The Walt Disney Company

Q4 FY23 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chief Executive Officer

Kevin Lansberry

Interim Chief Financial Officer

Moderated by,

Alexia Quadrani

Executive Vice President, Investor Relations

PRESENTATION

Operator

Good afternoon, and welcome to The Walt Disney Company Fiscal Full Year and Q4 2023 Financial Results Conference Call. (Operator Instructions).

After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note that this event is being recorded. I would now like to turn the conference 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 Fourth 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, as well as the Fourth Quarter Earnings Presentation, will all be made available on our website after the call.

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, everyone.

Before we begin, this week we announced that Hugh Johnston will be joining The Walt Disney Company as Senior Executive Vice President and Chief Financial Officer, after 34 years with PepsiCo.

It's great to have Hugh joining Disney at this important moment for our company. I'd also like to thank Kevin Lansberry, who stepped into the CFO role on an interim basis earlier this year and has provided strong leadership in the months since. Kevin is returning to his role as CFO of our Disney Experiences segment, and you'll hear more from him in just a bit.

Now, let's turn to the quarter...

Our results this quarter speak volumes about the underlying strength of our company, and the remarkable amount of work we have accomplished this past year.

Q4 adjusted earnings per share nearly tripled over the prior year.

And all three of our businesses – Entertainment, Experiences, and Sports – saw significant increases in fourth quarter operating income compared to Q4 of fiscal '22.

The thorough restructuring of our company has enabled tremendous efficiencies, and we're on track to achieve roughly $7.5 billion in cost reductions, which is approximately $2 billion more than we targeted earlier this year.

Our new structure also enabled us to greatly enhance our effectiveness, particularly in streaming, where we've created a more unified, cohesive, and highly coordinated approach to marketing, pricing, and programming. This has helped us improve operating results of our combined streaming businesses by approximately $1.4 billion from fiscal 2022 to fiscal 2023. And we remain confident that we will achieve profitability in Q4 of fiscal 2024.

And most importantly, our new structure has restored creativity to the center of our company, and we certainly know from our now 100-year history that nothing is more important or critical to our success.

Indeed, our strong creative accomplishments helped drive impressive growth in core Disney+ subs, with nearly 7 million added in the quarter. This reflects the success of numerous popular titles to hit the platform, including *Guardians of the Galaxy Vol. 3, The Little Mermaid,* and *Elemental*, continuing the trend of our theatrical releases being some of the most watched content on Disney+.

Key originals also performed incredibly well across all our platforms, including *Ahsoka* on Disney+; *The Kardashians*, which is now our most viewed unscripted Hulu original series ever; and the spectacular Korean original series *Moving*, which has become a breakout hit.

As I reflect on our achievement this past year, I'm mindful of the fact that a lot of time and effort was spent on fixing –both contending with certain decisions made in the recent past and addressing the numerous challenges brought on by disruption and the pandemic. And while we still have work to do to continue improving results, our progress has allowed us to move beyond this period of fixing and begin building our businesses again.

As we look forward, we are focusing on four key building opportunities that will be central to our success. And they are: achieving significant and sustained profitability in our streaming business, building ESPN into the preeminent digital sports platform, improving the output and economics of our film Studios, and turbocharging growth in our Experiences business.

We have already made considerable progress on these four opportunities, and we will continue to move forward with a sense of purpose and urgency.

I've articulated many of my thoughts about our strategic initiatives, so today I want to discuss in more detail these four building opportunities as we enter this next phase.

First is turning Streaming into a profitable growth business. And I'm pleased to say our recent performance solidifies that we are on that path.

In the 4 years since we launched Disney+, which generated roughly 10 million signups in the first 24 hours alone, core Disney+ subscribers have now reached over 112 million as of the end of fiscal '23 – including the nearly 7 million we gained this quarter.

What's more, our ad-supported Disney+ products grew by approximately 2 million subscriptions in Q4 to a total of 5.2 million. In fact, more than 50% of Q4 new U.S. subscribers chose an ad-supported Disney+ product. And over the past six months, these AVOD subs spent 34% more time watching the service. We have the best advertiser technology in the streaming business globally, and we have just introduced new tools that will make this an even more attractive platform for advertisers, much as we've done with Hulu.

And speaking of Hulu, we were pleased to announce last week that we will acquire the remaining stake in Hulu held by Comcast, which will further Disney's streaming objectives. We remain on track to roll out a more unified one-app experience domestically, making extensive general entertainment content available to bundle subscribers via Disney+.

