UBS Global Media and Communications Conference

December 9, 2024

Disney Speakers:

Hugh Johnston

Sr. Executive Vice President & Chief Financial Officer

PRESENTATION

Voice Over

Certain statements in this discussion may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding expectations, beliefs, plans or goals; strategy, focus or priorities; guidance; future growth and performance, including opportunities for expansion and impact of strategic initiatives; future profitability, margins and related drivers; future capital or content expenditures; trends; drivers of demand; efficiencies; future product or service offerings (including nature, timing and pricing); consumer and advertiser sentiment, behavior or demand; value of our intellectual property and content offerings; impact of organizational structure and leadership decisions; 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 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.

Additional factors are set forth in the Company's most recent Annual Report on Form 10-K and subsequent filings with the Securities and Exchange Commission, including quarterly reports on Form 10-Q.

John Hodulik – *UBS*

Thank you all for joining us. It's been great. Fantastic. Again, I'm John Hodulik, Media and Telecom analyst here at UBS. And I'm very happy to introduce Hugh Johnston, the Senior Executive Vice President and CFO of Disney. Hugh, thanks for joining us.

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

Happy to be here.

John Hodulik – *UBS*

So to set the stage, Hugh, actually last week was your one-year anniversary as the CFO of Disney, and just given all the change and learning a new industry and everything going on in media, it must feel like 10 years.

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

Well, I don't know if I'd go quite to that, but it's been an exciting year to say the least.

John Hodulik – *UBS*

So, to start us off and set the table for the rest of the conversation, can you talk a little bit about the changes you've made at the company thus far, what changes you feel you still have to make, and the financial position of Disney as we sit here looking out into 2025?

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

Happy to talk a little bit about that. As you might imagine, for those of you who don't know, I was with PepsiCo prior to coming to Disney for 35 years. So, it was not an insignificant decision to make a -- to come over to Disney.

I had a hypothesis, as you do, in terms of joining a new company because you want to go in with some sense as to what -- where you think the company is. And that was mostly around the notion that the company was emerging from a period of industry disruption that had gone out for at least the last five to seven years, maybe as many as 10 years.

The good news is that hypothesis has actually played out better than I would have expected. The company clearly is emerging from that disruptive period as a winner, which is kind of what I was assuming going in. And I thought there were a couple of places that I could probably add to that sort of improved performance of the company.

Number one was I thought there was probably an opportunity on the cost side, so to be able to reduce costs in certain areas and then take that money, deliver some to investors, and plow some back into the business in terms of reinvestment.

Number two, I thought maybe -- Walt Disney has always been a well-managed company financially -- I thought in terms of the planning and forecasting processes, there might be an opportunity to make that a little bit tighter, which enables you to do two things: one, use your assets more effectively; and number two, communicate better with investors.

And I think there's still opportunities to do that even more so. But those are probably a couple of initial things that came in with, and it's playing out pretty well that way.

John Hodulik – *UBS*

And are there any sort of major sort of tentpole things that you're still hoping to drive through as we look out into '25?

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

I mean, we need to continue to focus on eliminating unnecessary costs to put money back into the big bets that we're making as a company. And you're all familiar with the big bets, of course: the streaming bet, which is working out very well, and then the capital bet with the parks and the cruise line and all of that. The more we can do to give ourselves breathing space by managing costs tightly, I think the better off we're going to be as a company.

And we spent a lot of time -- I mentioned the forecasting and planning processes -- we spent a lot of time during the course of the spring into the summer doing a long-range plan, then an AOP, then we went back and revisited the long-range plan. And that led us to the guidance that we provided to all of you, which candidly, I thought was quite important.

If you sort of take a big step back from it, which is relatively easy to do in your first year, we were asking you all to fund two big bets for us. Number one, operating losses in streaming, which you had done for four or five years to the tune of many billions of dollars. And number two, capital into the parks and into the cruise line because we thought there were great returns in that business. And given the size of the bets, as soon as we could reasonably give you a sense as to what you should expect in terms of the returns on those bets, I thought it was important for us to do that.

