Good afternoon, and welcome to The Walt Disney Company Third Quarter 2023 Financial Results Conference Call. (Operator Instructions).

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

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

Good afternoon. It's my pleasure to welcome everybody to The Walt Disney Company's Third Quarter 2023 Earnings Call. Our press release was issued about 25 minutes ago and is available on our website at 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 Kevin Lansberry, Interim Chief Financial Officer. Following comments from Bob and Kevin, we will be happy to take some of your questions.

So with that, let me turn the call over to Bob to get started.

Bob Iger – Chief Executive Officer, The Walt Disney Company

Thanks, Alexia, and good afternoon. In the 8 months since I returned, we've undertaken an unprecedented transformation at Disney, and this quarter's earnings reflects some of what we have accomplished.
First, the company was completely restructured, restoring creativity to the center of our business. We made important management changes and efficiency improvements to create a more cost-effective, coordinated and streamlined approach to our operations. We aggressively reduced costs across the enterprise, and we're on track to exceed our initial goal of $5.5 billion in savings. And perhaps most importantly, we've improved our DTC operating income by roughly $1 billion in just 3 quarters as we continue to work toward achieving DTC profitability by the end of fiscal 2024.

I'm pleased with how much we've gotten done in such a short period of time, but I also know we have a lot more to do. Before I turn the call over to Kevin Lansberry, our Interim CFO, I'd like to elaborate on the state of our company and the transformative work we are still undertaking.

As I've said before, our progress will not always be linear. But despite near-term headwinds, I'm incredibly confident in Disney's long-term trajectory because of the work we've done, the team we have in place and because of Disney's core intellectual property foundation.

Moving forward, I believe 3 businesses will drive the greatest growth and value creation over the next 5 years. They are our film studios, our parks business and streaming, all of which are inextricably linked to our brands and franchises.

Looking to Disney entertainment studios. We're focused on improving the quality of our films and on better economics, not just reducing the number of titles we release but also the cost per title. And we're maximizing the full impact of our titles by embracing the multiple distribution windows at our disposal, enabling consumers to access our content in multiple ways.

For example, Avatar: The Way of Water, which is now the third highest-grossing film of all time, is also on track to be the biggest-ever electronic home video release for Disney domestically. Certain other titles will be sold in the download-to-own window as well.
By focusing on big franchises and tentpole films, we're able to generate interest in our existing library. For example, we're seeing tremendous engagement on Disney+ with the previous Guardians of the Galaxy films, the original Avatar and the first 4 Indiana Jones movies. But the value of our Disney entertainment studios and the reason this will be a key growth business for us extends far beyond our library and new releases. What sets Disney apart are the numerous ways we're able to reach consumers with the stories and characters they love, including in our parks and resorts.

We'll be opening new Frozen-themed lands at Hong Kong Disneyland and Walt Disney Studios Park in Paris as well as a Zootopia-themed land at Shanghai Disney Resort. And later down the road, we will be bringing an Avatar experience to Disneyland, reinforcing the unrivaled worldwide appeal of our brands and franchises.

Our Parks and Experience segment overall has had an impressive streak and will continue to be a key growth engine for the company, even as we navigate the cycles that come with operating this business.

Our Cruise Line in particular showed strong revenue and operating income growth in the third quarter. Current Q4 booked occupancy for our existing fleet of 5 ships is at 98%, and we will be expanding our fleet by adding 2 more ships in fiscal '25 and another in fiscal '26, nearly doubling our worldwide capacity.

In addition to our Cruise Line, strong segment results for the quarter were driven by solid performance at our international parks, and we also saw continued strength at Disneyland Resort.

Our Asia parks have been doing exceptionally well, reinforcing a clear opportunity for continued growth. Both Shanghai Disney Resort and Hong Kong Disneyland have experienced stronger
than expected recoveries from the pandemic, and in Q3, they both grew meaningfully in revenue, operating income, and attendance.

We saw softer performance at Walt Disney World from the prior year, coming off our highly successful 50th anniversary celebration. Also, as post-COVID pent-up demand continues to level off in Florida, local tax data shows evidence of some softening in several major Florida tourism markets, and the strong dollar is expected to continue tamping down international visitation to the state.

