THIRD POINT

55 Hudson Yards
New York, NY 10001
www.thirdpoint.com
212.715.3880

Mr. Robert A. Chapek
Chief Executive Officer
The Walt Disney Company
500 S. Buena Vista Street
Burbank, CA 91521

August 15, 2022

Dear Bob:

Congratulations on a terrific quarter and positive momentum in Parks, ESPN, and media and entertainment. We were particularly pleased to see the strength in DTC subscriber growth, the key driver of Disney's long-term transformation towards less volatile, ultimately higher margin cashflows with a greater return on invested capital. As we wrote to our investors at the time of our initial investment in 2020, which highlighted the extraordinary potential of Disney+, we liken this evolution of the Company from "analog" theatrical releases towards digital distribution to Microsoft's transition from selling software in plastic wrap boxes to a SaaS model. We expect to see the quality of Disney's financial results improve as the Company's business shifts further.

We have had over two years to observe management navigate the most challenging time in Disney's history, as you led the organization to simultaneously grow the DTC business, guide the Parks from pandemic closures to record-revenues and profits, and create quality entertainment content. This quarter's results are an important proof point that Disney's complex transformation is succeeding and our confidence in Disney's current trajectory is such that we have, in recent weeks, repurchased a significant stake in the Company.

We have also filed for Hart-Scott-Rodino approval with the Federal Trade Commission so that we can engage with management and the Board in order to work directly and constructively with all parties, since the Company will likely require additional strategic, capital allocation, and governance changes to ensure its success.

I realize some of our suggestions may already be in the works, but since we do not possess any material non-public information, we thought it might be useful to share our thinking on five important initiatives that we believe will unlock further value in the near-term.

1. **Cost Cutting:** Disney's costs are among the highest in the industry, and we believe Disney significantly underearns relative to its potential. We urge the Company to embark on a cost cutting program that addresses both margins and the disposal of excess underperforming assets.

2. **Dividend Policy**: In a prior letter, we proposed that the Company continue the policy initiated under Covid when parks were closed to suspend payment of a cash dividend. We urge the Company to preserve this policy and use free cash flow to pay down debt, repurchase shares, or organically reinvest in the business.

3. **Hulu:** We believe that integrating Hulu directly into the Disney+ DTC platform will provide significant cost and revenue synergies, ultimately reigniting growth in the domestic market. We urge the Company to make every attempt to acquire Comcast's remaining minority stake **prior** to the contractual deadline in early 2024. We believe that it would even be prudent for Disney to pay a modest premium to accelerate the integration but are cognizant that the seller may have an unreasonable price expectation at this time (while noting the seller has already made the decision to prematurely remove their own content from the platform). We know this is a priority for you and hope there is a deal to be had before Comcast is contractually obligated to do so in about 18 months.

4. **ESPN:** ESPN is a great business that currently generates significant free cash flow, enabling the Company to pay down debt and increase strategic options down the line. In addition, we realize ESPN content is part of the bundle being offered to subscribers of other products, both in Disney's Linear and DTC businesses. Despite these advantages,

we believe that a strong case can be made that the ESPN business should be spun off to shareholders with an appropriate debt load that will alleviate leverage at the parent Company. The important questions to ask before commencing a spinoff are:

- Will both companies be better off?
- Will the needs of customers be better served?
- Can any synergies that exist between the two companies be replicated by contractual arrangements?
- Will the transaction contribute to creating long-term value for Disney shareholders?

While acknowledging that broader capital structure considerations may be at issue, we believe that the answer to all four of these questions is affirmative. Employees of ESPN could be compensated in a security directly tied to their performance. ESPN would have greater flexibility to pursue business initiatives that may be more difficult as part of Disney, such as sports betting. Customers of ESPN and sports leagues would be better served by a focused management team driving a leadership position in sports distribution. We believe that most arrangements between the two companies can be replicated contractually, in the way eBay spun PayPal while continuing to utilize the product to process payments.

Lastly, as a result of this transaction, both companies will attract shareholders seeking the respective qualities of each company, allowing the Disney parent multiple to expand as its earnings growth rate increases and the remaining business is no longer haunted by the specter of cord cutting. While I understand you have considered this idea in the past, we urge the Company to retain advisors to reassess the desirability of the transaction in the current environment, recognizing that a key determination would be the proforma capitalizations, cashflow and credit profile of both companies.

5. **Board Refresh:** Disney is a world-class company that deserves a world-class board of directors who possess diverse talents and experience with strengths in technology, advertising, and consumer engagement, as well as proven track records of leading large

complex organizations and creating shareholder value. This is not meant to single out any current board members, but we believe there are gaps in talent and experience as a group that must be addressed. Third Point has identified potential board members who we believe would make essential contributions to the Company's Board at this critical time. We would be happy to make an introduction.

I look forward to discussing these topics with you, Christine, and when practicable, the Board and company advisors.

Sincerely,

Daniel S. Loeb

Daniel S. Loeb
Chief Executive Officer and Chief Investment Officer
Third Point LLC

Cc: The Walt Disney Company Board of Directors

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