The Walt Disney Company

Q1 FY20 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chairman and Chief Executive Officer

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Walt Disney Company's Fiscal First Quarter 2020 Financial Results Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to Mr. Lowell Singer, Senior Vice President of Investor Relations. Thank you. Please go ahead, sir.

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

Good afternoon, and welcome to the Walt Disney Company's First Quarter 2020 Earnings Call.

Our press release was issued about 25 minutes ago and is available on our website at www.disney.com/investors. Today's call is also being webcast, and the webcast and a transcript will also be available on our website.

Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Following comments from Bob and Christine, we will, of course, be happy to take your questions. So with that, let me turn the call over to Bob to get started.

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

Thanks, Lowell, and good afternoon everyone. We’ve had a great quarter and a very productive start to the year.

But, before I talk about the quarter, let me begin with the events in Asia related to the Coronavirus. Certainly our hearts go out to all those affected by this devastating outbreak, including the thousands of people who work for us in the region. In line with numerous prevention efforts taking place across China, we've temporarily closed our parks in Shanghai and Hong Kong and we will continue to closely monitor this public health crisis. Christine will have details about the developing financial impact in her comments.

Turning to the quarter….since our last call, our Studio released two more films that exceeded a billion dollars each at the global box office -- *Star Wars: The Rise of Skywalker*, which concluded the nine-episode Skywalker saga, and *Frozen II*, which became the highest-grossing animated movie of all time with more than $1.4 billion in global sales, surpassing the original *Frozen* which held the record since 2014. *The Rise of Skywalker* and *Frozen II* -- along with *Captain Marvel*, *Aladdin*, *The Lion King*, *Toy Story 4*, and the biggest movie of all time, *Avengers: Endgame* -- contributed to a total global box office for the year for Disney of more than $11 billion dollars, shattering the previous industry record of $7.6 billion, set by us in 2016. Many of these films are already available exclusively on Disney+, and the remainder will soon join the service following their home entertainment window.

On the Parks side, we're thrilled by the overwhelming response to our newest attraction, *Star Wars:* Rise of the Resistance, which opened in Orlando in early December and in Anaheim just a few weeks ago. Our Imagineers and the design team at Lucasfilm did an absolutely phenomenal job -- and it's one of the most immersive, ambitious and technologically advanced attractions ever created for a Disney park, and it's elevating storytelling to exciting new levels. Not surprising, Rise of the Resistance has quickly become a fan favorite at both parks and Galaxy's Edge has been a great success at Disneyland and Walt Disney World.

Of course, the high point of the quarter was the highly-anticipated launch of our streaming service, Disney+. Thanks in large part to our incredible portfolio of great brands, the outstanding content from our creative engines, and a robust technology platform, the launch of Disney+ has been enormously successful, exceeding even our greatest expectations.

As we reported previously, we had more than 10 million sign-ups for Disney+ by the end of ‘Day One’, and we ended the quarter with 26.5 million paid subscribers. Since then, consumers have continued to sign up for the service, directly at disneyplus.com; through Verizon, which offers a free year of Disney+ to many of its customers at no additional cost; as well as through other distributors, including Apple, Google, LG, Microsoft, Samsung, Sony and Roku. We recognize there’s a lot of interest in this new business, and we wanted to give you some additional context -- so, I’m pleased to say, as of Monday, we were at 28.6 million paid subscribers. Going forward it’s our intention to announce subs as of the end of the quarter that we’re reporting on. One additional note on sign-ups for Disney+, although we will not provide specifics, is that we are pleased to report that both conversion from free to pay and churn rates were better than we expected.

We believe the subscriber growth to date and the overall reaction to Disney+ reflects a variety of factors that include the uniqueness of the service, an excellent user interface, and the high quality of our brands and content. In fact, we’re seeing the four-quadrant appeal of our brands reflected in our subscriber numbers as well.

On the content side, consumers have enthusiastically embraced the exceptional offering of classic movies and shorts from our Studio, including *Moana* and *Frozen*; Disney Channel series like *Hannah Montana* and *The Suite Life of Zack and Cody*; recent theatrical releases, like *The Lion King*, which became available on the service on January 28; *The Simpsons* is also quite popular, with all 30 previous seasons available. And, our growing slate of original content is also of great interest to our subscribers, especially *The Mandalorian* -- which has quickly become a bona fide hit and a cultural phenomenon. Of course, I'd be remiss if I didn't mention a certain “Child” in *The Mandalorian*, who has taken the world by storm. I do believe the sensational response to this new character says so much about Disney+ and about our company's ability to connect with audiences. We know there’s great anticipation for the substantial array of Baby Yoda consumer products hitting the market in coming months.