So, I and the management team spent a lot of time and a lot of detailed planning, getting ourselves aligned around it, such that we could give you that guidance, so that you knew what the payback would look like roughly on the bets that we're making on your and our behalf.

John Hodulik – *UBS*

That's great. And that's a great framework. Why don't we start with Experiences? And maybe sort of touch on cruise first. Obviously, it's not a huge piece of your business, but it's actually growing very rapidly. With the launch of the *Treasure*, you now have six ships with seven more in development. How should we think of the cruise business as a driver of that segment?

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

It's going to be a significant contributor. As you noted, we're going to double the size of the fleet over the course of the next several years.

It's funny. Cruise is a wonderful business. If you could own it for your family, you'd really want to because it's got high margins. It's got good returns. Consumers absolutely love the product. It's the highest reviewed product of any of the products that we have. And I mean really, really exceptionally well-reviewed from a consumer perspective.

It's got lots of layers of competitive advantage because of all the IP that we put into the ships in terms of sort of all the Disney characters and the Disney service model into the ships, where you have a captive audience, and they really respond to the Disney service model as well.

And in addition to that, there's lots of untapped global growth potential on the cruise ship.

So, you put all of that together and you say, yeah, if you're ever going to look at an investment and say, does it have layers of advantage, does it have attractive financials, does it have a consumer proposition? This is the one that does, and as a result, it will become a bigger and bigger piece of the line of business over time.

John Hodulik – *UBS*

And how should we think of the -- you don't have to give us a number -- but how should we think of the margins in that business, especially compared to, say, domestic parks? It's meaningfully better, correct?

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

They're -- I'll just call them, they're not -- they don't detract from the business by any stretch of imagination. I'll leave it at that.

John Hodulik – *UBS*

You mentioned the big investment cycle going on at the company, especially at the parks, which includes the largest ever expansion of Magic Kingdom, new Monsters Inc. Land at Hollywood Studios, Indiana Jones and Encanto at Animal Kingdom, and many, many more. Can you give us the sort of broad outlines as to the financial impact that the upgrades and expansions will have in the parks business?

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

Happy to talk about that. I mean you all know the parks business is -- it's basically an asset of one. It doesn't really have any material competition. Obviously, there's Universal and there's other parks out there, but a Disney theme park is pretty unique in terms of the amount of IP in it, the scale of the parks, the service, again, is a fairly unique asset.

And you all see the financials on that. They're quite attractive. The return profile is terrific. The growth profile is terrific. And we've obviously had tons and tons of success there and expect to continue to have tons of success. So, as we looked at it, we still have a lot of untapped land within the existing footprint of the parks, so expanding attractions and expanding capacity allows us to expand attendance without deteriorating the service model. So, people feel good about that.

In addition to that, the opportunity to leverage technology to make the guest experience so much better by virtue of getting people through lines quickly. If you've been through a Disney park, the number one challenge, obviously, is how do you get through the lines and all of that. To the degree we can use technology to make that experience even better, we're going to do that.

And then frankly, we're investing in the cast because ultimately, they are the front line. They are the delivery of the service. Each one of those interactions matters a lot.

So, as we sort of look forward, we're basically creating new lands, new attractions, really across just about all of the parks. And given the level of demand that's out there for it, we're expecting to be able to both get increased attendance, get higher pricing because, again, you were delivering more value. Value is what you get as a consumer, price is what you pay. People feel good about the value they're getting, so we ought to be able to take more pricing in that.

And as a result, we'll drive good financial results out of it, in line with the guidance that we all shared with you of 6% to 8% OI growth this year and double -- or high single-digit growth in the subsequent couple of years.[1]

John Hodulik – *UBS*

So, you mentioned pricing. Is that something -- is that a comment more domestic or international as well? And is it sort of -- I think you guys have, in the past, you've talked about raising some prices on some peripheral areas, but not really the base, sort of, low end?

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

We have to be smart about pricing, particularly being sensitive to the consumer and the consumer who is sort of more focused on the value end of the offering. We want to be able to tap into those families and build the habit of coming to Disneyland or Disney World not onetime, but multiple times.

