Q2 FY24 Earnings Conference Call

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Disney Speakers:

Bob Iger
Chief Executive Officer

Hugh Johnston
Senior Executive Vice President & Chief Financial Officer

Moderated by:

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PRESENTATION

Operator

Good day, and welcome to The Walt Disney Company's Second Quarter 2024 Financial Results Conference Call. (Operator Instructions).

After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note, today's event is being recorded.

I would now like to turn the conference over to Alexia Quadrani, Executive Vice President of Investor Relations. Please go ahead.

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

Good morning. It's my pleasure to welcome everybody to The Walt Disney Company's second quarter 2024 earnings call. Our press release was issued earlier this morning 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 second 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 Hugh Johnston, Senior Executive Vice President and Chief Financial Officer. Following comments from Bob and Hugh, 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*

Thank you, Alexia, and good morning, everyone.

Our strong performance in Q2 demonstrates we are delivering on our strategic priorities, while building for the future.

Overall, this was another impressive quarter for us, with adjusted earnings per share up 30% compared to prior year. And I'm pleased to say this outperformance raises our full year adjusted EPS growth target to 25%.

Our results were driven in large part by our Experiences segment and our streaming business, which achieved an important milestone, with the entertainment portion of the streaming business achieving profitability in the quarter. This is a testament to the turnaround we set in motion last year and the outstanding leadership of Disney Entertainment Co-Chairmen Alan Bergman and Dana Walden. It is particularly noteworthy when you consider we reported peak losses only 18 months ago.

We also remain on track to reach profitability in our combined streaming businesses in Q4. We've said all along our path to profitability will not be linear, and while we are anticipating a softer third quarter, due in large part to the seasonality of our India sports offerings, we fully expect streaming to be a growth driver for the company in the future and we have prioritized the steps necessary to achieve this.

In March, we successfully launched Hulu on Disney+, bringing extensive general entertainment content to the platform for bundle subscribers, and we're encouraged by the early results.

And, by the end of this calendar year we will be adding an ESPN tile to Disney+, giving all U.S. subscribers access to select live games and studio programming within the Disney+ app. We see this as a first step to bringing ESPN to Disney+ viewers as we ready the launch of our enhanced stand-alone ESPN streaming service in the fall of 2025.

The key to our success in streaming, and what consistently brings consumers back for more, is the array of exceptional content we produce that captivates audiences of all ages and backgrounds.

Looking at our film studios, we have a number of highly anticipated theatrical releases arriving over the next few months, including *Kingdom of the Planet of the Apes*, which opens this Friday, as well as Pixar's *Inside Out 2*, Marvel's *Deadpool & Wolverine*, and 20th Century Studios' *Alien: Romulus*, which are all slated for this summer. Later in this year, we are looking forward to *Moana 2* and *Mufasa: The Lion King*, and in 2025, our slate remains just as robust with *Captain America: Brave New World, Fantastic Four, Elio, Zootopia 2,* and *Avatar 3*.

Our series also continue to resonate with audiences and critics alike. FX's *Shōgun* has proven to be a global hit, with success on both linear and streaming. It's tracking as FX's most-watched show ever on our streaming platforms, and it's driving the second largest number of signups to our streaming services since 2022, behind only *Black Panther: Wakanda Forever.*

This is a great example of how we are successfully reaching wider audiences with our combined linear and streaming ecosystem.

In Q2, series that aired on linear networks accounted for 17 of the top 20 most viewed series on our streaming platforms, with almost 3 billion hours of consumption. Our linear channels are deeply embedded in our direct-to-consumer strategy as they continue to deliver high-quality content that reaches demographics not captured on streaming alone, allowing us to broaden our audiences and leverage our unmatched content engine across an expansive base.

Turning to ESPN, sports continues to stand out when it comes to convening large audiences, with recent big ratings wins across a variety of sports. ESPN had a fantastic April in terms of total day viewership, the highest April since 2012. For primetime viewership, it was ESPN's highest April on record.

