# Walt Disney Co. at MoffettNathanson Technology, Media, and Telecom Conference

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**Disney Speakers:**

## Christine McCarthy

*Senior Executive Vice President and Chief Financial Officer*

## Rita Ferro

*President, Advertising Sales*

## PRESENTATION

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Welcome back, everyone. Thanks for being here. Before we get started, I'm in charge of giving the Walt Disney Company forward-looking statements, okay?

So certain statements today, including statements about the company's plans, expectations, strategy or business prospects and other statements that are not historical in nature may constitute forward-looking statements under securities laws.

The statements are made on the basis of management's current views and assumptions regarding the future, and management does 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 macroeconomic and industry conditions and execution risks. And other factors contained in the company's Form 10-K, Form 10-Qs and other filings with the SEC as well as the legends you see here on the company's IR website.

Okay. So with that, I'll do that again later. Thank you. Okay. So Christine, my first question is a big one. It could take a whole hour, but let's start here.

What actions and decisions are you taking today to improve the Disney Company's financial performance going forward?

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

That is a very good question. Okay. So settle in everybody. So this is a great question, and I know we just had earnings last week, and I would like to clarify a few things. But there are things that we are doing as a management team that are very responsive to the current environment that we're all working in, plus facing some of the challenges we have as a company.

Now the things that we have firmly in our control are things like our structure, the way we are structured for managing the company as well as the cost structure. And as I said in our call, we are well on our way to meeting or exceeding the $2.5 billion of SG&A savings that we put out to the market previously and feel really, really good about what we've done to date and what will still be achieved in the balance of this fiscal year that you'll really see the benefits in '24.

So that's something that I just want to lean into a little bit. And then Bob Iger is really addressing the content spend. He's looking at not only what we're spending, but how we're spending and where we're investing those content dollars. So those are things that are firmly in control of the company. And I think the benefits of those, the more immediate one will be the SG&A achievements that we deliver.

Content spend will be a little bit longer to really see because of the time it takes for projects to go into development, production, post-production and then go on things. But it's all underway. When we look at our businesses, there's one thing I want to clarify a bit, and that is our sub growth. So we are looking at our sub growth, and I want to differentiate because Alexia Quadrani, many of you know Alexia, she's our Head of Investor Relations.

But last year, we talked about – we were always announcing sub growth as one number. And we broke out – Disney+ core subscribers versus Disney Hotstar subscribers. And the reason we did that is because there's very, very different dynamics in terms of ARPU and the potential for revenue generation.

And I think the headline number, and I know a lot of people in this room, you've looked at the numbers, you've looked at our Q, you've gone through the press release. You've looked at the charts, and you know that when we broke it down like that, you saw that there was a decline of 4.6 million subscribers in India.

And collectively, we lost 4 million subscribers globally, which meant that – Disney+ core subscribers were actually up. They were up less than a million. We wish it was a larger number. We hope to achieve that, but we did a price increase. And you saw some attrition there. Rita will talk about – what the prospects for our ad-supported tier look like going forward.

But once again, we just started the ad-supported tier back in December. And she's looking at that and things we can do. And we are also looking at pricing overall and pricing for the ad-free, which is really a premium product. In comparison to the ad-supported product, which is at a much more accessible price for consumers if they choose to watch ads.

And we know from our research that a lot of people don't mind watching ads. So it's a consumer proposition that people can avail themselves of. But I just want to focus on – Disney+ core subscribers that we believe that that is something that, especially the second half of the year, the latter part of this second half just based on our really strong content that's coming on the service, both originals as well as some of our theatrical releases, which will then come on Disney+ in the Pay 1 window.

And so when you look at what – our development teams and our content teams have done, led by Dana Walden and Alan Bergman, we've got some really good content that's coming on. And once again, the timing of the content releases, we're still – we've been in this business for three and a half years.

We've got content that's releasing later in this fiscal year that we really think is going to drive subscriber growth and also be favorable to our churn metrics. So that's on Disney, but it's also we're looking at optimizing as Rita will talk about later, that ad tier.

And also, we've talked a lot, and Bob has articulated this really looking at our pricing structure. And we don't feel that where we are today, we haven't optimized that pricing algorithm. When you think about the different levers, there are some different markets, but there's also the ad free and the ad supported. And looking at the consumer proposition and where you want to lean into the differential there. So I think there’s some things we want to refine.

When we look at the other elements of the business, Linear has gotten a lot of attention. I know that there is focus on subscriber growth – subscriber decline. That is something that's impacting the entire media sector. Advertising is cyclical. And once again, I think everyone is pretty much down on advertising. I mean every media company had to report results that were lower year-over-year. But the fact of the matter is advertising will come back.

And just like we did things during the pandemic related to some of our businesses, predominantly parks because those businesses were – we had to really address some structural things there. On the ad side, Rita and her team and Aaron LaBerge, who runs our technology, that team is looking at, once again, leaning into more refinements on our ad stack technology and data platforms. Rita can really address this in detail.

