The Walt Disney Company Q1 FY11 Earnings Conference Call

FEBRUARY 8, 2011

Disney Speakers:

Bob Iger

President and Chief Executive Officer

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2011 Walt Disney earnings conference call. My name is Kendell, and I'll be your coordinator for today. At this time all participants are in listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions). I would now like to turn the conference over to your host for today, Mr. Lowell Singer, Senior Vice President of Investor Relations. Please proceed.

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

Thanks, Kendell. Good afternoon everyone, and welcome to The Walt Disney Company's first quarter 2011 earnings call. Our press release was issued almost an hour ago, and it's available on our website at www.disney.com/investors. Today's call is also being Webcast and the Webcast will also be available on our website. After the call, a replay and transcript will be there as well.

Joining me in Burbank for today's call are Bob Iger, Disney's President and Chief Executive Officer, and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob is going to lead off, followed by Jay; and then we will, of course, be happy to take some of your questions.

So with that, let me turn the call over to Bob and we'll get started.

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

Thank you Lowell, and good afternoon.

I'm pleased to report we had an excellent first quarter, driven by strong creative content and our unique ability to leverage great entertainment across the many platforms, businesses and markets in which we operate.

We also benefited from growth in advertising at our media networks and improved consumer spending at our parks and consumer products businesses. Net income was up 54% to $1.3 billion on a 10% revenue increase. EPS for the quarter, adjusting for comparability, grew 45% to $0.68 cents.

Next week we are holding an investor conference, so today I'm going to keep my remarks brief.

Our performance again shows the value of our relentless focus on three core strategic priorities: creating great entertainment; using new technology to enhance the quality and reach of that entertainment; and growing our businesses in promising international markets.

Nothing epitomizes our commitment to quality, creativity and future growth like the recently christened cruise ship, the *Disney Dream.* The *Dream* demonstrates how we successfully build on our legacy of great storytelling, technological innovation and first-rate service to create a truly amazing guest experience as only we can. The impact on bookings for the entire fleet has been tremendous.

Animation has always been at the heart of Disney and this quarter showed how incredibly beneficial strong animated films can be for the company. *Tangled,* a crowd-pleasing, fairy-tale adventure, is close to $500 million in global box office with Japan yet to open, and has added

Rapunzel to our popular court of Disney Princesses. *Toy Story 3*, already the number one animated movie of all time at the box office, did very well in its home video release, was a key part of the holiday success of our Consumer Products business and, I'm happy to say, has been nominated for five Oscars, including Best Picture.

We also are extremely pleased with the performance of our Parks and Resorts. Despite difficult weather conditions in the U.S. and Europe, we enjoyed increases in attendance and spending at our U.S. parks. With new attractions coming on line at our parks, our new Hawaiian resort opening in August and the expanded Disney Cruise Line, there will be multiple additional reasons for families to enjoy a great Disney vacation.

Our Media Networks, led by ESPN, once again had a very solid quarter. The Bowl Championship Series on ESPN was a big success in its first year, with the Auburn vs. Oregon final being the most watched telecast in cable television history. *Monday Night Football* had its highest rated and most viewed season since 2006 when it moved from ABC to ESPN. Disney Channel, with its expanding portfolio of original programming, had its best ever first quarter in terms of total viewership. And ABC, and particularly its owned stations, benefited substantially from a continued improvement in advertising rates.

In sum, we're very pleased with how we've started off the new fiscal year. We've got a strong creative strategy, focused on building our brands and franchises, a talented team, and a consistent focus on growing our businesses in rapidly-changing markets.

And with that, I'll turn things over to Jay.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Bob and good afternoon everyone. We delivered strong results in our first quarter, with double-digit growth in overall operating income and margin improvement across all of our businesses. Before we turn to your questions, I'd like to highlight the key drivers of our Q1 performance and discuss some of the trends and comparison issues that will influence our results for Q2 and the remainder of the year.

Profits at Media Networks were up 47%, led by strong growth in advertising and affiliate revenue at Cable Networks. Ad revenue for ESPN came in 34% above prior year, driven in part by strong demand for NFL programming, on the back of another year of extremely strong NFL ratings. In the quarter, ESPN added two BCS games, the Rose and Fiesta Bowls. After adjusting for these two BCS games, we estimate that ESPN's ad revenue was up by 27%. Thus far in Q2, ESPN ad sales are pacing up double-digits versus prior year.

