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Disney Speaker:

Bob Iger

Chief Executive Officer

PRESENTATION

Voice Over

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Robert Fishman – *MoffettNathanson*

Thanks for being here for day two. And a special thanks to Bob Iger.

Michael Nathanson – *MoffettNathanson*

We really appreciate it, Bob.

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

My pleasure.

Michael Nathanson – *MoffettNathanson*

I have been talking to you for a long time. And, you know – every few years, we check in, and this is a great time to come back and talk to The Walt Disney Company and Bob Iger. Last time we had a chance to talk at our conference it was 2019. It was right after you bought Fox, and you were about to launch Disney+. And you spent some time talking about how you're thinking about the structure of the company at that point to maximize the assets you had.

I wonder now five years later, when you think about the structure of the company, what have you done to think about the maximization of the assets you now have in place, meet the objectives that you have. So what's changed for you?

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

Well, first of all, back then, I was laying the foundation for a structure or an organization that was really designed ultimately to serve streaming. And so I had a content division, not one but components of it, which included sports and films and television. And then I had essentially a distribution division, which was mostly focused on the management of the platform that was streaming as well as other forms of monetization. Because I wanted to – basically, the people that were making content to concentrate on that and the people that were monetizing, particularly in newest form of media, to concentrate on that.

I did not take P&L responsibility away from the content creators because they were spending a fortune. But no, no, it was money well spent, but I wanted them to be accountable. And then Bob came in and decided to move P&L under the – basically the distribution arm of the company or the revenue-generating arm. And when I came back, it was clear to me that that structure was not working because we're moving accountability from those that were basically investing the most capital was a mistake. And I wanted – there needed to be direct linkage between the monetization side and the creative side to basically help guide what was being made, when it was being made, where, meaning internationally.

So I – and there was also an us-versus-them mentality that had developed at the company between the distributors monetization side and the creative side. That's not healthy. And it does need to be a creatively led company because that's really where the value begins. Almost every transaction of the company emanates from some form of creativity.

The structure that we have now actually I feel great about because as I look at it and as I manage it, it is the most efficient and most effective and most accountable structure that we've ever had since I became CEO in 2005. First of all, it's very clean. We report three operating units, Experiences, which is parks and resorts and cruise, et cetera; Entertainment, which is streaming, movies and television; and then sports. So that's very clean.

And those that are investing the most capital in content, which is basically television shows, movies and sports, are directly responsible for how that content is monetized on every platform globally, which is critical because then they can make decisions better than anyone because they're so accountable for those decisions on where their content goes, meaning what platform, when it goes there and also what content is made on a global basis, meaning how much do you invest in what I'll call global content, content that's made typically in the West for distribution across the world, versus content that's made market by market, what markets are important, where these – is there a better return on investment in the content that you make?

So for me, I really have four direct reports in terms of as operating units: television and film, which together manage streaming; sports; and Experiences. So it's clean as it can be.

And the other thing I think that's really important is for decades at the company, technology – the investments in technology were primarily aimed at serving content, serving storytelling. It was, by the way, investments in parks technology, investments in animation technology, et cetera. Now what we really need to do is invest in technology to serve the user because it's very, very clear that in order for us to turn streaming into a profitable business, it has to have a user-first mentality and we can get into that.

Michael Nathanson – *MoffettNathanson*

Yes. That's – yes. The reason I asked Bob about organization is because when you read your book, one of the first things you did when you first became CEO was change the organizational structure. I know how important that was to you back then. That's why I keep asking the organization structure.

One of the questions we have is, obviously, Disney at its core is about great and evocative storytelling. But I wonder, have changes in either culture or technology challenged the company's ability to be as consistently strong as prior periods of storytelling?

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

Well, I think look, we obviously have a huge history or a legacy in storytelling. Company was 100 years old last October. I think as we got into the streaming business in a very, very aggressive way, we tried to tell too many stories. Basically, we invested too much way ahead of possible returns. It's what led to streaming ending up as a $4 billion loss, for instance.

