Christopher P. Bloomstran, CFA President and Chief Investment Officer

October 15, 2020

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

Dear Mr. Chapek:

Aesop and Walt Disney both have entertained humanity across millenniums, four for the former and two for the latter. They co-produced on many occasions, famously in 1935 with Mr. Disney's production of *The Tortoise and the Hare*. I found myself thinking about this great fable recently.

As shareholders of The Walt Disney Company, with an expectation of owning our position for decades, I write to support your efforts in transitioning distribution aspects of your studio entertainment and media businesses directly to your consumers. I also write to encourage you to not act by reflexively endorsing the "advice" of well-known activist hedge fund managers.

We marvel at the unrivaled, multi-generational ability of Disney to bring happiness to the world. We are in an era of unprecedented technological change affecting the production of content and in the way it is consumed and enjoyed. Recognizing early where distributors and partners can rapidly become direct competitors attests to Disney's grasp of the relevance of change and how to best, and at what pace, embrace it and how to best capitalize on the distribution of intellectual property.

The motivation of this letter is to offer a counterpoint to a letter dated October 7 written to you by Daniel Loeb at Third Point, recognized as an activist investor and one not known as a long-term shareholder. I agree with much of what Mr. Loeb had to say lauding your efforts in shifting distribution. I challenge, however, the recommendation of, "permanently suspending Disney's $3 billion annual dividend and redirecting the capital entirely into content production and acquisition of Disney's DTC businesses, centered around Disney+." This letter will not, however, suggest you reintroduce the dividend at the prior rate either, but rather to use this time as an opportunity to evaluate all capital allocation arrows available in your quiver.

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The decision to suspend the dividend for the first half of 2020, a decision made out of abundant prudence and conservatism, cannot be criticized. The degree to which the coronavirus has temporarily impacted so many moving parts of the company compelled no less. To my mind, the suspension of the payout affords you the opportunity to reintroduce the payment of a dividend, at whatever level and at what time makes sense, within the broader context of your overall capital allocation strategy.

Instead of presuming to tell you that the best alternative use of capital is to increase spending on content at this time, as Mr. Loeb does, rather we'd note you have myriad options regarding capital allocation, in whole or in part, at your disposal. These options, not exhaustively and in no particular order of our preference, include:

- Retiring a portion of the now cumbersome debt taken on to finance the Twenty First Century Fox acquisition and the debt logically taken on to increase liquidity during the pandemic.
- Make any bolt-on acquisitions that add materially and accretively to normalized profitability and to the permanence of the Disney franchise and brand.
- Repurchase shares of common stock in the open market, presuming they are sufficiently undervalued relative to a conservative appraisal of intrinsic value and are only made with surplus capital not needed to maintain liquidity and the safety of the business, further assuming any stress produced by ongoing economic weakness.
- Increase content, capital, research & development or advertising spending at the parks or in the studio and media businesses.

At this point in time, there can be no knowing how much longer the global economy will remain under duress. Once you see signs of a sustainable recovery in your operations, there will undoubtedly be a cost to reposition the company back to its unassailable footing at the time immediately prior to the pandemic. Rehiring, training and retraining and reopening in general will come with considerable expense. Time will be required for global recreational travel to claw back to 2019 levels. To that end, your actions taken to date on the capital front can only be applauded.

Once clear of the pandemic, Third Point's prescription may indeed be correct and the rapid increase in spending on content may be the most attractive and highest-yielding use of capital. I wouldn't presume to know. We are shareholders because we have confidence in your decision-making over many decades.

I'm not convinced that measuring success through the lens of monthly churn and lifetime value, as Third Point measures them at places like Netflix, is appropriate at Disney. We have watched Disney successfully spend far less on content, produce far fewer movies than your competitors, yet manage to always produce the most blockbusters and broadcast content that enhances value creation throughout and across all of Disney's diverse businesses, content that can be monetized generation after generation. It seems the entertainment industry is in a nuclear arms race with an understanding that he who produces the most content wins. That doesn't strike me as the Disney way. Disney understands that when it produces content, it should strive to only produce *great*

content. Surely the quickest way to harm the brand and the value of the franchise is to produce lousy content. I'd equate this to the value of scarcity. We are investors in Richemont, which owns some of the most iconic brands in the world such as Cartier and Van Cleef & Arpels in jewelry and watch brands like Vacheron Constantin. Overproducing, or sacrificing on quality, can kill brands and quick, and Richemont manages its affairs in a way to preserve yet grow brand value across time.