We'll continue to add high quality content to the service -- that includes *Frozen II* and *Episode IX: The Rise of Skywalker*. Many of you probably saw our Super Bowl spot, featuring three original new Marvel series for Disney+ -- *Loki*, *The Falcon and the Winter Soldier* which will premiere on the service in August, and *WandaVision*, which will debut in December. These same characters and actors from the Marvel Cinematic Universe, along with events from these new shows, will factor into future Marvel films, as we integrate storytelling across these platforms, all under the Marvel Studio banner. We also have the highly-anticipated return of *The Mandalorian* in October and multiple new series from Disney, Pixar, Marvel, Lucasfilm and Nat Geo. So, there's a lot to look forward to. And although our volume will increase, we remain focused on providing quality content from our core franchises and brands, not just quantity, as we continue to build our portfolio. And the creative community has taken notice as well -- many have expressed interest in joining Disney+'s roster of extraordinary talent.

The next big priority is launching Disney+ in numerous international markets, starting in Western Europe on March 24th when we'll launch in the UK and Ireland, France, Germany, Spain, Italy, Switzerland and Austria. Additional markets, including Belgium, the Nordics, and Portugal, will follow this summer. In December, we signed a deal with Canal Plus, the leading pay-TV provider in France, and we're currently in talks with several other potential distribution partners throughout the region.

We're also excited to announce that we will be launching Disney+ in India through our Hotstar service on March 29th, at the beginning of the Indian Premier League cricket season. We will be rebranding our existing Hotstar "VIP" and "Premium" subscription tiers to "Disney+ Hotstar." We see this as a great opportunity to use the proven platform of Hotstar to launch the new Disney+ service in one of the most populous countries and fastest growing economies in the world.

Looking across our portfolio of direct-to-consumer businesses, we're also pleased with the growth of ESPN+ -- we ended the quarter with 6.6 million paid subscribers and, as of Monday, we were at 7.6 million. We've been especially happy with a number of partnerships, particularly with the UFC -- the recent McGregor v. Cerrone fight brought in about a million pay-per-view purchases and a half a million new subscribers; and we'll continue to add content to the service on an opportunistic basis.

At Hulu, we recently announced that we will be reorganizing the business to more closely integrate it into our direct-to-consumer segment in order to operate more efficiently and effectively as we look to expand our domestic consumer base, as well as our presence outside of the U.S.

With respect to subscriber numbers, we remain optimistic about the future of the service. Hulu ended the quarter with 30.4 million paid subs and, as of Monday, the number was 30.7 million.

During our last earnings call, we announced the launch of "FX on Hulu", which will be available to all Hulu subscribers at no additional cost. Beginning next month, Hulu will be the exclusive streaming service for all new FX original programming. "FX on Hulu" will also offer in-season streaming, as well as back seasons for most current and library series. We view this as a fantastic opportunity to expose FX's exceptional content to a broader audience, while also making it available to consumers in new ways. We believe there's tremendous appetite for our content, and the goal of "FX on Hulu" is to expand our reach to include those viewers who are not linear pay TV subscribers -- and that includes many of Hulu's young and highly-engaged streaming audience. The addition of FX's programming is a step in the direction of continued increased investment in high-quality programming for Hulu, which will be developed and produced by our existing creative engines.

It's often challenging for a company to pivot in a new strategic direction, particularly when it involves navigating between established and emerging business models, but since we announced our intention to shift our strategy, we have made an extraordinary amount of progress. This included a strategic reorganization of our company creating a Direct-to-Consumer and International segment. We believed the new structure would better position our businesses for the future, and now that we've completed the reorganization and launched Disney+, I am more confident than ever in that decision. I'm enormously proud of what we have accomplished in a relatively short period of time, and believe we're now well-positioned to, not only withstand the disruptive forces of technology, but thrive in today's increasingly dynamic media environment.

And with that, I'll turn the call over to Christine to talk more about our performance in the quarter, and then I'll be back to take your questions.

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

Thanks, Bob and good afternoon everyone.

Excluding certain items affecting comparability, earnings per share from continuing operations for the first quarter were $1.53. Fiscal 2020 is off to a good start as evidenced by our first quarter results and, as Bob discussed, we are incredibly pleased with the launch of Disney+ and the positive consumer response we have received to date.

In terms of our fiscal first quarter results, our Studio's creative momentum continued to deliver outstanding financial performance. Operating income was up significantly compared to Q1 last year driven by growth in worldwide theatrical and higher TV/SVOD distribution results at our legacy film studio. Theatrical results reflect the performance of *Frozen II* and *Star Wars: The Rise of Skywalker* in the quarter compared to theatrical releases last year, which included *Ralph Breaks the Internet*, *Mary Poppins Returns* and *The Nutcracker.*

Higher legacy TV/SVOD results were driven by content sales to Disney+, partially offset by a decrease in sales to third parties. The increases in our legacy theatrical and TV/SVOD businesses were partially offset by a $50 million loss at the 21CF studio business, as operating income from

TV/SVOD distribution was more than offset by an operating loss at worldwide theatrical and general and administrative costs.

At Parks, Experiences and Products, operating income was up 9% in the quarter driven by higher results at Consumer Products and at our domestic parks and resorts, partially offset by lower results at our international parks and resorts.

Consumer Products operating income was up 25% due to growth in merchandise licensing as a result of strong revenue growth from sales of Frozen and Star Wars merchandise, both of which benefitted from theatrical releases in the quarter.