That includes critical and audience favorites like Hulu's *Only Murders in the Building*, *The Bear*, *Abbott Elementary*, as well as titles from our extensive content library built over decades, including adult animation standouts like *Family Guy* and long-running hit series like *9-1-1*, which is moving to ABC for Season 7.

We expect that Hulu on Disney+ will result in increased engagement, greater advertising opportunities, lower churn, and reduced customer acquisition costs, thereby increasing our overall margins.

We will launch a beta version for bundle subscribers in December, giving parents time to set up profiles and parental controls that work best for their families ahead of the official launch in early spring 2024.

Also, we have additional opportunities for improvement in our streaming business that will come from implementing stronger standards around account sharing, although given the timing of our planned rollout, we don't expect a meaningful impact until 2025.

Now that we have realigned our pricing and marketing strategies, focused aggressively on getting the technology right, merged our creative and distribution teams, and restored creative excellence as our singular motivating priority with the content we create, we are bullish about the future of our streaming business. And as you consider the components and the future of that business, just imagine the opportunities that a further combined Disney+, Hulu, and ESPN streaming experience could offer us as a company and our consumers.

Another core building opportunity is taking ESPN, which is already the world's leading sports brand, and turning it into the preeminent digital sports platform allowing us to reach fans in compelling new ways and fully integrating key features into our primary ESPN offering.

We're already moving quickly down this path, and we are exploring strategic partnerships to help advance our efforts through marketing, technology, distribution, and additional content.

As we continue to develop our streaming business, the continued strength of ESPN, relative to the backdrop of notable linear industry declines, demonstrates the value of sports and the power of the ESPN brand.

Overall, our domestic ESPN business grew in revenue and operating income in both fiscal ’22 and in fiscal ’23. This fiscal year also saw the network deliver its best overall viewership in four years and its highest viewership in the key 18-49 demographic in the same time period.

ESPN viewership was up in each of the four quarters as well, maintaining steady success throughout the entire year. Across ESPN networks, the company increased its already industry-leading share of sports viewership in fiscal ’23, and we continue to see stability in ad sales, despite challenges facing the broader media industry.

ESPN BET will launch next week through our agreement with PENN Entertainment, and we are excited to bring sports fans this compelling new experience.

Regarding our broader linear business, we continue to evaluate options for each of our linear networks with the goal of identifying the best strategic path for the company and maximizing shareholder value. However, our review of the business thus far has uncovered significant long-term cost opportunities, which we are implementing, while continuing to deliver high-quality content.

Speaking of which, I’d like to acknowledge the world class journalists and producers at ABC News. Over the past few months, many have risked their lives to keep our audiences informed during relentless news cycles and made ABC number 1 in network news for the 11th consecutive year.

Next is the need to strengthen the creative output of our film Studio, which generates value throughout the entire company.

To achieve this, we are focusing heavily on the core brands and franchises that fuel all our businesses and reducing output overall to enable us to concentrate on fewer projects and improve quality, while continuing our effort around the creation of fresh and compelling original IP.

I'm devoting considerably more of my time to this with the goal of improving returns, always seeking to exceed the level of creative excellence audiences expect from Disney.

Meanwhile, we have 4 of the top 10 highest grossing films at the global box office this year, including Pixar's *Elemental*, which has grossed nearly half a billion dollars worldwide, in addition to being the most viewed film released this year on Disney+.

We have more new releases still to come in calendar year '23, including *The Marvels* from Marvel Studios, which will be released this Friday, and *Wish,* our newest film from Walt Disney Animation Studios, which marks our company's 100th anniversary and will be in theaters beginning November 22nd.

We're also looking forward to our strong theatrical slate in '24, with several films tied to popular franchises like *Deadpool 3* featuring Wolverine, *Kingdom of the Planet of the Apes*, and *Inside Out 2*. Additionally, *Mufasa: The Lion King* and sequels from our Toy Story, Frozen, Zootopia, and Avatar franchises are all in the works.

Finally, we have an opportunity to build Disney Experiences into an even bigger and more successful cash-flow generation business. Parks and Experiences overall remains a growth story, and we are managing our portfolio exceptionally well.

Even in the case of Walt Disney World, where we have a tough comparison to the prior year, when you look at this year's numbers compared to pre-pandemic levels in fiscal '19, we have seen growth in revenue and operating income of over 25 and 30%, respectively.

Over the last 5 years, return on invested capital has nearly doubled in our Domestic Parks, and we have seen sizeable increases over that same timeframe across the total Experiences portfolio as well – not to mention the improved guest experience ratings we're now seeing at every one of our parks.