And the combination of spending more than was truly monetizable but also spending more that resulted in volume and not quality was – turned out to be a mistake. Now you need a certain amount of volume, and we'll get into that as we talk about a path to true growth in streaming for engagement, but there's a very fine line that you can cross and get in trouble if your volume ends up diluting management's attention to what is being made. And that's where we – that's what happened to us. So I've pulled that back in a variety of ways.

Michael Nathanson – *MoffettNathanson*

Well, that's one of the questions I have you following this was like – it seems to us by absorbing Netflix, that's a volume play. It’s shots on goal from all over the court. So how do you balance in streaming the need to continually refresh content versus your drive for quality, right? So how do you toggle between that?

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

Well, first, I'll get to that. I think when you – to drive quality in a company, and it's – you can look at the history of the company, it's kind of interesting. I happen to believe that demanding excellence from the top is really important. And having the senior leader of the company, it's not like I'm – never mind. I was going to say a government official in a certain country, but I won't do that. But having me demand a level of quality and paying attention to it drives other people to deliver as much – close to perfection as possible.

And if you look at the history of the company, when the CEO of the company had a deep creative background, the company thrived. And the three eras really were Walt's era and Michael Eisner's era, which began the first 10 years were tremendous in terms of growth, returns and quality; and I'd have to say, in my tenure from '05 to 2020. And I think the reason for that is because the entire organization knows there's some guy in a corner office that's watching everything carefully.

And there's also – it goes both ways. They want to perform, they want to deliver, but it's constantly reminding everybody of the need to do that. And you know, lately, I've been telling everybody, "Good isn't good enough. It has to be great." Just keep driving that. But if you force to make too much, then that becomes almost impossible to do. So there's that dynamic.

I think in terms of how much you make and how much you need to make, and your comment about Netflix, you know we're learning a little bit – a lot more actually in terms of how do we turn streaming into a growth business. And it's clear that in order for us to lower churn rates, which is obviously a major factor in our ability to increase margins and ultimately create growth, you have to have enough engagement by the audience.

How many times does a subscriber open an app? How many times do they open an app and actually watch something? And by monitoring that in a very granular fashion, well, first, it gives opportunity to be in touch directly with that consumer. But you can obviously then measure, do you have enough engagement? Are you causing people to open the app more often and use it? Because if they don't on a monthly subscription basis, they're going to disconnect.

So what we see happening now is – and look, when we launched Disney+, it was a good news, bad news to that. The good news was we signed up 10 million subs in 24 hours, and we hit 100 million faster than anybody imagined was even possible. Our guidance for when we launched it was 60 million to 90 million subs in five years. I think we had 100 million subs in 15 to 18 months. It was an incredible accomplishment. Really with not that much content and not that much that would create the kind of engagement that would keep churn rates low.

We were neophytes at this, by the way. We didn't – we had – we wanted to launch it. We wanted to launch it, look and make sure that it was navigable and elegant-looking and that there was quality there and that it represented our company and its brands well. But – and we wanted the video to be stable at scale, meaning – and we needed that because of how much – how many subs we signed up quickly. We got all that.

We didn't know about other – all the other factors that contribute to turning it into a real positive business, like Netflix has done. And I've said in our earnings call last week, they are the gold standard. So it was clear that we needed more – we had the quality and we had the library, but we needed more engagement. And by the way, series television provide that.

So we now hit a nice rhythm with Disney+ in terms of that – in terms of engagement. But we've added to that engagement by combining it with Hulu. And I won't get into too many details there, but if you are a Disney+ subscriber, for an extra $2 you can get Hulu advertiser supported. And then that experience is a seamless experience with your Disney+ content. The combination of those two is an engagement play more than anything else. And we're seeing some nice trends there, without getting into too many details because it's still relatively new.

And then ultimately, we mentioned on our earnings call last week that there'll be an ESPN tile as there is a Hulu tile on the app. And in – starting in December, there'll be – it will start with, I'll call it, light – ESPN Light. And ultimately, when our so-called flagship product of full ESPN suite of services launches in '25, that will be there, too. And if you look at Disney+ and Hulu and ESPN, you increase engagement to an extraordinary level. That is probably in terms of all the things we have to do to turn it into a profitable business is the first and biggest step.