But I think there's going to be some really exciting developments and refinements that when the ad market does become more robust, we are very, very well positioned. And once again, we just had our upfront yesterday I think the reception from the advertising community was very positive, and I feel really good about where we are in terms of what we can deliver in the platforms that Rita can sell into.

I'd also like to address our parks business. Parks, I've said this before, this is a management team that has really delivered strong results. This is a management team that had to deal with businesses that were shut down for the better part of, call it, two years. Disneyland was closed for over 400 days. The parks in Asia were closed for significant periods of time.

We looked at the cost structure of that business. And that cost structure is one that has allowed us to really come back out of the pandemic very, very strongly. We've looked at our offerings. We continue to invest in our parks. We continue to look at the guest experience. We've had very, very strong results, and we continue to look at that as a growth business and a business in which we will still continue to invest.

And where we will be investing is going to be very consistent with what really makes Disney a unique business in this industry. And that is that we have ways that we can use our intellectual property, our franchises, the ones that really resonate with our consumers, and we have more data than we had before on – we know in something previously before we were in the direct-to-consumer business.

Take, for instance, our theatrical films that we released. We could rely on box office to know whether it did well relative to a comparable film in that genre. Now we have much more rich data because we have box office for those films that do go theatrical, but we also have the consumer data that we get off of primarily Disney+ on how often are people watching it. When they go on, is this a movie that they – or a franchise that they're going into for the first time that they're on the service? Do they watch it multiple times?

And that better informs our creatives and our imagineers to lean into things that we can really exploit in our theme park business where if we know something is truly resonating, something that we didn't have this advantage of that direct consumer data would be something like Frozen. So Frozen was a few years ago. It had tremendous box office performance. We knew it resonated. We had incredibly strong consumer products coming out of that franchise as well.

And you remember, we were always comping against Frozen for, I don't know, three or four years, it seemed. But we have Frozen now that's in Paris, it's coming to Paris. There's attractions in our domestic parks. And we also will have more Frozen attractions around the globe. Now we base that on what we had at the time. But now with new franchises and strong IP we can also incorporate that consumer data to know how deep it is and in what parts of the world, it's most significant in.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. Let me go to parks. We'll go through some divisions. And I think you found this interesting that investors are worried that the parks business is over-earning. Quote "over-earning" at this point in time, mostly due to pricing actions. What examples can you offer that park segment is now in structurally stronger footing than maybe previously and it's just not all about price right now.

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

Yes, there's been a lot of attention on our parks. And that concept of over-earning as a CFO, I've done this for many decades in this industry and others. Over-earning is a kind of odd concept, but I get it – one of the things I'd like to just point out is that we are in an inflationary environment and the macroeconomic environment we are in, we're very aware of that.

So as inflation impacts everybody's life, whether you live on a budget or don't. The inflationary impact of day-to-day living is something that we're very much aware of. So when we look at things in our parks, the one that gets the most attention, Michael, is admission price. And when you go back and look at the pricing increases that we have taken in our admission price, on a CAGR basis, they're pretty much around inflation.

So if there's a perception that there is – when you look at our per cap growth, which has been extraordinarily strong in the last couple of years, when you compare it to the last kind of base year, which we look at as fiscal '19. When we look at that, the per cap growth was great. It still will be growing, but it's going to be at a much smaller percentage because we're comping off of higher numbers.

But where we've seen the real contributors to that per cap growth, sure, a little bit of it is in admissions. But it's also in experiential things that people do in our parks like experiential food. I know that sounds like the kind of weird concept. But if you go to our parks and you go to Galaxy's Edge, there's unique product offerings for food and beverage and that will be Star Wars related or they may be Avengers related and Avengers campuses.

But they're really things that people want to Instagram and post, and they're very exciting – it's part of the experience overall. Merchandise is also something that has – I think we've really upped the game and things like, you can buy your T-shirts and your hats and things like that, plush animals, but you can also do things like the lightsabers. And that's part of an experience.

It's not cheap. People spend the money, but that's all – whether it's food and beverage, whether it's merchandise, those are things that are consumer choice as well as availing yourself of if you want to spend a little bit more to get more in, in a given day, so you can use things like Genie+.

Yes, you pay for it. But some people, they have a limited amount of time. They're not going to be back for x amount of months or years. So they want to get as much in as they can. So that's also driving those per caps up, but that's consumer choice. When they're in the gate, they're spending their money as they choose to.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

And Genie+. One of the questions is utilization of the parks, how it's changed due to Genie+, talk a bit about maybe previous times, pre-Genie+, how maybe the park capacity utilization has been different?

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

Yes. So you really have to look at pre and post pandemic on this. And once again, when you're really looking at structural changes in how you're looking at the business, when you're running a park 365 days a year, which is what we do globally around the world – it's harder to make changes. But when your parks are shut down – you have to look at the silver lining of COVID.