And as a result, when we tend to take pricing or add to per caps, it tends to happen in a couple of areas. Number one, it tends to happen more at the premium end. So, the value end, which is -- the value pricing is available, I believe, about 100 days a year -- those prices haven't moved up much in recent years. It's the premium end that's moved up, and then the value-added services that we have like Lightning Lane and those types of things. That's where -- again where we're delivering more value-- we feel comfortable taking more price. Other than that, we're trying to -- at the value end -- to keep people coming to the parks early in their family's lives, trying to keep those prices in a place where it's accessible to them.

[1] Guidance provided in posted Prepared Management Remarks dated November 14, 2024: FY25, 6% to 8% Experiences segment OI growth compared to FY24; FY26, high single digit percentage Experiences segment OI growth.

John Hodulik – *UBS*

That makes sense. And then the international parks. Are the international parks all the way -- how do you think of the growth in that sort of sliver of the Experiences segment? And are they all the way back from COVID at this point?

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

I have to say I don't know that because I wasn't here for it, but I know they're doing very well. And if I had to guess, I would guess they're probably all the way back, but it's probably worth checking, looking at the numbers.

Look, we're optimistic about where the international parks are at right now. Last year, broadly, was a pretty good year for the international parks. As we mentioned on the most recent call, China was a little bit soft, and Paris was soft because of the Olympics, which, by the way, we have history on.

And we know when the Olympic shows up, the park that is in that city tends to lose some attendance. I will tell you, I was in Paris during that time frame, and I went and visited the park. You could see it. People were coming to Paris for the Olympics or they weren't coming to Paris. So, there were some crowds in Paris, but not nearly to the degree you would expect. The good news is the month the Olympics were over, the attendance came right back. So, we certainly feel good about that.

John Hodulik – *UBS*

You’re able to get on all the rides with no lines?

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

It was relatively easy, yes.

John Hodulik – *UBS*

So, lastly on parks, as you said, you gave guides for the 6% to 8% operating income growth this year. We've gotten a lot of pushback, especially given maybe a bit of a softer consumer and then new competition from the Epic Universe in Orlando. So how should we think of that 6% to 8% growth and the impact that the Epic might -- may have?

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

So, there's a lot of pushes and pulls on that, but let me kind of go through it. First of all, we mentioned on the call, it was likely to be more in the second half than in the first half. Why is that? Number one, we had two hurricanes at Walt Disney World in the -- what is our first quarter, the fourth quarter calendar otherwise. So those obviously had an impact. We also had the prelaunch cost of the most recent ship, which is about $90 million dollars, and that's not an insignificant number in the quarter.

In addition to that, we actually see more of the business building initiatives coming on through the course of the year. So the *Treasure*, the new ship -- they typically make money in their first quarter where we start to put people on the ship. That happens basically at New Year. So that will be incremental operating income that will be coming basically from the moment we start.

Number two, we do have some vacation club properties coming on during the course of the year and particularly in the latter half of the year. So that should be additional operating income support.

And then last but not least, we have some negative overlaps that we'll be going over, which will be beneficial to the operating income growth rate as well. Number one, there was higher labor costs in the last half of the year -- in the last half of '23 -- '24, sorry, in Disneyland Resort. And in addition to that, the Disneyland Paris overlap that we were just talking about. So, you sort of add all that up, and it does tilt toward the back half.

More broadly, as we look at things, the consumer is actually doing okay right now. We obviously saw a little bit of a hiccup in the summer with the parks. Right now, the consumer seems to be doing fine. So from that perspective, we're quite confident, and we've got good visibility in terms of the guide.

In terms of Epic, we actually have built some negative in for that. Whether it will be as significant as we built into it remains to be seen, but we're pretty cautious and conservative on that. That said, the history is you tend to get higher attendance in Orlando when there's something big and new in the market. So, it may be a factor of, okay, the Universal guys will gain a little bit of share, but we'll see more category growth than we see share loss. Net-net, it sort of works out okay. But we have built a hedge in for that just to make sure we were covered.

John Hodulik – *UBS*

On the attendance side?

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

On the attendance side.

John Hodulik – *UBS*

Got it. Makes sense. Okay.