However, Walt Disney World is still performing well above pre-COVID levels – 21% higher in revenue and 29% higher in operating income compared to fiscal 2019, adjusting for Starcruiser accelerated depreciation. And following a number of recent changes we’ve implemented, we continue to see positive guest experience ratings in our theme parks, including Walt Disney World and positive indicators for guests looking to book future visits. This includes strong demand for our newly returned annual passes. We’re making numerous investments globally to grow our parks business over the next 5 years, and I’m very optimistic about the future of this business over the long term.

The third area that will drive growth and value creation for Disney is our direct-to-consumer business. When you consider our path to profitability in streaming, it’s important to remember where we started and how we’ve adapted based on what we’ve learned.

We overachieved with massive subscriber growth for Disney+ out of the gate and we leaned into a spending level to fuel subscriber growth, which had been the key measure of success for many. All of this happened while we were still determining the right strategies for pricing, marketing, content, and specific international market investments.

However, since my return, we’ve reset the whole business around economics designed to deliver significant, sustained profitability. We’re prioritizing the strength of our brands and
franchises; we’re rationalizing the volume of content we make, what we spend, and what markets we invest in; we are deploying the technology necessary to both improve the user experience as well as the economics of this business; we’re harnessing windowing opportunities, perfecting our pricing and marketing strategies, maximizing our enormous advertising potential; and we’re making extensive Hulu content available to bundle subscribers via Disney+.

As I announced last quarter, we’re moving closer toward a more unified one-app experience domestically, to pair high-quality general entertainment with content from our popular brands and franchises for our bundle subscribers. It’s a formula for success that we have already proven in international markets with our Star offering on Disney+.

We see a future where consumers can access even more of the company’s streaming content all in one place, resulting in higher user engagement, lower churn, and greater opportunities for advertisers.

We’re also very optimistic about the long-term advertising potential of this business. Even amid a challenging ad market, this quarter we began seeing early signs of improvement, and I’m pleased to announce that as of the end of Q3, we have signed up 3.3 million subscribers to our ad-supported Disney+ option. Since its inception, 40 percent of new Disney+ subscribers are choosing an ad-supported product.

On our pricing strategy, this year alone we have raised prices in nearly 50 countries around the world to better reflect the value of our product offerings, and the impact on churn and retention has outperformed our expectations.

Later today we will release details regarding upcoming streaming price increases. And I’m pleased to share that our ad-supported Disney+ subscription offering will become available in Canada and in select markets across Europe beginning November 1st, while a new ad-free
A bundled subscription plan featuring Disney+ and Hulu will be available in the U.S. on September 6th.

Maintaining access to our content for as broad an audience as possible is top-of-mind for us, which is why pricing for our standalone ad-supported Disney+ and Hulu offerings will remain unchanged.

I'd also like to note that we are actively exploring ways to address account sharing and the best options for paying subscribers to share their accounts with friends and family. Later this year, we will begin to update our subscriber agreements with additional terms on our sharing policies, and we will roll out tactics to drive monetization sometime in 2024.

Our DTC ambitions also extend to our sports business. Taking our ESPN flagship channels direct to consumer is not a matter of if, but when. And the team is hard at work looking at all components of this decision, including pricing and timing.

It's interesting to note that ratings continue to increase on ESPN's main linear channel, even as cord cutting has accelerated. This ratings strength creates tremendous advertising potential across the board. Our total domestic sports advertising revenue for linear and addressable is up 10 percent versus the prior year adjusted for comparability, which speaks to the fact that the sports business stands tall and remains a good value proposition.

We believe in the power of sports and their unique ability to convene and engage audiences. Yesterday it was announced that ESPN has entered into an exclusive licensing arrangement with PENN Entertainment to further extend the ESPN brand into the growing sports betting marketplace. This licensing deal will offer a compelling new experience for sports fans that will enhance consumer engagement. We're excited to offer this to the many fans who have long been asking for it.
Overall, we’re considering potential strategic partnerships for ESPN, looking at distribution, technology, marketing, and content opportunities where we retain control of ESPN. We’ve received notable interest from many different entities and we look forward to sharing more details at a later date when we are further along in this process.

