



The  
**WALT DISNEY**  
Company

## Q1 FY21 Earnings Conference Call

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Disney Speakers:

**Bob Chapek**

*Chief Executive Officer*

**Christine McCarthy**

*Senior Executive Vice President and Chief Financial Officer*

Moderated by,

**Lowell Singer**

*Senior Vice President, Investor Relations*

**PRESENTATION**

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**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to The Walt Disney Company's First Quarter 2021 Financial Results Conference Call. (Operator Instructions)

Please be advised that today's conference may be recorded. I'd now like to hand the conference over to your host today, Lowell Singer, Senior Vice President of Investor Relations. Please go ahead.

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Good afternoon, and welcome to the Walt Disney Company's First Quarter 2021 Earnings Call. Our press release was issued about 25 minutes ago and is available on our website at [www.disney.com/investors](http://www.disney.com/investors). Today's call is also being webcast, and a transcript will also be posted to our website.

We realize most of you are still joining us today from your homes, and we are once again hosting today's call remotely. So joining me from their homes are Bob Chapek, Disney's Chief Executive Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Following comments from Bob and Christine, we'll be happy to take some of your questions. So with that, let me turn the call over to Bob to get started.

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

Thanks, Lowell; and hello everyone. I hope you're all doing well and staying safe.

Unfortunately, as you know, the COVID pandemic continues to present significant hurdles for businesses and communities across the U.S. and globally.... and, most important, it has taken a tragic toll on way too many lives.



Fortunately, there have been some encouraging developments, particularly with the availability of a vaccine. And we're pleased to be doing our part by providing space at Disneyland for one of Southern California's major vaccine distribution sites - to date, more than 100,000 doses have been administered at our location.

It's hard to believe nearly a year has passed since the start of the pandemic, which continues to negatively impact the operations of our company. For the first quarter, adjusted EPS in the quarter was \$0.32 a share, compared to \$1.53 a share last year. Christine will talk more in-depth about our results for the quarter.

During this difficult time, we have made significant changes, while finding new and innovative ways to conduct our businesses. But at the same time we have charted a course for an even more deliberate and aggressive DTC push for Disney+, ESPN+, Hulu and Star. I'm really proud of how well our team has performed in the face of a multitude of ongoing challenges both creatively, and across our Parks and Experiences, and legacy and DTC distribution platforms.

We've been especially pleased with the success of our direct-to-consumer business. And our recent strategic reorganization has enabled us to accelerate the Company's pivot towards a DTC-first business model and further grow our streaming services.

Disney+ has exceeded even our highest expectations in just over a year since its launch with 94.9 million subscribers as of the end of the first fiscal quarter. ESPN+ and Hulu have also performed well, with 12.1 million and 39.4 million subscriptions, respectively. And on February 23, we will be launching our new international general entertainment offering, Star, across Europe, Canada, Australia, New Zealand and Singapore.

Star will offer thousands of hours of movies and television from the Company's multiple studios, including content from our acquisition of 21st Century Fox, along with Star-branded exclusive Originals and local programming tailored to specific markets.



Star will be integrated into Disney+ as a distinct sixth brand tile, and will offer easy-to-use parental controls to manage access to the content available on Star. We're less than two weeks away from launch and we're seeing tremendous excitement amongst consumers.

As you saw during our Investor Day presentation, we've got an amazing, robust pipeline of original content in development and production for our full portfolio of streaming services. We have some of the best creative teams in the business, and that's reflected in the tremendous appeal of our unparalleled programming.

In just the last two months, Disney+ has delivered a string of hit programs, including: Marvel's incredibly original *WandaVision*, season two of *The Mandalorian* - which ended with the surprise reveal that fan-favorite Boba Fett will have his own Disney+ series starting this December - and Pixar's artistic triumph *Soul*, which debuted on the service and in theaters on Christmas Day to great acclaim, and has since taken in nearly \$100 million at the global box office.

The wealth of IP from our unrivaled collection of brands and franchises provides us with an incredible breadth and depth of storylines and characters to mine for Disney+ and our other streaming services. We have the ability to interconnect these storylines and characters in unprecedented ways, as we saw with *The Mandalorian* and *WandaVision* tying into the broader Star Wars and Marvel franchises. We're excited to continue exploring the endless possibilities that this unique eco-system provides.

The fan response was overwhelming when we announced last week that Ryan Coogler, who's hard at work on *Black Panther 2*, will be developing a *Black Panther*-inspired series based in the Kingdom of Wakanda for Disney+.



We're also thrilled to be expanding the scope and reach of ESPN's *The Undefeated* by creating a destination on Hulu devoted to Black entertainment and culture - another example of our continuing commitment and investment in Diversity & Inclusion.

And we can't wait for the award-winning and critically acclaimed film *Nomadland* to be released in theaters and on Hulu on February 19.

And on March 5, Disney Animation Studios' *Raya and the Last Dragon*, an artistically beautiful film celebrating female empowerment, will arrive in theaters and on Disney+ via Premier Access. As we've said, our goal is to increasingly put the consumer in charge, and let them decide when and how they want to enjoy our one-of-a-kind entertainment offerings.

