The Walt Disney Company

6th Annual MoffettNathanson Media & Communications Summit

MAY 14, 2019

Disney Speaker:

Bob Iger

Chairman and Chief Executive Officer

PRESENTATION

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. My next guest needs no introduction. Bob, thank you for being here. We're really excited. And as part of this conference, he made some news today. So again, thank you for that. He made a big announcement about Hulu's future. For those who haven't checked their phone in the past hour, can you tell us a bit about what the benefits are from this agreement today?

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

Sure. I'm assuming everybody knows what we did; we concluded an arrangement with Comcast to ultimately buy them out of their 33.33% share of Hulu. We get full operational control from day one, which enables us to run it in ways that obviously gives us access to a number of things, both strategically and otherwise. There are a lot of synergies involved with it. And I think first and foremost, it's the third prong in our direct-to-consumer strategy with ESPN+ and Disney+.

We'll be able to manage customers across all platforms -- so customer data, of course, password, username, billing, all those sorts of things. It'll give us the ability to bundle, which is a big deal, and share data. Advertising or ad-sales is another benefit of all of this because we'll integrate it with our ad-sales across our other platforms. This gives us a great opportunity in terms of leveraging our content and our content creation engines, in this particular case: Fox, FX, ABC, ABC News, et cetera. And also just overall, we'll be able to leverage our technology. So the BAMTech platform that powers and forms the technology backbone of Disney+ and ESPN+ will ultimately be the technology platform that we'll put Hulu on.

So a lot of advantages and something that we felt was really important to us long term in terms of the direction we're taking the company.

Michael Nathanson – *Analyst, MoffettNathanson*

And this is immediate, right? So starting today, you get the synergies from doing this?

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

Correct.

Michael Nathanson – *Analyst, MoffettNathanson*

Have you guys sized synergies at all? And has there been commentary about how big the synergies are?

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

We've sized synergies, but we're not being specific about it.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. On the Investor Day, I'd asked you about international and Hulu. So could you expand about what does this do for your international thinking?

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

Well, we have plans to roll out Hulu internationally in a variety of different markets. But as we said on the Investor Day, we're going to walk before we run. We obviously have a lot on our plate right now in terms of launching the Disney+ service, continuing to grow ESPN+, and ultimately looking opportunistically about what we do internationally. But there will be a large presence, both Disney+ and Hulu, internationally over time.

Michael Nathanson – *Analyst, MoffettNathanson*

Over time, okay.

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

And this obviously makes it easier for us because we'll control that element too, and it won't compete with any of our other owned businesses internationally. Whereas, I think with Comcast owning Sky, ultimately, it might have been an issue for them in some of the international markets.

Michael Nathanson – *Analyst, MoffettNathanson*

One of the questions people ask is about valuation, right? So there was a mention of a valuation price 5 years from now. How should we think of the valuation of Hulu as it relates to what's implied in the deal?

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

Sure. Well, first of all, the price is $27.5 billion in 2024 dollars or fair market value, whichever is higher. I think you have to look at it in a few ways. First, we talked about synergies. Obviously, there's value there. Full operational control has real value.

And there's obviously value in Comcast fueling it with capital, should they opt to do so. They have an ability not to do that, in which case they get diluted down -- 21% would be the floor. And I think you have to look at it today. So if you look at the $27.5 billion, obviously, it's 1/3 of that, potentially, or lower, if they decide to dilute. You have to look at it in terms of today's dollars.

It's all a price that we felt was justifiable, particularly given the fact that we have full operational control from the beginning.

Michael Nathanson – *Analyst, MoffettNathanson*

Operational control, said a couple of times. What do you think would be the most tangible benefits of that control, which we can see from the outside?

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

Well, I think seamlessly integrating it with our other services, giving the consumer an ability to buy 1, 2 or 3 of them. So bundling is certainly, I think, attractive. Using the same technology platform, everything that comes with that. Managing our customers seamlessly across platforms, I think, has real value. I'm not sure there's any one that rises above the others except those that I mentioned.

Obviously, being able to leverage the content engines that the company has. And don't forget, with the Fox acquisition, we have 3 primary content engines: we have sports, which is not part of this; we have television, which is significant in its size; and we have motion pictures. And so when you look at all three, you look at Searchlight, you look at Fox and the Fox studio, you look at all the different Disney entities, you look at the television operations and you look at the fact that we will have an extremely large successful and experienced television studio, there's huge opportunity there. FX is obviously another one.

Michael Nathanson – *Analyst, MoffettNathanson*

Yes. And since you mentioned it, at the Investor Day we spent a lot of time on Disney+, but you could have the same Investor Day on Hulu and the Fox content.

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

Correct. We don't quite have the brand strength that we had with Disney+ with Pixar and Disney and Marvel and Star Wars and National Geographic, but they do have some brand strength and we certainly have an ability to leverage the content engines of the company in a significant way here.