As we announced in September, we plan to turbocharge growth in our Experiences business through strategic investments over the next decade. Given our wealth of IP, innovative technology, buildable land, unmatched creativity, and strong returns on invested capital, we are confident about the potential from our new investments.

Looking at the company as a whole, today we are focused on driving profitable growth and value creation as we move from a period of fixing to a new era of building.

We have a strong balance sheet, and we expect free cash flow to significantly improve in fiscal '24, approaching pre-COVID levels.

Disney's Experiences business, with its expansive offerings around the world, is a key differentiator and remains a powerful growth engine, expanding operating margins by nearly 300-basis points over the past 5 years.

As we transition ESPN to a streaming future and more fully integrate general entertainment content into Disney+, we will have a DTC offering unlike any other in the industry.

And Disney's leadership and workforce around the world are second-to-none.

When you combine all of that with our unrivaled portfolio of valuable businesses, brands, and assets – and the way we manage them together – Disney has a strong hand that differentiates us from others in the industry.

Our results this quarter are testament to the work we've done across the company this past year, and I'm bullish about the opportunities we have to create lasting growth and shareholder value – and to strengthen Disney's position as the world's leading entertainment company.

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

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

Thank you, Bob. I appreciate your kind words at the outset of the call. It's been an honor serving as Interim CFO these past few months. We are excited to welcome Hugh to The Walt Disney Company, and I look forward to working with both of you on all that's ahead. Now, to dive into this quarter's results…

Diluted earnings per share, excluding certain items, increased versus the prior year, to 82 cents in the fiscal fourth quarter and $3.76 for the full fiscal year.

This past year has been marked by both transformation and execution, and we are pleased with the momentum we are building and the results we've realized – including meeting our guide of high single digit percentage growth in both revenue and operating income for fiscal 2023.

Total company revenues for the year increased 7%, and segment operating income grew by 8%, excluding the impact of accelerated depreciation from the Galactic Starcruiser. And free cash flow for the year increased substantially, totaling close to $5 billion, driven by the work we've been doing on the cost efficiency front and by improvement in our underlying financial results.

A few weeks ago, we published our recast financials, aligned to our newly re-organized segment structure. Today, I'll be walking through the fourth quarter's financial results for each of our three segments: Entertainment, Sports, and Experiences; and I'll also provide some color for the year ahead.

Starting off with Entertainment – Q4 operating income grew by over $800 million versus the prior year quarter, driven by improvement at our Direct-to-Consumer business.

We continue to make headway on our path to profitability in streaming, with fourth quarter operating losses at our Entertainment DTC services improving by nearly $1 billion versus the prior year, or $85 million sequentially, to $420 million.

Note that our Entertainment Direct-to-Consumer results exclude ESPN+. Including ESPN+, our combined streaming businesses had an operating loss in the fourth quarter of $387 million – a year over year improvement of a little over $1 billion and a sequential improvement of $125 million.

As Bob noted earlier, we added nearly 7 million Disney+ core subs over the past quarter, reflecting strong content performance and our global summer promotion.

Disney+ Core ARPU increased sequentially by 12 cents, driven by pricing increases and higher advertising revenue, partially offset by the impact of the summer promotion.

The Disney+ ad tier added approximately 2 million subs during the fourth quarter and ended the fiscal year with 5.2 million subscribers.

We anticipate core Disney+ subscribers in fiscal Q1 will decline slightly versus Q4 due to the expected temporary uptick in churn from the recent U.S. price increases as well as from the end of the summer promotion. However, we expect to see sub growth rebound later in the fiscal year.

Growth in Entertainment DTC advertising revenue of 4% in Q4 versus the prior year partially offset linear ad declines. The growth reflects an increase at Disney+, while Hulu results declined due to lower political and technology category advertising.

We continue to expect to reach profitability at our combined streaming businesses in Q4 of fiscal 2024, although, as we have mentioned in the past, we don't expect linear progress from quarter to quarter.

While we expect Entertainment DTC operating losses in Q1 to be generally in line with Q4, due to higher sports rights costs at ESPN+ aligned with the start of the NHL season, we anticipate a modest sequential decline in Q1 for the combined streaming business.

But as we have also said previously, we anticipate upward momentum later in the fiscal year to be driven by realizing the full impact of price increases, the launch of the ad tier internationally, and subscriber growth.

At Linear Networks, which now excludes our sports channels, fourth quarter operating income was flat to the prior year, reflecting lower advertising and affiliate revenues, which were generally offset by a decrease in marketing and programming and production costs.