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

By the way, one last thing on that. I mentioned this on the earnings call as well, but the early bookings that we see for next summer are actually good. They’re up year-over-year. So know it’s early, we’ve got a lot of time to go. But at least the data that we have suggests that it’s positive, not negative.

John Hodulik – *UBS*

That would incorporate Epic Universe as well, right? People start --

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

Absolutely.

John Hodulik – *UBS*

Makes sense. Maybe shifting to DTC. As you pointed out, you've seen major improvements in profitability and are now targeting the 10% plus margins in fiscal ‘26, making it actually the biggest driver of growth in EBIT in '26. Can you step back and sort of point to what the big drivers of that growth are?

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

Happy to. I mean, number one, the biggest driver of all, of course, is the content that we have on the service. That's what makes people want to go to the Disney+ service. And with the recent content that we've been producing, it's really having the desired impact. Whether it's *Inside Out 2*, which turned out to be the biggest animated movie ever, *Deadpool*, now *Moana 2*, we've got *Mufasa: The Lion King* coming next. That movie content, really those big tentpoles do drive people into the service and once they're in, they tend to stay.

They also tend to drive viewership of the movies that we had before. So *Moana 2* did terrifically well. The biggest movie watched on the services most recently was *Moana*. And this is across all the services. It's doing incredibly well right now because people sort of like to refresh on what it is, the stories were and all of that.

Number two is, actually, the TV series that we have right now. You saw with *Shōgun* and the like -- we won 60 Emmys, did phenomenally well in terms of the creative side on TV as well. And that, again, plays its way into the streaming service as they move from linear over into the streaming side. So that's also super supportive.

So, number one, content by far. Number two, we're clearly going to take some pricing. We did in October. That's worked out very well as far as -- certainly feel good about that. Number three, subscriber growth. In a lot of ways, you almost have to think about this business as a software-like business. Each incremental subscriber basically brings very little cost. It's almost all sort of incremental margin that comes with it. And then the decision we have to make is how much of that margin do you deliver versus reinvest back in the product. So, password sharing, in particular, is working out well for us in terms of subscriber growth, but that's going to be a big driver. Ad monetization is going to be a big one for us and continues to be a big one for us. And this is something where relative to our streaming competitors, we've got an awful lot of experience with advertising monetization. We've built our own ad engines, and we've got a tech stack that basically is second to none. And as a result, we're able to deliver audience like basically nobody else can. And then you'll see G&A leverage as well. G&A, whether it's on the tech side or whether it's on the operating side, even marketing will provide us with some leverage.

So, you add all of those things up, you can see a pathway very easily to getting to the margins that we've talked about. And again, that's '26. Our intent certainly isn't to stop at 10% margins in '26, not by any stretch of the imagination.[2]

John Hodulik – *UBS*

In terms of -- just a quick follow-up on the password sharing. Is that something we should see gain momentum, the benefit as we move through 2025?

[2] Operating margin for Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) is calculated as operating income divided by revenue. Operating income for Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) is a non-GAAP financial measure. The most comparable GAAP measure to this non-GAAP measure is Entertainment segment operating income. See the discussion on page 26 for how we define and calculate this measure and why the Company is not providing forward-looking quantitative reconciliation of operating income (and related margin) for our Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) to the most comparable GAAP measure.

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

It'll -- you'll get a little bit of it at the beginning, and then each quarter should be incrementally stronger in terms of the benefit.

John Hodulik – *UBS*

Great. Bigger picture, we can see your DTC business is converging. And Bob has talked about Disney+ as ultimately being the home of all things Disney. Can you help frame the long-term product vision for Disney+?

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

Happy to talk about that. It's funny, I actually view Disney+ as the most strategic asset that we have in the company right now for a couple of reasons.

Number one, it takes Disney from being more of a business-to-business company into being a direct-to-consumer company, where you have relationships with right now, 175 million households and over time, I expect that number to continue to grow.[3] When you're able to build that level of insight around how consumers are consuming entertainment, that's an enormously valuable asset for the entire rest of the company because all of a sudden, you can actually market to people in a much more targeted way.