If you just use FX as a great example of that, they have the ability to produce more than for just their initial cable platform, their channel. And we will immediately get to work with FX, developing content and producing content for the Hulu platform. Same could be said for ABC and ABC News. There's a lot to this.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. So let me take you back to where I wanted to start before the news broke, which is something I wanted to get into your thinking on. At what point over the past few years did you know the entire company needed a shift? I wanted to understand from you, kind of your own development process on thinking through this strategy and pivot that you guys have gone through.

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

Well, you can go back to a fateful day in August of 2015 when I was rather candid on an earnings call about the multichannel ecosystem, in particular ESPN. All the executives that work for me, that have stock options and restricted units, basically voted me out that day. But we were seeing the effect of technology -- the disruptive effects of technology -- on traditional businesses in fairly profound ways a while ago, and we decided that, we didn't think we could do anything to stop it, meaning, I don't think you can ever stop the march of technology. And so we felt, one, let's accept what's going on and then let's embrace the change in ways that enable us to grow long term.

We've tried really hard in the last 14, 15 years. I've run the company -- to manage the company -- for operational excellence today, but also to have a foot in the future and really think hard about what kind of value we're going to be able to create long term. And that's what we were doing then. We saw erosion. We didn't know how fast or how far it would go. And in reality, we still don't. We can talk about the bundle in a minute. But it was definitely something that was on our minds, and we thought, well, how can we best manage this if we can't stop it?

And what, obviously, we concluded is that we should be in the direct-to-consumer business. We looked across Disney, and save for the Disney Stores, which is a small business; and Parks and Resorts, which is large, all of our other businesses had no direct-to-consumer relationship. Our movies are distributed by, obviously, theater owners across the world. That's a great partnership that we've had. But the consumer is not owned by us, or controlled by us, or known by us; it's by the theater owners. Big-box retailers and e-retailers like Amazon, they know the consumer who buys all the Disney goods and product on shelves across the world. And of course, on the television front, cable and satellite providers know the customer and own the customer. We didn't. And we thought it was a big hole in terms of the company's value proposition. So that desire to get into a direct-to-consumer relationship, combined with what we were seeing in the ecosystem, led us to make an initial investment in BAMTech because we thought if we're eventually going to do this, we're going to need the technology to do it.

Then by 2017, as we watched what was going on with a couple of years' experience, we decided to take our ownership of BAMTech up so that we would have operational control of BAMTech and use that to launch a Disney direct-to-consumer platform at ESPN. And that's what we announced on our earnings call of August of '17. So we gave a presentation to the Board in June of that year about all of this. They gave us the green light to go ahead and buy the controlling interest in BAMTech. We announced all of this in August of '17.

And then Rupert Murdoch and I got together some time in August and started talking about a potential acquisition. And when we started looking at what we might be able to buy from 21st Century Fox; of those assets -- because obviously the network was off the table and sports was off the table -- we realized that we could create significant value from buying those assets within a direct-to-consumer strategy. So the lens that we analyzed 21st Century Fox through, was with an eye toward eventually launching direct-to-consumer businesses.

It wasn't -- interestingly enough -- it wasn't just about buying franchises and content that existed. It was about getting the talent that we would ultimately need to create the content, to fuel all these services. And when you look at John Landgraf from FX, as an example, or Peter Rice and Dana Walden, they are just 3 examples; Courteney Monroe and Gary Knell from National Geographic, the people at the Fox Studio, I could go on… we gained a tremendous amount of talent with a lot of experience to help us execute this strategy, which would have been more difficult to do without them.

Michael Nathanson – *Analyst, MoffettNathanson*

And the question I have is, once you amass that talent and the assets, how do you drive the organization to this goal? Because it's easy to acquire, but then how do you get everyone pushing the same way?

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

Right. I asked myself the same question in January of '18, after we had announced the initial deal with Rupert in December of '17 -- of course, it took longer to actually close because of the competition with Comcast. But in January of '18, I came back from the holiday vacation having announced that we were buying Fox and realized I better figure out how we're going to manage this.

And I rolled the whiteboard into the conference room outside of my office and stood in front of it. First, what I did was I listed all the assets of the company, the combined entities, everything that I could think of. I had to refer to Wikipedia to figure out everything that we owned. It's a long list. I have a good memory, but it's not that good. And then I started basically creating some kind of order to it. And what I arrived at, interestingly enough, is the structure that we now have.

I put all the content on one side. Three main content engines. I mentioned them: sports, television and motion pictures. And then physical goods and experiences, which became Parks and Resorts and Consumer Products, which we consolidated. And then what I called platform, which was technology, sales, distribution, customer management, data collection, all of that.