Advertising revenue declines were driven by our domestic business, primarily at ABC and our owned TV stations.

Domestic Entertainment affiliate revenue decreased by 4% in the fourth quarter versus the prior year, due to a 6 point decline from fewer subscribers and a one and a half point adverse impact from the Charter blackout, partially offset by a roughly 4 point impact from higher rates.

As Bob mentioned, we remain focused on driving additional cost efficiencies in this business over the long term.

At Content Sales, Licensing and Other, lower operating results versus the prior year were due to lower theatrical results, partially offset by higher home entertainment results.

We currently expect that first quarter operating income will be roughly breakeven and comparable to the prior year.

Moving to our Sports segment, Q4 operating income increased by 14% versus the prior year. Results were driven by our domestic ESPN business from lower programming and production costs, growth in subscription revenue at ESPN+ due to both pricing and sub growth, and lower marketing costs, partially offset by lower affiliate revenue.

The decrease in programming and production costs reflect the absence of the Big 10.

And domestic ESPN linear advertising revenue increased by 1% in the fourth quarter versus the prior year – despite the absence of the Big 10, the Charter blackout and a highly competitive marketplace.

Domestic affiliate revenue decreased by a little less than 5% in Q4 versus the prior year, as five and a half points of growth from higher rates were offset by adverse impacts of approximately seven and a half points from fewer subscribers and two points from the Charter blackout.

As Bob referenced earlier, it's worth noting that ESPN's domestic business grew both full year revenue and operating income in each of the last two years. These results give us confidence in our belief that Sports has the power to drive value for the company, even in the face of challenging industry headwinds.

Finally, at Experiences, fourth quarter operating results increased by over 30% versus the prior year quarter and 27% versus fiscal '19.
Operating margins at the segment were 22% in Q4, an increase of 3 percentage points versus the prior year.

Our international operations continued their strong performance trend in the quarter, with significant growth across all sites versus the prior year.

Disney Cruise Line, Disney Vacation Club and Disneyland Resort also all saw strong year over year growth in both revenue and operating income.

At Walt Disney World, operating results decreased, driven by the accelerated depreciation from the closure of the Galactic Starcruiser, along with inflationary impacts and the continued comparison to the 50th anniversary celebration in the prior year.

Looking towards fiscal 2024, we anticipate robust annual operating income growth at Experiences to reflect continued strong performance at our International Parks and Disney Cruise Line. While Domestic Parks & Experiences is expecting solid growth for the full year, that growth will be heavily back-end loaded, due to continued challenging comparisons in the first half of the year from the 50th anniversary at Walt Disney World, in addition to wage inflation.

We continue to be bullish on the long-term positioning of our Experiences business, as evidenced by our recent announcement on significant investments we plan to make over the next ten years to turbo-charge growth in this area. We expect those investments to ramp up towards the back half of that 10-year period with more gradual increases in the first few years.

As has been the case historically, capex for the Parks are largely, effectively, "self-funded" given the strong returns these investments generate over time, and I would also note that a portion of the investments in our theme parks in Shanghai and Hong Kong is funded out of joint venture cash flows.

Before we conclude and move to Q&A, there are a number of additional items I'd like to share for context on the year ahead.

First, on capital expenditures – fiscal 2023 capex totaled approximately $5 billion, roughly comparable to the prior year and in line with our most recent guidance.

And we expect capex in fiscal 2024 to total $6 billion, an increase of approximately $1 billion versus fiscal 2023, driven by higher spend at Experiences. Capex at Experiences in fiscal 2024 will look more comparable to fiscal 2019 levels and includes spend at our Cruise business ahead of the launch of three new ships in fiscal 2025 and 2026.

Our enterprise-wide content spend in fiscal 2023 was $27 billion, in line with our guidance and about $3 billion below the prior year as we significantly reduced our spend on entertainment content.

As a result of our continued work to be more efficient in our content spend, in addition to impacts from the strikes and the timing of sports payments, we expect total content spend in fiscal 2024 to be approximately $25 billion – which is a decrease of $2 billion versus 2023. Note that sports rights now account for over 40% of our enterprise-wide content spend.

Our annualized entertainment cash content spend reduction target is now $4.5 billion, excluding strike impacts and sports rights, versus $3 billion previously. We expect this to be realized on a cash basis in fiscal 2024, although it will take a few years for the bulk of these savings to be reflected in the P&L due to the timing of amortization.