The NCAA Women's Final Four in Cleveland was the most-viewed on record, and the championship between Iowa and South Carolina was ESPN's most-viewed college basketball game ever, men's or women's. We also saw record-breaking ratings for the WNBA Draft.

Monday Night Football had its most-watched season since 2000, and the NFL post-season also broke viewership records. The Divisional Playoff game between the Houston Texans and Baltimore Ravens was ESPN's most-watched NFL game ever with 32.4 million viewers.

Looking at our Experiences business, which remained an impressive financial driver in the quarter, we are focused on turbocharging growth with a number of long-term strategic investments.

That includes our DisneylandForward initiative – the first step in our expansion plans at Disneyland Resort, which received unanimous preliminary approval by the Anaheim City Council last month. This was a significant milestone, and the final vote is expected to take place this evening. We're incredibly excited for the many potential new stories our guests could experience at Walt's original theme park, including the much-anticipated opportunity to bring Avatar to Disneyland.

When you consider all of our businesses as a whole – from Entertainment, to Sports, to Experiences – it's clear that no one has what Disney has. The turnaround and growth initiatives

we set in motion last year have continued to yield positive results, and we are executing against our ambitious strategic priorities with both speed and determination.

To walk you through more of our results from the quarter, I will now turn things over to Hugh.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Thanks, Bob.

Diluted earnings per share, excluding certain items, for the second fiscal quarter were $1.21 and reflect the second quarter in a row of strong, double-digit percentage year over year earnings growth. We also met or exceeded all of our financial guidance for the quarter. And as Bob mentioned, we are now targeting adjusted EPS growth of 25% for the full year.

At our Entertainment segment, second quarter operating income increased by over 70% versus prior year, driven by Direct-to-Consumer. Entertainment DTC revenue increased 2% sequentially and 13% year over year, and generated operating income of $47 million. These results exceeded our guidance, primarily due to expense savings.

Core Disney+ subscribers increased by 6.3 million in the quarter, reflecting nearly 8 million additions domestically, driven by Charter entitlements, and a slight loss internationally from the impacts of wholesale deal changes and price increases.

Disney+ Core ARPU increased sequentially by 6% or 44 cents, reflecting price increases for the domestic premium tier as well as international ARPU growth, partially offset by lower ad-supported ARPU domestically, driven by dilution from Charter entitlements. And the recent

Charter deal also drove Disney+ ad tier subscriber growth in the quarter; we ended Q2 with 22.5 million ad tier subscribers globally.

We are pleased with the progress we're making in streaming, although, as we've said before, the path to long term profitability is not a linear one. On that note, we are forecasting a loss for Entertainment DTC in the third quarter – the vast majority of which is due to Disney+ Hotstar's ICC cricket rights.

We also do not expect to see core subscriber growth at Disney+ in the third quarter, but anticipate sub growth will return in Q4. As Bob mentioned, we continue to expect our combined streaming businesses to be profitable in the fourth quarter, and expect further improvements in profitability in fiscal 2025.

At Entertainment Linear Networks, a decrease in operating income versus the prior year was primarily driven by lower affiliate and advertising revenue domestically, and lower affiliate revenue internationally.

And at Content Sales, Licensing and Other, lower Q2 results versus the prior year reflect the absence of significant theatrical releases in the quarter. For Q3, we expect this business to generate modestly positive operating income – an improvement over the prior quarter and prior year.

Moving to Sports, second quarter operating income decreased slightly versus the prior year, driven primarily by a decrease at ESPN, offset by improved results at Star India Sports. As expected, at ESPN, lower results at the domestic business reflect higher programming and production costs from the timing of an additional College Football Playoff game in the quarter versus the prior year, which were only partially offset by higher ad revenue.

Domestic affiliate revenue also decreased in the quarter. ESPN domestic ad sales increased by more than 20% versus the prior year, or high single digits when adjusted for the College Football Playoff timing shift of an additional game as well as a new NFL divisional playoff game in Q2 of this year.

Q3 to date, we are seeing healthy demand driven by the NBA Playoffs, and domestic ESPN cash ad sales are pacing up.