On the other side I thought, well I also thought about how I was going to basically manage my own time and what executives would fit into all the boxes that I needed. And what I concluded was that I would spend a significant amount of my time on the content side; and Bob Chapek would run Parks and Resorts and Consumer Products; and Kevin Mayer would ultimately run -- I have to remember the name of it now -- but the technology and platform side. And the content side would be responsible for creating all of the content for all of the platforms that Kevin managed. So he would not have to worry about directors and producers and casting and rough cuts, et cetera, and so on. But he would have to worry about how we're going to get everything we made to the consumer and how it would be monetized. And the content side didn't have to worry about all the distribution and sales, et cetera, just make great stuff, and that's what we ended up with. And I think it's an interesting model.

I studied -- it didn't happen in one day. I looked at all of the tech companies and tried to figure out whether there were some secret sauce there. And one of the things you quickly learn is that there are folks on the tech side that just worry about the platform and technology, while there are some that may worry just about software, others just about hardware. And I applied a similar thinking to it, and that's where we ended up.

And I think it's interesting because it has created great clarity in the company. And so everybody knows what their role is. Jimmy Pitaro is running sports, and Alan Horn and Alan Bergman are running the motion picture side, and Peter Rice is running the television side and off we go. And Kevin is running the platform side, which now Hulu will be part of. That's where we are. It actually makes sense and is manageable.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, got it. One of the benefits you've alluded to is having a direct-to-consumer connectivity to the customer and data. So we talked a lot in the Investor Day about the benefits to the product itself, the DTC product. But what are the other benefits to The Walt Disney Company from getting a better visibility into consumer behavior and patterns? How does it blow back to the broader concept?

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

So we've looked at it 2 ways. We've looked at it with an eye toward the benefits to our company, and we've also looked at it in terms of the benefits to the consumer.

Starting with the consumer, just being able to bundle those services has a value and letting the consumer choose if they want sports and the Disney+ services is great. If they just want sports and they just want Hulu and, call it, the adult-related programming, they can do that. They can pick and choose and do so with relative ease, again, same password, same billing information, et cetera.

The other thing that was really interesting is when you look at the fans of Disney -- you look at Disney fans and you look at Pixar fans and Marvel fans and Star Wars fans -- those are incredibly passionate groups of millions and millions of people around the world who'd like more connection to the product. Knowing who they are gives us the ability to essentially create a relationship with them and for them across all of our businesses. So if someone has bought Disney+ and we know that they are, they've indicated they're a huge Star Wars fan, we may be able to figure out how to give them discounts on buying Star Wars goods, or a visit to Galaxy's Edge at Disneyland or Disney World, those sorts of things. It sounds like it's just extra marketing, but we think we can create more value for the customer too. They also want to know -- they want to be first to know everything that's going on, et cetera. So we think that's great.

And, of course, there's the other side of it, which is the value to us. And just the ability to integrate advertising sales now across all traditional and nontraditional platforms will be a big deal. Sharing data, of course, is a big deal. Giving advertisers an opportunity to buy, call it, the digital platform space on Hulu -- which by the way, the advertising business is an important part of their business -- and also buying on the more traditional platforms, we think, is a value to us and to the advertisers. So I think you can look at it in many ways, how basically use of customer information can be positive both ways.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, great. So outside the U.S., we've seen Netflix pivot to investing massive sums of money into local language content in order to drive global sub growth. So do you expect to invest in more locally produced content to drive Disney+?

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

We think if we're going to bring, which we will, Disney+ to the world, we obviously have to adhere to local quotas. There are quotas in a number of markets and a number of regions, so we'll have to produce enough locally, and you have to be locally relevant too.

The advantage that we have, particularly on the Disney+ side, is if you look at Marvel and Star Wars and Disney and Pixar and even National Geographic, there's global appeal to those products. There's a universal universe to that, whatever word I'm looking for. There's global interest in those. And so we probably will be able to rely on those much more. I haven't really studied just to what extent Netflix product travels globally. I'm sure there's some that does. But we'll have more product that will travel successfully in markets around the world, as a percentage of our total product, than they will.

So yes, we have to be locally relevant. Yes, we have to obviously adhere to local quotas. But we'll have a lot of product that will work in markets around the world, and that will give us an opportunity to leverage that content more efficiently and obviously not have to spend as much on the product in order to launch Disney+, than someone else without that product that has that much appeal.

Michael Nathanson – *Analyst, MoffettNathanson*

You also have that built-in promotion, where you don't have to market a movie that we've already seen in the theatrical window, back to the same customer base. You have a huge advantage in marketing.

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

Yes. Yes. So obviously, when *Endgame* comes on Disney+, December 11th, we won't need that much marketing. People know what it is.

Michael Nathanson – *Analyst, MoffettNathanson*

Exactly. Yes, the 3 million people who have seen it. So one of the questions I have here is...

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

Many people have seen it twice.

Michael Nathanson – *Analyst, MoffettNathanson*

Exactly. Yes. And by the way, you have *Lion King* this summer, which could be even bigger, possibly, possibly.

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

If you say so. We'll see.