Turning to other parts of the Company, we've made a number of changes in how we manage and operate our theme parks and consumer products businesses in light of the disruptions caused by the pandemic. And we believe these and other adjustments we'll continue to make will best position us to operate more effectively - now and in a post-COVID environment.

Where we have been able to reopen our theme parks with limited capacity, guests have consistently demonstrated a willingness and a desire to visit, which we believe is a testament to the fact that they feel confident in the health and safety protocols we've put in place.

Average daily attendance at Walt Disney World grew significantly from Q4 into Q1, helped in part by the increased capacity we've been able to achieve as a result of our successful protocols.

It's clear that people want to reconnect with loved ones and spend time together doing things they enjoy, and given the demand we're seeing now, we're confident it will only grow once the pandemic is behind us.



Even under difficult circumstances, we've been able to continue expanding our parks. At Walt Disney World Resort, we're hard at work on two brand-new attractions at Epcot, *Remy's Ratatouille Adventure* and the highly anticipated Marvel-themed roller coaster, *Guardians of the Galaxy: Cosmic Rewind*.

Work is also well underway on the all-new spectacular nighttime show *Harmonious*. This is all part of a much larger reimagining of Epcot to make it more Disney, more family-friendly, more timeless, and more magical.

And I am especially excited about the progress that's been made on the new *Star Wars: Galactic Starcruiser* hotel at Walt Disney World—people are going to be blown away by the experience, it is truly unlike anything we've done before.

At Disneyland Resort, the exciting new Marvel-themed land Avengers Campus is currently scheduled to open later this year at Disney California Adventure. And crews are hard at work on the highly anticipated, state-of-the-art attraction *Mickey & Minnie's Runaway Railway*, coming to Disneyland in 2023.

We're also moving forward on a number of new projects at our international parks. At Shanghai Disneyland, work continues on the first-ever *Zootopia*-themed land. This fully immersive area will seamlessly blend Disney's storytelling with advanced technologies, creating a one-of-a-kind experience for our guests.

Throughout this challenging period, we've consistently demonstrated our ability to deliver world-class programming - on all of our platforms, digital and linear. On ABC, we continue to have the No. 1 returning drama in the key demo of Adults 18-49 with *Grey's Anatomy*, as well as the top new drama of the fall, *Big Sky*. Both *Grey's* and *Big Sky* also hold the top broadcast drama spots on Hulu.



Also, of note, ESPN's first-ever NFL Wild Card Megacast featured six networks, including ABC, ESPN+, and ESPN Deportes—it was the most extensive multi-channel offering to date for an NFL Playoff game.

And the following day, the team at ESPN pulled off an equally impressive feat with a Megacast of the College Football Playoff National Championship game with 14 different presentations on multiple platforms.

During an extraordinarily difficult year, our amazing local and national ABC News teams have been doing an absolutely outstanding job. And *Good Morning America* and *World News Tonight with David Muir* continue to hold the top spots as the No. 1 morning show and evening newscasts.

While these remain challenging times, we are more confident than ever that we will emerge from this crisis in a strong position. We're proud of all that we've accomplished - especially as it relates to our top priority, our DTC business. And we believe that the strategic actions we're taking to transform our company will enable us to enhance the consumer and guest experience, grow and expand our businesses, and increase shareholder value.

With that, I'll now turn it over to Christine.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Bob and good afternoon everyone.

Excluding certain items, diluted earnings per share for the fiscal first quarter were 32 cents. In spite of the challenging circumstances we have faced with COVID over the past year, these results reflect the strength of our brands and experiences, as well as our ongoing commitment to operate our businesses efficiently.



This is the first quarter in which we are reporting under our new organizational structure. We filed an 8-K last week with summary recast segment financial information for fiscal 2020. Today's discussion of our financial results will be organized by two segments: Disney Media and Entertainment Distribution, or DMED; and Disney Parks, Experiences and Products, or DPEP.

I'll start with our newest segment, DMED, where operating income increased modestly in the first quarter versus the prior year. Our financial reporting structure for DMED includes three lines of business: Linear Networks; Direct-to-Consumer; and Content Sales, Licensing and Other.

Operating income at Linear Networks, which now includes both domestic and international channels, decreased versus the prior year quarter due to declines both domestically and internationally.

At our domestic channels, the decline in operating income was due to lower results at our cable business, partially offset by an increase at our broadcasting business.

The decrease at cable was largely driven by ESPN, where results in the first quarter were significantly impacted by higher rights costs. This was largely due to timing of College Football Playoff games relative to our fiscal periods, as well as higher NBA programming costs. The first quarter included six CFP bowl games, compared to three in the prior year quarter. Four NBA Finals games were played in the first quarter due to COVID-related timing shifts, whereas these games would have typically occurred in the prior fiscal year.

ESPN domestic advertising revenue decreased 4% in the quarter, due to lower average viewership and the cancelation of certain college sporting events, partially offset by an increase in rates. Ad revenue at ESPN is currently pacing down quarter-to-date, due in part to the timing of key events.





At broadcasting, higher political advertising revenue at our owned television stations drove an increase in operating results versus the prior year, partially offset by a decrease at the ABC television network.

Total domestic affiliate revenue increased 3% in the quarter. This was driven by a benefit of 8 points of growth from higher rates, offset by a 5-point decline due to a decrease in subscribers.