As I think about what Disney+ can be, I really think about it as it can be the place you get up in the morning and you go to Disney+. Do you want to get the news? Great. You can find the news on Disney+. At noon, do you want to check in on sports? Great. With the ESPN tile, you can check in on Disney+. In the evening, you want to watch some entertainment? Great. Whether it's the Hulu side or whether it's the Disney side, phenomenal amount of entertainment that sits on that asset. On the weekend, you want to sit down and watch a ball game? ESPN is the place.

[3] Ended FY24 with 174.7 million Disney+ Core and Hulu paid subscriptions in aggregate

That brand portfolio inside of Disney+ is basically second to none. No one else has news plus sports plus general entertainment plus all family entertainment. I mean there's just so many potential elements of where we can take this thing. It has the potential to be truly the portal, not only into all things Disney, but over time, obviously, we may license some other things to be on the platform as well. But I think it can be the go-to entertainment asset.

John Hodulik – *UBS*

That makes sense. The -- so ESPN, you're talking about sports being on the platform, and the ESPN tile now is on the Disney+ home screen. Probably too early to talk about what you've seen so far, but what do you hope to sort of drive?

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

It's only been a handful of days, so it is a bit early on that front. In many ways, it's a little bit of what I was just talking about, but then to sort of zero it into what it is that ESPN+ can do for the Disney+ asset. It creates, in many ways, an objector to churn.

And when you think about -- what drives churn? And somebody says, well, you know what, there's not that much I need right now, and it's easy for me to get out of it, so let me churn out, and then I'll come back in later. What you really need in the household is one objector. Somebody to say, no, no, no, we can't turn it off because of…

And it may be someone who likes general entertainment. It may be the Disney+ -- the kids movies and things like that, the all-family types of things. It may be sports. Oh, no, we can't turn it off because we've got ESPN right now. I'm in season for my team. It may be news. Somebody who's just a news junkie and says, what, no, there's no way I'm going to give up that asset. And by virtue of putting in all of these assets, you really -- you see the churn go down. I mean we've already proven that. So, in terms of what it does for ESPN, you think right now, what we're essentially doing is getting people used to the idea of finding ESPN on Disney+ as opposed to finding it elsewhere.

Now when we finally launch ESPN flagship, which is going to be a much more sophisticated product sometime in early fall of next year, that product is going to be about much more interaction. It's really not going to be just an analogue product delivered digitally, but it will be a true digital native type of product. So if you want to do ESPN -- betting through ESPN BET, you'd be able to do it on the app.[4] If you want to do fantasy tracking, you'd be able to do it through ESPN+. If you want to do e-commerce connected to sports, the opportunities will be there to do that. And there's a whole variety of other product features that we're working on right now that you'll see in a few months.

I don't want to give the whole thing away at this point. Jimmy Pitaro will kill me. But the reality of it is this is really going to be an extremely interactive sports product, and sports fans love to be interacting with sports. It's part of what motivates them to be sports fan. I think by virtue of putting it on Disney+, there's huge benefit to the service of having ESPN. And there's huge benefit to ESPN of being on the service. It really works both ways.

John Hodulik – *UBS*

And lastly, before we move off DTC -- news, I think is a new category. I don't believe it's on there now.

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

It's on there. You can find it. We can probably make it a little more prominent, but more to come on that some time, too.

[4] The ESPN App will allow tracking of bets placed through ESPN Bet account linking

John Hodulik – *UBS*

Maybe turning to linear real quick. As you manage through the changing linear landscape, how do you think about the structure of affiliate renewals going forward and other levers you have to manage the business?

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

So, a couple of things on linear. Number one, in terms of the deals that we've done most recently, they're really kind of bespoke deals to the individual that we're negotiating with. In terms of the Charter deal, it was sort of a hybrid deal. It gave us some level of DTC access. So from that standpoint, worked out very well for them, worked out very well for us.

With DIRECTV, basically, the deal allowed us to keep our entire broad array of channels available on DIRECTV. So we were certainly happy with that outcome.