Revenue at Domestic Parks and Experiences was up an impressive 10% in the quarter driven by higher guest spending and, to a lesser extent, increases in attendance at our domestic parks and resorts. Operating income at Domestic Parks and Experiences was up 6% as the flow through from strong revenue growth was dampened by operational expenses associated with Galaxy's Edge and significant labor expense growth due to higher wages as a result of collective bargaining agreements.

Attendance at our domestic parks was up 2% in the first quarter and per capita guest spending was up 10% on higher admissions, merchandise, and food and beverage spending. Per room spending at our domestic hotels was up 4%, and occupancy was 92%.

So far this quarter, domestic resort reservations are pacing up +4% compared to this time last year and booked rates at our domestic hotels are currently pacing up 10%.

At our international operations, operating income was lower in Q1 as improved results at Shanghai Disney Resort were more than offset by a decline of about $80 million at Hong Kong Disneyland due to lower attendance and hotel occupancy. Hong Kong Disneyland's results in the quarter are consistent with the outlook we communicated last quarter.

However, the recent closure of our parks in both Shanghai and Hong Kong due to the ongoing Coronavirus situation will negatively impact second-quarter and full year results. The current closure is taking place during the quarter in which we typically see strong attendance and occupancy levels due to the timing of the Chinese New Year holiday.

The precise magnitude of the financial impact is highly dependent on the duration of the closures and how quickly we can resume normal operations. At Shanghai Disney Resort, we currently estimate the closure of the park could have an adverse impact to second-quarter operating income of approximately $135 million, assuming the park is closed for two months during Q2.

At Hong Kong Disneyland, we currently estimate the closure of the park could have an additional adverse impact to operating income of about $40 million for the second quarter. As I discussed last quarter, we were already seeing a significant decrease in visitation to Hong Kong Disneyland from China and other parts of Asia, so in aggregate, we estimate these two factors could result in a decline in Hong Kong Disneyland's operating income of about $145 million for the second quarter. Again, this assumes the resort is closed for two months.

Turning to Media Networks, operating income was up in the first quarter due to increases at both Cable and Broadcasting.

Higher Cable results reflect the consolidation of the 21CF Cable businesses, partially offset by a decrease at ESPN.

At ESPN, growth in affiliate revenue was more than offset by higher programming and production costs primarily driven by contractual rate increases for NFL, college football, and the launch of the ACC network in addition to lower ad revenue.

ESPN's domestic linear advertising revenue was down 4.5% in the first quarter due to lower average viewership, primarily for NBA and college football regular season games, which more than offset an increase in viewership for Monday Night Football. I'll note that when you look at ad revenue across all ESPN domestic ad platforms, which include digital and addressable advertising revenue reported in our DTCI segment, ESPN's total domestic ad revenue in the first quarter was roughly comparable to the prior year. So far this quarter, ESPN's domestic linear cash ad sales are pacing up +2% compared to last year

At Broadcasting, higher results in the quarter were due to the consolidation of 21CF and a benefit from new accounting guidance, which is explained further in our press release and 10-Q filing, partially offset by lower results from our legacy operations. Results at our legacy broadcasting operations were lower in the quarter as higher affiliate revenue was more than offset by lower ad revenue, a difficult program sales comp at ABC Studios, and higher network programming and production costs. Lower program sales at ABC Studios reflect the prior year sale of Marvel's *The Punisher* during Q1 last year and no comparable sale in the first quarter this year.

Total Broadcasting ad revenue was lower in the quarter driven by lower political advertising at our owned stations and a decline at the ABC Network.

Total Media Networks affiliate revenue was up 19% and reflects the consolidation of 21CF and growth at both Cable and Broadcasting. The increase in affiliate revenue was driven by 14 points of growth from the acquisition of 21CF and 7 points from higher rates, partially offset by a 2-point decline due to a decrease in subscribers, which was aided by about a 2.5 point benefit from the launch of the ACC Network.

Operating losses at our Direct-to-Consumer and International segment increased in the quarter driven by costs incurred to support the successful launch of Disney+, the consolidation of an operating loss at Hulu, and higher programming costs at ESPN+. These operating losses were partially offset by the consolidation of the 21CF international cable businesses. Results at our direct-to-consumer businesses had an adverse impact on the year-over-year change in segment operating income of $845 million, which was in line with the guidance we provided last quarter.

We expect our Direct-to-Consumer and International segment to generate about $900 million in operating losses for the second quarter. And we expect the continued investment in our DTC services, specifically Disney+, which will launch in a number of European markets late in the second quarter, and the consolidation of Hulu, to drive an adverse impact on the year-over-year change in segment operating income of our DTC businesses of approximately $520 million.

As Bob mentioned, Disney+ had 28.6 million paid subscribers as of yesterday, an increase of 2.1 million since the end of the first quarter. In the near term, we expect subscriber growth to come primarily from outside the U.S., with the next meaningful phase of domestic subscriber growth likely to coincide with the release later this calendar year of highly anticipated original content, including episodic series from Marvel and Season 2 of *The Mandalorian*.