At our international channels, lower results in the quarter were driven by higher programming and production costs and lower affiliate revenue, partially offset by advertising revenue growth and a reduction in non-programming costs. Higher programming costs and higher advertising revenue reflected a shift in the timing of Indian Premier League cricket matches due to COVID, and the decrease in affiliate revenue was primarily due to channel closures.

However, our international channels results this past quarter were better than the guidance we gave in our last earnings call, primarily due to stronger-than-expected advertising revenue, COVID-related timing shifts of non-cricket programming and sports rights costs, and expense savings.

Moving on to Direct-to-Consumer... improved results at all three of our streaming services drove an improvement in Direct-to-Consumer operating results of nearly \$650 million versus the prior year.

Last quarter, we guided to Direct-to-Consumer operating income declining by \$100 million versus the prior year under our former segment structure. Our reported results are \$750 million higher than that guidance. While some of the outperformance reflects better-than-expected results from Hulu and Disney+, the majority of the variance relates to the elimination of intersegment pricing mark-ups under our new financial reporting structure.



At Hulu, the improvement in the first quarter versus the prior year was due to both subscriber and advertising revenue growth, partially offset by higher programming and production costs. Hulu ended the first quarter with 39.4 million paid subscribers, including 4 million Hulu Live digital MVPD subscribers.

Turning to Disney+, a lower loss in the first quarter compared to the prior year was driven by subscriber growth, partially offset by higher costs due to the launch and expansion of Disney+. With 94.9 million paid subscribers at the end of Q1, Disney+'s global net additions were 21.2 million versus Q4.

Disney+ Hotstar subscriber additions continued their strong growth trend, with Disney+ Hotstar subscribers making up approximately 30% of our global subscriber base. We also saw strong additions to our subscriber base from our November launch in Latin America.

Disney+'s overall ARPU this quarter was \$4.03; however, excluding Disney+ Hotstar, it was \$5.37.

Higher results at ESPN+ were driven by subscriber growth, partially offset by higher sports programming costs, driven by soccer rights. ESPN+ ended the quarter with 12.1 million paid subscribers.

Given that we are past the launch year of Disney+, we no longer intend to update our DTC subscriber numbers as of our earnings dates, but we will continue to provide you with quarter-end subs. We may choose to make additional disclosures when we hit certain milestones.

Content Sales, Licensing and Other operating income at DMED decreased in the first quarter versus the prior year, due to lower theatrical, TV/SVOD and home entertainment results - all consistent with our prior guidance.



The decrease in theatrical results reflects no significant worldwide releases in the quarter, compared to *Frozen II* in the prior year quarter.

Lower TV/SVOD distribution results were the result of a shift from licensing to third parties to exhibiting our content on our DTC services.

A decrease in home entertainment results was driven by the absence of significant title releases in the quarter, compared to the performance of *Toy Story 4*, *The Lion King* and *Aladdin* in the prior year quarter.

I'll now turn to our Parks, Experiences and Products segment.

We continue to see significant impacts from the COVID-19 pandemic across many of our businesses. While some operations have resumed, our Parks, Experiences and Products segment has undoubtedly been hard hit by COVID. In the first fiscal quarter, we estimate the pandemic adversely impacted DPEP operating income by approximately \$2.6 billion, due to revenues lost as a result of closures and reduced operating capacities.

Operating income at Parks, Experiences and Products declined significantly versus the prior year, to an operating loss of \$119 million. As a reminder, Walt Disney World Resort and Shanghai Disney Resort were open for all of the first quarter; Disneyland Resort was closed and our cruise business was suspended for the full quarter; Disneyland Paris was open until the end of October, or for about a third of the quarter; and Hong Kong Disneyland was open until the beginning of December, or for about two thirds of the quarter.

Our parks and resorts that were open during the quarter all operated at significantly reduced capacities, yet all achieved a net incremental positive contribution for the periods during which they were open – meaning that revenue exceeded the variable costs associated with opening.



At Walt Disney World, as Bob mentioned earlier, average daily attendance grew significantly from Q4 into Q1, benefitting from typical seasonality factors as well as solid underlying demand trends. At the same time, our operations team found innovative ways to responsibly increase capacity while still maintaining rigorous COVID protocols. Per caps were also up double-digits year-over-year.

We continue to be pleased with the rate of reservation bookings we are seeing in the current quarter. And consumer sentiment around visiting our domestic theme parks over a longer period of time remains strong.

At our consumer products business, we saw an increase in operating income in the first quarter, driven by an increase in games licensing revenue, which reflects the successful release of Marvel's latest licensed Spider-Man game.

As we look ahead, despite continued limited visibility due to the challenges of the pandemic, we would like to give you some context around certain items that may impact our second quarter or full year results.

First, at our domestic linear networks, we expect ESPN will benefit in the second quarter from the timing of college football and other sporting events, with lower rights costs being partially offset by lower advertising revenue. In Q2, we had only one CFP game, which was the National Championship game. This compares to four games in the prior year - three CFP bowl games and the National Championship game.

Our broadcasting business will be negatively impacted in the second quarter due to lower political advertising versus the prior year, in addition to the shift of the Academy Awards to the third quarter.