Looking to our broader linear business, while linear remains highly profitable for Disney today, the trends being fueled by cord cutting are unmistakable. And as I’ve stated before, we are thinking expansively and considering a variety of strategic options. However, we’re fortunate to have an array of extremely productive television studios that we will rely on to continue providing exceptional content for audiences well into the future.

Speaking of the content we create, I’d like to say a few words about the ongoing strikes.

Nothing is more important to this company than its relationships with the creative community, and that includes actors, writers, animators, directors and producers. I have deep respect and appreciation for all those who are vital to the extraordinary creative engine that drives this company and our industry.

And it is my fervent hope that we quickly find solutions to the issues that have kept us apart these past few months and I am personally committed to working to achieve this result.

In closing, I returned to Disney in November, and I’ve agreed to stay on longer because there is more to accomplish before our transformation is complete, and because I want to ensure a successful transition for my successor.

In spite of a challenging environment in the near-term, I’m overwhelmingly bullish about Disney’s future for the reasons I shared at the beginning of this call: The work we’ve done over these past eight months, our core foundation of creative excellence and iconic brands and franchises, and because of the unrivaled talent we have at every level here at Disney.
I have the highest confidence in our leadership team today and I’m enormously proud of the ways each of them is helping steer the company through this moment of great change.

And with that, I’ll turn things over to Kevin.

Kevin Lansberry – Interim Chief Financial Officer, The Walt Disney Company

Thanks, Bob. It's good to be here. And good afternoon, everyone.

Our fiscal third quarter diluted earnings per share, excluding certain items, were $1.03, a decrease of 6 cents versus the prior year.

In the coming months we will be presenting recast financials in line with our new re-organized segments: Disney Entertainment, ESPN and Parks, Experiences and Products. So today will be the last earnings call where we will discuss our numbers under the existing structure.

Now, turning to this quarter’s results. Starting off with Direct-to-Consumer. As Bob referenced earlier, we’ve improved Direct-to-Consumer operating results by 1 billion dollars in just three quarters.

For Q3, operating losses improved by approximately $150 million versus the prior quarter and by approximately $550 million versus the prior year. These results outperformed the guidance we gave on the last earnings call, largely due to lower than expected expenses, including from realizing SG&A savings sooner than initially expected.

Disney+ Core subscribers grew by nearly 800 thousand during the third quarter, in line with the commentary we made at our last earnings call, with international growth more than offsetting modest domestic net losses.
As Bob mentioned, our progress will vary from quarter to quarter, and we are more focused on overall economics versus pure sub growth, but currently we do expect that in the fourth quarter we will see core Disney+ net adds rebound, with growth both domestically and internationally.

Disney+ Core ARPU increased sequentially by 11 cents, driven by higher per subscriber advertising revenue domestically as well as price increases in certain international markets. With over 40% of gross adds opting for the ad tier, the domestic Disney+ ad tier is continuing to improve our ARPU, and we look forward to the additional market launches announced today, which should serve as a stepping stone on our path to profitability.

Disney+ Hotstar subscribers declined this quarter as we adjusted our product from one centered around the IPL to one more balanced with other sports and entertainment offerings. I would also note that this business, with its significantly lower ARPU compared to core Disney+, is not a material component of our overall DTC financial results. We will therefore continue to focus our commentary on the core Disney+ product.

Hulu and ESPN+ subscribers were roughly comparable to Q2. Hulu remained profitable in the third quarter, with advertising revenue increasing versus the second quarter, benefiting sequentially from a higher sell through rate.

In Q4, we expect DTC ad revenue to continue to benefit from higher advertiser demand at Hulu as well as from the ramp-up of the Disney+ ad tier.

As we work toward achieving DTC profitability by the end of fiscal 2024, we don’t necessarily expect the progress to be linear each quarter, as the impacts of the transformative work we are doing take time to realize. We expect to see more meaningful improvement in our DTC losses by the middle of fiscal 2024.
These expectations and plans remain subject to all of the risks and assumptions we’ve previously identified and are noting here today, which will require close and ongoing assessment. But we remain encouraged by the early results we’ve already realized and are optimistic about our path ahead.