Michael Nathanson – *MoffettNathanson*

Right, right. Okay. I'm going to touch on that stuff later. But it feels, just in your explanation, that it's just this iterative process that you all learned from 2019 to today, what has to be done to get there. It feels like it's all coming together now.

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

Yes. And Hugh Johnston, who is our relatively new CFO, who's in the audience, and I must say was extremely fortunate to talk him into first to be meeting with me and then joining Disney. And he covered this well on earnings. There are five or six critical steps we have to take to get to – to turn streaming into a growth business.

The good news is we know exactly what they are, and we've actually started to execute against them, but we're just in the early stages. But we know exactly what we have to do. And he covered it well, but one of them is engagement, was just talked about.

The other clearly is password sharing. We covered this a bit on the call. It will start this June, meaning going after password sharers that shouldn't be sharing without paying. And then ultimately in September, it will start rolling out far more aggressively across the globe. So that's a second one.

A third one is our marketing expenses are too high. And the reason they're too high is because we didn't build in the technology to have not only the algorithms but the ability to send very,

very highly customized messages to our subscribers when we believe they're potentially at risk. And Netflix is brilliant at this. So that's – they – if they detect that someone opened has an app and hasn't found anything, boom, then you ping them with what you – what actually the algorithm knows that they would like and so on and so on. So that's another step.

And then we're going to get far – so we'll reduce our marketing spend, be an increase in some technology investment, which is necessary, but we'll reduce our marketing spend. And then we have to look at the way we're distributing too. We – unlike Netflix, we distribute largely through third-party app, basically app stores. And there's obviously advantage to that to some extent, but there's a cost to that, too. We're looking at that.

Michael Nathanson – *MoffettNathanson*

So a subject that's near and dear to your heart is the Disney premium content flywheel, right? And that – during your first tenure, the flywheel was perfect. You talked a bit about your confidence level of what upcoming theatrically and how you feel about the '24-'25 outlook and potential kind of restarting the flywheel that works so well?

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

Yes. And I think if you don't mind, when I came back and I settled in and we reorganized the company, and we really focused on what our most critical needs were but also what our most critical opportunities were, which is very tied to the flywheel, one was turning the movie studio around. They had been in a period that was not nearly as successful as it had been and as it needed to be to serve the so-called flywheel well.

And we – I really feel great about that, and I'll get more specific. But the second what we wanted to do was turn streaming into a profitable business and a growth business. I've talked about that to some extent.

The third was, which is tied to the flywheel, is I looked at the return on invested capital in our Parks and Resorts unit over my tenure really, and it was extraordinary. And I asked about how much we were planning to invest over the next decade. And I realize that if we believe we're going to basically turn things around from a cash free – a free cash flow generation perspective, which we've done and we're doing, then we have an opportunity to invest. Why not invest in the business that has the highest returns? So turbocharging Parks and Resorts, which is – with investment but using the flywheel, using the content that I just talked about to do that.

And then the fourth was to really enable ESPN to become a preeminent digital sports destination, which I'm sure you want to get into. And that's basically enabling ESPN to migrate very successfully to a streaming business.

Now on the flywheel. We were just in Shanghai a couple of weeks ago. It was my fiftieth trip to China, by the way, so I got feted with a cake, which I didn't really need. But – and it was my second visit since we opened Zootopia Land. Now Zootopia was the #1 animated movie in China. And so we decided, I don't know, five years ago or so in thinking about what we would invest in, in Shanghai in terms of IP. Why not lean into Zootopia, which is such a popular film. We built a huge land there. It's tremendous.

And it's – the success, I can't really even describe it, but almost like 90% of the people who show up are aware that Zootopia is there. We built a big enough land, so we're serving – and I think about 50% of the people who visit actually go through Zootopia Land. It's just a great example of that flywheel.

And if you look at the films that we have coming up, which include *Moana* in November, where we're starting to lean into investment in the parks for that IP also happened to have been the #1 streamed movie in America across all streaming platforms last year, and the film came out in 2016.