And for us, in the Parks business, it was taking the opportunity to look at things like addressing capacity. And because when we got back into allowing people into our theme parks around the world, we couldn't do it just open the gates. We had to do it with a reservation system because we were limited. So you had 10%, 25%, 50% capacity, depending on what jurisdiction you're in.

And that allowed us to utilize – to develop a reservation system, but it also allowed us to more, I would say, adequately look at load and demand. And it allowed us to balance labor, it allowed us to look at peak periods, and we've got a lot more information on what people were doing when they were there.

So as we were able to allow more and more of our guests into our parks – that is something that we've been able to cut off those big peaks, the days when it was really crowded when the parks had to not allow any more guests in. – we try to balance those periods and spread them around some days of the week and times of the year.

And we can do some of those things through promotional pricing. And just sort of packaging, but it's spreading that demand a little bit better and having it be a better guest experience when our guests are in the parks.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. Last parks question then I'll get to networks for a sec, is the recovery of international parks and international visitation in Orlando has lagged domestic that has just come back faster. But you start to see some signs of life last quarter. Can you talk a bit about how those factors could be meaningful drivers of future growth for the parks?

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

Sure. For the last few years, our parks results have largely been driven by strength in domestic parks. It was not our international locations – were not contributors for a few reasons, one of which was we have Shanghai, Hong Kong and also Tokyo, which we have a royalty agreement Oriental Land Company in Tokyo. Those parks were closed for significant time, much longer than our domestic parks.

Paris also had on and off with COVID, – what was going on in Europe COVID impacted their recovery. But the recovery that we've now seen, as we're kind of looking in the rearview mirror for COVID, has been very rewarding to see it. Because consumers had the same pent-up desire to be in our parks as they did domestically.

So as we have been able to open the parks and keep them open, we have seen very strong visitation and spending and utilization of our hotels in all of the international parks. Paris – I love to say this because before we restructured Paris several years ago to eliminate the third-party debt and the third-party equity owners. We had a lot of constraints we had to operate under. We took care of that in the mid-twenty teens. And now we fully own that park, and we're operating it like we do our domestic parks, and that park is doing incredibly well, and it is its 30th anniversary.

And it's really wonderful to see the performance there because it is significant in attendance per caps and per caps across the board for merchandise and food and beverage. In the Asia parks, they're doing very, very well. And once again, – we can look at it forward bookings. And those are very strong as well. So we feel really good about our international park business being an additional contributor, not just relying on our domestic park performance.

The other business that – has rebounded. And I will say, I admit, far better than I thought it would just because it had been shuttered for so long is our cruise business. So as you know, Michael, we launched a fifth ship last fall[1], the Wish. And with that, I think a lot of consumers looked at our cruise business again, those who could get a booking on the Wish.

– Wish has been very significantly high occupancy since its launch. But all of our other cruise ships have their utilization and their capacity is quite high. And we're looking at that, and it's really – I would use the word snapped back this year. And it's very, very strong, and that's a contributor to our parks business as well.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. So if we worry about parks over earning, we're going to switch to Linear Networks when that's concerned about, hey, when is this going to stabilize. So we were even struck by the margin compression in Linear Networks this year. Which factors are driving that weakness? And can you differentiate between maybe the ESPN networks and the non-ESPN networks, right, because it's just all put into one bundle right now as of the reporting bundle?

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

Yes. There's a couple of things here and there was – some nuances in our quarterly earnings. But one of the things is some of the timing of sports rights this past quarter. So we had a step-up in some sports rights that had to do with – and those of you who are big college football fans know that when our quarter ends at the end of the year, and you probably hear this, and – it just flows off when I say it now in earnings calls, but the college football playoff season.

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[1] This was intended to refer to summer.

Sometimes, we have more games in December, the December quarter. And other times, we have more games in the March quarter that starts in January. And because of the way that we close our quarters, sometimes those aren't on December 31st. It can be before or after just because of the way we close our books.

So this year, there was some college football playoff timing that increased expenses. And there's also the new NFL contract that just had some shifts in some expenses. One of the things I would like to note is that Jimmy Pitaro and his team, when they renewed the NFL contract last year, they structured it very well, but we also will not because of the ending of one contract, we're kind of at a bridge year.

So the ending of one contract going into the new contract, you're not going to see a sharp step-up in that. It's going to be more gradual. But you did see some of that in this first quarter.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

This is a weird year because you had a 1-year contract that came out on top.

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

Yes, yes. And so it's what we call a bridge year. And so there is some noise in that. We try to break it out a little bit, but I just want to – that because sports rights are a significant cost driver in linear, which sits in the ESPN, but I just wanted to call out that.

But the other thing in Linear is advertising. Advertising and Rita is going to address it. As soon as I stop talking, but she's going to address it, but when we look at real strength in advertising, yes, addressable, programmatic, digital is a growth area. But the other area that we are fortunate to have the sports rights we have and to have the brand that we have in ESPN.