Moving on to our content sales line of business, operating results declined by a little over $200 million versus the prior year. Lower results in the third quarter versus the prior year were due to lower TV/SVOD and theatrical results. For Q4, we expect this business to generate operating losses up to $100 million worse than last year’s fourth quarter.

And at Linear Networks, operating income declined versus the prior year by $580 million, driven by declines at both domestic and international channels. The decrease at Domestic channels was driven by lower advertising and affiliate revenue, and by higher programming and production costs driven by the NBA and the new Formula One agreement.

While domestic linear advertising revenue declined year over year, ESPN ad revenue increased by 4%, demonstrating the relative strength of sports. Quarter-to-date, ESPN domestic linear cash ad sales are pacing down, reflecting in part the absence of the Big Ten this year. It’s worth noting however that the absence of the Big Ten is expected to drive overall operating income favorability in Q4 versus the prior year. The fourth quarter will also hold one additional Monday Night Football game versus the prior year.

Linear advertising continues to see impacts from market softness; while sports is healthy, entertainment continues to face headwinds. Note that we expect DTC advertising year over year growth to partially offset linear declines in the fourth quarter.

And we wrapped this year’s upfront with overall volume roughly in line with the prior year. Growth in addressable revenue increased, representing over 40% of the total upfront volume, and sports pricing is up single digits across the board.
Domestic linear networks affiliate revenue decreased by 2% from the prior year, due to a 6-point decline from fewer subscribers, partially offset by 4 points of growth from contractual rate increases.

International Channels operating income decreased versus the prior year, driven by lower advertising revenue, and to a lesser extent, an unfavorable foreign exchange impact.

Our Parks, Experiences, and Products portfolio of businesses continues to be an earnings and free cash flow growth driver for the company, with both revenue and operating income increasing by more than 10% versus the prior year.

International Parks continued its strong growth trend, with year over year operating income increasing at all our international sites, but most significantly at Shanghai Disney, which saw record highs from a revenue, OI and margin perspective.

At Domestic Parks and Experiences, operating income was up 24% versus pre-pandemic results in fiscal ’19, but declined 13% versus the prior year. In addition to the inflationary cost pressures we have discussed on prior calls and some of the near-term headwinds at Walt Disney World that Bob mentioned earlier, results reflect an approximately $100 million accelerated depreciation charge related to the closure of the Galactic Starcruiser. These drivers were partially offset by favorable performance at our cruise line and at the Disneyland Resort.

While Walt Disney World results were down year over year, as Bob mentioned, operating income was nearly 30% higher versus 2019 when adjusting for the Starcruiser accelerated depreciation.

Domestic Parks attendance grew slightly year over year, reflecting comparisons against last year’s strong trends coming out of the 50th anniversary at Walt Disney World. Per cap spending
was comparable to the prior year, with contributions from pricing, Genie+ and higher food and beverage spend offset by attendance composition changes and lower merchandise spend. Excluding the impact of the Starcruiser accelerated depreciation, Domestic Parks and Experiences operating margins in Q3 were roughly three percentage points below the prior year, and DPEP margins were slightly higher than the prior year.

We continue to expect some moderation in demand at our domestic parks as we compare against our highly successful 50th Anniversary celebration at Walt Disney World and the burn-off of pent-up demand persists, while elevated travel costs are impacting international visitation.

We are also seeing continued cost pressures in the fourth quarter - predominately from labor wage rate growth coupled with $150 million of remaining accelerated depreciation for the Galactic Starcruiser. However, we still expect all-in Q4 operating margins at DPEP to exceed the prior year, due to the ongoing strength of recovery at our international parks and cruise line.

Putting this all together, excluding the impact of accelerated depreciation for the Starcruiser, we are still expecting full year total company revenue and segment operating income to grow at a high single digit percentage rate versus the prior year.

We currently expect fiscal 2023 content spend to come in at approximately $27 billion, which is lower than we previously guided due to lower spend on produced content – in part due to the writers and actors strikes.

We now expect capital expenditures for the year to total $5 billion – this is lower than our prior guide primarily due to spending timing shifts for various projects across the enterprise.

In the midst of the transformative work we have been doing, we are prioritizing long term free cash flow growth, and have generated $1.6 billion of free cash flow in the third quarter. Our
balance sheet remains strong, with our single A credit ratings reflecting that strength. We have made significant progress de-leveraging coming out of the pandemic, and we continue to approach capital allocation in a disciplined and balanced manner – prioritizing investments to generate future growth, while also keeping an eye toward shareholder returns.