Obviously, we're leaning more to Star Wars. We have a Mandalorian film the end of '26. We have a Toy Story film, *Toy Story 5* coming up, and that has this Toy Story presence. And I believe every one of our locations around the world, although I've got to remember whether there's one in Tokyo, but I know Hong Kong, Paris, Orlando and Anaheim.

And so if we get things right film-wise, and I feel really good about where we are, then that should start to pay off more in terms of combining it with the turbocharge concept that I described at the parks and investment. And interestingly enough, if you look – if you analyze carefully how we achieve those returns on invested capital in the parks, it was all about the IP.

So for quite a long time, new attractions in lands at the parks were based on essentially either very old IP or no IP, just an attraction. And starting really with Cars Land and Toy Story and a few others, I can't remember this – all the specifics, we decided that almost all of our investment in the parks in terms of attractions on lands would be using that IP. And it's very, very clear what that delivered.

Michael Nathanson – *MoffettNathanson*

Right. Can I ask a question on that? You know, when you think about more and more of the human experiences happening in virtual and remote locations, do you think that your position in creating live experiences in parks and even sports – has become more valuable to consumers as we all spend more time behind screens, does a place to gather become more valuable?

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

Yes. I think – first of all, I don't think the popularity of, I'll call it collective – outside of physically immersive experiences is in any way going to wane. If anything, it may increase. Hopefully, it will. Whether that's because people are tired of being basically umbilical to their devices or inside or not, I don't know. But it's very, very clear that the experience that we deliver, whether it's in a park or at a cruise ship – is an extraordinary experience that I think – where the value is not going away, showing no signs of ebbing at all.

And it's – what's fascinating to me and it's obviously heartening is that it's multigenerational. It doesn't wane even for older people. And interestingly enough, the number of people who visit – the number of people who go on our cruises without kids because their connection to the brand and the IP is extraordinary and their kids and their children's children and so on and so on.

So I think we shouldn't take it for granted at all because it's a very – it's a popular vacation destination and it's an important experience for people to have. And there's something about that immersive experience when it's shared with others, particularly if you're engaging with stories and characters that you know that is not just memorable but is just really valued.

Michael Nathanson – *MoffettNathanson*

Okay. After last week's earnings call, we received a lot of questions about some commentary on the call. And the question we have for you is, how do you think about the drivers of park growth after 2024? You know, there was a comment about post-COVID normalization. But just – I think it was misinterpreted, but I wanted to give you a chance to talk about that.

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

Well, I think – I don't know if it was misinterpreted or not. But I think what has – what you have to realize is that we've had double-digit revenue growth in that business for quite some time. And that's extraordinary, really. But I think we're being realistic, too, and that delivering double-digit revenue growth, you know, into the – well into the future is not necessarily that achievable.

It doesn't mean that we're not going to have growth. But I think maybe, I don't know whether the market got ahead of us too much or whatever. But – so I think that's one point I'd like to make. It does – again, I want to emphasize that we believe we will be able to grow these businesses nicely over the near term, meaning next few years.

The other thing is that if you just look at the second quarter, we had record revenue at all of our parks. We had record per capita spending. We had record attendance in every one of our parks except Disney World, which was still strong. We had tremendous double-digit growth to the bottom line. And we've said that, save for onetime-only issues and expenses or timing, that we'll end up with mid- to high-single digits in the third quarter and back to double digits in the fourth quarter.[1] And again, we're talking about off incredible success post COVID.

So I just think we would just be realistic about it. We're not in any way concerned about not being able to grow that business. It's just a question of, you know, how – what is possible. Now all of those investments over time certainly will help.

[1] As discussed in prepared remarks on the Company's Q2 earnings call, third quarter Experiences operating income is expected to come in roughly comparable to the prior year, and the Company expects year-over-year Experiences operating income growth to rebound significantly in the fourth quarter.

The other thing I think you have to look at is that we – in expanding that business over the last decade or so, we really have created a portfolio approach just to that business. We're in six locations around the world. Finally, we have Shanghai profitable, Hong Kong is profitable, Paris is profitable. That's a major accomplishment. We have five cruise ships that have been enormously profitable and three more being built, one will be launched at the end of this year. I think it's two that will be launched in calendar '25, including one that will be based in Singapore, so that we can really start to open up a family cruise market in Southeast Asia.