Advertising for live sports is strong. And Rita can address that. Fortunately, and I'm from Boston. So I was thrilled to see the Celtics make it as far as they did, but 7 games. I like 7 games better than 6 game or 5 game series. It's a little nail biting, but that's okay.

And so anyway, I just think these long series are great for us in the short run, but it's really the strength of – these are series can come and go. It's a strength in the demand for live sports that is something that Rita can really lean into with our sales team.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. Well, thank you, Christine. Rita a segue to you. Great. Thanks for being here, second year in a row. Rita Ferro for those who don't know. You had your upfront last night. I'm sorry I missed it. We had a conflict. But can you give us an update, as Christine was just laying it out of the current landscape and the health of the ad business as you see it right now?

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**Rita Ferro** *– President, Advertising Sales, The Walt Disney Company*

Yes. Well, Christine touched on it, right? We have leaned into sports and streaming for the last 12 months, it's where you see the marketplace moving. I'm still very bullish on our linear business, by the way. I think when advertisers come to – The Walt Disney Company and especially in a marketplace like this where you have such dynamic conditions, people are going to do fewer, bigger things with the right partners.

And so The Walt Disney Company has the best of broadcast, the best of cable, the best of sports and the best of streaming. Coupled with the best investments around data and technology that really enable advertisers to buy in as close as they want to, to make sure that they're spending the right money around the right KPIs that they're looking for.

And so you're seeing that in the dynamicness of the marketplace right now. It really resonated yesterday when we talked about owning our tech stack and our data stack because especially on the addressable side of the business, the dollars come in through the channels they want it to.

And sometimes that's direct. And sometimes that's through the various DSP relationships that we have. Sometimes, it's data enabled. Sometimes it has audience guarantees. A lot of times it has targeting.

We also rolled out targeting on Disney+ recently around audience and geo. And we plan to have full targeting like we do on Hulu. Those investments that have been years in the making really pay off in marketplaces like this. And so as Christine talked about, it is a dynamic marketplace. It will come back, and we've made the investments around the right portfolio of assets to make sure that we can come out the other side better and stronger.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. So to that point, it's your second year with us – when you look back in the past twelve months, what have been your biggest accomplishments? And are there any meaningful changes to either the market structure or how you've gone to market in the past twelve months?

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**Rita Ferro** *– President, Advertising Sales, The Walt Disney Company*

The biggest change, I would say, is without a doubt interoperability. We have made sure that we have leveraged that ID graph with every partner, every vendor, all of the DSP relationships, all the agencies to set themselves up to be able to transact with us and cume reach across Linear and addressable with the least amount of frequency possible and the most amount of reach possible.

And that has been really, really important in terms of how people consider where they're spending their dollars. Every dollar has to work harder for every marketer. Every CMO is under a tremendous amount of pressure to deliver on the sales results that they have.

And it's a quarterly watch, right? So when they're committing these dollars in the upfront, they want to make sure that they can execute on those dollars in the way they need to at the time that those dollars have to go to market. So that's been really important. We haven't really changed.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

And that's more flexibility than it's been the past right?

**Rita Ferro** *– President, Advertising Sales, The Walt Disney Company*

Absolutely.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

So visibility is harder in any given quarter.

**Rita Ferro** *– President, Advertising Sales, The Walt Disney Company*

And it's about owning your own tech and data stack, which not everyone does. And when you don't own that you don't have the flexibility to react in real time. That's really, really critically important. And it will be a differentiator as we think about the future. But the other thing is we haven't really gone to market differently.

We are still going to market as a full Walt Disney company because the same marketers that work coming in through sports are also looking at streaming are also looking at our linear businesses, and it’s really important that we have that flexibility to talk to them on whatever they want in real-time because everyone has changed in their business.

They have cyclical things. They need adjustments. All of that's really important, and we're still hyper focused on serving the customer. So we talked about – a little bit about it last year when I was here. We have a team that focuses on industries and they're experts on financial services, CPG, pharmaceuticals, we still do that because it's really important that clients understand the capabilities and everything that we're doing in that space.

And by the way, there's ad products that go across. So when you think of financial services and pharmaceutical, for example, a lot of privacy concerns in those categories. We've developed ad products that work for one that you can take into other categories. So it really helps to connect those bridges. And then servicing the agencies in the way they expect to, right, which is still a very high level, high service every day.

Christine talked about the NBA and the excitement of having more games. I love having 7 games. Trust me, my entire team does. But that means we're in the market every single week, every Monday, I call Jimmy. I'm like, we got to move 150 units this week. We got to move 150 – because we have more games. And by the way, it happens.

And so that's really exciting because you have the relationships to be able to do that. It couldn't happen necessarily everywhere, but it happens here because we're in the market every day.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. Something that's funny. On the last quarterly earnings, it was kind of lost was we didn't talk a lot about the ad demand to the opening of Disney+ and has consumer adoption of the ad tier met expectations, right? So there's something to talk about. That was a big initiative, but it was lost in the initial report.

