Sanford C. Bernstein Strategic Decisions Conference

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Disney Speaker:

Bob Iger

Chairman and Chief Executive Officer

PRESENTATION

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

All right. Good morning, everybody. We're going to go ahead and get started because I know it's a busy morning, and we want to take advantage of every minute we have here with my guest.

So I will tell you that the introduction is going to be brief. I tried last night about ten different versions of an intro paragraph to sort of welcome Bob and do justice to this event, and I gave up because you guys all know Mr. Iger. He truly needs no introduction. Nothing I would say would add to that. You all know his track record of accomplishments. And it just really gives us a great deal of pleasure to welcome Bob Iger, Chairman and CEO of The Walt Disney Company with us today.

The guy on the stage who you may not know is me, so, for those of you who haven't seen me before, I'm Todd Juenger. I am Bernstein's media analyst these days. So I get; the funnest part of my life is having a chance to have a conversation like we're going to have right now.

So, Bob, to get started, Disney is a massive, global enterprise. There are so many things we could talk about. I have a long list of things I'd specifically like to talk about. But sort of my favorite way to get started is to let you sort of crystallize for us the things that really matter and sort of maybe just kick it off by saying you've been running Disney now for seven years or so. I'd love to hear you just reflect on sort of your proudest accomplishments, achievements over that time period. And then, also, looking out two or three years, what are your biggest goals that you'll be trying to achieve in that timeframe.

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

In two short sentences.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

Go. You've got 60 seconds.

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

I inherited a great company seven years ago, obviously a strong brand in Disney and a strong business in ESPN. As I look back on the seven years, what I think I'm most proud of is that I made a strong company stronger with the acquisition of some very, very valuable and important brands for the company; notably, Pixar and Marvel. And the company today is extremely brand-focused. It's where we invest most of our capital. And those brands are not only stronger in the United States than they were before, but they are stronger globally.

With that in mind, the company is also more diversified in terms of the territories that it does business in. So, while we are still predominantly a US-based company, meaning well more than 50% of our bottom line profits are generated from the US, we're far more global than we ever have been. And we've planted some pretty important seeds to make the international side of our business even bigger in the years ahead; notably, in some of the big, emerging markets but also in some of the more developed markets outside the US.

We also adopted, I think, just at the right time, seven years ago, a technology-friendly approach, believing that nothing the company was going to do was going to stand in the way of technology and its developments. And, rather than watch technology throw threat after threat at us and disrupt our very valuable business models, we decided to embrace it and use it to not only enhance the quality of our product and the connection we have to our customers and make the company more efficient but, ultimately, to reach more people in more ways. And I'm pleased to say that that has definitely worked.

The other thing that I think is very notable about the company is that, as many businesses as we are in, and as many territories as we operate in, the company is managed in a very cohesive

fashion. And, while it would be great for a CEO to take credit for that, the credit really belongs to a senior management team that knows where the value is created at the company, that is invested in The Walt Disney Company and not in an individual business, and knows that the coordination between the businesses, the ability to step up and help market a product, the ability to leverage success that comes from one business, the sheer cheering that goes on for someone else's success at the company is a real distinguishing factor or attribute of our company. And it sets us apart from many companies in the world, and it certainly sets us apart from all media companies.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

You talked about planting seeds and both in emerging markets and in more developed markets. So I think one of the things that is really striking about the Disney company relative to other media companies that you might consider your peers, is your sort of, even recently, willingness to sort of reinvest in the brands and invest capital to grow the business. Most recently, over the last couple years, clearly a very transparent and deliberate reinvestment behind some specific projects that you guys have disclosed and talked about a lot, including some cruise ships, some new theme parks, some timeshare stuff, some refurbishments at the theme parks -- a lot of capital going in the ground.

Can you walk us through - that's been a big conversation that I've had with a lot of people in this room. So we're very interested in that. As we talk about that, I'd love to start by just -- if you could walk us through -- as you contemplate making those sorts of decisions, what is the process that you go through when an idea for a project hits your desk and Jay's desk and your team's desk? What sort of steps do you funnel that through? And what criteria do you set to evaluate along the way to make sure that you're achieving your definition of success?

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

Well, first of all, it begins with an overall evaluation of how we deploy capital across the company. So, if the theme park group comes to us with a proposal to fix Fantasyland or renovate Fantasyland in Florida, we obviously look at it in a very discrete fashion, meaning what are the likely returns on that specific capital investment. But we look at it against the whole capital expenditure needs of the company over a given year, or over a given period of time.