So if you look at the entirety of the business, even if there's softness in the U.S., then we have these incredible growth engines outside the United States and on the sea. So I'm bullish on the business, but I'm also realistic about it.

Michael Nathanson – *MoffettNathanson*

Right. And when you say turbocharge, what are those two or three priorities, you know, in the portfolio? But when you think about where you're putting incremental capital, what are the areas that you think you can turbocharge?

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

Well, I mentioned cruise where we're building three, including one that will be a 7,000-passenger ship that will be based in Singapore. We have just gotten approval from the city of Anaheim for the biggest expansion of Disneyland really since we opened California Adventure in 2001, so in over two decades. And it's a huge expansion. We haven't been specific about what will be in it, except for Avatar, which going back to the flywheel, by the way, is an extremely successful land in Orlando. So that's one example.

We have 1,000 acres of land to develop. We have plenty of opportunity. We're opening up actually a big expansion next month in Tokyo. And so we haven't announced the specifics behind it all nor do we have to over 10 years. We're not going to say we're going to build in years 8, 9 and 10 because we'll be opportunistic if new IP emerges but – or if we want to lean into a given market.

But I'm bullish about what it is we will be investing in, whether it's the additional ships or whether it's in the lands and the attractions and the hotels and the Vacation Club, which is our timeshare business that we're building out. Again, it's – it will be portfolio expansion.

Michael Nathanson – *MoffettNathanson*

And it feels like those international parks, Shanghai and Paris, have really turned a corner, right? Those were assets that you long invested in. Talk a bit about like just what you're seeing on the ground in terms of the dynamics.

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

Sure. Well, Paris, we have been investing nicely in the second park that opened there, which was called Studios, which ultimately will be renamed. And we've opened up a significant amount of new attractions there, and there are a lot more being built that will open in the next two to three years. So I feel great about that.

Shanghai opened in 2016, obviously affected negatively by COVID, which hit them hard. And what was really hard is the openings and closings and openings and closings. But having now been there as much as I have and twice – I've actually been there three times since I came back. It's an extraordinary thing to see because of its popularity. It's the #1 tourist destination in Shanghai. It has had a huge impact on brand affinity in – of Disney in the country, which is what my intention was when we decided to build, print – plant the brand flag deeply and in a significant way.

So demand is huge. And also high-speed rail serving basically that specific area of Shanghai is growing enormously and so just people's ability to get there. And we had – we ended up with seven square kilometers of land. I believe we developed four of that. So there's opportunity at some point there as well. And we've done some nice expanding in Hong Kong. I mentioned Tokyo, talked about Paris, plenty of opportunity.

Michael Nathanson – *MoffettNathanson*

So before I leave parks, I'd be remiss not to ask you about competition that's coming in Orlando as Universal rolls out their new park. We saw a video of it yesterday. Brian was here to show it. What do you think the impact is going to be at Disney? And what attractions will you be adding to potentially compete with that?

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

Well, first of all, if you look at the last six or seven years, we've opened up a lot in Orlando, including a gigantic, we call it Galaxy's Edge, which is Star War[s] Land with two e-ticket attractions, which has also been enormously successful, there's a relatively new Guardians of the Galaxy coaster. In Epcot, there's a Tron attraction, which is enormously successful in Shanghai. If you go back, we – I mention Avatar as a for instance.

So we've been investing aggressively there, and there'll be continued investment. We haven't announced specifics yet, but we're looking at a few of those parks to place some pretty big bets on. As we've seen in the past, when Universal's expanded it does bring more visitation to Orlando. That's fine. We've had competition from them for a long time. I'm mindful of what they're doing. But I'm confident – I like our hand. I'm confident in what we built, and I'm confident what we'll continue to build.

It's not a – I don't believe that – it's not something that should be distracting to us or anxiety-provoking. We should just continue on the path that we're – we've been on, which is mine the great IP, deliver continued growth for that business, seek double-digit returns on invested capital.