Affiliate and advertising revenue in Q1 were also up at Disney Channel worldwide. In addition, results benefited from higher equity income from A&E / Lifetime, driven by improved performance.

At Broadcasting, results benefited from higher advertising at our owned TV stations, cost reductions in News and Daytime production and the shift of the Rose Bowl to ESPN. Ad revenue at our TV stations was up 20% from prior Q1, driven by higher political advertising demand. So far in Q2, ad sales pacings at the TV stations are up double-digits versus prior year.

At the network, scatter CPM pricing in Q1 came in 24% above upfront levels. So far this quarter, scatter pricing for ABC is running over 30% above upfront levels.

At Studio Entertainment, operating income improved significantly year over year, driven by reduced home entertainment distribution and marketing costs. In addition, increased home video units were driven by *Toy Story 3's* strong home entertainment performance and its earlier international release dates compared to last year's release of *Up*. Results were also helped by lower film write-downs.

Our parks segment delivered strong double-digit operating income growth driven primarily by higher guest spending as well as increased room nights and attendance. Margins grew by 220 basis points despite increased expenses from labor cost inflation and higher pension and healthcare costs, as well as expenses associated with our newly launched ship, the Disney Dream and our Disney California Adventure expansion.

Domestic attendance came in 2% above prior year levels. Higher admissions pricing, in part due to a reduction in discounting, and higher food and beverage spending helped drive an 8% increase in per capita guest spending. Occupancy across our domestic hotels came in 4 percentage points above prior year levels at 85%. Average room spending was up 4%.

Results also improved at our international parks, with higher guest spending and room nights in Paris and Hong Kong. Looking ahead, domestic room reservations for Q2 are currently running 3% above prior year levels.

At Consumer Products, we enjoyed continued strength in our licensing business, primarily driven by *Toy Story* merchandise. On a comparable basis, earned licensing revenue was up 12% year-over-year. Higher results also reflected the inclusion of Marvel's licensing and publishing business and improved performance at our Disney Stores North America.

Operating performance in the Interactive Media segment was in-line with prior year. Solid results from our self-published games, particularly *Epic Mickey* and *Toy Story 3*, were offset by the consolidation of Playdom. Playdom's results were largely driven by purchase accounting, which will continue to impact results for the remainder of the year.

We continue to be very pleased with advertising and parks trends, and remain excited about our product lineup for the remainder of the year. Separate from these trends, however, there

are a few comparability issues I want to bring to your attention that will impact our Q2 reported results.

At Media Networks, ESPN's results will be impacted by the cost of adding three BCS games, as well as the airing of the Cricket World Cup by our ESPN Star Sports joint venture.

Studio Entertainment faces tough comps given last year's release of *Alice in Wonderland* in Q2 as we have no comparable release planned this quarter. In addition, home video comparisons will be difficult given that *Up* was released in many international markets in Q2 of last year.

I also want to remind you that the timing of the Easter holiday will impact our Parks and Resorts results, falling entirely in Q3 this year vs. last year, when one week of the holiday period fell in Q2. Our Q2 results will also include costs associated with the January launch of our new cruise ship, the *Disney Dream*.

During Q1, we have continued to repurchase shares. For the fiscal year so far, we've purchased over 28 million shares for approximately $1 billion.

Our 2011 is off to a very good start and we look forward to discussing our strategy and initiatives in more detail with you next week at our investor conference.

With that, I'll turn the call back to Lowell for Q&A.

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

Thanks, Jay. As everyone knows, we will be hosting an investor conference next week. That investor conference will be webcast. At the conference, management will address a variety of key strategic issues. As such, to the extent possible, we'd like to use today's call to address your questions about our Q1 results and current trends, since we don't plan to focus on those topics next week. We are certainly allocating time during next week's conference to answer your broader strategic questions. So with that preface, Operator, we're ready to take the first question.