Michael Nathanson – *Analyst, MoffettNathanson*

Yes. So obviously, you studied this issue as far back as '15. You've put plans in place. But how did the knowledge of where the ecosystem was going impact the initial pricing that you laid out, the content and the packaging of Disney+? How did you get to where you price it?

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

The pricing that we came up with had nothing to do with the current ecosystem. It had everything to do with wanting to launch a product that had the broadest appeal. We felt, with those brands, that they have broad appeal already and we wanted this product to be accessible to as many of those fans around the world as possible, and to basically hit the ground running to basically achieve scale quickly. We thought that would be really meaningful not just from a bottom line perspective, but in terms of the long-term success of the platform.

We also looked at what was going on competitively with products that have already launched, Amazon+ -- Amazon Prime rather, and Netflix and others that are entering the market…Apple and others. And we felt that we wanted a very, very strong price-to-value relationship, and that's what we created, so that in the competitive world, which is only going to get more competitive, we stood a really good chance of thriving, given the competition. I think it's been extremely well received.

Michael Nathanson – *Analyst, MoffettNathanson*

And you used the word courageous. It's courageous because, basically, you've set the price for what the consumers wanted versus what your business model may have demanded in terms of managing to a profit.

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

Well, we looked at the business model long term -- and Christine McCarthy is here -- she gave specifics about that longer term. So obviously, the business model was important to us. But getting this product launched successfully, getting it in the hands of as many people as possible, achieving scale quickly were all priorities of ours.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. On the Investor Day, you had an interview with David Faber. That caught people's attention because you acknowledged that today's consumers really don't want the 150, 200 channel big bundle. So in that worldview, what role does the bundle play today? And have you built the company for whatever view you see coming down the path?

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

Well, today, the bundle is still an important part of our business. Obviously, it enables us to generate significant profits, not just with the Disney businesses but with the businesses that we've purchased, FX and National Geographic. So it's an important part of our business.

I don't know why I'm the one that always has to say it because I think everybody is seeing it, but there's just much more competition in the world today for people's time and money. And it's not competition that comes just from Netflix; it's competition that comes from many, many directions. And I think when you look at what people are spending their money on today and the fact that people demand a high price-to-value relationship, when they look at 150-plus channel package and they realize that they're buying a lot of channels that they may never find and may never have any interest in watching, I think today's consumer doesn't really look as positively at that as perhaps they once did. And if you look at younger demographics, I think it's even more profound. It's just the way of the world.

Michael Nathanson – *Analyst, MoffettNathanson*

It's almost self-evident, right? It's self-evident from the data.

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

It is self-evident. And while, again, I think it's important to us today -- we're not purposely trying to do anything to damage the bundle because again, it has value. But there's a reality that exists that we had to come to grips with. And not just come to grips with it by basically saying it exists, but doing something about it. As I said earlier, we couldn't stop it from happening. But what we could do is prepare our company should it happen in more profound ways or happen quicker, or in ways that simply make less sense economically to the company. We're prepared to pivot in a new direction. We'll start with the products that we're launching. And obviously, with Hulu, that's already launched, and we'll see what happens.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. So let's move on to the Fox deal. You've been very, very busy the past year. So you've actually merged, acquired Fox. We've heard about that at the Investor Day. But aside from the obvious benefits of adding *The Simpsons* and Nat Geo at Disney+, that was a big part of that day, how does the transaction help other parts of the Disney empire?

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

Well I talked about people. You can't just say you're going to provide a lot more original programming to Hulu or Disney+ without having the people to do it, so that's really valuable and that's true globally. So the new head of our EMEA television business is Jan Koeppen, who came from 21st Century Fox, just as a for instance. Uday Shankar, who ran Fox's operations in Asia, initially in Europe, he's now doing that, outside of Parks and Resorts, for us across Asia. Just a couple of examples: Peter Rice, I mentioned as well, Dana Walden, John Landgraf. So we've got a lot of talent, really important. So as I mentioned -- Uday and Jan Koeppen -- international growth was really of interest to us. We end up with a lot more channels and, basically, more presence in Europe. Nat Geo is one way that we do that.

We also end up with a really interesting business in Asia and Southeast Asia -- in particular, India -- in Star and Hotstar. To give you an example, of every 4 hours of television programming watched in India today, Hotstar gets 1 hour of that viewing. So they had a cricket match on, I think this past weekend. They had 18.6 million viewers watching that match at one time, which I'm told is a record. So we immediately have a presence in the television and in the direct-to-consumer business in India, which will soon be the most populous country in the world, that we never had before. So that's yet another example. It's one of the reasons why we had him on stage in the Investor Day, because we wanted to tell that story. And we will tell it more because I think that's a story that didn't get that much attention when we initially announced the deal.

You mentioned things like *The Simpsons*. *Avatar* is another example. So there's content, there's franchises, there are movies that are being made, there are movies that we can remake. We've looked at a number that, ultimately, could be Disney-branded on the Fox side, as a for instance. It's just a lot with it.