So, you really do have to approach each of them with the, okay, what is the person on the other side of the table looking to do? What are we looking to do? And then be very smart about cutting a deal on that.

In terms of linear more broadly, this is one of the beauties of being one of the three really big streaming services in the United States. When people -- when consumers choose to cut the cord and they're going to choose that at their own rate based on their own individual circumstances, we're there to catch them. And when they come over to the streaming side, we're perfectly happy with that. To the degree that they stay on the linear side, we're perfectly fine with that as well. We've really built, in a lot of ways, a natural hedge.

John Hodulik – *UBS*

Turning to sports, and you talked about the flagship launch and all the capabilities there. How should we think about expenses associated with the flagship launch? For instance, I would imagine that there's likely to be some big promotional push once you launch next year?

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

The expenses will mostly be marketing, what will sort of come through incrementally. There'll be some money in technology, but we've already built so much of that. The technology piece of it will be relatively less.

So, as you might imagine, in a couple of months leading up to the launch and in a couple of months post the launch, you'll see an uptick in marketing expenses. Obviously, we've incorporated that -- all that into the guide. But you've got to go create awareness with these products. And the ESPN team is pretty good about reaching out to sports fans. So I'm pretty optimistic they'll be able to spend the money efficiently.

John Hodulik – *UBS*

And do you foresee the launch of flagship and the sale of that product helping to lower the churn at Disney+ and Hulu?

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

Yes. No, I think --

John Hodulik – *UBS*

It's back to your one objector issue.

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

Exactly. It just sort of creates that incremental objective. I mean the more things you can put into the service -- and ESPN sports is obviously an immense asset in this country -- the more things we can put into the service that are value-add without creating too much clutter and confusion, the better off it will be for Disney+ and the better off for ESPN. It will get them more viewers.

John Hodulik – *UBS*

Going back to your guidance, there was some surprise on the guide for sports growth in EBIT, operating income in '26. I think for '25, you have it sort of the organic is sort of down 10%. Then you have nice growth in '26 despite the fact that you have NBA, potentially UFC. Maybe talk about, sort of, your sports portfolio and, sort of, how you see that evolving over time. And do you need to bulk up for a different -- do you need more assets as we go into the launch of --

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

No. No, we really don't. We feel good about the portfolio of rights deals and assets that we have. I mean, if you look at how we try to run ESPN, and ESPN has somewhere in the 30s to maybe low 40s in terms of market share of sports viewership.

We don't need to have everything. What we need to have is the critical mass of the right things. And if you look at what we have right now between the NFL and college football and the NBA, all of the things that we have are really sort of tentpole types of sports. And then we fill around them with other sports.

With the tentpoles, we've pretty well got our deals in place well into the next decade, so we've got phenomenal predictability. I mean in terms of predicting sort of outcomes on the cost side, ESPN is pretty straightforward in that regard.

So, we have had some escalators built into these deals, and these are things that are easy to model and easy to build in. But we don't feel like we need to go out and do something dramatically different in terms of the portfolio of assets we have. And we feel like we've got really strong visibility into the future on that front.

In terms of what happens beyond those tentpoles, we'll sort of see and play it out as it goes. In a lot of ways, one of the things that's beneficial to ESPN is we actually, to some degree, have the ability through the storytelling and through our reach to sort of build a sport -- an emerging sport or a nascent sport -- into something bigger. If you look at how women's basketball went over the last couple of years, obviously, Caitlin Clark was a big story, and it's sort of all the things that were happening inside of women's college basketball. But ESPN also took it and really blew out those stories and made them much more visible and much more notable.

In fact, the women's college basketball championships were some of the highest-rated programs we had across any sport this year. It's truly amazing. And I think ESPN was a contributor to it. Obviously, the players are the story, but our ability to do the storytelling kind of basically amplifies it, which makes us attractive from a rights deal perspective. If you're the owner of the right, you want somebody who can make your sport look really, really good.

John Hodulik – *UBS*

Last on sports is Venu. We talked about it with Steve Tomsic at Fox. Is it -- how important would you say it is to the overall sports distribution strategy, or your distribution of your sports rights? And if it doesn't, sort of, move forward given the -- does that change your approach at all?