Michael Nathanson – *MoffettNathanson*

Okay. So let's leave parks. I just want to note for the record, we've now spent more time on parks than we have over the years. Usually, we get right into media, but the importance of parks has – it's really interesting is how investors need to shift their focus on what's actually driving Disney's earnings.

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

Yes. And I think a few things happened there. First of all, all those investments paid off. So suddenly – I can't remember the specific numbers. Alexia is here. But we doubled OI in those parks over a relatively short period of time.

I know – just to give you an example, I think when I became CEO in '05, Disneyland, the whole thing was making $100 million. That's well over $1 billion OI business today. So it's grown enormously, and we should feel great about that. And so just by that – those statistics alone, it would have become more important in a topic of conversation.

But the other thing that happened is we had a movie division that was throwing off an enormous amount of we call operating income and cash flow. And they faltered on COVID, and then they had some misses creatively. And we aim to turn that around. I actually am heartened by the results just this past weekend. We have three big movies this summer. The first one was *Kingdom of the Planet of the Apes*. It did really well. And I feel great about *Inside Out 2*, and I feel great about *Deadpool*, and I can talk about the slate well into the future.

But as movies faltered, Parks and Resorts became a larger share of our bottom line and, of course, traditional media channels, cable and satellite channels, played an enormous role in essentially deliver to the bottom line. And we know what's happened there.

So you had the movie business hitting a speed bump of sorts. You had the continued erosion of traditional media. We had our losses in streaming, which we've reduced by billions. And now we have to turn that into a growth business.

So I think if you look at the company over the next five years, you'll see continued growth in Parks and Resorts, and they will remain significant, you'll see growth in streaming. We’re not saying how much, how fast, but we don't – we believe that, that should be a double-digit margin business. We're not saying by when, but that's what it should be. And you look at a turnaround at the movie studio, and I think we can talk about traditional media too and how we're using that, if you'd like. But I think you'll see more of a portfolio of businesses serving our shareholders better.

Michael Nathanson – *MoffettNathanson*

Okay. Got it. So let's turn to streaming. You touched on it in the beginning about the evolution of the product, how it was only launched five years ago. But can you share your vision, what you now see is the right product offering for Disney+, right? So you think about the design of what you'd like to see, can you walk us through just intuitively where the product should be in terms of intelligent support too.

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

Well, I think I've said already. First of all, there will be a marriage of our content engines to increase engagement. We're doing this, by the way, coming up in June in a big way in Latin America, where we've had two platforms: one that is general entertainment and sports and one that is Disney+. They're coming together. So I've talked about what we've done in the United

States already with Hulu at Disney+ in EMEA. We have, we call it Star there, not Hulu, and Disney+. So first big step is grow engagement.

And part of that basically plan is to put sports in. And that's coming, as I mentioned. And what will happen there in December is that there will be an ESPN presence on the Disney+ app. If you're a subscriber to – if you were not a subscriber at all to ESPN, you'll get a taste. There'll be studio shows, including sports center and some other sports. If you're a subscriber to ESPN+, it will be there – right there.[2] In a year, that will become ESPN, the full suite of services. And if you're a subscriber, you'll have it seamlessly with Hulu and Disney+.

So the first step is grow engagement. The next steps are all those technology areas that – or specifics that I talked about, which is investing in the technology to basically create much more – to serve the user, to serve the consumer, really. And it's – some of it is really subtle but really important, which is that first screen experience needs to be really customized and dynamic and constantly changing. It's not doing it once per day, it's every time the consumer turns – opens the app, it should be different based on those consumers' needs. And this is where AI will be just a huge, huge, obviously, tool – important tool to do all this.

Michael Nathanson – *MoffettNathanson*

It's funny because I've often griped to my people around me. When I watch sports in an app, I leave. And it's like for ESPN, it's a wasted opportunity if I'm – if it's not integrated.

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

Okay, so. Well, just imagine – not only integrated, but just imagine a world, and it is coming soon where we customize sports center for you. We know that you – are you a New Yorker originally?

[2] As part of the ESPN tile on Disney+, Disney Trio Bundle subscribers will have access to ESPN+ content.