At Star, higher results in Q2 versus the prior year include the impact of a decrease in programming and production costs attributable to the non-renewal of BCCI cricket rights. Looking ahead, note that we are currently expecting to incur linear ICC rights expense at Star India in Q3.

At Experiences, second quarter revenue grew 10%, operating income grew 12%, and segment margins expanded by 60 basis points versus the prior year. Parks and Experiences OI increased by 13% year over year, and Consumer Products OI increased by 7%.

Strong international parks growth was driven by Hong Kong Disneyland Resort, while Walt Disney World and the Cruise business both contributed to domestic growth. At Disneyland, despite growing attendance and per capita spend, results declined year over year due to cost inflation, including from higher labor expenses.

We continue to expect robust operating income growth at Experiences for the full year. However, third quarter OI is expected to come in roughly comparable to the prior year.

Several non-comparable or timing-related items are expected to adversely impact Q3 results, including timing of media and tech expenses, non-comparable items in the prior year at Consumer Products, and the timing of Easter.

Beyond these comparability-related headwinds, the third quarter's results will be impacted by three additional factors: higher wage expenses; pre-opening expenses related to the Disney Treasure and Adventure cruise ships as well as Disney Cruise Line's new island, Lookout Cay; and some normalization of post-COVID demand.

As it relates to demand – while consumers continue to travel in record numbers and we are still seeing healthy demand, we are seeing some evidence of a global moderation from peak post-COVID travel. While pressures from wages, pre-opening costs and demand impacts are expected to persist in Q4, we do expect year-over-year Experiences operating income growth to rebound significantly in the fourth quarter due to fewer comparability or timing factors.

On an enterprise level, we continue to make good progress on our cost efficiency initiatives and remain positioned to exceed our $7.5 billion annualized target.

We still expect to generate over $8 billion in free cash flow this fiscal year – and the shareholder return goals we've previously spoken about are also still very much on track. We repurchased $1 billion of stock in the second quarter. We continue to position the company for long-term growth and profitability and are making tangible progress on generating compounding earnings and free cash flow growth, which will enable us to continue returning capital to shareholders.

I'll now hand the call back to Alexia for Q&A.

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

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

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

Operator

(Operator Instructions) Today's first question comes from Steven Cahall with Wells Fargo. Please go ahead.

Steven Cahall – *Wells Fargo*

Thank you. So first, thanks for that detail on Parks and Experiences and what you expect in the third quarter. I just wanted to dig into some of those demand comments a little more. So as you start to lap some of the post-COVID rebound, what's your expectation for attendance maybe at the domestic level and at the global level as you start to exit fiscal '24 and into '25? Do you think things will continue to be stable? Or are any of those softening trends sufficient that you expect attendance to have any kind of year-on-year declines?

And then on the DTC side of things, Hugh, I think you've talked about a double-digit operating margin as the aspiration. I was wondering if you could just give us any timing as to when we can expect those types of margins? And maybe you could speak to the underlying performance of DTC excluding Hotstar, since I think you're going to be deconsolidating that next year. Thank you.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Great. Good morning, Steve. Happy to weigh in on both of those. First, in terms of attendance, what we're basically communicating is relative to the post-COVID highs, things are tending to normalize. The Parks business did 10% growth in the quarter. And obviously, that's an extremely high revenue number.

That said, we still see in the bookings that we look ahead towards indicate healthy growth in the business. So we still certainly feel good about the opportunities for continued strong growth.

In addition to that, just to comment a bit more on the timing. As I mentioned on the intro, we do have some one-time expenses occurring in Q3. If we were to back out one-timers both for Q3 and Q4, we expect OI for the quarter to be in the mid to high single-digit range for Q3 and to be double-digit for Q4.

So certainly feel like the parks business is still doing very, very well. Obviously, we've got the best in the business in terms of product, and people still have a strong desire to basically go on vacation and come to see us.