There's National Geographic, which is, I think, an underappreciated global brand. Just look at their presence on social media and you'll immediately conclude that there's much more popularity to that than people believe. There's interesting opportunities there with the Parks and Resorts and getting into the ecotourism business, as a for instance. There are a lot of elements to this that I think have real value. And of course, again, there's the scale that enables us to go to market with, we think, 3 really compelling direct-to-consumer propositions, and that I think is probably the most valuable.

Michael Nathanson – *Analyst, MoffettNathanson*

Yes. On Hotstar, we didn't talk a lot in the Investor Day about Hotstar and Disney+. So is that to come in terms of the strategy there?

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

Yes. I think we haven't announced it, but I think it's a foregone conclusion that we'll go direct-to-consumer with a Disney+ service in India, and that will be managed by the Star and Hotstar team. We already have the technology, already have the relationship with consumers, know the market extremely well.

Michael Nathanson – *Analyst, MoffettNathanson*

What other pushes can Disney do in India? So I asked you in the past about the theme parks, consumer products, so where…

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

There's a very long line of people with a lot of money that would love us to build a theme park in India. We've studied the market, we have nothing more to say about it at this point. I think a television presence, and growing presence in movie theaters -- obviously, Bollywood is the #1, basically, movie industry in India. That will be the way for years to come. But there's more growth there. Marvel is an interesting opportunity for us, for instance, across India and Southeast Asia. We've got a very, very interesting initiative there for Marvel. Probably I would say television, growth in motion pictures would be the 2 obvious ones, and a direct-to-consumer business in India.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. And back to Fox and Disney and the benefit of the Fox employees and executives on ABC. So today's your upfront, so you can't front-run your announcements, but what fingerprints will we see Peter and Dana impact on ABC?

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

Well, they supervise the whole -- they didn't really get to supervise the development process because the deal didn't close until recently. They supervised late-stage production. They supervised the whole scheduling and programming side of it,and worked with Karey Burke, who's now running ABC in primetime. So their schedule, their event -- and Kevin Mayer's event, since he runs the sales side of it. Their presence is significant already.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. So Parks, probably another business you say doesn't get the time that it deserves, given how well it's done the past few years. It's really blown through any historical margin levels we've seen before. Consistent growth has been there. How are you managing these Parks results differently now to achieve the results that really are record-setting versus previous cycles?

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

Well, it's been an evolution over the last 1.5 decades, Parks and Resorts. I think it starts with how we're investing our capital in Parks and Resorts. And Cars Land was probably the most interesting one, that kind of got this really rolling, and that came about after we bought Pixar and we had more control over the Pixar brand and how Pixar played a role in our parks. And we decided to redo California Adventure, which had been a troubled park, anchoring it with an entire land based on the movie *Cars* and a huge E-ticket attraction for *Radiator Springs Racers*. And it had tremendous results.

Return on invested capital was great. We've transformed a park that really had been struggling since it opened in 2001. And the lesson for us there -- and it's a lesson that we were, I think, gradually learning -- but what was the most profound was that when we build things based on IP that's already popular, you tend to get higher returns on those investments. And so we focused a lot of our capital. Not all of it, because there's still, I think, an important side of inventing from whole cloth and being original, but a lot of our investment is based on IP. So you see a *Frozen* attraction at Epcot, for instance, and obviously shows and parades. Obviously, Galaxy's Edge and *Star Wars* land is probably the greatest example of it, not just because of the size of the investment but the scale of what we're building. So that's tended to grow margins and returns. It lowers our marketing expenses. You talked about it earlier as it related to direct-to-consumer, these brands and these characters are known. When you suddenly turn Tower of Terror into *Guardians of the Galaxy*, everybody knows what *Guardians of the Galaxy* is, and they want to see it because they want to interact with the characters in a more immersive environment. So that's, I think, the first part of all of this.

The second part is that in our interest in both managing demand and trying to improve the guest experience, we've applied mostly science to much more sophisticated pricing based on demand to spread out visitation, but also to price much more smartly and much more strategically. That's had a big effect. And I think just general operational excellence, the experience of going to the parks, managing the parks both more efficiently and more effectively has resulted in a better product and a better bottom line. And the result is -- and I think it far exceeded even our own expectations -- not only a significant growth in revenue over the last 5 years, but significant growth in the bottom line and real growth in margins. Which you remember, having covered our business for a long time, at one point, getting to a 20% margin was a huge deal, and we've managed to achieve that. And I think that's a result of all of the things we just talked about.

Michael Nathanson – *Analyst, MoffettNathanson*

And how about the international parks? Because that had, for some time, been an opportunity. But the businesses there have performed nicely.

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

Yes. So with Tokyo, which we don't own, we have a license fee, that's performed extremely well, and we're expanding all of the parks internationally.