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

No. We're fine either way. I mean obviously, we thought it was a good idea. We still think -- if you go back, ESPN's strategy is to sort of meet the fan where they want to be met. And for a subset of sports fans, they don't necessarily need to have 100% of sports, but they'd like to have something more than just ESPN.

That was the concept behind Venu was to give that sports fan the consumer access that they want at a price point that they found attractive. If it happens, I think it's great for sports fans. If it doesn't happen, I think it will be a shame for sports fans, but we'll see where it goes.

John Hodulik – *UBS*

I agree. Actually, one last question. ESPN+ versus the ESPN flagship product, is that -- I think I remember reading that they eventually get folded in from -- is that from day one?

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

We haven't declared at all specifically how -- what the naming conventions are going to be, but I would think of ESPN+ premium being what flagship is going to be. Flagship's just an internal name. I don't -- we're not going to go with that. It's not the public name.

John Hodulik – *UBS*

Two more topics. Turning to content. As you pointed out, the studios had a string of recent successes, and it looks like the creative output is back on track. What should we attribute this sort of pretty dramatic, I would say, improvement in the output and the sort of resonance that you're seeing behind your content over the last year, year and a half?

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

It's funny. When I came to Disney, part of the conversation was around output of the creative side and the studios and what is it that should be expected. And the team was firmly committed to the notion of, look, when we launch streaming, we tried to get too much out of the studios. And the creative talent isn't infinitely expandable. I mean, there's a limited number of human beings who can do this stuff.
And when they pushed them to go faster to create more content for the streaming service, candidly, quality suffered. And you could see it. And consumers could see it, and you saw it in the box office, and you saw it in terms of the TV ratings as well.

When Bob came back, one of the things he realized very quickly is we need to raise the bar on quality, and one of the ways we're going to do that is we're going to slow down a bit on quantity. Now I started saying that when I started visiting all of you back in January or February of this year. Maybe I didn't have a lot of credibility at that point. It's like what does the soda guy know about making movies? But I was really representing the team message on that one. And I think what you've seen play out this year is exactly that.

Again, I'll go back to the whether *Inside Out 2* or whether it's *Deadpool* or whether it's the way *Moana 2* has taken off, or all of the Emmy's on the TV side, by contracting a bit on output, the quality of the output has gone up dramatically. And I've sat in lots of meetings now watching them give notes on movies and things like that. You can see the level of detail that people get into to take those movies from good to great. It's a lot of grinding, painstaking work. It's impressive to watch.

But the result of it is you're seeing, frankly, much, much higher-quality output. And as we look towards '25, whether it's *Captain America* or *Lilo & Stitch*, I've got a lot of optimism on that front as well. And *Mufasa* coming up, which I've seen, I think it's going to be a phenomenal movie. I think people are actually going to love this movie. So from that standpoint, very, very optimistic that this creative turn is not a so-called lottery ticket. This is actually -- there's a process here, and that process is going to sustain itself over time.

And the best proof point of it is, before the push on quantity came kind of 2015 to 2019, Disney was producing multiple billion dollar hits every year. Looks like we're back to that. So, I think the proof point is not just meet the horizon -- or just showing a short period of evidence. I think there's a longer period of evidence that really supports that.

And as you know, and I believe many of you know as well, that the ability to monetize creative inside of Disney right now is probably greater than it's ever been partly because of the streaming service, partly because now when we do an attraction, whether it's an attraction in the parks or an attraction on the ships, everything is connected to Disney IP. So, it used to be there were things in the parks that were just sort of these random attractions, and they were perfectly fine, but they weren't part of the Disney ecosystem. And the stuff that's within the Disney ecosystem really monetizes tremendously well.

John Hodulik – *UBS*

Again, when you provided your guidance, you sort of laid out a content spend of about $26 billion dollars, which is up only slightly compared to the fiscal ‘24 numbers. And I think within that, you obviously you have some sports rights inflation, so.

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

$26 or $24 billion?[5]

John Hodulik – *UBS*

Was it $26? I might have a typo here.