With regard to DTC margins, a couple of comments on that. First, our goal with this business is to make it a great growth business with healthy margins. We want both, not one versus the other. We've got a lot of levers that give us strong reasons to believe that there's good growth in front of us, whether it's the great programming we have, whether it's higher engagement through bundling. And we've got examples of that coming in Latin America as well as adding the sports tile, the ESPN tile to our Disney+ offering. And obviously, we've already added Hulu.

In addition to that, password sharing remains an opportunity we're just getting started on. Reducing distribution costs are an opportunity, and leveraging technology for direct-to-consumer marketing as well as recommendation engines, which help both on the revenue and cost side. And ultimately, we'll get to building out the international business even more strongly.

So from the perspective of building the business, it will be a combination of both managing costs more tightly but also growth, which will allow us to leverage the cost structure we have right now. And we feel very, very positively about that. Specific timing, I'm not going to comment on for margins. I don't like to get ahead of the next year until we get to the next year.

And in addition to that, from a competitive perspective, I'd rather not give my competitors the pathway on exactly how we're – how and when we're going to achieve the margin goals we're looking to achieve. But overall, business is in great shape, and we feel good about the growth prospects.

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

Operator, next question please.

Operator

Thank you. And our next question comes from Ben Swinburne with Morgan Stanley. Please go ahead.

Ben Swinburne – *Morgan Stanley*

Thanks, good morning. Two questions. Bob, on ESPN, there's obviously a lot of focus on the NBA. You've got a lot going on in terms of new product launches, rights packages coming up. You sound as bullish as ever on sort of pivoting this business. Can you just talk about the next kind of 12, 18 months and what we think – what you think ESPN looks like a couple of years from now? And specifically, if you think you can grow this business from an OI point of view, while navigating what is clearly a still inflationary sports rights environment?

And then I would love to just get your perspective on sort of the health of the IP at your studios. I know we've talked about this a lot since you've come back into the CEO role. But you have specifically a lot of Marvel content coming, both on TV and film over the next couple of years. That's an area investors are particularly focused on. How are you feeling about the sort of pipeline on the Marvel side specifically and whether you think this IP is being reinvigorated to the extent you'd like it to be? Thanks a lot.

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

Thanks, Ben. First on ESPN. I think you have to start in terms of projecting the next 12 to 18 months and also considering where it might go from an OI perspective, as it transitions more to a digital business. You have to look at today and the ratings success of ESPN's phenomenal menu of sports product or the ratings success of live sports in general across the business.

I mean what you saw with obviously the women's NCAA basketball championships. But across the board, I mentioned in my comments what the April numbers look like, highest April on record, as a for instance, and primetime at ESPN. So, I see sports continuing basically to shine in a world where there's just considerably more choice. Live matters. The other thing that's really important is the engagement that live generates.

And I mentioned in my comments, which we haven't really talked about much. And I guess a lot of attention has been on the JV that we announced as well as on flagship, which has taken ESPN direct at the end of '25. But at the end of this year, we're going to put an ESPN tile on Disney+, which will have a modest amount of programming, but it's a start in terms of essentially conditioning the audience or subscribers to Disney+ and Hulu to the fact that sports is going to be there. And it also will help us in terms of overall engagement with our bundle.

As I look ahead, I think ESPN is going to make a pivot toward digital, but without abandoning linear. So it will remain on linear if people want to get ESPN and its different channels through a cable or a satellite subscription, that's fine. Or if they want to pivot smoothly because there will be many different access points to get the digital product to ESPN digital. They can do so as part of a bundle with other sports services. They can do so directly from ESPN with the ESPN app or they can do it as part of a bundle with our own services. So I feel very bullish about it.

You also have to look at the menu of sports rights that ESPN has bought, and Hugh did a good job describing this on the air this morning in one of his interviews. First of all, we've locked up long-term deals with significant sports organizations. That includes College Football Championships, all the NCAA championships and the NFL. We're confident or optimistic we're going to end up with an NBA deal that will be long-term in our best interest and the best interest of our subscribers.