Turning to the Eliminations segment, revenue and profit eliminations were significantly higher in Q1, driven primarily by the intersegment content sales from Studio and Media Networks to DTCI. I'll note that our 10-Q this quarter contains additional detail on the general structure and accounting treatment of the various types of intersegment content transactions reflected in our segment results.

Lastly, we continue to make progress on realizing the value of the 21CF acquisition. The businesses we acquired, excluding 21CF's stake in Hulu and net of intersegment eliminations, contributed approximately $590 million in segment operating income in the first quarter. Consolidating Hulu's operating losses and netting out intersegment eliminations resulted in a positive impact to total segment operating income of about $300 million. We estimate the acquisition of 21CF and the impact of taking full operational control of Hulu had a total dilutive impact on our Q1 EPS, before purchase accounting, of 27 cents per share.

And we estimate the acquisition of 21st Century Fox and the impact of taking full operational control of Hulu will have a dilutive impact on our Q2 earnings per share, before purchase accounting, of about 25 cents per share. We are still on track for the acquisition to be accretive to EPS, before purchase accounting, for fiscal 2021.

I'll now turn the call over to Lowell and we would be happy to take your questions.

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

Okay. Thanks, Christine. And operator, we are ready for the first question.

Operator

Our first question comes from Michael Nathanson with Moffettnathanson.

Michael Nathanson – *MoffettNathanson*

Bob, I have two questions on Disney+. First one is -- stepping back a bit, what were the biggest surprises or learnings that you had post launch, when you looked at what you accomplished?

And then after those learnings, how did you -- or what have you -- adjusted in terms of your launch plans or content spending plans, after reviewing the first 2 months of this product?

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

Well, I don't know if you call it a surprise, but certainly it's a learning because we didn't know until we launched -- but we've been heartened by the fact that there's been basically consumption of a broad array of product across all of our brands. That it's not just about original programming or not just about the Disney library, it's really about everything, including original shorts and older shorts and legacy Disney Channel shows, and of course the library, led by musicals and recent theatrical releases, and *The Mandalorian*. But it has been very broad-based.

And I mentioned earlier that about 65% of the people who watched *The Mandalorian* watched at least 10 other things on the service. So this was not about any one thing. 50% of people who use the service have watched movies, as a for instance. So with that in mind, we feel that validates the collection of those brands and a blend of product that includes, obviously, the library or legacy TV and films of short-form and long form, and then original programming.

The trajectory in terms of our investment in original programming on the service is roughly the same as it would have been -- where it was before we launched. We haven't really changed that, that much. Clearly, the original shows that we decided to invest in, led by *The Mandalorian,* have worked. And we knew when we launched that we were launching with a modest amount of original programming and that it would build over time.

So as we look ahead, we're really comfortable with the volume of the product that we're creating and don't really feel that there's much that we have to adjust to right now. We have, just as a for instance, we have a few Star Wars series in varying stages of production and development. We have the 3 Marvel series that were announced, and I think there are 7 other Marvel series that are in varying stages of development or preproduction. There are a number of Disney Originals. We have Disney original movies coming, very pleased with them. By the way, I know we have a new one coming -- *Timmy Failure* is 100% on Rotten Tomatoes, as a for instance. So we've got, I think, a great blend and don't feel a real need to adjust. And I think the best thing about it all is that the decision that we made to go with quality and not just volume is working.

Was there a second part of the question?

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

Yes, you covered both.

Okay, Michael, thank you. Operator, next question please.

Operator

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

Jessica Reif Ehrlich – *Bank of America Merrill Lynch*

One more question on direct-to-consumer, and then the NFL.

On Hulu, can you -- Bob, you said you were going to take it internationally. You've alluded to that before. How long will it take you to get some of these rights back around the globe? And can you give us any thoughts on timing, because the bundle strategy is obviously working here?

And then on NFL, can you give us an update on your thoughts on that in terms of – well, anything you can on timing, but also placement on ABC versus ESPN and ESPN+?

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

We are working up a plan to take Hulu internationally. We actually have a lot of specifics around it. But we've decided that the priority needs to be Disney+. We are launching, as I mentioned on the call, across multiple territories in Western Europe later in March, and then in India, on March 29. And it's going to continue to roll out across the world going into 2021, including Latin America. And we feel that we need to concentrate on those launches, and the marketing and the creation of product for those, and then come in with Hulu right after or soon after that. So we don't have specifics, except that we do plan to begin rolling Hulu out, I'd say, probably in 2021 -- internationally, that is, after the Disney+ launch.

On the NFL side, look, it's very early to speculate. I think the ratings for the NFL suggest that while there's a lot of disruption, and there's a fair amount of erosion, and you see people basically watching programs from multiple new sources and creating more competition for the traditional linear networks -- that live sports has held up really well led, of course, by the NFL.

So our interest in the NFL remains very strong, and there have been only preliminary discussions and nothing more, and it would be premature for me to give you any more detail.

Operator

Our next question comes from Ben Swinburne with Morgan Stanley.