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**Rita Ferro** *– President, Advertising Sales, The Walt Disney Company*

Well, we saw a tremendous adoption by advertisers in last year's upfront. We're going to see the same in this year. There's more demand than we've been able to take candidly, but we're seeing growth in that every single day. You're seeing the subscribers coming in. It's a high percentage that are taking the ad tier, which is helpful for us.

Supply is growing week over week. And now that we're rolling out targeting, we're going to actually be able to do more with more advertisers in the marketplace. So we're really excited about Disney+.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

And on the consumer adoption side, maybe you want to talk about what has met expectations, maybe the pricing strategies. Are you talking about – how does that change the adoption prospect for the ad tier?

**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

Yes. So I think from a consumer perspective, it's really interesting because the more that we can marry the back-end technology to really take a look at our streaming services across the board. The more we can really do that.

Aaron LaBerge has done an extraordinary job of really looking at the product as well – he runs product and ad tech, which is super valuable because then you're looking at how consumers come in, how do you want to serve them, what are the right tools and environments that you can create within the app to actually maximize our opportunity to drive engagement, which is a core driver of the advertising time.

And then to really roll out the right types of ad products that are the right for that experience. And it's not exactly the same as we talked about last year, then on Hulu, right? The mix of content is different. The type of consumer is different. And so you want to have native experiences on that app that really drive that. And so having that now together in one kind of team has really allowed us to accelerate that.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Anything you'd share about the types of people who've taken the ad tier versus the ad free tier? Anything that you've seen notably on demographics or…?

**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

I don't know that I've seen anything specific that would really call out anything different.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. Okay. We mentioned that you guys have teased on this already, is that the pivot of more and more live sports ratings taking over share of non-live. Is there demand for that? Is there incremental ad demand? Or was there just a more limited bucket of people who just want to buy sports, right?

We've always thought historically, the NFL has a set number of advertisers. But tell me what you're seeing as sports ratings take a bigger part of the impressions in the world.

**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

Yes, I think it's both, right? So I do think that there are advertisers. We talk about it all the time. There's clear advertisers who associate themselves with certain leagues. And they, by the way, come in multiyear on those types of relationships. College football is a big driver of that. NFL and NBA, all the big ones.

But there are advertisers who are seeing the growth of sports and want to be there. It's interesting what you talk about live. Live was a big part of what we talked about yesterday in our upfront because if you look across our broadcast network today, about 70% of our content is live when you look across all dayparts.

It's really important. It's a really important driver of audiences coming together and brands want to be in moments and live creates moments. It creates moments for integration of brands. It creates moments for bigger scale of audiences. And so it's a really important strategy for us as well.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Something that we asked – we talked about last year, right? As the mix of dollars move more and more to SVOD and DTC, how are buyers viewing the overall inventory, right? Are they looking at that as a reach extension? Or is it more direct response programmatically bought? So just what is – this has been a debate we've all had with our clients, really discussion. What does that open up? Is that just a reach extension? Or is that a different type of advertiser who is trying more targeted pinpointed advertising?

**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

It's both. So we have advertisers. We talked about it at our upfront yesterday as well because when you cume reach, nobody cumes reach faster than The Walt Disney Company and it's partially to do with the incredible platforms that we have when you think of the scale of sports and the scale, no one has the reach of ad-supported streaming that The Walt Disney Company has with – it's not available in the marketplace today.

And so when you look across our platforms, you can cume reach with the least amount of frequency at the best price. No question. And yet at the same time, what we're seeing in the scatter marketplace, we talk about it a lot as a team. There is no more scatter in streaming.

– it's moving to a programmatic business because you buy in real time with the data that we have across the platforms to be able to leverage the outcomes you want; target the audiences you want and across our entire portfolio of streaming. So that's ESPN+, Disney+ and Hulu in addition to our owned and operated TV Everywhere else, right, which are a big piece of our business as well.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

And then in terms of client mix, the growth of SMBs, we were talking about this last year. So television has always been national, has always been Fortune 500. So what's going on in terms of the mix shift of more SMBs?

**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

We're seeing a lot more of that. Obviously, our stations is part of what we do. And so we combined our station business with our Hulu Local business a couple of years ago. And it's really proved to be really powerful and valuable in terms of how we talk to advertisers.

We also talked last year about rolling out self-service and so our self-service platform is now moving to be the underpinning of our local business to drive that SMB growth. It's high volume, low deal size business. And so it was really important to create automation so that we can actually talk to and service the scale of advertisers that are looking to be on the platforms.

You'll see more of that as we continue to evolve our business, but it's really – it's a really core component of what we're doing to grow that.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Something you've mentioned on the stage this year and last year is the investment you've made and capabilities. I know it's central to the competitiveness of where you stand. So can you spend a little time telling people what you've done, what you invested in? And how long has that taken to get to where you gotten at this point?