And then you look at all the studio product, there's really nothing like ESPN in the sports world and their hand is solid for the next decade. So I feel – I'm very bullish, smooth transition to digital, multiple touch points for the consumer, quality programming and sports and general live being very, very attractive in terms of its programming.

IP at the studio. I've talked a lot about this, as you know. We feel great about the slate coming up, including 3 of the big movies that we have with *Planet of the Apes* this weekend, followed by *Inside Out 2*, which is a great film. And then *Deadpool*, you mentioned Marvel, Ben, in – coming in July. And then the end of the year, we've got – well we have *Alien* in the end of the summer, and then we've got *Moana 2* and *Mufasa* at the end of the year.

I've – we've been working hard with the studio to reduce output and focus more on quality. That's particularly true with Marvel. I know you mentioned television shows. Some of what is coming up is a vestige of basically a desire in the past to increase volume. We're slowly going to decrease volume and go to probably about 2 TV series a year instead of what had become 4, and reduce our film output from maybe 4 a year to 2 to the maximum 3.

And we're working hard on what that path is. We've got a couple of good films in '25. And then we're heading to more Avengers, which we're extremely excited about. So – and overall, I feel great about the slate. It's something, as you know, that I've committed to spending more and more time on. The team is, I think, one that I have tremendous confidence in. And the IP that

we're mining, including all the sequels that we're doing, is second to none. So I feel really good about what's coming up.

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

Operator, next question please.

Operator

Absolutely. Our next question comes from Jessica Reif Ehrlich with Bank of America Securities. Please go ahead.

Jessica Reif Ehrlich – *Bank of America*

Thank you. I will also have 2 different topics. First, on I guess, advertising direct-to-consumer. Can you give us your thoughts going into the upfront, particularly with the integration of the Trade Desk and Google TV 360? How does that impact advertising?

And any comment you can give us on password sharing, like when will you implement it, and multitude of borrowers or sharers?

And then last thing on DTC, but ESPN+ lost subs, which was a little surprising. Can you give us some color on what happened there?

And then turning to Sports. Bob, you mentioned the confidence of getting the NBA for a long-term contract. But I guess everybody is expecting that you'll pay a lot more, probably get fewer games. Is there any comment that you can give us on your outlook for profitability with the new contract? And will the inclusion of the NBA negotiations open the door to strategic investment?

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

You want to take ads?

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Sure, I'll take ads. Thanks for the question, Jessica. I think that was 2 questions, parts A through E, if I captured it correctly.

In terms of advertising, generally speaking, the advertising market is pretty healthy right now as we head into the upfronts. Certainly, live and sports are playing out very well. And in addition to that, we feel good about the offering we have, particularly in terms of the premium offerings that we have, both in sports as well as with the Disney+ offerings.

The challenge, obviously, in the advertising market right now is there's a lot more supply in the market, largely as a result of one of our competitors entering the ad tier. But that said, I think generally speaking, we feel like we're in a better place than we were a year ago, and we have healthy momentum across nearly all the categories. Auto may be one exception and maybe, to some degree, electronics as well. But by and large, demand is out there, and it's pretty high. So as we lap our way out of the supply increase, I think we're going to be in a good spot as we enter next year.

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

Password sharing beginning next month, in very select markets. We're starting to go after people who are sharing passwords improperly. And that will roll out in earnest or across the globe in September. We feel quite bullish about it. Obviously, we're heartened by the results that Netflix has delivered in their password sharing initiative and believe that it will be one of the contributors to growth, as Hugh noted, going forward.

I think it's also important to note, look, Netflix is, in many respects, the gold standard when it comes to streaming. But what I mean by that is if you look at programming, we stack up really well. We have a great lineup and quality of programming across not just ESPN and Disney+, but also Hulu.

What we're building is the technology that Netflix has had in place and has been building for well over a decade to improve the business from a bottom-line perspective. And that starts with password sharing, but it's all the things that Hugh mentioned as well. So I feel good about this being a necessary and very, very productive next step in terms of rolling out the technology that we need to get to the double-digit margins that Hugh has talked about.