Ben Swinburne – *Morgan Stanley & Co. LLC*

Bob, there's a lot of discussion in the market about the relative popularity of Disney's brands and IP outside the U.S. versus inside the U.S. -- and obviously, we're all going to now digest the results you just reported. But how do you think we should be thinking about the subscriber opportunity as you launch these new markets in the March quarter in Europe, relative to what we've seen so far in the U.S.?

And what can you tell us about the India launch and how you plan to price that and bundle it with Hotstar VIP? How big is Hotstar VIP? Could you just talk about the go-to-market in India since that's a market where you're going in with a really unique strategic position given the Star business?

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

Well, first of all, those brands are global brands, each one of them, including Star Wars, which may be what you're alluding to, Ben. They have varying strengths in different markets -- Disney is probably the strongest on a consistent basis across the world -- but they all have… there's brand affinity and brand interest in all of them. Which I think, is one of the things that is a strong selling point for us into markets. So I don't really think that… that we necessarily need to do much adjusting as it relates to the product that has been designed for the U.S., except to make sure, obviously, that the programs are dubbed in the local language properly and in high-quality, and secondly, that we have enough local programming either to meet local quotas or simply to address local tastes.

One of the interesting things, by the way, about Star Wars and *The Mandalorian* -- because there's been some things written after *The Rise of Skywalker* that popularity of Star Wars in certain international markets… or that Star Wars in certain international markets has never caught on -- one of the reasons for that, is that there isn't a Star Wars legacy in many of these markets, China being a main one, where people didn't grow up on that franchise or that brand. So when they tuned into or heard about the Skywalker legacy, there was too much that had already gone on in the past that was not familiar to them, and they didn't really want to get on board late. That's not true with *The Mandalorian* because *Mandalorian* is -- even though it's based on obviously, certain Star Wars elements, characters and places -- you don't have to know anything about the history of Star Wars in terms of an access point or in terms of your interest.

So anyway, we feel great about the popularity of our brands. Interestingly, the Disney brand globally has never been more popular. And the other thing I want to say is that the brand studies that we've seen, or brand research that we've seen in the United States, suggests that interest and affinity in the Disney brand has actually risen nicely thanks to Disney+, particularly among young people. I think a lot of that has to do with the relevance of the platform, the technology, the matter of presentation. I think it's a loud statement about what's going on in the world today in terms of consumer tastes, particularly young people, which is why the demographics of Hulu are substantially younger than the demographics on some of our traditional linear networks, et cetera, et cetera.

India, we're going to launch bundled with Hotstar -- directly bundled, meaning it's "Disney+ Hotstar" as a product. We're not giving specifics about price at this point, but expect that there'll be 2 primary products brought into India: one will be more premium in nature that will include the entire library plus original programming; and the other one will be more basic that will have the library and not the original programming -- priced for the market and launched at a very peak period of time for the IPL, the Cricket League. And so we think it's an opportune moment. We take advantage of the presence of Star in the market and the millions of subscribers that they also have. We take advantage of the sports tie-in, and we use the interface and the technology -- that includes the billing -- that already exists to launch a service, we believe, under very, very optimal circumstances.

Operator

Our next question comes from Alexia Quadrani with JPMorgan.

Alexia Quadrani – *JP Morgan Chase & Co.*

Just following up on your color, or your commentary, on Disney+. Is there any more you can share with us in terms of what the -- where the subscribers came from? Meaning sort of like what type of subscriber they are? Meaning like, how many may be a year-long or multiyear subscriber deal versus month-to-month? And sort of… how many sort of came in, versus wholesale partnerships with like Verizon and such? I don't know how much color you can share there.

And then my second question is just on the Studio -- where you've had just incredible success there and another record year in '19 -- I guess, your conviction that, that success can continue? Especially when you're taking into account kind of the pipeline now from the Fox Studios.

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

First of all, regarding Disney+. The fact that the ARPU by the end of the quarter was $5.56 on a $6.99 subscription suggests that while there are discounts in the market, and the packaging that existed enabled consumers to buy in at lower prices, we did extremely well, basically with a direct-to-consumer package and ARPU that was higher. And so the 26.5 in subscribers came roughly 50% directly through Disney+.com, for instance -- where not only weren't we revenue sharing with others, but a lot of those subscribers… well many of them may have bought a year-long service or even a 3-year, but many of them bought basically the month for the full price. About 20% of those subscribers came from Verizon, and the rest came from the variety of other services that are distributing the app, including the iTunes platform. So we were actually very pleased with the diversity of….of basically routes that people took to get to us and extremely pleased with the ARPU.

Now also understand that the vast majority came from domestic, because we only launched in a couple of territories: Australia, New Zealand, and The Netherlands, and Canada with this. And so these are mostly domestic subs. But I think it's all a very positive story in terms of the manner in which people bought this, and as I said earlier, the ARPU.

And the other thing that we noted was that the bundle with ESPN and with Hulu was very helpful in terms of lowering churn rates. And as I said in my remarks, both the conversion from free to pay as well as the churn rates were much better than we expected they would be, and much better than we had estimated they would be before we launched. And I think, again, that's the result of… it starts with the product.