We expect Direct-to-Consumer operating results in the second quarter to improve modestly versus the prior year quarter, as improvement at Hulu and ESPN+ will be partially offset by increased content investment to support the expansion of Disney+.

We expect that Walt Disney World attendance in the second quarter will be impacted by typical seasonality headwinds, in addition to continued COVID-related headwinds and capacity constraints. Our current expectation is that Disneyland and Disneyland Paris will be closed for the entirety of the second quarter, but we are hopeful we will be able to reopen Hong Kong Disneyland during the quarter.

We have refined our capital spending expectations, and we now expect capex in fiscal year 2021 to be roughly comparable to fiscal 2020 spending. Compared to 2020, we still expect to see increased investment at DMED and Corporate, and reduced spending at DPEP.

And with that, I'll now hand the call over to Lowell and we would be happy to take your questions.

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. Christine, thank you. And we're ready to transition to the Q&A.

And as we do that, let me note that since we are once again not physically together this afternoon, I will do my best to moderate the call by directing your questions to the appropriate executive. So with that, Liz, we're ready for the first question.

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**Operator**

Our first question comes from Ben Swinburne with Morgan Stanley.



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**Ben Swinburne** – *Morgan Stanley & Co. LLC*

Bob, can you - I know visibility is limited, but can you tell us how you think about the parks through the rest of this year? In particular, Christine mentioned strong underlying demand. But do you expect to be able to increase capacity limits and fulfill that demand? And as you do, are there things that you've done on the technology or cost side that can help us think about the ramp back to breakeven?

And then I was just wondering, Christine, is there any way for you to help us think about the sports rights in fiscal '21 versus fiscal '20? There's been so much movement in a number of games between the 2 years. And obviously, these are big dollars for the company. I'm just wondering if there's any way you can help us think about that maybe on an annual basis.

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, Ben. Thank you. So Bob, why don't you take the first question about parks, and then we'll go to Christine on sports rights.

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

Okay. In terms of the outlook for the parks for the rest of the year and the capacity, it's really going to be determined by the rate of vaccination of the public. That to us seems like the biggest lever that we can have in order to either take the parks that are currently under limited capacity and increase it, or open up parks that are currently closed. So that is sort of the gating factor, if you will.

As Christine suggested, we have ample demand for our parks. Despite everything that's happening with the pandemic, I think we've made a pretty big impression on our consumer base and prospective guests in terms of the safety measures that we've undertaken at our parks to give assurances to people that they should come in and bring their families. And we're very, very pleased with what we're seeing in terms of future bookings.



In terms of the cost savings and the technical side of things, not only has our industrial engineering team at Walt Disney World and some of our parks like Shanghai across the world figured out ways to have increased capacity with the same safety measures that we've had in place, which has enabled us to increase our, if you will, our attendance. But there, we have been able to substantially manage our cost side at the same time to right-size, if you will - not only our fixed cost base, but also our variable cost base to match what's happening.

And I think that's evidenced by what Christine said, that all of our parks, regardless of what conditions they're operating under, assuming they are operating, are in positive net contribution side.

I would also add, you didn't mention this, but I think it's important to add that given those per caps that Christine referenced in terms of the double-digit increase in per caps, this is sort of the ultimate situation where demand has exceeded supply. We've had that -- been fortunate enough to have that situation for the last couple of years, and we've learned how to yield this business. And I think this is the ultimate situation where we've got supply greater than demand.

So not only working on the cost side, but we're also working on the revenue side. And I think you see some of those results at play at Walt Disney World.

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**Ben Swinburne** – *Morgan Stanley & Co. LLC*

Got it.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. Ben, now to address sports rights and the shifting between fiscal years.

Because of what happened with not only cancellations but delays of some of the sporting events you will see some doubling up of some sports rights in this fiscal year. Things like - you'll have 2 NBA finals, assuming the season for '21 continues as we expect. You'll also have things



like 2 Masters, 2 seasons of IPL games. And this all assumes that in fiscal '21, nothing is drastically shifted out.

But we - you can expect the sports rights overall to be up because of the doubling and the shifting into fiscal '21. And that's on linear.

When we look at our ESPN+ rights costs, those are up also because we acquired some additional rights, most significantly in soccer that we announced earlier last year.

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**Operator**

Our next question comes from Michael Nathanson with MoffettNathanson.

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**Michael Nathanson** – *MoffettNathanson*

I have 2. One is on DTC and the learnings from *Soul* being released directly versus what you experienced with *Mulan*. Any takeaways there? And maybe what's the right model for you?

And then secondly, on Hotstar, how important has cricket been to the growth in the adoption there? And is there a risk of churn when the IPL season comes to an end?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. So Bob, do you want to take the *Soul* question? And then Christine, you might want to take the Hotstar question.

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

Okay. In terms of the DTC business and *Soul*, as you remember, we put it out on Christmas Day. We thought that was a really nice thing to do for our consumer base and our subscriber base given the holiday - and given the fact that we have talked consistently about remaining flexible in terms of how we're going to go ahead and put our titles out into the marketplace.





We were absolutely thrilled by what that brought to our business in terms of both acquisition and retention. And so I would say it was a big hit with our subscriber base.