And to that point, as we’ve mentioned before, we still expect to be in a position to recommend that the Board declare a modest dividend by the end of this calendar year, with the intention to recommend increased shareholder returns over time as our earnings and free cash flow power grows.

And with that, I will turn it back over to Alexia for Q&A.

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

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

And with that, operator, we’re ready for the first question.

Operator

(Operator Instructions) Our first question comes from Phil Cusick from JPMorgan.

Philip Cusick – JPMorgan

Bob, the linear business is clearly under pressure, and you made it clear recently that all options are being considered. I'm curious, though, what the practical considerations are of separating assets like ABC, National Geographic or others from both ESPN or sports or integrated or from Hulu, which is kind of the next-generation distribution platform. Can you talk about that?

And then second, can we assume that most of those TV assets have been fully depreciated?
**Bob Iger** – *Chief Executive Officer, The Walt Disney Company*

Clearly, if we are to do anything significant in terms of, call it, strategic direction for the linear nets, we have to keep in mind the need for content to ultimately fuel our DTC businesses, notably and as you mentioned Hulu. So anything that is to be done would be done with an eye toward maintaining a rich flow of content to fuel our growth business, and that will be streaming.

There's obviously complexity as it relates to decoupling the linear nets from ESPN, but nothing that we feel we can't contend with if we were to ultimately create strategic realignment.

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**Kevin Lansberry** – *Interim Chief Financial Officer, The Walt Disney Company*

And Phil, this is Kevin. With respect to the assets, these have been around for quite a while at this point, and we're not going to comment specifically on where they sit from a depreciation standpoint.

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**Operator**

Our next question comes from Jessica Reif Ehrlich from BoA.

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

Bob, maybe just a follow-up on your prepared remarks and film being core strategic. Can you share with us how you plan to improve the movie performance and maybe the time frame or create more original content? Just give us more color.

And then a follow-up to something you said on DTC and password crackdown, is this a fiscal '24 full year? Like will you be done by the end of the year? And is it on a global basis? How many password sharers do you think there are on your platform?

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**Bob Iger** – *Chief Executive Officer, The Walt Disney Company*
So the second part of your question, Jessica, regarding password sharing, – we already have the technical capability to monitor much of this. And I'm not going to give you a specific number, except to say that it's significant. What we don't know, of course, is as we get to work on this, how much of the password sharing as we basically eliminate it will convert to growth in subs. Obviously, we believe there will be some, but we're not speculating.

What we are saying, though, is that in calendar '24, we're going to get at this issue. And so while it is likely you'll see some impact in calendar '24, it's possible that we won't be complete or the work will not be completed within the calendar year. But we certainly have established this as a real priority. And we actually think that there's an opportunity here to help us grow our business.

Regarding our studio performance, let's put things in perspective a little bit. The studio has had a tremendous run over the last decade, perhaps the greatest run that any studio has ever had with multiple billion-dollar hits and including, by the way, too, that were relatively recent, were one, in particular, Avatar: The Way of Water. And we also had a pretty strong performance with Guardians of the Galaxy 3, which has done, I think, approximately $850 million in global box office.

That said, the performance of some of our recent films has definitely been disappointing, and we don't take that lightly. And as you'd expect, we're very focused on improving the quality and the performance of the films that we've got coming up. It's something that I'm working closely with the studio on. I'm personally committed to spending more time and attention on that as well.

Operator

Our next question comes from Ben Swinburne from Morgan Stanley.

Ben Swinburne – Morgan Stanley
Bob, we've – the press is out with the price increase information for later this year tonight. I'm just wondering now that you've been through one Disney+ price increase here in the U.S. and multiple Hulu and ESPN increases sort of how you're thinking about the pricing power of the product as you go into these even more significant increases and whether you think you can hold your customer base as you raise prices.

And obviously, some big news with ESPN Bet. Why now? And why PENN? Can you just talk about your vision or Jimmy's vision for the ESPN product over time that stems from this announcement and other thoughts on ESPN's future?