Michael Nathanson – *MoffettNathanson*

Yeah, I'm Brooklyn.

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

Oh, you're Brooklyn. So we know that you like New York sports, but maybe one sport, hockey, you like the Detroit Red Wings or whatever.

Michael Nathanson – *MoffettNathanson*

Oh no. The New York Rangers.

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

You should have a sports center that is customized for your interests. Now it might not be – it doesn't mean you're not going to see scores or games or highlights or top 10. But the first thing you see, like I turned sports center on this morning, I'm Knick fan. The first thing I want to see is highlights from last night. It should know that I'm a Knick fan. So – and that's one example. That's come – we are actually working on that.

So when you think about the user experience – and this is where – look, I know a lot's been said about the demise of the traditional platform. That was inevitable. The reason it was inevitable because it serves the consumer really well to a point, which is variety, tons, and volume, meaning – and quality too and for the most part, a good consumer proposition economically.

But in today's consumer, used to basically the Internet and app-based experiences and ultimately, AI-driven experiences, wants much more than that and doesn't – and also, it's interesting, you could argue cable or satellite is all this variety. But it's not on one channel. You have to keep changing channels using your remote.

Imagine opening an app and all that variety is in one screen. It's right there. And the switching costs for a consumer from one concept, one program, one genre, one whatever to another is negligible, nothing, a click. Obviously, if you're using an iPad or whatever, it's using your finger.

So I'm really excited as a content creator about ultimately what streaming will do in terms of serving our consumers and growing general engagement down the road. It's just, again – I'm not second guessing the fact that we launched and when we launched because it's clear that it was time, as you remember. And we were applauded for doing it actually. And I think you saw that in our share price. But we launched it basically as rookies. And now we know exactly what we need to do to get that – to deliver double-digit margins.

Michael Nathanson – *MoffettNathanson*

And how do you toggle between my constant asking of you and Alexia about margin targets versus the need to grow and invest and to make the product as good as can be? So how are you toggle between those two?

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

Well, I don't think they're mutually exclusive. I think we can do it all. I think one of the things that I think we are mindful of is we're not going to chase subs by discounting too much and lowering price. There'll be some wholesale components to that. But before we really lean into growing subs, we want to make sure the technology is right. Before we lean into investing in more content because there are markets in the world where we are underinvested in content, we don't want to do that until the returns on that investment are strong. And the only way we get there is with that technology. So first step, build the technology.

Cost-wise, you're really looking at people. And I sense that in that case, it's upgrading to some extent. It's hiring people that are steeped in that world instead of in the more traditional world. And we're actually looking to do that right now. And I'm confident we will identify the right people. I don't think you're looking at enormous increase in investment at all. The increase in investment that will come is when we have the technology. I think there are some selective opportunities to invest in content in certain markets in the world.

Michael Nathanson – *MoffettNathanson*

I'm not going to ask you about the precipice, but I want to ask you about your vision, you smiled, at how pay TV landscape coexists with streaming, right, because there's still a product there. So how do you think the world is going to develop with all the multiple choices we have?

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

The precipice you're referring to is my quote, I guess, when I was not at Disney. Who knew that was going to come back to haunt me? The traditional platform or multichannel TV was on the edge of a great precipice. Tomorrow was going to take one step forward or whatever. I don't know, I might have quoted a European leader or something.

When I came back, I did declare that everything was on the table, meaning I wanted to look at our asset base as a company and determine whether we were supporting assets that not only had no growth but were drags on our bottom line on our multiple, whatever. And so I looked very expansively at traditional media. And we really – it was exhaustive in terms of our analysis. And ultimately, we concluded that – and I know I mentioned the word portfolio, where it's not going to be a growth business, but it could become an important component to our ability to basically engage with the consumer.

And so what has gone on – and this is where I give Dana Walden tremendous credit because she's managing the traditional networks; and Jimmy Pitaro, sports, is basically to reduce pretty dramatically our investment in content specifically aimed at those traditional networks. Invest in some, but then manage the traditional platforms networks and the streaming platform seamlessly. So you've got the same executives managing both, and their goal is to drive basically bottom line growth success.