Lastly, in terms of the NBA, I'm really not going to comment about profitability or about the cost of the package except to say, as we've said before, we continue to look at the NBA, not only as a premium sports product but as a sports product that has growth ahead of it. Obviously, with great demographics. We feel really good about the potential package that we will end up with in terms of it basically enabling ESPN to continue to shine in the television sports business. And I think it would be – I won't say anything more about it at this point. If and when there's an announcement, we'll give more details.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

And then last on your question around the timing on ESPN+ subscriptions. That's normal seasonality. That's one of the challenges when you look at things from 1 quarter to the next, the seasonality tends to get in, but at the end of the college football season, we do typically see a decline. So nothing out of the ordinary there.

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

Thank you. Operator, next question.

Operator

And our next question comes from Robert Fishman with MoffettNathanson. Please go ahead.

Robert Fishman – *MoffettNathanson*

Hi, good morning. One for Bob and one for Hugh if I can. Bob, back to sports, just maybe more broadly, as you think about which sports rights to invest in, how important is securing global rights to drive the international growth for ESPN or even Disney+ as part of your analysis to drive returns to combat the sports rights increases?

And then for Hugh, as a follow-up to the theatrical slate that Bob was speaking about before, can you just help investors think about the Disney studio profit potential and success, and maybe even relative to pre-COVID peak levels? Thank you.

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

I'll start on the sports question. We have selective rights – international rights for sports of the sports properties that we've licensed largely for the United States. We also have an array of sports rights in Latin America, many of them came with the acquisition of 20th Century Fox.

We're being selective about adding international rights right now. Where possible, where the opportunity exists, we're doing so. But we're not investing heavily at this point in growing international rights, except again, where we can buy them along with the rights that we're licensing for the United States. It's an opportunity for us to plant the seeds for more growth for ESPN outside the United States, but we're walking before we run in that regard.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

And then, Robert, to answer your question about studio profitability, as I look back, studio profitability has got some cyclicality to it. And we certainly feel very good about the upcoming slate. That business should get back to profitability, and we certainly feel good about it being a healthy, profitable business over time. Beyond that, I don't want to get into quarterly guidance on a subcomponent of one of our segments. So it's just getting a little bit too low into the details.

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

Thank you. Operator, next question.

Operator

And our next question comes from Kannan Venkateshwar with Barclays. Please go ahead.

Kannan Venkateshwar – *Barclays*

Thank you. In terms of the theme park business, maybe Hugh or Bob, but if you could talk about the growth framework, which anchors your CapEx plan, it's obviously a pretty significant plan over the next decade. And the business has grown over mid-single digits for a very long period of time. How much upside do you see to this trajectory over the investment horizon?

And then, Bob, from a succession planning perspective, you've obviously been highly engaged with the Board on this. Could you talk about what your goal is in terms of the hand off? What do you hope to achieve in your tenure before the next CEO takes over? Thank you.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Okay. I'll take the first one. Regarding the investment in the parks, you know the financials of that business well. It's a 25-plus margin business and has been for an extended period of time, has terrifically high guest satisfaction scores, which create layers of advantage, which suggest we should be able to sustain high margins and high returns on investment.

With the business with that profile, you invest in it. We know there are lots of opportunities to continue to grow attendance, both domestically and internationally. And the cruise business, frankly, is one that has an enormous number of opportunities for us over time. And that is why we're leaning more heavily into that business.

So we're not investing capital, obviously, to achieve poor returns. We expect to get excellent returns out of the business, in particular in cruises, given the margin profile of the business, and the fact that it's got the highest guest satisfaction scores in the company.

This leads us to conclude, this is a business with a lot of runway left in it, and that will deliver great returns to our shareholders.

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

Regarding succession, Kannan, as we've said before, the Board is heavily engaged in the process and has appointed a Succession Planning Committee that is meeting on a regular basis to not just discuss, but also to manage the process. I'm confident that they will choose the right person at the right time. And that to the extent that I can, will participate in the smooth transition.