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

Ben, as you know, I think as we've said before, we took a pretty significant price increase at Disney+ sometime late in calendar '22. And we really didn't see significant churn or loss of subs because of that, which was actually heartening. It's important to note, though, that the price increase that we've just announced is a price increase for the premium product or the non-advertiser-supported product. We're actually keeping the advertiser-supported product flat in terms of prices. That's being done for a reason.

Obviously, as has been noted by Kevin in his remarks, the advertising marketplace for streaming is picking up. It's more healthy than the advertising marketplace for linear television. We believe in the future of advertising on our streaming platforms, both Disney+ and Hulu. And we're obviously trying with our pricing strategy to migrate more subs to the advertiser-supported tier.

It also should be noted, as I think I mentioned in my remarks, that a substantial amount of new subscribers to Disney+ are signing up for the ad-supported tier, which suggests that the pricing is working for us in that regard. So we're looking at this very carefully.

One thing I think that I should also note is that we grew this business really fast, really before we even understood what our pricing strategy should be or could be. And we're really just
getting at, and I'd say in the last 6 months, the pricing strategy that's really aimed at enabling us to improve the bottom line ultimately to turn this into a growth business and as a component of that, obviously, to grow subs.

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**Ben Swinburne – Morgan Stanley**

And on the ESPN?

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

On ESPN Bet, you say why now? Well, we've been in discussions with a number of entities over a fairly long period of time. It's something that we've wanted to accomplish, obviously, because we believe there's an opportunity here to significantly grow engagement with ESPN consumers, particularly young consumers.

And PENN, why PENN? Because PENN stepped up in a very aggressive way and made an offer to us that was better than any of the competitive offers by far. And we like the fact that PENN is going to use this as a growth engine for their business. And we actually believe and trust in their ability to – in this partnership to grow their business nicely while we grow ours.

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**Operator**

Our next question comes from Michael Nathanson from MoffettNathanson.

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**Michael Nathanson – MoffettNathanson**

Bob, I have two, if you could. One is, given the thinking you've done about the future of Disney, why doesn't it make sense to create 2 Disney companies: one focused on parks, CP, Disney+ and then the studio IP that drives that flywheel, and then one on everything else? So why not make a clean break?

And then secondly, on ESPN, you've been talking about partnerships. I wonder if you have a vision for the streaming content vision of ESPN that's different than the linear one we see,
perhaps a sports bundle with either other networks or with league partnerships. So can you just expand on how the product will look differently down the road in streaming than it does now in a linear one?

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

Michael, on the first part, I'm not going to comment on the future structure of the company or the asset makeup of the company. As I've said, we're looking at strategic options both for ESPN and for the Linear Networks, obviously, addressing all the challenges that those businesses are facing. I'm looking forward to reading your thesis on it. Maybe you'll give us some ideas about it, but I'm not going to make any comments about it right now.

Regarding the second question and ESPN, the strategic partnerships that we're looking to create and that we're actually in discussions about are aimed at accomplishing a few things: one, content, meaning increasing the content that ESPN offers; and two, possibly, I'll call it distribution and marketing support. And it's possible that we'll be able to do both – and this is all being done with an eye toward the inevitability of taking the ESPN flagship over the top.

So when we look ahead and we see a business that will be – primarily a direct-to-consumer business, we obviously have an eye toward how much content do we need in order to make that a successful business. That obviously ties to what the pricing model need to be and actually, how much distribution support we need. We benefited greatly from the distribution support in the old business model from cable and satellite.

Obviously, when you go DTC, you're kind of doing it on your own or maybe not or maybe there's an opportunity with another entity to help in that regard. So we're basically looking quite expansively. I must say we're extremely encouraged with all the interest that we've had already in this regard. And I think it's safe to assume, as we ultimately turn this into a streaming business, while we have a phenomenal hand right now better than anyone else in terms of the
content that ESPN offers that – we believe that adding more content in under economical circumstances might be a wise thing.

Operator

Our next question comes from Steven Cahall from Wells Fargo.