Q&A

Operator

[OPERATOR INSTRUCTIONS] Your first question comes from the line of Ben Swinburne from Morgan Stanley. Please proceed.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. Good afternoon. Jay, I just want to go back to your comments on ESPN advertising. I think last quarter you said that ESPN was pacing double digits and you put up a plus 34% or a plus 27% adjusted. So just trying to see if you could be a little more fine with the double-digit pacing in Q2 comment that you made. And then on the studio, I'm sure you benefited from some licensing film share in the quarter, given how strong your product lineup has been, but you spent the last two years rightsizing the cost structure there. So any help you could give us on, sort of, how much costs you've annualized in terms of overhead savings you've taken out of the studio over the last two years, so we can think about the underlying profitability, would be helpful. Thanks.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thank you, Ben. Let me take your first question about advertising. I don't want to be more explicit than up double-digits for ESPN. We really are not in the habit of giving explicit guidance and I think we'll leave it at that. Relative to the studio returns, there clearly were, particularly in our distribution - Bob and I have talked a lot about how we have reoriented our distribution organization and our marketing organizations, to really span all of the channels of the film's release. And part of the benefit of that has been felt in the home entertainment segment, where we really have reduced both the marketing and distribution costs of taking our product to market. So, the savings that are there in the improvement were not solely related to a film share by any stretch of the imagination. What that annualizes out at is, I'm not going to get into. There are different numbers and releases and different products in the market every year. And how we market them, I don't want to make a commitment about what - how that cost is going to annualize.

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

Ben, this is Bob. I'll add one thing about ESPN. And that is that, while we're not going to give any more details about pacings from a percentage perspective, it's safe to assume that the sports advertising marketplace is extremely robust as is, by the way, the overall marketplace. ESPN is seeing strength from multiple sectors. There's certainly real strength in automotive, in retail, in telcos, in various forms of consumer electronics, even to the point where they've been able to add units in this quarter to take advantage of demand, in programs like *SportsCenter* and *Pardon the Interruption*. So they're seeing a very, very strong marketplace.

Ben Swinburne – *Analyst, Morgan Stanley*

Thanks for the color, guys.

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

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

Operator

Your next question comes from the line of Spencer Wang with Credit Suisse. Please proceed.

Spencer Wang – *Analyst, Credit Suisse*

Thanks and good afternoon. I guess for either Bob or Jay, in the event that there is a work stoppage for either the NFL or the NBA, can you just walk us through how that would impact expenses recognized? And would there be an impact on affiliate revenues, just given the programming covenants? And just one housekeeping question on the quarter, for Jay, I guess. If you x out the New Year shift in the year-ago quarter, what would attendance have been up year-over-year? Thank you.

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

We have provisions in our NBA and NFL contracts that deal with the potential for loss of games for a variety of different reasons, including work stoppage over labor disagreement. But we do not make the details of those provisions public, which is our obligation to the League - just as we don't make much of the detail of these contracts public. I think that you're pretty familiar with the program covenant that we have with the cable operators, where we don't recognize revenue until we achieve a certain level, in terms of live programming. We don't make the details of that available either, in terms of the number of hours of live programming or the components that we have to deliver, so I think it would be best right now just to not provide any more detail than that.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

And on your question on Q1 attendance, there wasn't any New Year's impact between the two years.

Spencer Wang – *Analyst, Credit Suisse*

Okay, great. Thanks.

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

Alright, Spencer, thank you. Operator, next question, please.

Operator

Your next question comes from the line of Jessica Reif Cohen with Bank of America Merrill Lynch. Please proceed.

Jessica Reif-Cohen – *Analyst, Bank of America-Merrill Lynch*

Thank you. Could you tell us what retransmission consent is up to now? And if you could include a reverse comp, that would be great. And how much further improvement can you make in fiscal '11 and fiscal '12? And I wanted to follow up, I think Jay said that the opening of the *Disney Dream* drove cruise bookings. Can you give us any color on what the impact was on overall bookings? Because, obviously, there's more inventory and *Dream* is a bigger ship with higher prices. And then if I could just throw one last one. Bob, you mentioned in the shareholder letter this year, you actually discussed the Shanghai Park, and I was just wondering if the deal has actually been finalized?

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

I'm glad I wrote down the three parts of your question - or the three questions. Retransmission consent - we've cut some deals - and reverse compensation - we've cut some deals already, Time Warner being, I think, the most obvious. There will be more deals to come. We fully expect to gain retransmission consent payments from distributors as deals that are currently in place expire. We can't give you a sense for when those are, but there are negotiations going on just about all the time. Nor can we tell you the percentage of deals that we've already completed or the amount of revenue that we're bringing in. We may give you some ranges about, once all these deals are done, what it might mean in terms of steady-state revenue improvement, but we'll discuss that next week at the investor conference.