And I think the user interface also got incredibly high marks in terms of the ease of use, the ease of navigation, the quality of the product, the value of the brands and the price point -- which we can't ignore, is a very accessible price point priced purposely because of the brand and our desire to be as accessible as possible on a broad basis.

Regarding the studio, looking at an $11 billion plus box office year from the Disney Studio alone is not something we're likely to repeat right away. But as we look ahead, we're extremely pleased with the long-term prospects for our studio and the slate. I could name a number of titles with this year, for instance, we have 2 Pixar titles with *Onward* and *Soul* in the marketplace. We've got a couple of really strong Disney-branded: *Jungle Cruise* and *Mulan*. We have, obviously, Marvel with *Black Widow* initially at first, and then *Eternals* at the end of the year. And you can imagine a lot of development from all of those.

On the Star Wars front, where, as I had mentioned in previous calls, we're taking a bit of a hiatus in terms of the theatrical releases. We finished the 9 episode SkyWalker Saga, and we're developing both television and features. The priority in the next few years is television with *The Mandalorian* Season 2 coming in October, and then more coming from *The Mandalorian* thereafter, including the possibility of infusing it with more characters and the possibility of taking those characters in their own direction in terms of series. And then we have a prequel to Rogue One and an Obi Wan series also in development. So the priority for Star Wars in the short-term is going to be, I'll call it television for Disney+, and then we will have more to say about development of theatrical soon after that.

2020 is not going to be the same as 2019 for the Studio but we still expect a very strong year. And given the franchises and the talent that we both work with and have working for us, we're confident that the Studio is going to continue to be a strong driver of operating income for the company, both on the movie front, but also as a great supplier of product for both the original and secondary market for Disney+… and for Hulu, by the way.

Operator

Our next question comes from John Hodulik with UBS.

John Hodulik – *UBS Securities LLC*

Great. Bob, a couple of questions, follow-ups on the DTC business. First of all, on Disney+, the model definitely seems to be holding up. You talked about ARPU churn, content spend… You know, the target is for 60 million to 90 million subs in '24 and profitability. Because of this, we're halfway to the goal in the model. The metrics seem to be hitting. Can we expect the profitability to come in sooner than the '24 number?

And then if we just focus on the U.S., I think you guys gave guidance for 20 million to 30 million subs in the U.S. And again, you're sort of at the high end -- or around the high end of that guidance. What are you seeing in terms of the TAM? Are you just -- is the TAM bigger than you thought? And could that potentially be the case in the rest of the world? Or are you just penetrating the market faster than you thought?

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

What you touched on related to the U.S., I was actually going to bring up. The 60 million to 90 million included, obviously 2/3 of that, subs that we were going to get from outside the United States where, except for just a few markets, we've not even launched yet. So it's far too early for us, after basically a quarter and a little bit more under our belt, to change our guidance… having not launched in any of the big international markets yet.

What we know about those markets – not to in any way pour cold water on them, because we know that those brands are strong in the markets, and this product is already working -- the interest in streaming in general in those markets isn't as high as it has been in the United States. I'm talking about across the world. So we have probably more of a marketing effort, and I'd say more of a challenge to launch in those markets. Not that those markets haven't been already seeded with streaming. We know Netflix has done extremely well internationally. But we're just beginning there, and I think it's just premature for us to take our guidance up.

What we do know, of course, is that we have reached a number in the United States, that since you did the math that suggests that we're at the number that we predicted we would be in year 5, just after a very short period of time. And I don't know whether that is a statement about the total available market, or the quality of the product, or both or the price. This is just, I think, a number of factors that I've touched upon, and I just go over them one more time.

Those brands are extremely -- not only are they high quality. It is a very unique product. I was asked earlier on CNBC about whether I felt threatened by competition. There is obviously more competition coming into the space. But there isn't any competition that is like ours, like our product, because of the investments that we've made in those franchises and the quality of the product that we've made over the years and that we're continuing to make. So we're very differentiated. We're extremely well-priced and we created a service from a technical basis and a user interface basis that is really working. There's an elegance to it and an ease, and we feel great about it. So our -- as we look ahead at that guidance, I can't say that we won't change it at some point. But it's… we don't believe that it would be prudent for us to adjust it at this point. And we have a long way to go.

Operator

Our next question comes from Doug Mitchelson with Credit Suisse.

Doug Mitchelson – *Credit Suisse AG*

I am going to keep going on Disney+. But Bob, I think congratulations are in order on the success of the service so far.

A couple of things. In terms of consumption patterns for the Disney+ service, is this a service households are, you know, using every day or they're using every week? And any sort of issues or thoughts around consumption levels after the initial sign-up period, as sort of people come in and use the service a bunch, does interest fade after that? Or do you find that it stays relatively level?

And I am interested – Bob, you talked a lot about India. But I am interested about the launches in Europe broadly, and contrasting it with the first series of markets. Is the content that's available in the U.S. also sort of the same content available in Europe? And any sort of differences or nuances in go-to-market, marketing and distribution efforts in any of those countries that we should be aware of as we try to gauge how successful Europe might be?