Steven Cahall – Wells Fargo

Bob, you said you're now on track to exceed that initial goal of $5.5 billion in cost savings, and DTC came in ahead in the quarter. As you think about the future of this business long term and getting to kind of the price and cost structure that you're aiming for, do you have any expectations for longer-term DTC margins? It just seems like you're meaningfully below where Netflix was at a similar revenue scale. So I'm wondering how you think about that 15% or 20% margin level as that business gets above $20 billion in revenue this year.

And then just secondly, as a follow-up, given that you have the Hulu put coming up next year, what are your thoughts on your ability to fund that transaction as we head into that time horizon?

Bob Iger – Chief Executive Officer, The Walt Disney Company

Our streaming business is still actually very young. In fact, it's not even 4 years old. It launched in November of 2019. And we love to have the margins that Netflix has. They've accomplished those margins, though, over a substantially longer period of time, and they've done so because they figured out how to really carefully balance their investment in programming with their pricing strategy and what they spend in marketing.

Because we're new at all of this, we actually have not really achieved the kind of balance we know we need to achieve in terms of cost savings and pricing and money spent on marketing. And of course, all the other things that we're looking at from a technological perspective that
grows engagement with our customers, for instance, recommendation engines would be one example of that, that have the ability to improve performance or obviously grow consumption.

So I would say that – I can't emphasize enough the time that we spent and the effort that we spent on managing costs. We've done a tremendous job in a very, very short period of time of exceeding the cost reductions that we said we were going to achieve, and that's obviously a major step in the direction of improving our margins. Pricing, as we've talked about earlier on this call and in our comments, is another way to do that. Password sharing is another way to do that. Getting the technology in place to grow engagement, the advertising side of this business is another.

So I'm reasonably optimistic and hopeful that we will be improving our margins in this business significantly over the next few years. But I'm not going to make any further predictions in that except – the good news is that we know how much work we have to do. We know the work that we have to do as well.

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Kevin Lansberry – Interim Chief Financial Officer, The Walt Disney Company

And Steven, I'll answer the question with respect to Hulu put. So – I'll remind everyone that the floor to that put is about $9.2 billion. We're very comfortable with our current liquidity position. We've got about $11.5 billion of cash on our balance sheet. We’ve got about $10.5 billion worth of revolving credit facilities and commercial paper – and we're going to have plenty of future cash flow to help fund all of this going forward.

I would also like to note that from a balance sheet perspective, we've got a strong single A credit rating that reflects the strength that we see in our balance sheet. We made significant progress recently, deleveraging coming out of the pandemic. We're prioritizing free cash flow as a company. And we're being really disciplined and smart about how we go about allocating capital across the company.
And last but not least, as I noted in my prepared remarks, we hope to still be in a position – or we plan to still be in a position at the end of this year to recommend to the Board of Directors that we put a modest dividend out.

Operator

Our next question comes from Kannan Venkateshwar from Barclays.

Kannan Venkateshwar – Barclays

So Bob, I mean, on the ESPN side, you've spoken about the need for partners. Could you talk a little bit about the priorities when you look at partners? Is it more in the form of direct capital infusion or maybe some kind of reach on the distribution side when it comes to streaming? What are the objectives you're really solving for?

And then, Kevin, maybe as a follow-up to the guidance, just triangulating between some of the segment guidance that you just gave and trends in the first 3 quarters. The full year high single-digit guide reiteration is obviously great. But it will need more acceleration in Q4 than we've seen in the first 3 quarters of OI. So if you could just talk through what the drivers of that acceleration, that would be helpful.

Bob Iger – Chief Executive Officer, The Walt Disney Company

Kannan, we're not necessarily looking for cash infusion when it comes to partners. We're looking for partners that are going to help ESPN successfully transition to a DTC model. And that, as I've said, can come in the form of either content or distribution and marketing support or both.

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

And Kannan, can you repeat your second question, please?

Kannan Venkateshwar – Barclays
So in terms of the guidance for high single-digit OI growth, just triangulating between the trends in the first 3 quarters and some of the segment guidance in the quarter, it seems to imply growth in the fourth quarter will be higher for OI. And so I just wanted to understand what the drivers of that acceleration are.

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**Kevin Lansberry – Interim Chief Financial Officer, The Walt Disney Company**

Yes. Kannan, there's very significant growth across our direct-to-consumer business and at our Parks and Experiences business also. So those 2 businesses predominantly are the big growth drivers as you begin to look at relative to the prior year where we're getting that kind of growth.