The second question about the *Dream*, Jay, I think, mentioned in his opening comments that bookings for all three ships were quite strong. They're running over 80% for the year. The *Dream* itself is 89% booked for the year. So there's considerable interest in our cruise business.

We believe that the fact that the Dream is so booked, particularly during peak periods, has actually driven people whose interest was sparked in part by the addition of the new ship, to our other ships and our other itineraries. It's been very positive for us. And we've also been selling basically new cruises to people who have been on the *Dream*. So we've seen some encouraging reaction to people who are already sailing on the *Dream* who want to come back.

On Shanghai, we've signed multiple agreements with the Shanghai government and our prospective partners for Shanghai Disneyland. We had received, prior to signing those agreements, preliminary approval from the Beijing or the central government. And we're now awaiting final or formal approval from the Beijing government before we make a formal announcement and actually break ground. And we're not going to speculate when that will be.

Jessica Reif-Cohen – *Analyst, Bank of America-Merrill Lynch*

Thank you.

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

Thanks, Jessica. Operator, next question, please.

Operator

Your next question comes from the line of Doug Mitchelson with Deutsche Bank. Please proceed.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much. Let's see if I can straddle the question here between next week and this week. So if you look at fiscal '01 to fiscal '02, parks dropped in EBIT about $600 million or so, took about four years after that to get back to their prior profit level. Fiscal '08 to fiscal '10 again dropped almost $600 million of EBIT, but you just improved $6 million domestically in one quarter. So, the question is - it looks like you're more on pace to recover in two years and it looks like you're hitting an inflection point at the parks in the recovery. One, is that accurate? Do you sort of feel that momentum? And two, if so, if it looks like it could recover faster than last time, is there anything you could point to, any particular factors that is driving that? Thanks.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Doug, for the question. I would say this. I think it's clear that what we've been saying for the last couple of quarters about implementing a strategy to bring us back to our normalized pricing, as we are waiting for demand to come back, has clearly manifested itself again in this quarter, as we discussed last quarter. And so we're certainly on the trajectory that we expected to be on and talked about. I don't want to be explicit about the timing, but I will tell you that, from our perspective, the combination of continuing to add great product to our parks around the world, as well as the interest in travel definitely coming back. And the sense that we have incredible value in the way we priced our products is manifesting itself in a lot of

interest. Bob mentioned what's going on in our cruise business - just blowing the doors off in terms of demand and interest. And we're seeing that in the volume as we gave out the numbers in both our domestic parks, as well as in Hong Kong and in Paris. So, it's very broad-based, but the speed and rate of trajectory - I don't want to take a guess about that.

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

We're still seeing, Doug, a consumer that's shopping for value and that's still shopping late. There isn't a significant change in booking window, for instance, so you still have an environment that, while less challenged than it was, certainly, a year ago, still has its challenges. Another thing that I think is interesting, and we've pointed this out before, is that if you look back at the early part of the last decade, when we obviously experienced some difficult recession and other significant events like 9/11 and Mideast war, we're much better positioned today than we were then in terms of the mix of value-priced rooms. Where back then, we had a larger percentage of premium-priced rooms, and now, we've built, and we continue to build - in fact, we're building right now a new value-priced resort in Orlando. And so we're more accessible and we're more accessibly priced than we were then. And it doesn't have to do with discounting; it just has to do with the inventory that we currently are making available. I think that's a positive thing.

Doug Mitchelson – *Analyst, Deutsche Bank*

Right. Thank you very much.

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

Thanks, Doug. Operator, next question, please.

Operator

Your next question comes from the line of Michael Nathanson with Nomura. Please proceed.

Michael Nathanson – *Analyst, Nomura*

Thanks. I have one for Jay on affiliate fees and one for Bob on Marvel. Jay, it looks like, I think, affiliate fees grew about 9% this quarter. And I wondered, is there anything unusual in this quarter that will [indiscernible] for the year - is there anything one-time in affiliate fee growth this quarter?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Michael. Just a couple of things. I wouldn't call it anything unusual, but remember that we are now operating under the Time Warner agreement and subs have resumed their growth. And that has contributed to increased affiliate fees. I wouldn't call those unusual, but they're definitely contributing factors.