**Rita Ferro** *– President, Advertising Sales, The Walt Disney Company*

Years. – listen, there are so many streaming platforms in the marketplace today. And you and I talked about it last year, when you come into this business, I think people underestimate the investment and technology that is required to service clients the way they expect to be serviced.

There are so many technology platforms out there and competitors out there who have their own tech, and those have been able to move and innovate faster because it's in their wheelhouse. They don't have to get in a queue to be able to do that. They can make the changes in real time and the dynamicness and the velocity of change that is happening in our business, you have to own your own tech.

On the data side, we have a data graph today that is 250 million identifiers, represents 112 million households and I can't even tell you the amount of signals that come from that, that allow advertisers to really take and hyper target the segments they want on the platforms they want.

And that ID graph has been really an underpinning of all the relationships we have with all the vendors, the agencies, we set up clean rooms to be able to do privacy compliant because that's extraordinarily important as well. Privacy-compliant matches in clean rooms where we can really use that for not only planning but buying and then measuring the outcomes on the other side.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. And you kind of led to my next question is, we all wonder what's the impact of new entrants, okay? And some of the names into this industry. What has that been in terms of the impact on the market of people moving in either new SVOD ad tiers or the AVOD tiers or the fast channels, how has that impacted the marketplace?

**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

Well, listen, I think it takes share of mind and share of conversation. But again, the winners will be the winners who can drive success in user experience and quality of content and capabilities and targeting. It's not one thing or the other. You have to have it all. We have best-in-class content, no company rivals us in that. We are making the investments in data and technology. We have been for years to drive that.

And ultimately, having the business partnerships and relationships to create the demand channels of which people want to buy. They want to buy us direct great. If they want to buy us through a DSP, we're there, too. We're going to service clients the way they want to come into the platform.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

So if I offered you a 3-year lease on someone else's Ad tech stack, you would not do that.

**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

No. Thank you. I'm betting on Aaron.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. So with that said, we get back to Christine. Let's turn to direct to consumer, okay? I waited this long. How is the company's strategy around DTC now changed with Bob Iger back as CEO? And when will we see the benefits of that pivot filter into company financial results?

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

Well, Bob is back. That is great news. – let me just take a step back on, I think it's directly related to direct-to-consumer but it's also related to our businesses. Josh D'Amaro runs our DPEP business, which is our global parks, experiences and products. That's a global business. When you look on what is now Disney Entertainment and ESPN, those businesses up until this recent restructuring were not managed on a global basis.

There was what they predominantly looked at was domestic U.S., and we were largely looking at it as an exporter of content and rights for sports that were primarily domestic. There were some outside of the U.S., but primarily domestic. And the other decisions on content, even in direct-to-consumer had been made in the regions as well as sports rights in the regions with oversight, but not direct responsibility.

So now when you look at what Jimmy Pitaro is doing in sports, he's managing a global business, which means – and once again, not to sound too geeky like a CFO. But when he is looking at where is the best and highest use of the marginal dollar for sports rights. He's looking at it as a total global portfolio, not just domestic, which is going to allow him a bigger pie, but also to look at allocation.

And he may look at, is this better as a – something in the U.S., something that expands beyond the U.S. or something that is in a region. And I think that is something that is definitely going to impact our sports business to just be much more rational thinking of it as a global business because The Walt Disney Company is a global enterprise.

Same thing on the entertainment side with Dana Walden and Alan Bergman, they're looking at spending inside of not only their linear or film businesses, but also in direct-to-consumer, where is the best – where is the marginal dollar of content investment best spent. And I know there's been some focus. And once again, there's a lot going on when we release our earnings.

There's a lot of information that goes into the market all at once. But I think I've read some commentary of some concern over us cutting back on content and somehow that's going to have a negative impact on our ability to attract or retain new subscribers and existing subscribers. And that's really not the case. It's really spending our content dollars to the highest and best use of where they will attract and retain those subscribers.

And I think that's a fundamental shift that once again, it may be viewed as a nuance, but when you put that – and once again, Bob has really talked about this, the accountability with a leader. We've seen it operate in parks in DPEP, look at our parks business, how well it operates as a global business. That ladders up to Josh D'Amaro.

And now we're looking at it, and we're taking that same really, really successful model, applying it from a global perspective in sports up to Jimmy and in our entertainment businesses, which includes direct-to-consumer up to both Alan and Dana Walden. And so I think this is something I just want to emphasize that companies evolve.

– best practices is something that's usually talked about in kind of functional areas. You can look at best practices and take it on an enterprise level. And you just have, once again, Parks is global business. When we look at investing in new attractions, it's not done park by park, by park. It's laddered up where is the best use of that marginal dollar. And that's a mind shift that is really embraced by Bob, and it's embraced by the leadership team.

– you talk about when you're going to see it. Now does that happen snap overnight? No, but you're going to see – and we're all motivated, we're all driven, we're all driving to the same goal post. We're going to get there. And when you have a highly motivated, really incredibly talented management team we're going to get there. And so that's just once again, nuance, but I think it is it really needs to be emphasized because I don't think people have really focused on that change in the way we're managing the company.