On the topic of cost savings and streamlining our operations, we have eliminated over 8,000 roles. And while we are not currently planning to make further large-scale reductions to our workforce, we are taking significant, concrete steps to continue addressing the cost basis of the overall company.

We have increased our annualized efficiency target for total company SG&A and other operating expenses to $3 billion, versus $2.5 billion previously, excluding the strike impacts. Approximately $2 billion of these efficiencies were achieved in fiscal 2023. Naturally, we also saw inflation and volume related cost increases throughout the year – including higher content amortization and costs related to expanded operations at International Parks and Cruise, which were impacted by closures and limited operating capacity in the prior year.

The remainder of these savings are expected to be achieved by the end of fiscal 2024.
Our expense base in fiscal 2024 is expected to only increase slightly versus the prior year, as these efficiencies and strike savings will mostly offset the year's planned volume-related growth and inflation.

Adding the new $4.5 billion cash content spend reduction target to the $3 billion expense target brings our total annualized target to $7.5 billion, as Bob announced earlier.

All of these factors, in addition to continued growth and improvement across our underlying businesses, are expected to come together over the coming fiscal year to result in free cash flow generation of roughly $8 billion, a significant year over year increase and approaching levels we last achieved pre-pandemic.

This continued robust free cash flow growth, alongside our strong balance sheet, will position us well to address our investment <u>and</u> shareholder return goals for the year and going forward.

To that end, we will be recommending to the Board that they declare a dividend by the end of this calendar year. While this will be just the starting point, we do see ample opportunity to continue to increase shareholder returns in the future as our earnings and free cash flow grow – in the form of increased dividends or share buybacks, and we look forward to sharing more as we move ahead.

And with that, I will turn the call back 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

Our first question will come from Michael Nathanson with MoffettNathanson. You may now go ahead.

Michael Nathanson – *MoffettNathanson*

Thanks. Hey, Bob. I have 2 quick ones for you. This is your first earnings call post the Charter-Disney agreement. So stepping back, what are the most important impacts to Disney after that agreement? And then, how will you manage the company differently now that that is kind of the template going forward for new deals?

And secondly, on film Studio, your first stint, you had the most amazing content cycle in film we've ever seen. So I wonder, what do you think is ailing the film slate this time around? And what are your priorities to fixing it, as you lay out some of your top 3 priorities, but what are you doing in particular to fix the film slate going forward?

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

Thanks, Michael.

Regarding Charter, first of all, as we said when we did the deal, we think it's a great deal for us. I also think it's a great deal for Charter. It doesn't really change things much in terms of our strategy because when you look at the deal, it actually ended up reflecting exactly what our strategic priorities are – and that is streaming. And the distribution agreement for Disney+ as part of the overall Charter deal does just that.

So it leans into our streaming priorities and that strategy doesn't change things much. Having the opportunity to consolidate a bit on the channel side is, I think, a good thing at this point.

In terms of the Studio, nice of you to mention our great run. First of all, let's put things in perspective recently. We did have 4 really strong titles in 4 of the top 10 in the past year, led by *Avatar*, of course, but there were other successes, too.

That said, as I have looked at our overall output, meaning the Studio, it's clear that the pandemic created a lot of challenges creatively for everybody, including for us.

In addition, at the time the pandemic hit, we were leaning into a huge increase in how much we were making. And I've always felt that quantity can be actually a negative when it comes to quality. And I think that's exactly what happened – we lost some focus.

And so, working with the talented team at the Studio, we're looking to – and working to – consolidate – meaning make less, focus more on quality. We're all rolling up our sleeves, including myself, to do just that.

We have obviously great assets, great stories to tell from the assets that we either have or that we purchased. And I feel really optimistic about the slate going forward, which is going to be a balance between some really strong sequels to some very, very popular titles, as well as some good original content, starting with *Wish*, which comes out Thanksgiving weekend.

So I feel good about the direction we're headed, but I'm mindful of the fact that our performance from a quality perspective wasn't really up to the standards that we set for ourselves.

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

Thank you. Next question please.

Operator

Our next question comes from Steven Cahall with Wells Fargo. You may now go ahead.

Steven Cahall – *Wells Fargo*

Thank you. So first on DTC, I mean, pricing is about to step up. You announced the cost-cutting program, some of which might be at DTC or Hulu. And Bob, I think for a couple of quarters, you've just been talking about how confident you are in streaming profitability.

So I'm not asking for guidance, but is there any way for us to just frame what DTC can look like beyond breakeven, since that's really the biggest driver of earnings growth and value creation?