Michael Nathanson – *Analyst, Nomura*

Okay. And then, Bob, when you bought Marvel, one of the things you talked about was taking control of the international licensing at Marvel. And now that you've had it for a good part of a year, I wonder if you could just update us on what you see on the licensing side from Marvel directly under Disney's leadership?

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

Well, we're pleased with the integration that we've done internationally - moving out, basically, third-party agents and replacing them with Disney licensing people. We've been working really hard with Marvel to basically get up to speed with all the Marvel properties and their general approach to licensing in the marketplace. We had in the market last year, as a new product, *Iron Man*. And from a licensing perspective, that was slightly less than we would have liked it to have been - still a very strong product. Coming into the market for '11 is *Thor* and *Captain America*. And then, of course, in 2012, *Avengers*, which features, as we all know, *Captain America* and *Hulk*, *Thor* and *Iron Man*. And we're very, very excited about that as a potential franchise for the company.

So a lot of the work that we've been doing is essentially managing what I'll call day-to-day under now one company roof, and preparing ourselves for what we believe are the great prospects for franchises in the future, notably *Avengers*, and then, hopefully, ultimately, *Iron Man* after that. We feel good about their product pipeline and we feel good about the work we've been doing to learn more about Marvel and the overall licensing opportunities, and obviously, to put the organizations together.

Michael Nathanson – *Analyst, Nomura*

Okay. Thanks.

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

Thank you. Operator, next question, please.

Operator

Your next question comes from the line of Richard Greenfield from BTIG. Please proceed.

Rich Greenfield – *Analyst, BTIG*

Thanks for taking the question. So, on theme parks, I think, Bob, you started out by asking or mentioning that weather, both domestically and internationally, played a factor in the quarter; and yet you were still up in attendance. Curious - any way to think about the impact on revenues or profits that you think you lost or were impacted by people that couldn't make it, et cetera? And then, two, I think Tom Staggs was quoted in the last week answering a question related to the impact of Potterland at Universal, basically saying it's safe to say it didn't help us but it didn't really hurt us. And we're just hoping maybe you could expand on how much of an impact do you think Harry Potter has had on you? And do you think, as that starts to wear off in terms of the newness of that park, will that actually benefit results going forward in the next few quarters? Thanks.

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

We have a trifecta in terms of weather in December, with a horrible ice and snowstorm across Europe that basically brought Europe to a standstill; then we had a week of torrential rain in Southern California; then we had a major northeast blizzard right after Christmas, that shut all the airports down across the Northeast and made it impossible to travel. We fully expected that there would be a lot of people from that area who would be going down to Orlando, as a for instance. But we cannot quantify exactly what it is that we lost from a revenue perspective. By the way, in California, we may have made up for some of it, once the rain stopped, because you get a lot of local attendance, particularly during the holiday season when kids are out of school. But it's just really difficult to quantify.

I'll let Jay take a stab at Harry Potterland, except I will say that they built a great property down there - not meant to be an advertisement for the competitor. And I believe that when a competitor puts a good property in the marketplace, it brings more property to the market - more people, rather, to the market. So I think it stimulates attendance to Orlando. And we all know that that's good for us because we usually get a good piece of all visitation to Orlando.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Right. Just continuing on that, I mentioned that our domestic parks were up 2%. Orlando was actually up more than 2%. So, the impact, if there is any, of what Bob - is probably being swamped by what Bob described, that to the extent that it brings more people to the market, we do get a big share of that. On your other question related to weather impacts, I only give you this insight. Needless to say, local people are more affected, in general, by weather than

long-distance people. And across the quarter, our attendance was down on the resident side, but very much up on the international and long-distance tourist side. So, it gives directionally some sense that we were definitely hurt by weather within the quarter. Whether that's a lasting effect, it usually isn't, to be honest with you.

Rich Greenfield – *Analyst, BTIG*

And Jay, I'm sorry, you said that domestic was up 2% in total but Orlando was up more than 2%. Was California actually up as well?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

The California park was slightly down for the quarter.

Rich Greenfield – *Analyst, BTIG*

Thank you.

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

Thanks, Rich. Operator, next question, please.

Operator

Your next question comes from the line of Anthony DiClemente with Barclays Capital. Please proceed.

Anthony DiClemente – *Analyst, Barclays Capital*

Good afternoon. Congratulations on the outstanding quarter. I have two questions. One is on ESPN and the other one is on the parks. Just wondering, ad pricing in the scatter market, I'm just wondering - your ratings are way up. And so, trying to just disaggregate pricing in units, and wondering if you're seeing the premium versus upfront pricing widen, as we move forward in time here? And then I have a follow-up.