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**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

I would add to that, too. When you look at that coupled with, we're doing the same around our technology stack. And so when you think of Disney+ is going to be rolling out in these international marketplaces, we have a head start. We know exactly how that's worked here.

It allows us the agility and flexibility to be able to be responsive. The responsive nature in this rapidly dynamic marketplace is really important. And having those expertise structured in that way allows us to move quickly and decisively.

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

And another thing I'd just like to add on that, Rita now has global responsibility for how we are going to market in advertising. It's not just being done by region. She has oversight for how that's being done. The other thing is our ad tier. We've launched it in the U.S. in December. It's only in the U.S. right now. She is going to be involved in with the technology teams and the direct-to-consumer management teams, launching Disney+ ad supported outside the U.S.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

So it's funny. We upgraded the stock on that nuanced idea. And one of the questions we always get is, when does the nuance become results financially. And you say it's going to come. You don't want to put a...

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

It's putting the whole puzzle – this is like a big puzzle. This isn't a 300-piece puzzle. This is 2,500 piece puts we put all the pieces of the puzzle together, Michael. And the things that you will see first that are going to be evident in our results the fastest is going to be things on the cost side. The plain old, blocking and tackling, SG&A.

We've addressed it on the labor front, on the technology front, dealing with vendors, where we're consolidating vendor relationships. Those are the things that we're doing right now. And there's a lot of focus and kudos to all the people in the company that are doing this because it is tough work. It's tough. It's emotionally draining but we're going to – that is what you're going to see first.

And some of these other things, you will see, but it's not going to be – it's going to roll out. I don't want to give a timeline. But once again, I think it's really important to understand when you – when people are highly motivated, we like to think of ourselves as a company of winners.

And yes, we know there are headwinds in this industry. There are challenges, but we look at the hand that we have to play, and it's a great hand. I mean as Rita said, she doesn't want anyone else's ad stack technology.

We don't want anyone else's hand they have to play on the content, IP, franchise side, the technology that we've developed to deliver direct to consumer. We certainly don't want to change our hand with what we have to play in our parks, experiences and products groups. So we're winners, and we are going to win.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. Cool. Another question we get a lot – thank you for that, is a long-term margin potential, let's say, core Disney+ because I don't want to include Hotstar. And given that Netflix has broken about 20% margins this year, can you talk a little bit about your give and takes and what you think about long-term margin potential for Disney+? I know that's also in a bunch of change because of pricing.

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

Yes. I look at Netflix, and I see where they are. We have not put out a margin goal yet because we're still getting to breakeven which we have firmly in our sights. We're going to march towards that. But we wouldn't be doing everything we're doing if we did not believe that this was a business that would deliver long-term sustainable returns to shareholders. That's the best way I could answer it, Michael.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. A couple more. You announced on the call combining Hulu with Disney+ for existing subscribers, both services and putting a Hulu tile there. What benefits do you see by – bundling all of the Disney products together? And is that strategy working?

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

Well, we haven't done it yet. So...

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Yes. But let's – okay, let me do the Disney bundle first and then add – the Hulu tile to Disney+.

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

The Disney bundle, there's a two-part bundle and a three-part bundle, one is Disney+ and Hulu, and then you can also have Disney+, Hulu and ESPN+. What we've seen, the characteristic that we've seen in all of those bundle offerings is because it is a great consumer proposition, and it has multiple offerings.

It is a characteristic that is most meaningful from a performance perspective is lower churn. And so it means there's more for the consumer, so they stay in and it just has lower characteristics. One is the value proposition, and the other is the content offering, how wide it is.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. So in that answer, then talk about what you're trying to achieve by creating a more unified app in terms of Hulu and Disney+.

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

So what Bob talked about – on our earnings call last week was putting a Hulu tile on Disney+. It's not going to have all of Hulu content on there. It will have a lot of it. But a consumer who has Disney+ with that tile when it launches – doesn't have to get out of Disney+ and go into Hulu to find content. – it can stay in the Disney+ platform go into that tile, which is just like the Marvel tile or the Disney tile or the Pixar tile, you go into that tile. And then you can search for the content without having to go in and out.

I have a fundamental belief that when you present friction to a consumer, it's never the best experience. And so eliminating this friction is just human nature. You're not asking someone to do an additional step. You just stay there, if you want to pop out of whatever you're watching on one of our other tiles into Hulu, you just don't have that additional step.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

And then Rita one of the talking points on the strategy changes. It's better for advertising, talk a bit about how does it help you monetize advertising by unifying the tiles?

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

Well, first of all, it drives engagement. And so engagement is a core component of how we think about ourselves as a streaming platform. It's really important as you think of, again, what Christine talked about frictionless experience, but the whole consumer journey from the time you step into the app, to the environment that you experience within moving from content to content, the recommendation engine of what comes after you've watched this, what's coming next and what that advertising experience, that's where we're going to win.