And then on the ESPN side – just as we think about that preeminent sports platform that you're looking to build – so many folks have already voted with their feet to be outside of the bundle. How do you think about putting something into the market more quickly, maybe at a high price point that doesn't disrupt the bundle just to see if the cord-cutters or cord-nevers have some demand? Thank you.

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

I'll take the second part first. Our plan when we bring ESPN direct to consumer – which is inevitable, which is going to happen and we're planning for it – is to try to have what I'll call a soft landing, which is to continue to make it available as part of the bundle for those people that want to remain in the bundle or people who feel that the bundle still has value to them. And at the same time, to make it available on a true a la carte basis in DTC form.

So it is our hope that it will serve, basically, the consumer in 2 ways – in the traditional way and in a new way. And we'll obviously see, in terms of where we end up, the blend of basically consumers that stay in the bundle and those that leave.

We're not concerned about it. And actually, as we model basically ESPN into the future, we see that in some cases, it will continue to be sold as part of the bundle.

To the first question, the trajectory of DTC, we're not going to get specific and we're not giving any guidance beyond our guidance about becoming profitable at the end of '24. But the building blocks are in place to turn this into a real growth business for us. And the recent announcement about purchasing the remaining stake in Hulu is just one of those building blocks.

On the pricing side, we did take Disney+ prices up for the premium service, the non-advertiser-supported, by about 27%. It's still really early to tell, but we had taken those prices up significantly a year earlier and churn was de minimis. So we felt we had the room, particularly as we improved quality on the Disney+ service.

Overall, our strategy regarding pricing is more sophisticated, more coordinated across the world than it had been before. And as we look at growing that business, a smarter approach to pricing is one. Bundling is another, I'm going to come back to the bundle between Disney+ and Hulu and then the opportunity to bundle ESPN.

Clearly, we've got technology improvements in the works, whether it comes to account sharing, or whether it comes to basically lowering customer acquisition costs and churn and lowering marketing expenses and growing margins – that's part of it.
Advertising is a strong component of that. We did not take pricing up for the Disney+ advertiser-supported services and the delta between the advertiser-supported and the premium service is

wider because we like the ARPU that we get, basically, from both sides. So, we feel really good about the potential of this business.

And look, if you think about the portfolio of streaming assets that we will have – Hulu, Disney+ and ESPN – that's a very, very strong hand.

In December, we launched a beta version of Hulu and Disney+ combined. We feel really good about that. I saw some, basically, some demos of that just yesterday, as a matter of fact.

We are basically putting it in beta so that we can prepare parents largely to basically implement parental controls because you'll be able to access Hulu programming on the same app. And then in late March, we'll launch it basically in full form.

And I think we have opportunities in terms of upsell capabilities in terms of increasing engagement. We found that where we bundle, we lower churn. And again, these are steps that are all taken to ultimately turn this into a great business.

Lastly, in terms of cost reductions, we created, basically, a one-world approach to streaming. We had multiple organizations before. We now have one, run globally by Dana Walden and Alan Bergman. They have created an entirely new senior management team across the globe to manage these assets; we're doing so much more cohesively, including, by the way, balancing spending in market, local spending and what I'll call global spending.

One thing that we have recently really come to appreciate is the performance of our big-title films, the so-called Pay 1 window films, on the service, *Elemental* is one, *Guardians of the Galaxy 3* was another, *The Little Mermaid*, a third. The numbers are huge. That's a differentiator for us, certainly when it comes to competing with Netflix, for instance, which is the gold standard.

But by leaning more into some of those films and while we improve the quality of them, gives us the ability to dial back a bit on some of the spending and investment in series. And that blend of spending between films and series, we believe, gives an opportunity to increase our margins and grow the business.

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

Next question please.

Operator

Our next question will come from Ben Swinburne from Morgan Stanley. You may now go ahead.

Ben Swinburne – *Morgan Stanley*

Thanks and good afternoon. I want to come back to the free cash flow commentary because that's pretty interesting and new. And also ask you, Bob, about your US Sports business and ESPN.

So on cash flow, $8 billion of free cash flow, $6 billion of CapEx, getting to $14 billion of cash from operations. You haven't been done a number like that, I think, since 2018. And I'm just trying to understand if you think you can sustain and grow your company at that level of cash content spend, I think Kevin said 25, because that certainly allows you to really grow free cash flow from a base that's already higher than people were expecting in 2024.

Hopefully, that made sense.