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**Operator**

Our next question comes from Brett Feldman from Goldman Sachs.

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**Brett Feldman – Goldman Sachs**

So I'm curious how your experience with Disney+ Hotstar has shaped your view on your long-term international streaming strategy. Are you thinking about maybe exiting those markets or any markets and maybe focusing more on content licensing or partnerships? And is it essential that you reshape that international strategy in any way to meet your long-term profitability objectives?

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

We actually have been looking at multiple markets around the world with an eye toward prioritizing those that are going to help us turn this business into a profitable business. What that basically means is there are some markets that we will invest less in local programming but still maintain the service. There are some markets that we may not have a service at all. And there are others that we'll consider, I'll call it, high-potential markets where we'll invest nicely for local programming, marketing and basically full-service content in those markets.
Basically, what I'm saying is not all markets are created equal. And in terms of our march to profitability, one of the ways we believe we're going to do that is by creating priorities internationally.

Operator

Our next question comes from Michael Morris from Guggenheim.

Michael Morris – Guggenheim

So on the theme of considering options for Disney, there was an article published recently that speculated that the entire company could be sold to a larger technology company. So Bob, my straightforward question is, do you see a plausible scenario where the entire company would be sold?

Maybe a bit more broadly, though, when you think of maximum value of the Disney enterprise, do you think that can be achieved by being more aligned with a single technology partner? Or is that value maximized through partnering with a variety of tech platforms?

And if I could just sneak one in on the PENN Gaming announcement. Does it – will you forego advertising partnerships with all other betting or sports gaming partners? And if so, how much impact will that have in exchange for building value in this partnership?

Bob Iger – Chief Executive Officer, The Walt Disney Company

– Michael, I just am not going to speculate about the potential for Disney to be acquired by any company, whether a technology company or not. Obviously, anyone who want to speculate about these things would have to immediately consider the global regulatory environment. I'll say no more than that. – it's not something that we obsess about.

Kevin Lansberry – Interim Chief Financial Officer, The Walt Disney Company
And then, Michael, with respect to any foregone economics or no longer accepting advertising from other gaming companies, I don't see us in a position where we'd ever be in that situation.

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

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

Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, guidance or expectations or 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 that 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.

These factors include economic or industry conditions, competition and execution risks, including in connection with our business plans; organizational structure and operating changes; cost savings; earnings expectations and drivers of growth; and our DTC content and how it's made available on our platforms, subscriber, advertising and revenue growth and profitability. In particular, our expectations regarding DTC profitability are built on certain assumptions around subscriber additions based on the availability and attractiveness of our future content, which is subject to additional risks related to ongoing work stoppages, 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 our recent experience, provide a layer of uncertainty in our outlook.
For more information about key risk factors, please refer to our Investor Relations website, the press release issued today, 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.
**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; earnings expectations and expected drivers; business plans; demand pipeline; financial or performance estimates or expectations (including operating income, operating results, programming and production costs and cash content spend, capital expenditures, profitability and any guidance); future performance and growth; organizational structure and leadership decisions; future subscriber levels; plans for direct-to-consumer profitability; 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 experiences and business openings, content within our products and services and content releases and distribution channel); business recovery; capital allocation, including dividend payments; impacts of COVID-19; consumer and advertiser sentiment, behavior or demand; expected growth and drivers of performance or growth; cost reductions and source; productivity gains; available efficiencies; strategies and strategic priorities; value of our intellectual property, including franchises; direct-to-consumer expansion and changes to subscription offerings; and other statements that are not historical in nature. Any information that is not historical in nature included in this call 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), our ability to quickly execute on cost rationalization while preserving revenue, the discovery of additional information or other business decisions, as well as from developments beyond the Company’s control, including:

- the occurrence of subsequent events;
- further deterioration in domestic and global economic conditions or a failure of conditions to improve as anticipated;
- deterioration in or pressures from competitive conditions, including competition to create or acquire content, competition for talent and competition for advertising revenue;
- consumer preferences and acceptance of our content, offerings, pricing model and price increases, and corresponding subscriber additions and churn, 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, including direct-to-consumer 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 “Disney,” “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.