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

The way we measured -- in terms of the, I'll call it, engagement, we've measured recency, which is essentially how many people are used it recently or are active users on a weekly basis. That's extremely high. We measure frequency, which is the number of times people stream per week since launch. And we measure engagement, which is basically how many hours people have streamed on a weekly basis per subscriber. And I don't think we should get into all those details right now, except to say that in all 3 cases… Recency, the percentage of people that are weekly active users is very, very high. The same thing is true with frequency, the number of average days that they actually use the service. And again, this is something that we've seen over both -- basically the first quarter. I think these numbers probably relate to the first quarter and not necessarily since December 28. That's also very high in the engagement. And we're looking at multiple hours a week streamed per subscriber. I can give you that number -- that's in the 6 to 7 hours a week range. Very, very high. Now Christmas was in there, a time when a lot of families were off. That may have actually skewed that a little bit high. But again, we're seeing comsumption, I'll call it across the board.

And something that's quite interesting to us – Pixar has done extremely well, as a for instance, including their shorts. Musicals are doing very, very well. Obviously, great interest in some of the big titles that have recently come on the service: *Toy Story 4* just came on; *Rise of Skywalker* later in the year; *Lion King* came on; *Avengers*, I mentioned, *Endgame*. It's kind of -- I guess, without in any way sounding like we're bragging, it validates the concept of putting those brands together and collecting library.

As we look to the rest of the world, there really isn't anything to cite in terms of encumbrances that would be an issue. We're in relatively good shape there. I'd say that we have some work to do in terms of local product because there are quotas in certain markets that we have to meet. But the universal appeal of this product is pretty strong. You do have to factor in that in some markets, there's lower broadband penetration. And so you don't have the.. the total available market is not as high as it is in other markets. Netherlands was very high. That's why we decided to launch there. South Korea is very high. But there are other markets, obviously, India being one, that you have lower broadband. But huge opportunities -- huge opportunities for us internationally, and that's where that Disney name and the family nature of the product, I think, will resonate extremely well.

Operator

Our next question comes from Todd Juenger with Sanford Bernstein.

Todd Juenger – *Sanford C. Bernstein & Co., LLC*

One quick one on Hulu SVOD, if I could, and then love to talk about the parks for a little change of break here. So just on Hulu -- on the Hulu SVOD ARPU, that $13-plus number stuck out to us. It's even higher than the non-advertising Hulu SVOD list price. So just wondering if you could share what's going on with advertising ARPU on the Hulu SVOD, it must be a big number? And anything you could share there would be helpful to understand.

And then on the parks, a couple of really minor ones and then a bigger one. Christine, if you could remind us for the U.S. domestic parks, what percent of attendance comes from international visitation and particularly from Asia? And if you're thinking about that at all when you think about the near-term effects of the virus and the travel curtailments there?

Longer term… Bob, I hope you'll accept this question. I'm not -- just wondering how you think about the growth function for parks. It's a question we get from investors all the time. It's super important. Would love if you just share your thoughts because I think what investors look at is so much of revenue and income growth has come from increased spend per guest in the form of either pricing, or merchandise and food volumes. The question we wrestle with is, geez, how long can that keep going, right? Is there some point at which either your consumer gets priced out, or just competition sets in or that sort of thing, and elasticity sets in? So without asking for formal guidance, I'd just love…. is there still more opportunity on the yield side? Or how long can you push that? Are there other ways that Parks can grow over time?

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

Okay. Thanks, Todd. We'll tackle those.

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

Christine, you go first. Because you want to deal with Hulu SVOD ARPU?

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

Hulu SVOD ARPU is very strong. The ad-supported product is priced at $5.99. And but the ad-supported part of the equation makes the ARPU come out even higher than the ad-free. Most of the subscribers subscribe to the ad-supported. So that's a good balance of the ARPUs, when you stack them up next to each other.

Let me take the domestic park question on international visitation. We have typically run in the 18% to 22% range for guests outside of the U.S. We're at the low end of that range, maybe a tick below, right now because some of the South American markets because of the disruption in those economies have had lower visitation. The two I would cite would be -- that won't be a surprise to anyone -- would be Brazil and Argentina.

In general, the parks do not have a significant amount of visitation from Asia. When you look at Walt Disney World, no Asian markets even factors into the top 5. And the top 1 being the U.K. -- which I think everyone knows that -- and then we have Brazil, Canada, Mexico and Argentina. That is for the East Coast, Walt Disney World.

And then when you look at Disneyland, Canada is a very strong market for us -- no surprise just given proximity to the West Coast -- including markets like Vancouver. And then we also have Mexico, Australia. And the only market that even breaks into the top 5 would be Japan -- and it's actually a very low single-digit number for Disneyland. And so far, there's been no evidence that there's any impact on the intent to visit or people fulfilling reservations or commitments, from the Coronavirus.