---

[5] The Company currently expects its fiscal 2025 spend on produced and licensed content to be approximately $24 billion including sports rights but excluding Star India

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

Okay.

John Hodulik – *UBS*

So, clarification on the content spend, and then is that the right number? And how should we think of that -- maybe just the entertainment spend piece going forward?

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

I think for the most part, that's a good number. The one place you might see it escalate a little bit, not the near term, but over the course of the next couple of years, is international streaming. Because there's an opportunity, I think, to create some local programming that would help grow the subscriber base in that business even more so. That to me may be the one opportunity.

But again, it's not going to be disruptive to the guidance. It's not going to be disruptive to anything that we've shared with all of you. But I look at international on the streaming side as a good incremental opportunity for us at relatively high margins. So -- but aside from that, I think that number, whether it's $26 or $24, is a good number, and it's one that we ought to be able to run with for a few years.

John Hodulik – *UBS*

And from an international standpoint, you're talking about local content in the DTC business that can help drive the subscriber growth outside of the US.

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

Things like telenovelas in Latin America or in Korea, we've had a lot of -- or in Asia, we've got a lot of success with some Korean dramas and things like that. Same thing will be true, I believe, in Europe.

But it's important to remember on that, that's not a -- there is no international. There are segments of the world. You target that segment. If you believe you can drive good returns out of it, it's an incremental business proposition that will do nothing but make us more profitable in streaming.

John Hodulik – *UBS*

Wrapping up, obviously a lot of moving parts at Disney that we've addressed here today and a number of big projects that you have moving forward. How would you describe the visibility into the financial growth that you've laid out at this stage in the process?

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

I think it's actually quite good. I mean, I've talked a lot about the notion of Disney being an earnings compounder. Because the brands are so strong and the IP is so strong and our ability to take price is consistent and our ability to manage cost is fairly -- there's a good opportunity there as well.

So, as I sort of said -- and look at all of the work that we did in the long-range planning process, this was very detailed, painstaking work to make sure we really understood what was happening on the cost side, what our expectations were on the return side, lots of in-depth analysis.

So, I do feel like we've got pretty good visibility, number one. And number two, because you can't predict everything perfectly, we've got levers to manage so that if we do get surprised, whether it's in the parks, whether we get surprised elsewhere in the portfolio, we have the ability to pull those levers and to deliver the guidance regardless of what's dealt to us in those scenarios.

John Hodulik – *UBS*

Sounds good. It’s a great way to wrap up. Thanks, Hugh.

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

Thank you. Appreciate the time.

Non-GAAP Financial Measures

Operating Income for Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service)

Operating income for Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) consists of operating income for the Direct-to-Consumer line of business at the Entertainment segment less our Hulu Live DMVPD service. The Company uses operating income (and related margin) for Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) as a measure of the performance of our Entertainment SVOD direct-to-consumer services separate from our Hulu Live DMVPD service, which we believe assists investors by allowing them to evaluate the performance of these SVOD direct-to-consumer services. The Company is not providing the forward-looking measure Entertainment segment operating income (and related margin), which is the most directly comparable GAAP measure to operating income (and related margin) for Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) or quantitative reconciliation of forward-looking operating income (and related margin) for our Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) or quantitative reconciliation of forward-looking operating income (and related margin) for our Entertainment SVOD DTC businesses (excluding our Hulu Live DMVPD service) to the most directly comparable GAAP measure. The Company is unable to predict or estimate with reasonable certainty the ultimate outcome of certain significant items required for such GAAP and non-GAAP measures without unreasonable effort. Information about other adjusting items that is currently not available to the Company could have a potentially unpredictable and significant impact on future GAAP and non-GAAP financial results.

Forward-Looking Statements

Certain statements in this discussion may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding 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 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, financial prospects, timing, availability, pricing, utilization or nature of our offerings; consumer and advertiser sentiment, behavior or demand; cost reductions and available efficiencies; strategies and strategic priorities and opportunities; expected benefits of new initiatives and offerings; 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 direct-to-consumer 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;
- taxation; 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 most recent Annual Report on Form 10-K, 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,” “Disney,” “we,” and “our” are used above and in this discussion to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.