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

Operator, next question please.

Operator

Thank you. Our next question comes from John Hodulik with UBS. Please go ahead.

John Hodulik – *UBS*

Great, thanks. Bob, engagement on Disney+ has been declining a bit based on the Nielsen gauge data, although I guess it's ticked up a bit here recently at Hulu. The ESPN tile definitely makes sense, but can you talk about efforts to boost viewership on the platform, including the revamp of the technology and maybe the UI that you referenced last quarter? When should we expect to see these benefits or that technology rolled out? Anything you can tell us about engagement for users on the new combined Disney+ Hulu platform? So that's one, I guess, with multiple parts.

And then following up on ESPN+, again, you lost subs again this quarter. What's the plan for that service once the flagship platform is launched next fall? Thanks.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

John, I'm happy to talk about engagement a little bit on the platform. As I mentioned earlier, the things that we believe drive engagement and still represents significant incremental opportunity for us is number one, programming. Having terrific programming is obviously the leading factor.

And with what we've been introducing recently, whether it's *Shōgun*, whether it's *The Bear* over the next couple of years on the TV side. And obviously, the terrific movie slate that's right in front of us. As we window it into the streaming service, we think that's going to do great things for engagement.

In addition to that, things like recommendation engines, obviously, increase engagement because people are getting more of a sense of what it is that they want to watch based on the suggestions that we make. In addition to that, we do see bundling as an opportunity. Sports bundling, which is why we're putting the ESPN tile on. In Latin America, we're combining all into the Disney+ app.

Again, all this is geared towards driving engagement. So overall, you can be confident we've got laser focus on driving engagement because we know it leads to subscriber satisfaction and it leads to lower churn over time.

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

John, your second question was about our strategy for ESPN+ once we launch flagship? Was that the question?

John Hodulik – *UBS*

Yes, exactly. I mean is that going to remain a separate service sort of alongside the sort of full-blown ESPN streaming service once that's launched next year?

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

The plan is if you buy ESPN flagship, then you'll get all the ESPN+ programming in it. If you do not want that, then you can buy ESPN+ on its own. Addition, if you – our current plan is that with the tile that we're putting on the combined Disney+ Hulu app, the ESPN tile, you'll be able – if you're an ESPN+ subscriber, you'll be able to get ESPN+ through that tile[1].

[1] Includes subscribers to the Trio Basic (with ads) and Premium bundle offerings that include Disney+, Hulu and ESPN+.

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

Operator, next question please.

Operator

Thank you. Our next question comes from David Karnovsky with JPMorgan. Please go ahead.

David Karnovsky – *JPMorgan*

Thank you for the questions. Maybe following up on the studio commentary from earlier. As you noted, your upcoming slate is a number of sequels, and that's a strategy where you've had a lot of success in the past. But as you look out over the medium term, how do you think about the balance of leaning on established franchises versus investment in new IP?

And then separately, when we look at your summer releases, there are several films from 20th Century Fox IP. So I wanted to see what opportunity you think there is to bring more titles from the Fox library to the forefront. Thank you.

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

We're going to balance sequels with originals, particularly in animation. We had gone through a period where our original films in animation, both Disney and Pixar, were dominating. We're now swinging back a bit to lean on sequels. And so we've talked, as you know, about *Toy Story* and obviously, *Inside Out* this summer. I just think that right now, given the competition and the overall movie marketplace that, actually, there's a lot of value in sequels, obviously, because they're known, and it takes less in terms of marketing.

In terms of Marvel specifically, it applies there too. We actually have both *Thunderbolts* as a – for instance, is coming up in 2025 as an original. And then, of course, we mentioned *Deadpool*

this summer, which is a sequel. And I talked about *Avengers* and *Captain America* is coming out in 2025. It will just be a balance, which we think is right.

In terms of 20th Century Fox, we continue to look at the library to see what can be mined. I mentioned *Alien* earlier. We talked about *Avatar 3*, which is coming, obviously, *Planet of the Apes,* where there might be more opportunity pending the success of the film to do more. I don't think we'll necessarily lean into the library, but we'll continue to look opportunistically at it.