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

And regarding other growth possibilities for the parks, it's really going to be a blend. We continue to invest capital to build out new attractions, new hotels, new restaurants. We've announced many different projects. Obviously, we just opened Rise of the Resistance, and that's done extremely well. Not just in terms of attendance, but per capita spending has been quite high. We have a variety of different Marvel projects underway -- the Avengers Campus in California, and a number of Marvel-related things in Florida, including a *Guardians of the Galaxy* E-ticket attraction. So we're going to continue to build out against the company's most popular -- or using the most popular franchises. And as I mentioned, build out hotels as well. We just opened one, Riviera Resort. We're opening one in Florida. We have a Star-Wars-themed hotel coming… a lot of activity there.

We'll look for international opportunities as well. They still exist. And obviously, the virus has slowed things down a bit, but we expect that when that passes, that we will start looking expansively in other territories.

And of course, lastly, there's a yield story to tell, and that's been exceptional. That is a combination of things, but clearly, a far more sophisticated, more thoughtful pricing strategy has helped a lot in taking advantage of peak periods and pricing leverage, but also making the park more accessible in non-peak periods for others at substantially more accessible prices.

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

Thanks, Todd. Operator, we have time for a couple more.

Operator

Our next question comes from Steven Cahall with Wells Fargo.

Steven Cahall – *Wells Fargo Securities, LLC*

Just 2 quick ones. Maybe first on Disney+. It seems like you priced this exactly right, given the market response. I would think you could kind of make life harder on some of your more expensive streaming competition, like Netflix or HBO, by keeping the price low for as long as you can and keeping that engagement with customers. So just kind of curious how you're thinking about the price of Disney+ long term? Does it go up over time? Or do you sort of keep it as is?

And then, Christine, just wondering if you could maybe give us a little more color on how to think about the Studio for the year. There's just a lot of moving parts there. I know theatrical is impossible to predict but then you've also got the synergy with the Fox Studios and the transfer pricing. So how do we kind of think about the income production of the Studio this year given all those different pieces?

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

Yes, Steve, we haven't had a conversation about price since we launched, except that we felt that our pricing strategy has worked. We really are not focused right now on price at all. We believed all along that we would have an opportunity to address pricing as we added more content, particularly original content, and the price-value relationship went up to the consumer. But it's not a priority of ours right now. We're still very new at this. So I think it would be premature for us to start talking about it. Don't expect anything in the near term, very near-term, from a price increase perspective.

Christine, do you want to take the question about the Studio?

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

Yes, let me take that. As Bob already mentioned, our studio -- our legacy Disney Studio had nothing short of a truly phenomenal year, 6 movies, over $1 billion in global box office. That is an incredibly hard -- 7 movies over, sorry about that. 7 movies over $1 billion. That's an incredibly hard comp on a year-over-year. So we still believe that our studio will be very successful this year. And we have confidence in their content resonating with consumers on a global basis. Bob already mentioned some of the big movies that we have coming out, and we feel really good about those.

As it relates to transfer pricing of content, the Studio definitely will benefit from the content sales to DTCI -- the Pay 1 windows. And we had quite a few movies come out in fiscal '19 that will make it into the Pay 1 window in fiscal '20, and that will also have a positive impact on the Studio.

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

Steve, thank you. Operator, we have time for one more question.

Operator

And our final question comes from David Miller with Imperial Capital.

David Miller – *Imperial Capital, LLC*

Bob, as you know, I've covered you guys for a long time, and I've covered the theaters for a long time. And I've probably heard you say maybe a dozen times over the last 4 years that you are 100% committed to the theatrical window going forward despite the launch of Disney+. The problem is that -- and I would never accuse you of being disingenuous, you know that -- but the problem is that the market doesn't really believe that, given 52-week lows on AMC and Cinemark, and to some extent, Marcus. So on this call, would you be willing to kind of recommit to the theatrical window? Or I should say, what would you have to say going forward about your overall commitment to the theatrical window, given your market leadership in that regard?

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

The theatrical window is working for this company. And we have no plans to adjust it for our business. Your comment about how those companies are faring on the market I think maybe is a reflection of how the other movie companies are positioning their films and their business. We're not the only movie company. We had the biggest box office, but we're not the only movie company. And I suspect that it's not due to us, or either a lack of conviction on our part or any suspicion that we might be genuinely -- might not be telling the truth. But we're not… it's working for us. And we have no plans in the foreseeable future to change it.

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

And thanks, 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. In our remarks, we provided estimates of the performance of certain 21CF assets in periods of the prior year. These estimates are based on an analysis of these records, but are nonetheless, unaudited estimates and are not precise measures of historical results before the acquisition.

Let me also remind you, certain statements on this call, including financial estimates 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. Have a good rest of the day.

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 or performance estimates or expectations; the financial impact of certain items, events or circumstances; the anticipated availability, timing, pricing or nature 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, asset acquisitions or dispositions, integration initiatives and timing of synergy realization) or other business decisions, 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, regulatory, political, or military developments;
- technological developments; and
- labor markets and activities.

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;
- construction;
- 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 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 28, 2019 under Item 1A, "Risk Factors," Item 7, "Management's Discussion and Analysis," Item 1, "Business," and subsequent reports.

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