But in fact, I'm going on Sunday to break ground on expansion of Tokyo on Tuesday morning. Shanghai has done well, although there've been some challenges in China with the economy. Hong Kong has improved significantly. We're expanding both of those parks. And now, in Shanghai, we're building *Zootopia* land based on the very popular movie that did extremely well in China. In Hong Kong, we just opened up a -- well, we have an *Iron Man* attraction now, an *Ant-Man* attraction, so there'll be a greater Marvel presence and other things as well. So the international parks are performing well. And of course, I think there's a great story to tell in Paris, which for years struggled for a variety of reasons. As you know, we bought out the public ownership of Paris. We've committed to a significant investment there, and we've improved their bottom line a lot over the last couple of years.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. One of the things about when we went to see *Avatar* in Florida, there was a big AR/VR component. So I wonder, as it was where you basically ride the...

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

That's not really AR or VR. I guess maybe in a way it's AR.

Michael Nathanson – *Analyst, MoffettNathanson*

I guess the question is, as AR/VR become more commonplace, how do you manage the parks differently, right? How do you think about where AR is more prevalent or VR is more prevalent?

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

I think the first thing that you have to consider about our parks and the *Avatar* experience, the *Star Wars* experience, the *Cars* experience, I think they're all great examples of this, is we're not trying to fake immersion into a place, into a land or into an interaction with characters. We're trying to make it as real as possible, with as much scale as possible. Because we think that as you enter one of these lands with rock formations that are multiple stories high and characters -- real characters walking around that you can actually interact with -- and experiences that you can travel through, that there's a wow factor there that is much greater than we could ever achieve with VR. Because VR, while you can have a compelling experience in terms of what you see and, to some extent, what you feel, it's never going to be as great as actually being in something.

And I think just when you think about the brand equation of the Parks and Resorts, and people coming in and just thinking “wow, how did they do that?” Or, only we can to do that. That's a big part of the value equation. And we do not want to stray from that or abandon that.

I was just at Galaxy's Edge on Saturday morning, walking through it, and it's just staggering what we've done. We actually give you the feeling of being in a place at the outer edge of the galaxy. And you can go into a bar, that's the Cantina, and order a drink with characters walking around that you’ve seen in the movies. And I just think, personally, it's hard to drink when you have VR glasses on. They're dangerous.

Michael Nathanson – *Analyst, MoffettNathanson*

I'll remember that.

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

I just think, with that it's not quite anybody can do that, but there's something just fake about that. So we're trying to do the opposite. I don't think you're going to see much VR in our parks. Our parks are in a way VR, if there is a VR, real reality.

And on AR, I think there are opportunities there to augment reality with technology, and we'll do it in a variety of different ways. Whether it ends up in the case of *Avatar* and the *Flight of Passage*, which is the banshee experience, you're wearing 3D glasses, and it's not quite I guess, in a way that's AR, it gives you augmented reality that's 3D, and you feel more immersed in it with those glasses on. There are more opportunities for that in our parks.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. So let me take you from parks to ESPN. You probably don't remember this, but in the fourth quarter of 2017, I documented it, you actually said the company expected to have new agreements in place, covering 50% of your subscriber base of ESPN by the end of 2019. So 50%?

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

I stick to that.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Thank you for sticking to that. But can you update on the progress of those negotiations and how the ESPN renewal cycle has treated you?

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

No, we've done a few this year, we have some significant ones coming up. We don't really comment much on them publicly in terms of getting specific about them.

Live sports has a real value, not just to us, but to the distributor. And cable and satellite providers know the value of live sports, particularly in a world where so many things are consumed as programs and not live. And so I think the live quality will continue to drive interest among distributors.

It also is a great value to distributors from a sales perspective. They sell a lot of advertising in ESPN. And there are often times skirmishes. Sometimes, the skirmishes get a little more ugly than we would like. But I'm confident that we'll end up, by the end of the year, renewing about 50% of our distribution deals and achieving the goals that we have to, both on the distribution side and on the sub fee side.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. So Jimmy Pitaro has been serving as President of ESPN for a little over a year now. What has changed under his watch? Again, we can't see it from the outside, but what's different at ESPN now that Jimmy is there?

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

Jimmy has done a really good job in a couple of years, doing a few things: strengthening relations with a lot of the sports organizations, the NFL probably being the best example. He's also tried hard to strengthen the studio shows from a quality perspective and their performance. If you look at the performance of *SportsCenter* and *Get Up!* -- which is a show that launched just before Jimmy came onboard -- pretty significant in terms of improvement.

He's also tried to de-emphasize politics. We have done some research, there's been a lot of din about this that suggested that the ESPN fan, the sports fan, wanted to watch sports and hear more about sports. And while there are certain things that they're interested in in terms of what athletes are doing off the field, not directly related to what they are doing on the field, there was, I think, a fair amount that was being covered that was a turnoff to the viewers. And so we de-emphasized, I'll call it, politics. And I think that's all helped. We've done some brand research that suggests that ESPN's brand is stronger than it was a few years ago. The ratings have improved. The relationships are better. And I think, in general, if you look at what Jimmy's performance has been over those 2 years, it's been really positive.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Speaking to the relationship point, so given the significant number of changes in the ecosystem since you negotiated your last major rights deals, really, 5, 6 years ago for some of them, has your thinking changed about which leagues and packages are essential to ESPN at this point?