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

Well, I know, scatter pricing at the network is up about 30% over the upfront and up double-digits at ESPN. ESPN actually participates in a few different upfronts. So it's a slightly more difficult thing - except my comments earlier about ESPN's advertising marketplace, obviously,

are relevant here. They're just having a gangbuster advertising revenue quarter right now. And we believe that it's going to continue. Was there a second part of that question that I missed?

Anthony DiClemente – *Analyst, Barclays Capital*

No, that was it. I have a different question on parks. Jay, I think you said that Q2 room reservations at the parks are pacing up 3% as of now. Presumably, that is inclusive of the difficult Easter comparison. So I'm just wondering if you can give us a more normalized estimate of roughly what would that 3% equate to? I don't know if it's possible, if you could normalize out the Easter comp.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes. There's not a big room night move on the Easter comp in terms of occupancy. Basically, it's more on the rate and spending side, and the day visitor side, that affects the weeks of Easter in the quarter; the occupancy is not that different, so I wouldn't make a big adjustment for it.

Anthony DiClemente – *Analyst, Barclays Capital*

Okay. Alright. See you next week.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

And the OI move, as I've discussed in previous quarters, of the Easter shift is about $20 million, round numbers.

Anthony DiClemente – *Analyst, Barclays Capital*

Thank you.

Operator

Your next question comes from the line of Alan Gould with Evercore Partners. Please proceed.

Alan Gould – *Analyst, Evercore Partners*

Thank you. A couple of questions. One, Jay, on the balance sheet - projects in progress increased $800 million. Is that the cruise ship? And other assets went down $700 million. Could you just give us an idea of what's happening there? And then in terms of the hotel bookings at the theme park, they were up 3%, as Anthony just said; they were up 5% on the last conference

call. Wondering what the difference is for the slowdown? It sounds like trends are excellent. So is it just that pricing is much higher than it was a quarter ago?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Let me answer your question in reverse order - pricing is higher than it was a quarter ago. That probably doesn't account for the difference between the 5% and 3%. Remember, you're comparing quarter-on-quarter, and we've been increasing our occupancy and bookings over the last four or five quarters. I wouldn't read a big difference between 3% and 5% at this point anyway. And on your first question, to be explicit, it is - yes, it's the cruise ship and it's the Miramax sale.

Alan Gould – *Analyst, Evercore Partners*

Okay. Thank you.

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

Thank you, Alan. Operator, next question, please.

Operator

Your next question comes from the line of James Mitchell with Goldman Sachs. Please proceed.

James Mitchell – *Analyst, Goldman Sachs*

Could you talk a little bit more about the consumer products revenue growth? Just looking at the Q, you had very good headline revenue growth in that division, but a chunk of it came from the Marvel acquisition?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, there was revenue due to the consolidation of the Marvel acquisition. But there was an offset in core underlying consumer product performance because of the increase in film share that gets recognized at the studio. But the fundamentals at Consumer Products were pretty much across the board. The licensing comparables were up; the Disney Store revenue has been up; and then Marvel, both the Marvel licensing business and the publishing business, being included in the results all accounted for the increase in overall CP. Needless to say, this is due to the strength of *Toy Story 3* on the licensing side and the Disney Store side - and largely on the

Disney Store side; though the comparables on our renovated stores are quite strong compared to what they were prior to renovation.

James Mitchell – *Analyst, Goldman Sachs*

Thank you.

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

Thanks, James. Operator, next question, please.

Operator

Your next question comes from the line of Tuna Amobi from Standard & Poor's Equity Group. Please proceed.

Tuna Amobi – *Analyst, Standard & Poor's*

Thanks for taking the question. Now, I don't know if this sounds like it's a strategic question, Bob, but I wanted to get your take on - as you think about all these explosion of applications and interconnected devices, it seems like basically it's a battle between Apple and Android-enabled operating systems. So when you think about your strategy there, and given, obviously, crucial position that Steve Jobs holds in the company, is it fair to say at this point that you're kind of more inclined to go with the iOS operating system in terms of the device interoperability that you're talking about here? Or are you more like experimenting with pretty much everyone out there in terms of an open platform? Some color there would be helpful.