That's where understanding all of those data points and signals that we're getting from how users come in and experience that product is really going to drive how we think about the consumer journey, how we think about the advertising experience and ultimately, how we deliver for brands in that experience. And so it's going to start within that.

And hopefully, over time, having them all on one back end allows us to have richer data on the consumer what they like to watch what they don't like to watch and better advertising because of that.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. Christine, in fiscal year 2018, Disney generated by our definition, over $10 million[2] of free cash flow. Since then, we've had a global pandemic, massive shift to streaming and the acquisition of Fox. When you look out the next few years, how should investors frame Disney's ability to return to the great cash-generating days of old?

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

[2] $10 billion.

Little did we know how much fun we were going to have over the last few years. – look, we've had some headwinds that we've had to contend with, – I mean you just reiterated all of them. As a CFO, free cash flow is near and dear to my heart. We look at our ability – when you look at the parks business, that generates a lot of free cash flow. You look at things like the resumption of theatrical distribution of feature films. That's also a very strong cash driver.

Cash is something that we look at very keenly. Direct-to-consumer was also a new cash flow for us. I mean we never had that cash flow direct from consumers before. So it is incremental to us. But given the investment phase that we've been in – our cash flow has been muted. But it is something that we look at with a very keen eye towards improving and we are driving towards it. So our cash flow is up year-over-year. This is not the end. We are moving forward.

We're going to continue to make progress on that. But I'm not going to give an estimate, but we are going to keep free cash flow in mind. And at some point, as you know, we've talked about resuming a dividend in not-too-distant future. It's not going to be where we left off, but we're going to get back in the game. – and returning capital to shareholders is something that we also think about, in addition to growing our businesses and investing in our businesses.

**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Yes. And then I asked you on the call about trying to frame peak cash content spending ex-sports, at some point will you give us a waterfall like where do you see – it feels like this year's peak based on this year’s flat versus last year, right?

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

Yes. This year is flat versus last year. And we said it's around that $30 billion. Do we have a rider strike, if anyone hasn't noticed yet. So that may impact cash spend for the balance of this fiscal year. We'll update that if it's appropriate, when we speak publicly the next time.

But yes, we'll continue to invest in content, but we're looking at, once again, where the content dollars are best spent to drive the consumer engagement and attraction of subs and retention of subs.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. So in my last couple of minutes, I have last one for both of you. I'll start with you Rita. If we have the benefit of coming back next year and doing this again, what do you think will be the biggest surprise you share on stage with us a year from now?

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**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

Wow, that's a good one. The biggest surprise, I think, will be just how the market evolves. I think this notion of where the market is going and how quickly it's evolving. It's hard to even know really like where the biggest opportunities will be, but I fully believe that they're still going to be in the sports and streaming marketplace in the near term.

But I think the amount of data that we're getting in and the amount of signals and how we transform our business into a much more automated data-enabled programmatic world, we'll be far ahead where I actually think it is, and I'm pushing it there, but I actually think it's going to actually be more – the adoption will be far greater.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Which will put pressure on linear-only models that don’t have the tools...

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**Rita Ferro** – *President, Advertising Sales, The Walt Disney Company*

No. On the linear side, we actually do data-driven linear, and that's still an evolving business. And because we have this ID graph, we can actually take the learnings and really apply those audience segments on linear. So that actually having that ID graph for our addressable business has allowed us to really bring the linear businesses along. But there's no question. The more dynamic, the more capabilities, the more robust that business becomes, you have to be a player there and you have to really own the graph and own the tech to be able to deliver on it.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Okay. And for you, Christine.

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

It's a great question. I don't know. What ad recession? What are we talking about in 2023? It's – once again, it's cyclical. It's going to come back; the economy is going to move on. I think we have better days ahead, and we'll be looking at some of the headwinds and challenges and forgetting that we were worried about it.

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**Michael Nathanson –** *Co-Founder, Founding Partner & Senior Research Analyst, MoffettNathanson LLC*

Right. Okay. With that – very optimistic. Thanks for being here. We'll start again next year.

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

Thank you, all.

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**Rita Ferro** *– President, Advertising Sales, The Walt Disney Company*

Thank you.

**Forward-Looking Statements**

Certain statements in this discussion may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding plans; expectations; strategy or focus; priorities; opportunities; potential future growth and anticipated drivers of growth and cash flow; trends; efficiencies; cost reductions and source; goals; product or service offerings (including content and content releases); consumer and advertiser sentiment, behavior or demand; programming and production costs, cash content spend and capital expenditures; potential future profitability of our DTC services; industry trends and business recovery; capital allocation, including dividend payments; and other statements that are not historical in nature. Any information that is not historical in nature included in this discussion is subject to change. 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, political or military developments; regulatory and legal developments; technological developments; labor markets and activities, including work stoppages; adverse weather conditions or natural disasters; and availability of content. 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.