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

No. ESPN has tried to do a few things, aside from their studio shows, which are important. But in their live sports, they obviously, they blend quality with volume. Meaning volume is important, they need enough live sports, and they've amassed a lot of live sports, as you know, and they need what the fan wants the most. And that's what they've managed to do. And I think if you look forward, the blend of sports on ESPN is not likely to change much. They de-emphasized a few sports that weren't driving as much value as they had in the past, and they emphasized sports that were driving more. So for instance, the last round of negotiations, they greatly expanded their relationship with the NBA, both in terms of coverage of live basketball games and the presence of the NBA when games weren't taking place. And because they saw the NBA as growing in value and being ascendant in nature, and that's really paid off. But I don't think you'll see much difference in mix.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. So we've been surprised by how aggressive ESPN+ has been in acquiring sports rights. What have you learned about that customer base and kind of the early winnings or takeaways on that?

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

Live sports drives most of the consumption. So just like ESPN, live sports is really important. So their aggressiveness has paid off. They knew they had to have enough live sports, and they'll continue to look for opportunities, although there's not much more to acquire between now and when these big contracts expire or when they're renewed. They've blended it with some interesting feature material, they'll continue to do that. And basically, what we've learned is that it's a real attractive product, particularly for younger demographics. So the demographic of the ESPN+ consumer -- I don't have specific data, so I'll estimate -- is likely to be younger than particularly the ESPN viewer. And they're going to continue there to treat that product as basically an add-on product, incremental product to their primary channel business.

Michael Nathanson – *Analyst, MoffettNathanson*

I don't know if this came up in the last call, but the consideration of adding a package like Sunday Ticket, which may be available.

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

It came up on our earnings call, and all I said was that we were looking at it. I'm not going to add more to that.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. You're looking at it.

So basically, let me talk to your film business. You've been very clear about the importance of theatrical windows to Disney's movie slate, and that makes sense for now. But what about the home video window? As you own an SVOD service, does it still make sense to window it the same way that you used to?

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

Yes. So I've said it many times, but that theatrical window has worked really well for us. And our relationship with the distributors around the world has, I think, strengthened over the years, particularly given the value that we deliver to them and our adherence to not only big franchises, but quality and really investing in the business, and we're going to continue to do that.

The beauty of weaning ourselves from third-party licensing of our movies to direct-to-consumer distributors, namely, Netflix, is that we now control both the home video window and we'll call it the old Pay window, right? And with that, we have the flexibility to move the window as we see fit. It could be by title. It could be by, basically, value creation to platform. So if we believe the home video window, what was once called home video, is potentially delivering less value than the value that we might be able to deliver by shortening that window and putting it on Disney+ and Hulu earlier, then we'll do that. We don't have a third-party licensee to worry about.

Michael Nathanson – *Analyst, MoffettNathanson*

Right. In other words, it's better for the business to capture a subscriber than just a transaction, right?

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

Correct. Well, it's one transaction. It's one consumer. And I think that will give us great flexibility. We've not gotten more specific than that. I think it's likely to happen more by title than anything else. Over time, who knows? I'm guessing that the home video window will ultimately shorten, and the window that we put it on Disney+ and Hulu will, not lengthen, but happen sooner.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Last time you were here, I asked you facetiously why you guys were getting so lucky at Marvel, that's 3 years ago. It's been lucky, you guys have been just lucky. Three years later, you're still lucky. So how have you been so consistent?

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

I'm going to take great exception with your use of that word. It's actually insulting.

Michael Nathanson – *Analyst, MoffettNathanson*

It's facetious. No. It is. Sorry.

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

19 films since we bought Marvel, average box office over $1 billion each. That's an incredible -- that's not luck...

Michael Nathanson – *Analyst, MoffettNathanson*

No, I was joking about luck. Bob, I was joking about luck.

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

That's not luck, Michael. That is a team of people. Don't worry about it, I have a short memory.

Michael Nathanson – *Analyst, MoffettNathanson*

No, you don't.

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

That is a team of people that are incredibly passionate about what they do, about Marvel, knowledgeable about the brand, knowledgeable about the fan base, managing the creation of those movies in an unbelievably professional creative way. It's really quite something.

And what's great about it is that they're going to manage a number of our direct-to-consumer Marvel products for Disney+. And what they will be doing, we've announced a few of them. We're doing a *Loki* series, as a for instance. We're doing one with Wanda and Vision. I have to remember, we're doing *Winter Soldier and Falcon*, a series. Those are the 3 that we've announced. Those stories will all be interwoven with the films. So just as they've had stories that have basically worked across their movies, they're going to do so across their movies and television. And ultimately, we'll do that with Star Wars as well. So that adds real value to the Disney+ platform.