So, if you look back in the seven years since I've been CEO, we've actually deployed capital in multiple ways. We've just increased our dividend. We've purchased a fair amount of our stock. We have now 103 Disney Channels worldwide, which took capital to do that. And, of course, to the point that you made, we've invested more in our parks and resorts, which includes our theme parks.

I think it's very important to start with the premise that our goal is to have delivered decent returns or strong returns on invested capital, and, in fact, that is a measurement of success that

impacts -- or lack thereof that impacts -- our compensation. I mentioned that each decision is discrete. Once we decide what kind of capital we believe we might be willing to invest over a period of time as a company, we take a very, very hard look at the specific opportunity or the specific request. We vet it very, very carefully through a lot of discussion and a fair amount of analysis that happens both at corporate and at the business unit, and we ultimately make the call.

Now, we know that parks and resorts has been a good business for us. It certainly is a strong component of the Disney brand proposition. But when we talk about growing internationally for instance, we know that we've had opportunities to invest in that business to, essentially, increase our footprint internationally. So the opening of Hong Kong Disneyland in 2005, the recent expansion of Hong Kong Disneyland that's already underway -- in fact, we're opening three new lands. One's already open, one is opening this summer, and then there's a third to come later in the year. Just a strong belief that that park was really starting to do well; particularly growth in mainland visitation, and a good use of our capital.

The cruise ships, we had, we believe, a solid business in that we had mid-teen returns on invested capital in two legacy ships that had been built in the 1990s. We believe that we had a quality product, that there was definitely room for us to add capacity, that the market was there for us to expand in it. And we built two ships, the *Dream*, which launched in early 2011, and the *Fantasy*, which launched a couple of months ago. Again, a very specific look at return on invested capital for the two new ships. Interestingly enough, our four ships are about 90% booked for the year. The *Dream*, which we sailed, as I mentioned, early 2011, was accretive, bottom line, the first full quarter of operation. The same thing will be true for the *Fantasy*. And it's just an incredible, high-quality product.

California Adventure, another good one to, I guess, talk about in terms of capital allocation, about $1 billion in capital. We had a park that was not up to the standards that Disney parks need to achieve. Its return on invested capital for the initial investment was not that impressive. It was a bit of a brand eyesore as well. We felt we definitely could benefit from increasing capacity in southern California, decided that we could both grow the overall Disneyland resort, fix what was clearly a problem, and, hopefully, get to a much more respectable return on invested capital for the whole resort.

We've opened two attractions already -- two key attractions. Actually, we've opened a few more than that. But Midway Mania-*Toy Story Mania*-and *World of Color*. When we look at the popularity of all of the attractions, including Disneyland, those are two of the highest rated that we've got. And we're opening *Cars Land* in a couple of weeks, which I'm certain is going to be a real home run.

So we feel great about that one. Fantasyland in Florida we hadn't touched in four years. The Magic Kingdom, where Fantasyland sits, is the number-one park in the world, not just for us but in the world. And it was time. We were overdue in terms of that.

And then, of course, Shanghai Disneyland in Shanghai -- and that's one where I think is probably the best opportunity the company's had since Walt Disney bought land in central Florida in the 1960s. This is a 7.5-square-kilometer piece of land sitting in Pudong, right in the heart of Shanghai. 330 million live within three hours commuting distance to this park. We stood on a tower overlooking a cleared piece of property recently. I couldn't believe its size. But I'm certain that it will fulfill its potential in what is the world's most populous country in the world.

So we feel great about all of these, and so far so good in terms of what we've already allocated. And I'm pretty confident that those that I just talked about that are underway will deliver returns that the shareholders of this company will be pleased with.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

So, even some of the most receptive audiences to the -- which includes me -- to the value creation potential of investment projects like you've described do worry about how much can any one company and one management team bite off and chew at one point in time. And do you have to take a pause and digest? I know that there are investors who tell me they are very much hoping that they will see some period of time where maybe the investment in the Capex might trickle down for a while and let you guys sort of digest and focus on executional excellence. Is there anything that you could say to investors who have that sort of point of view to give them a little comfort about what the next several years holds as you think about -- ?

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

Well, first of all, we have plenty of capacity as a company to run the businesses that we've either bought or built. So I'm not concerned about that at all.

That said, when you acquire a company, that does take a fair amount of time and effort to manage the acquisition properly to reap the rewards or to deliver the value that you saw when you decided to buy the company that you bought. I like taking a breath after an acquisition because of the work that it takes, particularly what it demands of my time.