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

I'm thinking of just saying, yes. (laughter) I am going to spend a fair amount of time next week talking about our digital media strategy overall, but I don't want to be dismissive of your question. There isn't one company, Apple or any other company, for that matter, that's driving our strategy. What's driving the strategy is really the incredible developments we're seeing on the technology side, that when added to great content and brands, provide for more opportunity than we've ever seen before. And more opportunity for the consumer as well - not just to consume more media, but to do it in more places, and with more convenience and access and navigation and interoperability. The decisions we're making in terms of what media that we distribute our product are made based on a variety of things. We want to be in a good place on a good platform where there is good navigation and decent access to revenue, and our brand and our products are, in effect, showcased well. And it's reliable for the consumer. We want to be in places that we believe have growth potential, so that the underlying technology

or the underlying capital behind the effort is such that the platform is going to be around for a long time.

And we're looking, both domestically and internationally, for opportunities to essentially create more competition among distributors. When you have great content, the more out there in terms of your ability to distribute that content to the consumer, the better off you are. And then there's another factor or a couple of other factors that are important. One, piracy. There's no question that being available, well-priced, well-timed to the market is one of the best ways to combat piracy. And we have got to continue to be mindful of that. Because the absence of being available in a world where there's great technology and great content can be very dangerous. And then I think it's also important for us to be relevant. When you're on these new platforms, you just appear to be more relevant to the consumer. And I think that is both brand-enhancing and business-enhancing. So I don't know that I'm choosing iOS and Android, and getting into all those details, we might get into a little bit more detail with you next week. But I'd be glad to discuss, and will discuss in much more detail, our thoughts about what's going on in the marketplace, in terms of digital media and changing consumer behavior, and all the different opportunities that a company like Disney with brands – Disney, Pixar, Marvel, ESPN, ABC - all the opportunities that we're seeing. It's a pretty interesting time.

It's important to be out in front and to be experimental, because we haven't discovered yet the silver bullet or the business model that's going to prevail. It probably will be many.

Tuna Amobi – *Analyst, Standard & Poor's*

That's helpful. Just a quick follow-up. So you rolled out authenticated ESPN, which seems like a ground-breaking milestone for you. And when you think about Disney Channel, for example, is that something that could also be on the table for authentication? Or is that pretty much hampered by the potential advertising monetization for that particular channel? Or just kind of trying to get a sense of Disney Channel and others that could follow along the same lines.

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

We think we'll have opportunities to authenticate a number of our channels. The deal that we cut that was obviously the big one and one of the first, was with Time Warner just for ESPN. We've been pretty vocal about the fact that the multichannel or basic expanded basic cable service is of great value to the consumer, particularly when you consider the substantially increased investment in original programming that's available on all those channels. So you're right now getting a lot more quality and a lot more choice. And it's a pretty good - we think it's a pretty good consumer proposition. If we can add to that authentication, which is giving the consumer the ability to watch that channel in more places, as we did with ESPN, so that you can turn a laptop on in Los Angeles if you're a Time Warner customer, or in New York and watch ESPN, that's a big deal, because all you're doing is creating enhanced value for the package

that's being offered and for the consumer, and for the distributor. So we are extremely supportive of authentication, and believe that this is just the beginning of a trend that we'll be seeing not just for ESPN, but for multiple Disney-owned so-called cable television properties.

Tuna Amobi – *Analyst, Standard & Poor's*

Thank you.

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

Thanks, Tuna. Operator, next question, please.

Operator

Your next question comes from the line of David Miller with Caris & Company. Please proceed.

David Miller – *Analyst, Caris and Company*

Yea, hi, good afternoon. Bob, could you detail the *Toy Story 3* unit sell-through number in the quarter? And then within that, could you just talk about the secular change, obviously, in DVD sell-through, as it applies to really all genres out there. And has it forced you or Rich Ross and Rich Ross's team, et cetera, to rethink negative costs and to rethink how films are marketed? Thanks.

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

I can't give you more detail in terms of sell-through rates or number of units that were sold in the quarter for *Toy Story 3*. The overall home video marketplace for the industry has softened, continues to soften. We've been relatively well-positioned because of the strength of the brand, the nature of the titles that we put out. And as we've said a number of times, the fact that we tend to make movies that people want to own so their kids can watch them multiple times. We also are librarying our content - or managing our libraries very well, so that when we bring a certain product out, we create events by bringing them out and defy logic, so to speak, in terms of the marketplace. So, look, *Toy Story* was a successful title internationally. Certainly, the sell-through rates, when you consider the conversion and the size of the box office, substantially different than the marketplace we saw years back.