In terms of *Mulan*, I think the best thing I can say about *Mulan* is that it was successful to the extent that we're also using that strategy on *Raya*.

So the individual decisions that we talked about in the future - with some films, we'll take them theatrically. And some films, we'll take them theatrically plus Disney+ Premier Access, as is the case with *Raya* and was the case with *Mulan*. And in some cases, we'll take it direct to service.

It's going to be dependent, though, on what our slate of titles are, and whether we think that we need to put something on the service for those particular guests or whether this is something that we could use as another data point in our exploration of Premier Access day-and-date with theatrical.

So it's really about flexibility, and we're going to steer our decision-making over time given what information that we get from our guests and our subscriber base on what they prefer.

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**Michael Nathanson** – *MoffettNathanson*

Okay. And can I just follow-up for a quick second on *Black Widow*, which is still, I think, a May release date? Anything you want to share on potential changes to that release date?

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

Right. So I'm going to go back to the word flexibility because we had made a reference at the investor conference that *Black Widow* was going to be a theatrical release, and we are still intending it to be a theatrical release.



But again, we are going to be watching very carefully the reopening of theaters and the consumer sentiment in terms of desire to go back to theaters to see whether that strategy needs to be revisited.

But as of now, the strategy is to continue on with the theatrical release, and we'll be watching very, very carefully.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. And I'm going to address the question regarding churn on Disney+ Hotstar with the IPL season finishing up.

So just to put it in context, cricket is a very important part of a diversified programming strategy at Disney+ Hotstar. It also has a lot of other local content that consumers like to view.

So we did see a bump up when the IPL season started. But we've also made it economical for a consumer to sign up for a 1-year subscription versus going month-to-month.

So those are some of the things that we're looking at and utilizing to mitigate the churn that one could expect from IPL, but it's a more diversified offering in terms of programming than just cricket.

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**Operator**

Thank you. Our next question comes from Alexia Quadrani with JPMorgan.

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**Alexia Quadrani** – *JP Morgan Chase & Co.*

Just sort of following up on those comments. On Disney+, can you please discuss, maybe in general, how you are thinking about local partnerships for content versus more traditional Disney content? I believe in Indonesia, you leaned a lot more into local content partnerships,



and you saw outsized growth in that launch there. And I'm curious, sort of maybe some broader commentary about that mix going forward?

And then my second question is just sort of following up on your comments on churn. Not necessarily looking obviously for a number on churn, but maybe just some color about churn in general for Disney+? And how we should think about it in front of the upcoming price increase?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. Alexia, thanks. So Bob, do you want to talk a little bit about local partnership? And then, Christine, you can talk a little bit about churn.

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

Okay. So in terms of the local partnership... well, first, I'm going to talk about - I'll talk about the content side, because there was a content side element of it as well.

There's really two things that gate our amount of content that's local in any given market, including Indonesia. And in some cases, there are local requirements for local content as a percentage of the total. So that is one factor that plays into it.

And then second is what we think we need from a portfolio standpoint of overall content. And as you might suspect, we're pretty aggressively ramping up all of our production for all our local territories.

In terms of the partnerships, in Indonesia, we're partnering with Telkomsel and we have a lot of data plan and promotional bundling that we're doing with them - which not only is sort of keeping the rates at a place that's respectable in the marketplace, given the overall economy there and what the market will bear, but also is giving us exposure possibly from a marketing standpoint and promotional standpoint to particular audience segments that we may not otherwise be able to get.



So - and in terms of overall churn, are you going to take that one, Christine?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Yes. Christine will.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes. So in general, we are very pleased with what we've seen so far on the level of churn. And as our product offering matures and we put more content into the service and our subscriber base becomes more tenured, we expect to see our churn rates continue to decline.

So in regard to the specific churn related to the anniversary of the Verizon launch promotion from last November 2020, we're really happy with the conversion numbers that we have seen there going from the promotion to become paid subscribers.

We also have that price increase that consumers know about and they're expecting. But we're very comfortable with the price-value relationship that we're offering. So we think that the \$1 increase will be well received. And we believe that our current and future pricing offers attractive value to consumers.

So we feel really good about where we are, but we always want to improve.

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**Operator**

Our next question will come from John Hodulik with UBS.

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**John Hodulik** – *UBS Securities LLC*

Maybe first on the Parks, I mean, given the cost reductions and the efficiencies, can we expect longer-term margins in that segment to be higher once we get back to full capacity?



And then maybe a quick one on the capex guidance. It looks like I think you guys revised guidance for capex. It was, I think, about \$0.5 billion higher on a year-over-year basis. Can you just run through the items that keep it flat on a year-over-year basis?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. John, sure. Thanks for those questions. Bob, do you want to talk a little bit about Parks? And then, Christine, you can talk a little bit about capex.

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

I would characterize this last year as being not only a year of challenge, but also a year of learning in terms of what we can do, in terms of sustained margin growth in our parks.

I say that because there's nothing like a pandemic to challenge the status quo and make you be fairly introspective about a lot of things that you've maybe taken as fairly dogmatic. I think you've all seen several new announcements about things that we've done recently that may have been heresy prior to the pandemic, like recasting of our annual pass program at Disneyland and reconsidering the overwhelming demand we have relative to supply.