And then on the Sports side, people think about ESPN as a network facing cord cutting, et cetera. You clearly have a vision there that you think can grow over time. Can you talk a little bit about how you think about growing the Sports business? Do you think you can between linear and digital and other ancillary services sort of grow your Sports business over time because that would be another area where you'd certainly outperform expectations?

Thanks so much.

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

I'll take the question about ESPN first. Interesting, I just saw statistics, ESPN is the #1 brand on TikTok – not the #1 sports brand, not the #1 media brand – the #1 brand with about 44 million followers, which is an incredible statistic.

ESPN is a very popular high in-demand product in the United States – and unique, we believe. And we feel leaning into it is the smart thing to do because of its unique quality and how popular it is and how profitable it has been.

We believe we have an opportunity there as we bring it in the direct-to-consumer direction to strengthen our hand when we do that by partnering with either tech companies that can provide us with marketing, technology support, customer acquisition help or sports leagues that can provide us with more content. It's that simple; we're actually quite bullish about it.

And frankly, if we were to just sit back and leave ESPN alone kind of as part of the linear bundle, we know ultimately, where that would bring us. It certainly wouldn't bring us in a growth direction because, basically, the continued decrease in multichannel subscribers.

So this is a way to really buck that trend, continue to allow it to be part of the multichannel bundle, but also make it available on an a la carte basis, basically, taking a very popular product, in fact, and make it available and possibly strengthening it by doing what I described earlier. It's that simple.
And when you think about the building blocks of the company, which right now, we believe there are 4, one of them obviously is Streaming overall. Another one we've talked about, which is Park and Resorts and turbocharging that growth. The third I talked about earlier, which is returning the Studio to basically, the level of success that we became used to before the pandemic. And the fourth is turning ESPN into a preeminent digital sports platform.

Kevin, you take free cash flow.

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

Yes. Ben, with respect to cash flow, we do feel good about where we are ending up in '24 from a content spend perspective.

And when you take a look at how we're getting to that year-over-year, lower content spend is clearly part of it, but continued growth and improvement of our underlying business is also a huge component of that, as is the annualized efficiency targets that we've all implemented.

So those things are driving a significant amount of year-over-year improvement in our cash flow.

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

Operator, next question please.

Operator

Our next question will come from Jessica Reif Ehrlich with BofA Securities. You may now go ahead.

Jessica Reif Ehrlich – *BofA Securities*

Thank you. Bob, I was just wondering if you could give us your sort of holistic view on advertising and what's going on. I mean, we know money is going into like retail media networks and things like that. But how much can you as a company make up on AVOD versus what's going on with linear? And maybe you can give us your view on what is going on with linear for you.

And then on India, it's been notably challenging market and consistent money-loser. Can you talk about your view of, kind of ultimately, where that winds up? Do you own it? Do you JV it? Do you exit the market?

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

Jessica, first of all, in India, our linear business actually does quite well, it's making money. But we know that other parts of that business are challenged for us and for others. And we are looking, I'll call it expansively, I know I've said this before it always gets me in trouble, but we're considering our options there.

We have an opportunity to strengthen our hand. It is now maybe the most populous country in the world or maybe just still second to China and about to pass them. We'd like to stay in that market. But we're also looking to see whether we can strengthen our hand obviously, improve the bottom line.

In terms of advertising, we are actually finding that linear is a little bit stronger than we had expected it would be. It's not back as much as we would like. It's still a challenge, but it's not as bad as it had been. So we've seen some slight improvement. Actually, the tech sector is still somewhat weak. But in general, overall, advertising has improved.

We're finding, obviously, great demand for addressable advertising. I noted on an interview I did earlier, that we've now put tools in place, we're using tools on Disney+ to provide advertisers with better targeting, they're starting to work.

And in general, sports has been very, very strong. So as we look at the advertising marketplace right now, while it's not as strong as we would like it to be, it's certainly not as bad as some people think it is, and it's working for us.

On AVOD, look, it's very, very clear that the tools that the new platforms provide advertisers are exactly what the advertisers are looking for. Those platforms are an advertiser's dream. And we know that the more data, the more detail, the more context, the more targeting we can provide, the better off we'll be. Hulu has an extremely robust advertising engine; we actually – we've got one of the best in the business, if not the best.

And so actually, that combination of Hulu and Disney+ with some of the tools that we put in place is going to give us the ability to have a blended CPM, grow engagement, grow advertising. So we're quite bullish about our position media-wise in the advertising marketplace.

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

Operator, next question please.

Operator

Our next question will come from John Hodulik from UBS. You may now go ahead.