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

Thank you. Operator, next question please.

Operator

Our next question comes from Michael Morris at Guggenheim. Please go ahead.

Michael Morris – *Guggenheim*

Thank you, good morning. Two questions. First, can you expand or give us an update on the Charter partnership you mentioned a couple of times? I know it was the first quarter of that kind of new relationship or at least new structure. So the questions are, how did that subscriber base perform from an engagement perspective? How was churn? Did the quarter reflect the full impact at this point from a financial perspective? And is this a template that you do expect to use more frequently going forward? So that's the first topic.

And then second, I wanted to ask about licensing content and what your view is or your updated view of licensing your content off-platform? What the growth opportunity is there and whether you kind of look at the so-called Netflix effect as something you could benefit from by

licensing off-platform or whether you want to create that effect yourselves on your own platform and keep content in-house? Thank you.

Hugh Johnston – *Chief Financial Officer, The Walt Disney Company*

Yes, I'll take the first question on this. Look, it's very early days, obviously, in terms of the Charter deal. During the quarter, it was only in place for a couple of months. That said, we're happy with it so far. We obviously have gotten added subscribers. And in addition to that, cannibalization has not been very high. And overall, the engagement's been good.

So as for it being a template for the future, I don't think I would go to that level. Each of these deals in many ways has to be architected to the specific needs of the partner as well as our needs. So I don't think I would think of it as a template for the future, but it's been a successful deal for us and for Charter. So we feel good about it.

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

We are already doing some licensing with Netflix, and we're looking selectively at other possibilities. I don't want to declare that it's a direction we'll go more aggressively or not, but we certainly are taking a look at it and being expansive in our thinking about it. We had previously thought that exclusivity, meaning our own product and our own platforms, had huge value. It definitely does have some value.

But as you know, we're also watching as some studios have licensed content to third-party streamers, and that then creates more traction, more awareness, and in effect increases not only the value of the content from a financial perspective, but just in terms of traction. So we're looking at it with an open mind. But I don't think you should expect that we'll do a significant amount of it.

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

Okay, thanks for the questions, 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 the most comparable 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 drivers, including future revenues, profitability, DTC subscribers, free cash flow, adjusted EPS and capital allocation, and other statements that are not historical in nature may constitute as 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 number of factors.

These factors include, among others, economic or industry conditions; competition; and execution risks, including in connection with our business plans, potential strategic transactions and our content; cost savings; the market for advertising; our future financial performance; and legal and regulatory developments.

In particular, our expectations regarding DTC profitability, subscriber levels and ARPU are built on certain assumptions around subscriber additions based on the future strength of our

content slate; churn expectations; the financial impact of Disney+'s ad tier, pricing decisions, bundling and availability of Hulu on Disney+, technological advances and paid sharing efforts, our ability to continue to rationalize costs 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 communication may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our expectations, beliefs, plans, financial prospects, trends or outlook and guidance; financial or performance estimates and expectations (including estimated or expected revenues, earnings, operating income, free cash flow and margins) and expected drivers; business plans and opportunities; future programming and production costs, capital expenditures and investments, including opportunities for growth and expansion; impact of leadership decisions; plans, expectations or drivers, as applicable, for direct-to-consumer profitability, growth, product acceptance and enhancements, changes to subscription offerings and margins; anticipated demand and drivers, timing, availability or nature of our offerings (including experiences and business openings, content within our products and services and content releases and distribution channel); shareholder returns and capital allocation, including share repurchases; consumer or advertiser sentiment, behavior or demand; cost reductions and available efficiencies; strategies and strategic priorities and opportunities; expected benefits of new initiatives, including those subject to approvals or other conditions; value of our intellectual property, content offerings, businesses and assets; estimates of the financial impact of certain items, accounting treatment, events or circumstances; and other statements that are not historical in nature. Any information that is not historical in nature 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;
- 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 September 30, 2023, 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 communication to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.