Everything we do, the first lens we look at is to exceed guest expectations. And it's very tough when your park has more demand than supply, we have to put limits on it.

Well, as you know, we have a wide variety of margins depending on the nature of the guest and how they visit and when they visit. So with a lens towards maximizing the guest experience, we are now able to essentially reset many pieces of our business, both on the cost and revenue side of the business in order to say, if we had a blank piece of paper, how would we set up our parks business and be a little bit more aggressive than we typically might be able to be without the impetus of, unfortunately, a year-long closure.



So we've had a lot of time to think, particularly at Disneyland, about what could be, and I think you're about to see some of those strategies be born.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. And before I talk about capex, I just want to say, from my perspective, the Parks management team has done an outstanding job addressing cost structure. Of course, variable costs will come back in as we ramp up operations, but they've really looked at the way they're doing business, and it's really been quite impressive. So I just want to add that to what Bob has already said.

As it relates to capex, last earnings call, we had said that we expected capex to be up from last year. I think the number was \$550 million. But now we're expecting it to be relatively flat.

What we have here is a couple of dynamics. We'll have increased spending at DMED and corporate, but we're going to have reduced spending at Parks. Some of the DMED spending is going to be on things like technology, in infrastructure investments related to the launch of Star. For DPEP at our Parks business, obviously, the reason that the capex is slowing is because some of the parks are closed, and we've chosen to slow spending there.

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**Operator**

Our next question comes from Jessica Reif Ehrlich with Bank of America.

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

Given the viewership of Super Bowl this year on CBS was down - and it's fairly low for the last 10 years, and streaming was up a lot - can you talk about how you think about that in light of ESPN+? Like how does that factor into your conversations with the NFL?



And then maybe kind of related, but how much of a factor is sports betting in these conversations? And in general, how will you leverage both ESPN and ABC to capitalize on the growing legalization and adoption of sports betting?

And then just back to Parks for one second, can you talk about how attendance relates to capacity? I mean you only add capacity a few days a year. So is there any way you can frame that relationship. If you allow 35% capacity, is that, I don't know, 70% of attendance?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. So Jessica, I'm going to let Bob take the sports question, and maybe Christine will start with the Parks question. But Bob, I'll turn it over to you.

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

Okay. So I'll take the sports. ESPN+ is always a consideration whenever we look at rights going forward.

In terms of the Super Bowl being down - as we're going into rights conversations with them, that's obviously something we're considering, but more important than any one Super Bowl, we're looking at the long-term trends of sports viewership, the MVPD universe and our own prospects of potentially a more true ESPN DTC service.

So there's a lot of moving parts and a lot of elements in that mix, but it's all taking into account the trends that we're seeing in the marketplace.

What I will say is that we've had a long relationship with the NFL, and if we have a deal, if there is a deal that will be accretive to shareholder value, we will certainly entertain that and look at that. But our first filter will be whether it makes sense for our shareholder standpoint going forward.



In terms of sports betting, as you probably know, we already have some programming on ESPN around the subject of sports betting. It particularly is attractive to the younger very passionate sports audience that we find. So it's an important piece of what we're doing.

We've got relationships with DraftKings and Caesars. We've got sports links with - sports betting links with both of those, not branded Disney or ESPN, obviously, but branded through their own offerings.

We've got a studio in Las Vegas with Caesars that we're working on. And we've also got a variety of different things that we're entertaining for the future.

So sports betting, we do realize the value in that. We've obviously got some bumpers in terms of our own brand and what we think our own elasticity is in terms of us participating in such endeavors. But we're highly interested in taking the relationships that we have with both parties and taking them to the next level, if that makes sense.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. Jessica, I'll address your question about capacity at the parks.

You're absolutely right that there are days, especially holiday periods, where we have to shut our parks for additional entries. Those tend to be days that the park fills up quickly and we just can't accommodate more people. But that being said, we are currently operating at 35% of that full capacity. And the teams in the park, especially at Walt Disney World, have really figured out a way to be as efficient as possible in operating the park that allows us to get up to that 35% and still maintain all of the protocols for social distancing, for COVID.

The - I think you'll remember, when we started opening, we started at a level less than 35%, but it was the - as Bob has already mentioned, industrial engineering that we utilized and just moving people around.





The other thing I'd say is when you think about the parks, it's a combination of attendance and per caps when you're looking at revenue. As we've - as I said in my comments, and I think Bob's alluded to it on the Q&A, that we've had really nice growth in per caps. It was double-digits, not only on a linked-quarter basis from fourth quarter to first quarter, but also double-digits year-over-year.

So when you think about per caps and the yield management, we want to have people have a great time when they're in our parks. And when they have a good time, they tend to spend more money. So this is something that we're refining as we go along.

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**Operator**

Our next question comes from Doug Mitchelson with Credit Suisse.

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**Douglas Mitchelson** – *Credit Suisse AG*

So back to streaming, I think at your first Disney+ Analyst Day, you indicated that you'd be launched to the full world by about the end of this fiscal year or calendar year. I think it was fiscal year. So I'm just curious if the timing for rest of world launches for Disney+ and Disney+ Hotstar is on track to be completed over the next few quarters?