It seems concluding that the tens of billions, even hundreds of billions of dollars being spent today on content by traditional players like WarnerMedia, Discovery, ViacomCBS, Fox and Comcast's NBCUniversal, plus upstarts like Netflix, Apple, Google and whomever else will equate to healthy returns on capital for those who outspend their rivals. Spend on crap and you might as well light money on fire. Instead of behaving like Richemont, and as Disney has throughout the ages, the current land grab reminds me more of the hundreds of billions spent by energy companies in 2013 and 2014, when oil was $100 per barrel. None, or at best very little of that money spent will produce adequate returns on capital. Third Point is correct in that, "reallocating a dividend of a few dollars per share more than doubles Disney+'s original content budget." What's not clear is that spending more than you have already budgeted, with a quality and profitability motive in mind, equates to subsequent value creation for Disney's shareholders. It may indeed drive new subscriber counts higher in the short term, but only if the content is best in class will any "life-time-value" be realized. If the content is not terrific, then the lifetime value would be more properly measured over the lifespan of a mosquito. Yes, if subscriber counts grow faster than expectations in the short term, the stock price is likely to be rewarded, *in the short term*. On a sufficient pop in the stock, we'd bet Third Point and that ilk of short-term speculator, defining success as an expansion in the price-to-earnings multiple, will be through the exit door.

Rather than ramp up content spending ahead of the pace you had already established, instead, we know you will do as Disney does, and focus on long-term returns, measuring lifetime value as exactly as it sounds, over lifetimes - human ones. You own the very best brands and platforms in entertainment. If a family subscribes individually to Disney+, and when the kids are gone only utilizes Hulu and ESPN+, then however that churn is measured doesn't capture that those children will come back to that portion of Disney as parents, and again as grandparents. You now own so much multi-generational content that there is no need for those grown children to churn away from the brand. No competitor comes close to the advantage of owning Snow White, who can be reintroduced to a new generation every decade, and more modern icons among the Pixar, Marvel and Star Wars platforms.

Disney has proven superlative capital allocation skill over the very long haul. You don't need Semper Augustus or Third Point telling you how to make allocation decisions. At a minimum, the suspension of the dividend earlier this year only increases your flexibility. As a shareholder with a very long-term perspective, I'd love to receive a dividend only if it's the best use of capital (which means better uses don't exist at high returns). To the extent I'd make any recommendation on the dividend front, I'd suggest instead of paying a material *regular* dividend, I'd rather see one paid when surplus capital has accumulated and there's no better use for it. At a minimum, if a regular, semi-annual dividend is resumed, my preference as a shareholder is to see a low dividend payout rate, augmented by one-off special dividends when conditions warrant.

Costco does this. Such a policy would allow for more capital allocation flexibility, and given your longstanding success in investing across a vast array of attractive assets, allows for investment in higher-yielding opportunities when they present themselves.

If indeed Third Point is correct and the best *immediate* use of capital is to increase spending on Disney+ as they suggest, then fire in the hole. If an increase in spending on capital in that fashion can't predictably be done with a reasonable likelihood of success and high return, then you have plenty of levers to pull and have plenty of latitude to do it at your pace, for the betterment of your long-term owners.

I'd like to quote Warren Buffett, and unlike Third Point, to spell his name correctly when doing so. Mr. Buffett serves as Chairman and CEO of our largest holding, and wisely professed, "Nobody wants to get rich slow." The Walt Disney Company has a long history of making its long-term shareholders quite rich, and they did it slowly. It seems Mr. Disney and the folks managing the business over the years understood Aesop and the benefit of being the tortoise, not the hare.

We look forward to many more decades as shareholders.

Best regards,

Christopher P. Bloomstran
Semper Augustus Investments Group, LLC

Cc: Susan E. Arnold
Lead Independent Director