And so we put something on ABC, *Grey's Anatomy*, *Abbot Elementary*. It goes on Hulu, you know, pretty quickly. In some cases, there's some simultaneous. And what we're getting is we're – an unduplicated audience. So ABC is – if you look at the demos older and a different audience and then Hulu. And so we're basically aggregating greater audience and we're amortizing costs. And we're using the marketing of the traditional network really to help, in some cases, even though there's not much duplicated audience.

And so we're doing that across the board, Disney Channel, ABC, National Geographic, and it's working. Now we're going to continue to see erosion in terms of subs for those businesses, but we're going to actually continue to drive profitability because we're managing our costs so effectively. And I think the other – and I think they'll play an important role as we're already seeing in sports. So – and I don't know whether you have ESPN on your list, but well, I'll save that then. We'll get to that. But again, so we're – we feel comfortable with our hand right now because we're using those networks efficiently and effectively.

Michael Nathanson – *MoffettNathanson*

Okay. So I was going to ask Bob the question on ESPN and sports cost, right? So college football playoffs, done. You expanded it. Rumor has it the NBA may be done. I know you're not going to break news today on that. But the question we've always asked is when you signed up those new contracts, you must have a vision for how that's going to grow revenue and engagement. So just give us a view of like why are you committing and what do you see as the opportunity from getting those.

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

Yeah, and I can't – I won't comment about the NBA. But if you look at ESPN's portfolio, they have long-term deals with the NFL, college football conferences, the NCAA championships, not basketball or football, but the football championships was a separate deal. The NHL, Major League Baseball, we've got some rights left still. But they have long-term agreements.

They've also been selective at what they've extended or what they've bought. So we have passed on things. And we did so because we knew we couldn't buy everything, first of all, and we lean into what we felt were delivering great results for us. And ESPN will continue to do that.

ESPN's approach – so it's selective, but they do have the most in terms of volume and the most in terms of audience engagement. So if you look at sheer rating points, ESPN still is the leader. If you look, by the way, at even digital consumption, ESPN is the leader. And so we aim to manage a portfolio of rights that will enable ESPN to maintain a leadership position in sports media. Not the only position, we can't afford that, but a leadership position.

So if you maintain a leadership position, which I'm confident we will, then you protect your economics because everybody's got to have it. If you are a sports fan, you have to have ESPN. And as long as that's the case, it will be – we'll be able to monetize it.

Now in terms of growing it, I think there are a few ways this will happen. Multi-platform approach, no question. So ESPN – and we're not going to – when we launch so-called Flagship, which is all the suite of ESPN services, we're not going to turn off the traditional channels. We'll keep them on. If you want to stay as part of a multichannel bundle or get it from cable and satellite, you can do that or if you want to buy it alone or as a bundle with our other streaming services, you can do that as well. So it's basically creating an omnipresence and then customization.

I really think that by basically using the AI technology that is coming available to us, we'll be able to provide the sports fan with an even deeper and more customized experience that will even increase the stickiness of ESPN. And look, we know live sports today is still extremely valuable. You see what's happening with interest from the streamers. That's for one reason. They see what we've done. They know what we've done and what it can do. So as long as we maintain a leadership position, which I'm confident we'll be able to do, certainly through the next decade, given the portfolio of rights that we've already bought and that we intend to buy, we'll be fine.

Michael Nathanson – *MoffettNathanson*

Okay. Well Bob, thank you for being here. Really appreciate it.

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

My pleasure.

Michael Nathanson – *MoffettNathanson*

Thanks, everyone.

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

Thank you.

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 organizational structure and leadership decisions; plans, expectations or drivers, as applicable, for direct-to-consumer profitability, advertising, revenue and subscriber growth, pricing, product acceptance and enhancements, expansion, changes to subscription offerings, churn, engagement and margins; 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); shareholder returns; consumer and advertiser sentiment, behavior or demand; cost reductions and available efficiencies; strategies and strategic priorities and opportunities; expected benefits of new initiatives, including for which definitive agreements have not been signed and may not be consummated or subject to regulatory approval or other conditions, and other strategic transactions; 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 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 in this communication to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.