Interestingly enough, what *Toy Story 3* did was it increased sales of *Toy Story 1* and *2*, which we found very interesting. The library title that I thought was really interesting is we brought *Beauty and the Beast* back in Blu-ray in the fall. And that was extremely well received. We bring these out as events, and we package them very well in our stores and at retail, with a variety of

different consumer products. And that's been a winning proposition. We've also seen a fair amount of success with some of our direct-to-video titles. And interestingly enough, over the last three, four years, they've been fairly steady in terms of performance. And we have not seen the erosion of those kind of titles that we've seen with some of the - certainly, the live action titles.

In terms of the overall impact of home video to the movie business, we've been steadily reducing the number of movie titles that we make in a year. We, as you know, are talking about well under 10 Disney-branded titles a year that would include, certainly, a Pixar title and, hopefully, a Disney animation title per year. Add to that a couple of Marvel titles per year and then we'll be distributing the DreamWorks titles. We like the level that we're talking about in terms of total investment. And we're going to look, as part of that mix, to make big blockbusters that have big budgets, because not only we believe they work as movies but they work as franchises for the company and as company-wide or business-wide events - *Pirates* is a great example of that. And we're also going to build into that mix relatively inexpensive titles, Disney-branded, but much lower budget. I don't want to speak for the whole industry, but I think for our studio, and they know this well, it's extremely wise to take a very eyes-wide-open approach to the trends they're seeing in the marketplace and react accordingly in terms of expense. And then also react accordingly in terms of how the product is brought to marketplace; in terms of pricing and windows, and nature of the packages in the offering. And we'll get into that a lot more next week.

David Miller – *Analyst, Caris and Company*

Okay. Thank you.

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

Thanks, David. Operator, we have time for one more question today.

Operator

Your last question comes from the line of John Janedis with UBS. Please proceed.

John Janedis – *Analyst, Wells Fargo*

Hi. Thank you for squeezing me in. You guys saw some really nice margin expansion in the Broadcasting segment. Given the low ratings of ABC, how are you thinking about programming investment moving towards the upfront? Thanks.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, obviously, John, we've been talking a couple of quarters now about having our ratings supported by better programming on ABC. We've also been investing in ABC Family. And you all know on the cable side, we're heavily investing in XD, Disney Junior, and so on. So, I think that we continue to want to create and own great programming for the ABC network. It is for us a platform to create content that can be utilized broadly across the spectrum. It's the first window of distribution for a great product. And we want to follow our principles of great creative product leading the way for the company. So we will continue to invest in that. You saw in our release on the flip side, margins have been greatly improved by being more prudent on the cost side, relative to News and in Daytime. And we continue to work both sides of that. But make no bones about it - we want to have great creative product out there and we're investing behind it.

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

And you know we have a new executive - I mean, we have someone new in the role of head of primetime for ABC, Paul Lee. And he and I have talked a fair amount because he's in a job that I had many, many years ago. And I've advised him that in heading to the upfront in the middle of pilot season, that it's about making great shows; it's not about making a lot of them. Meaning, in development, it's not about volume - it's about quality. And that doesn't mean that you are looking to increase pricing or reduce pricing on what you make, but you ought to be making the right things. And if he sees product that he feels is mediocre, then don't make it. There's been a trend at times in the business to fill slots and to just make a lot of pilots. I don't think that's wise, particularly in a time that's really competitive for talent. It doesn't help when you water down the field. And I think he's being really disciplined. And it's very early, but I like the product that he's developing. And we'll get a chance in May to see what he's made and put a schedule together from there. But it's important to make the right decisions and not just make a lot of product.

John Janedis – *Analyst, Wells Fargo*

Thank you.

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

John, thanks. And thanks, again, everyone, for joining us today.

Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website. Let me also remind you that certain statements on this call 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 and in our other filings with the Securities and Exchange Commission. This concludes today's call. Thanks again, everyone.

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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. 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:

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

Such developments may affect 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;
- expenses of providing medical and pension benefits;
- demand for our products; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended October 2, 2010 and in subsequent reports on Form 10-Q under Item 1A, "Risk Factors".

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