And I'm also interested if you have any comments on engagement for Disney+. And I'm thinking just how customers that have been on the service a little bit longer, do they still use the service as much as when they first joined? How was *The Mandalorian* and *WandaVision* in terms of being watched in as many homes as you hoped?

And I guess a third piece of that would be, any comments on cadence around the content slate going forward? I know at the Analyst Day, you talked about getting to 100 shows a year. Should we think about content continuing to ramp aggressively in the coming months or coming quarters? How should we think about that?



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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

So Bob, why don't you take these - the streaming rollout question? And then, Christine, maybe you could take the engagement question. And Bob, we'll go back to you on cadence of content cycle.

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

Okay. Yes, we are still on schedule where we will get to the great majority of our rollout markets by the end of the year. It's all green lights in terms of our launch, not only in terms of preparation of the service itself and being able to handle it from a delivery standpoint, but also from a content curation standpoint, both creation and acquisition, again, on the local content when we need that.

As you know, we've got quite a slew of new content coming and great library of content, which really rounds out our offering, and we'll add to that our local offerings in order to make it a fully robust offering for each particular market, given the idiosyncrasies of what each market requires. So it's all as planned.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

So Doug, on engagement, as we said at the Investor Day, with Disney+ Originals, along with the theatrical releases and the library titles, we'll be adding something new to the service every week.

And in general, I would say, we are very pleased with the engagement overall, especially when we put something like *WandaVision* on the service. So once again, these -- any time we put a new piece of content on, the engagement for people who know what the schedule of releases is, it's quite encouraging.



So we believe we're going to reach that cadence of getting content on the service every week within the next few years.

We've also set that target for 100-plus new titles per year. And that's across Disney Animation, Disney Live Action, Pixar, Marvel, Star Wars, Nat Geo. And of course, we'll continue to add more to our library as we go through time as well.

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**Operator**

Our next question comes from Jason Bazinet with Citi.

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**Jason Bazinet** – *Citigroup Inc.*

I just have a question on parks. Since the vaccine came out last year, the buy-side has this soft expectation that anyone that saw a revenue downturn because of COVID will get back to 2019 revenues by 2022 once we have herd immunity and the vaccines distributed. And every once in a while, I read some article that suggests that social distancing will still have to be in place, even when herd immunity is around, and people will still have to wear masks. So do you guys have any counsel or insight in terms of how you're thinking about sort of how the parks will operate by the time we get to 2022? And any reason not to believe that we won't sort of get back to '19 revenues, assuming that the economy is fine and all that?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Jason. I'm going to turn that over to Bob.

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

Yes. I won't specifically comment on whether we anticipate getting to '19 revenues by 2022, but I will tell you what our expectations are in terms of the state of the world by then.



We have no doubt that when we reopen up in parks that were closed, or increase the capacity, that we'll have some level of social distancing and mask wearing for the remainder of this year. That's our expectation.

But I believe that Dr. Fauci said earlier today that he hopes that there's vaccines for everyone who wants them by April this year. If that happens, that is a game changer. And that could accelerate our expectations and give people the confidence that they need to come back to the parks.

Will there be some overlap until we know that we've hit herd immunity? Sure, there will. But do we also believe that we'll be in the same state of 6-foot social distancing and mask wearing in '22? Absolutely not.

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**Operator**

Our next question comes from Brett Feldman with Goldman Sachs.

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**Brett Feldman** – *Goldman Sachs Group, Inc.*

So if I go back to the December Analyst Day, you had outlined an expectation that Disney+ would see peak operating losses in this fiscal year and achieve profitability by fiscal year '24. When we look at the DTC P&L in the quarter you just reported in your outlook, it seems like you're trending much better than that for this fiscal year. So I'm curious, do we need to revisit any of this guidance, either because of accounting changes related to the re-segmentation or maybe just underlying operating trends that are perhaps better than you had expected?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Brett, thank you for the question. I'm going to turn that one over to Christine.



**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. Thanks, Brett. You're absolutely right. Peak losses, we expect in this fiscal year.

We said at our Investor Day, which wasn't too long ago, that we expected to reach profitability in fiscal 2024. We're not going to change that at this point, although we are very pleased with the results that we just announced. But we are also -- given the value of growing our sub base, we are continuing to invest in high-quality content. We believe that content is the single biggest driver to not only acquiring subs, but retaining them.

We're also going to have some other cost drivers that we just have to factor into our timing for profitability, and that includes marketing, technology, customer service and just other expenses of running a new business. So we're sticking to that 2024 - fiscal 2024 profitability. But once again, we're very pleased with where we are today.

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**Brett Feldman** – *Goldman Sachs Group, Inc.*

If you wouldn't mind, if I guess, ask a quick follow-up question... you've gotten the question about whether you see any churn risk around the rate adjustments that are going to be coming this year. Are you expecting maybe to spend a bit more around engagement or awareness or marketing or anything just to make sure that as you transition out of the launch phase and promotional period phases and into your first ever rate adjustment, that your customer base feels connected with you and that you don't experience that speed bump?

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

We believe that keeping subscribers informed about what's on the service is extremely important. So the awareness that we'll create through targeted marketing and marketing of the brand will basically mitigate what we believe is a very reasonable price increase given the amount of content and the value to subscribers.