John Hodulik – *UBS*

Great. Maybe first, a follow-up to Ben's question. Bob, is there an opportunity for ESPN to add local sports rights given what's happening to the RSN model? Or potentially add sports rights to be distributed outside the U.S.? That's the first question.

And then second question is Warner Bros. basically made some news recently by licensing some of their, what would be considered some of their tentpole content, their DC universe, to Netflix. Is that something you think that Disney can do or can lean into more – at least more so than you're doing now without diluting the Disney brand or the Disney+ growth prospects? Thanks.

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

Good questions, John. Thank you.

We've actually been licensing content to Netflix and are going to continue to. We're actually in discussions with them now about some opportunities, but I wouldn't expect that we will license our core brands to them. Those are real, obviously, competitive advantages for us and differentiators. Disney, Pixar, Marvel, Star Wars, for instance, all doing very, very well on our platform.

And I don't see why, just to basically to chase bucks, we should do that, when they are really, really important building blocks to the current and future of our streaming business.

Regarding local sports, the technology that we will have for ESPN DTC will give us the ability to provide local sports in a pretty robust way, basically what the RSNs are doing. But we're not really aiming to do so by taking on significant risk.

So if we can find the right kind of business arrangements and partnerships, I think we'll look very seriously at providing local sports as part of the platform. But again, not if it results in us taking on too much risk.

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

Thank you. Operator, we have time for one more question.

Operator

Our final question will come from Phil Cusick with JPMorgan. You may now go ahead.

Phil Cusick – *JPMorgan*

Hi guys, thank you. Bob, first to follow-up on ESPN, clearly a big priority, can you give us some update on types of potential ESPN partners and what the hurdles might be to get those partnerships announced?

And then second, maybe if you could dig into the recent trends at Parks. There's been some noise on pricing, but what have you seen from consumer demand, both in Orlando and around the country?

And how do you think that Walt Disney World is doing versus the overall Orlando market? Thanks very much.

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

The first question?

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

The first question was on the conversations with strategic…

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

Sorry. Sorry, Phil. I was listening to your second question, I forgot your first one. Senior moment.

What basically, we've been saying, and what we've been exploring, is that as we prepare to take ESPN in the direct-to-consumer direction, we believe that we have opportunities to strengthen our hand with entities that either provide us with technology, marketing support, for instance, or companies, or entities I should say, that can provide us with more content.

We feel we have an excellent hand, by the way, and could do it without that, but why not explore strengthening our hand.

And so since I noted that we were interested in this back in July, we've engaged with a number of different entities. I can say that there's significant interest out there. There are obviously complexities to it, but not complexities – not hurdles that are so high that we can't jump over them.

And we're going to continue to explore it. And I would imagine we'll have more to say about this in the coming months. But I don't want to say much more right now, except again, there's serious interest out there. And I think there's a path or a path to deals, but we're working through them. And obviously, as soon as they are completed, we'll let everybody know.

You want to take the consumer demand question?

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

Yes. So with respect to the Parks, and I think we've talked about it in our prepared remarks with respect to Walt Disney World and just, we're lapping the 50th there, so we're going to continue to have a little bit of that lapping effect that will continue for a little bit as we go through Q1.

But as I look out at the other domestic businesses, especially, Disneyland continues to look exceptionally strong, as does Disney Cruise Line. So bookings at all of those continue to be very, very strong going forward.

So domestically, we feel good, and internationally, we feel pretty good. So we're not really seeing anything in terms of an economic hangover.

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

Ok, thanks for the question, and 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 and other statements that are not historical in nature may constitute forward-looking statements under the securities laws.

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

Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors. These factors include, among others, economic or industry conditions, competition and execution risks, including in connection with our business plans, organizational structure and operating changes, cost savings, future financial performance, including expectations and drivers of growth, and our DTC content and how it is 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 risk related to recent 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 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, and the risks and uncertainties described in our Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission.

We want to thank you 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 or opportunities; 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; plans or expectations for direct-to-consumer profitability, advertising and revenue growth, subscriber levels, pricing, product acceptance and enhancements, expansion, subscription offerings, customer acquisition costs, churn, engagement and margins; estimates of the financial impact of certain items, accounting treatment, events or circumstances; future free cash flow and funding sources; 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 or share buybacks; consumer and advertiser sentiment, behavior or demand; expected growth and drivers of performance or growth; cost reductions and source; available efficiencies; strategies and strategic priorities and opportunities; value of our intellectual property, content offerings, businesses and assets, including franchises and brands; 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 "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.