Michael Nathanson – *Analyst, MoffettNathanson*

To be fair, I remember when you bought Marvel, because we met. We had an Analyst Meeting that week. It's a Friday in August.

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

2009.

Michael Nathanson – *Analyst, MoffettNathanson*

Yes. And we all said to you, what is here, actually? Because we just looked at *Spider-Man* and whatever they had, and you guys had done the work to understand the depth of the…

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

I think. I wouldn't say skepticism, but I think one of the biggest concerns that was voiced at the time is that Marvel had licensed rights to others. So actually, *Iron Man* was being distributed by Paramount, and Fox had *X-Men* and *Fantastic Four*. By the way, now we have those. And Sony /Columbia had *Spider-Man.* And so I think there was a concern that there wouldn't be enough for basically -- characters and stories for us to leverage.

And obviously, that's not been the case because we've managed to leverage 7,000-some-odd characters. And so we've only really just begun, if you think about it. And we haven't announced, we've been very quiet. We're going to announce more about Marvel's upcoming slate sometime this summer. But when I look ahead at the slate, and a lot of this is quasi-public, it hasn't been announced, but you can go online and discover some of it, they're continuing to look at new characters, new franchises, new stories to tell as well as mining stories from characters that have already appeared in some of the films. In some cases, characters that have not been main characters in these films, that have been basically side characters, I think you'll see more of.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. On that point, you did announce some scheduled changes on *Star Wars* and on *Avatar* through 2027. So can you talk us walk us through the long-term vision for *Star Wars*, the next series of movies, and then the *Avatar* franchise as well?

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

Yes. When we finished *IX* -- so we will have done *VII*, *VIII* and *IX*, and we did *Solo* and we did *Rogue One*. So we've done, the *IX* will be the fifth *Star Wars* movie produced and released since we bought Lucasfilm in 2012. It's our feeling that we've done a good job with those. And I haven't seen *IX* finished yet, but I'm confident, based on the pieces that I've seen and the script that I've read, that it's going be extremely popular, that it would be smart for us to take a bit of a hiatus while we figure out what's next.

Now we're not going to wait until *IX* is released and then start figuring it out. We're actually hard at work doing that already. And the conclusion that we reached is that about 3 years was the proper amount of time to not only take a breather and reset, but to really gear up for the next film's release. And we did a deal with David Benioff and D.B. Weiss, who are famous for *Game of Thrones*, and the next movie that we release will be theirs. And we're not saying anything more about that.

In the interim, we are producing 2 live-action *Star Wars* series for Disney+. One of them is called The *Mandalorian*, which is being supervised by Jon Favreau; and the other one is a bit of a prequel to *Rogue One*. And my guess is there probably will be one more, at least one more, live-action series that we'll produce for Disney+, meaning a *Star Wars* series, before we release the next film. So we're not necessarily -- we're not doing nothing. I believe that these films will be, sorry, these TV series, will be extremely popular for *Star Wars* fans and very, very valuable for Disney+, while we gear up for the next set of films. So that's *Star Wars*.

And then we haven't said anything more beyond what we've announced as the next film. I think we haven't given much detail about that. And then on the Marvel front…

Michael Nathanson – *Analyst, MoffettNathanson*

You said you're going to wait.

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

There'll be an announcement with a lot more specificity coming up. There's a lot going on. There are probably at least half a dozen films in varying stages of production, development and more to come.

Michael Nathanson – *Analyst, MoffettNathanson*

And then *Avatar*?

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

Avatar, Jim Cameron felt he needed another year. He's producing-directing, essentially, 2 back-to-back, 2 at once. He's got 4 films in his mind that are in varying stages of development in the *Avatar* series. But the 2 that are being made now are being made essentially together, and one will come out a year later than what had been anticipated, or had been previously announced by Fox before we bought them.

Michael Nathanson – *Analyst, MoffettNathanson*

So Bob. Thank you. I'm lucky to have you. And thank you.

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

I got that. Thank you, all.

Forward-Looking Statements

Management believes certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements such as financial estimates, the anticipated availability or timing of our goods or services, our business plans 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 capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including:

- changes in domestic and global economic conditions, competitive conditions and consumer preferences;
- adverse weather conditions or natural disasters;
- health concerns;
- international, political, regulatory or military developments; and
- technological developments.

Such developments may affect entertainment, travel and leisure businesses generally and may, among other things, affect:

- the performance of the Company's theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- demand for our products and services;
- expenses of providing medical and pension benefits;
- income tax expense;
- performance of some or all company businesses either directly or through their impact on those who distribute our products; and
- achievement of anticipated benefits of the recent transaction with 21st Century Fox.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended September 29, 2018 under Item 1A, "Risk Factors," and subsequent reports.

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.