;
- our ability to create or obtain desirable content at or under the value we assign the content;
- the advertising market for programming;
- income tax expense; and
- performance of some or all Company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 1, 2022, including under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business,” quarterly reports on Form 10-Q, including under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and subsequent filings with the Securities and Exchange Commission.

The terms “Company,” “we,” and “our” are used above and in this call to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.