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

Yes, Christine, if I can just jump in here as well. We believe that we've got a great price-value relationship.

I mean, think about it from a Star Wars franchise: we moved from *Mando 2* to *Boba Fett* later on this year to *Mandalorian 3*. And on a Marvel standpoint, we go from *WandaVision* to *Falcon and the Winter Soldier* and to *Loki*.

So I think the best insulation we've got is to keep the price-value relationship very high, and there's no better way to do it than powerhouse franchises cranking out regular new releases on a monthly basis.

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Operator, we have time for one more question.

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**Operator**

This question comes from the line of Michael Morris with Guggenheim.

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**Michael Morris** – *Guggenheim Securities, LLC*

A couple of questions on streaming. First, I want to ask you about Hulu, the SVOD service on Hulu. Hoping you can maybe share a little bit about the dynamic that's going on there, what the mix of sort of ad-supported versus ad-free subscriber base looks like. And there are a number of these now free ad-supported streaming services that have been growing and being more aggressively populated. I'm curious how you see that competitive dynamic playing out?

And I want to ask one question about sports. Bob, you mentioned the Megacast approach to a couple of your big events. And I'm curious, as you look at your ability to provide that, what's the economic benefit to you? Do you - is this primarily about putting it in front of more people and



therefore, being able to monetize better? Or is there an element of your ability to deliver a Megacast when you were negotiating for content rights, sports rights with the leagues or teams, the owners there, that you have a somewhat stronger negotiating position relative to your peers?

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay, Mike. It's good to hear from you. I'm going to let Christine take the Hulu SVOD question, and then I'll ask Bob to address the Megacast question.

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**Christine McCarthy** – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

So on Hulu SVOD, when you look at the relative mix of ad-supported versus ad-free, more of the subscribers are in the ad-ad-supported, and that is where we have seen the really nice growth of our addressable advertising.

So that - we're very comfortable and we actually - we like the mix that we have, but it is more ad-supported, so we enjoy that relative increase of advertising. But it's pretty much been the track record that Hulu has - having that relationship of ad-supported versus ad-free has been relatively consistent over their 10-year tenure.

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

Yes. And on a multicast question, I think it's both, both elements.

I think there's a consumer benefit to the fact that nobody else could do what ESPN does in terms of the multicast. And I think we've proven that in several different ways over the last few months with big football events being broadcast. But I think there's also an element that - that then is obvious not only to us and obvious to our consumers, but obvious to our prospective partners as we go into negotiations of new deals.



I think there's probably a mentality that, well, the more times we divide this up, the better off we're going to be from the prospective rights owners. And I think what we're doing is throwing a wrench into that thinking and suggesting that maybe by taking a consumer-first approach and saying, boy, consumer choice is really a good thing for everybody, let's go ahead and maximize the number of touch points we have... not only do we get a benefit from our subscriber base for those folks that have ESPN, I think it's also very apparent to the leagues who hold the rights.

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**Lowell Singer** – *Senior Vice President, Investor Relations, The Walt Disney Company*

Mike, thank you. And thanks again, everyone, for joining us today. Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website.

Let me also remind you that certain statements on this call, including financial estimates or statements about our plans, expectations, beliefs or business prospects and other statements that are not historical in nature may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our annual report on Form 10-K, quarterly reports on Form 10-Q and in our other filings with the Securities and Exchange Commission. Thanks again for joining us today, and I wish everyone a very good afternoon. Bye-bye.



**Forward-Looking Statements**

Certain statements in this call may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business or financial prospects, position, strategy, plans, investments, resiliency, growth or future; financial or performance estimates or expectations; estimates of the financial impact of certain items, accounting treatment, events or circumstances; the anticipated availability, timing or nature of, our offerings (including content included within our products and services and theatrical releases); future resumption of operations (ours or others’) and related impacts, timing, conditions, precautions or market responses; future consumer sentiment or demand; workforce matters; the continuation of external circumstances (including COVID-19); plans to give guidance in the future; and other statements that are not historical in nature. 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 our reorganization announced October 2020, capital investments, asset acquisitions or dispositions, integration initiatives, new or expanded business lines, or cessation of certain operations) or other business decisions, as well as from developments beyond the Company’s control, including:

- further changes in domestic and global economic conditions, competitive conditions and consumer preferences;
- adverse weather conditions or natural disasters;
- health concerns;
- international, regulatory, political, or military developments;
- technological developments;
- labor markets and activities;
- and each such risk includes the current and future impacts of, and is amplified by, COVID-19 and related mitigation efforts.

Such developments may further affect entertainment, travel and leisure businesses generally and may, among other things, affect (or further affect, as applicable):

- the performance of the Company’s theatrical and home entertainment releases and other content;
- the advertising market for programming;
- demand for our products and services;
- construction;
- expenses of providing medical and pension benefits;
- income tax expense; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 3, 2020 under Item 1A, “Risk Factors,” Item 7, “Management’s Discussion and Analysis,” Item 1, “Business,” and subsequent reports including, among others, quarterly reports on Forms 10-Q, which risk factors should be read together with the above factors.

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at [www.disney.com/investors](http://www.disney.com/investors).