In terms of overall capital allocation, we've been pretty specific that the projects that I listed are part of, probably, a more aggressive period of time. And, on the domestic front, you definitely will see a ramping down of capital in particularly parks and resorts. We do not have -- once Fantasyland opens in Florida, we don't have any other big projects right now, other than building out *Avatar* land at Animal Kingdom. But our capital expenditures, US, for our parks business will decrease.

We do have Shanghai Disneyland, which is expected to open at the end of 2015. There, we -- our capital investment is 43% of the capital in that project. We have local partners that will foot the rest of the bill. But you have to factor that capital expenditure in.

But I think, in general, you're looking at a period of time where you will not see the kind of capital allocation in parks and resorts that you've seen these last five years. We don't have any new ships planned, for instance, and we're not right now targeting another place in the world to build a theme park. So we'll continue to build out the projects that we've got, operate them to deliver the returns that we expect to deliver on them, and continue to look opportunistically. Obviously, that's a business that does, I think, provide opportunities for us to continue to invest capital in new attractions in new lands, but, again, you're looking at a period of time that's been unusually aggressive.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

You mentioned acquisitions. It's interesting. It wasn't so many weeks ago you guys were all in town for ABC's upfront, and *The Avengers* had just opened in the States. That's all everybody wanted to talk about. So congratulations on that. The studio has clearly had some remarkable highs and lows this year. So, as you contemplate the future there and, particularly, sort of new leadership there, would you be so kind as to sort of articulate your current thinking on the theatrical strategy and, especially as it relates to -- you've made some comments about sort of the numbers, the quantity of films, the types of film projects you plan to undertake in the future -- and, if your views remain the same on that. What role do you think that all plays in the ecosystem?

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

The strategy for our motion picture group, or our studio, is very clear. We are likely to make two animated films a year, a Pixar and a Disney. There will be some times over the next five years that you could see two Pixar films in one year and a Disney. But, basically, you're looking at two a year. We intend to make, probably, two Marvel films a year going forward, and that slate is pretty defined over the next three to four years. And then, somewhere in the neighborhood of six to eight, probably closer to six, Disney-branded live action films. And we have a distribution deal for DreamWorks, but that's largely DreamWorks' capital. We've got a business that has done well on the animated front and on the Marvel front. But our results on the live action front have been inconsistent, this year in particular. And the goal is to find a management team that is capable of creating higher-quality films under the Disney live-action banner on a more consistent basis.

But our investment is relatively conservative. I mean we're not in the business of making 20 films a year or more than that. We are only in the business of making those branded films -- Disney, Pixar, and Marvel. We believe that our returns on investment in those branded movies are likely to be better than the overall industry. And, when we have success with a Disney, Pixar, or a Marvel film, we can leverage it much more broadly and deeply and for a longer period of time than we can in any other film that we might make.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

So, standing around the coffee machine earlier upstairs, it's remarkable the number of conversations that you just overhear that are referring back to something that was seen on *SportsCenter* last night. So, clearly, the prominence of that property and your cable assets in general is something we should talk about.

I guess the way I'd love to tee that conversation up is sort of in the context of a conversation I have a lot with my colleague over there, Craig Moffett, where there's this hard-to-reconcile tension between the rising price of cable TV and pay TV in this country, which has been rising faster than inflation for a long time and causing some to believe we're hitting an affordability problem. And a lot of people blame a big root of that on the whole way that sports is manifesting itself through the system onto the screen.

On the other hand, you've got, for instance, ESPN, perhaps the world's most envied or valuable cable brand, clearly with a lot of pricing power. And I'm sure you believe its sort of under-pricing relative to value in the world. So, when you think about how you grow ESPN over time, how do you reconcile the math between needing to preserve a pay TV ecosystem that works for 90% of households while at the same time, of course, maximizing the value you can get out of your products?

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

Well, I don't think you can talk about price in a vacuum because any time you talk about how much something costs, you should also talk about what it's worth or is it valuable or not. Is it something that a consumer wants, demands? Is it something that a distributor wants and demands? And so the talk about cable prices going up or being too high -- first of all, it has been a rough economy the last few years. So you're likely to get more complaints about price.

But over a ten-year period of time, easily, or longer, the programming side of the cable business has invested billions and billions of dollars to increase the value of its programming -- original, scripted programming, more sports programming, more news programming, you name it. So, if you look not just at ESPN but across the collection of channels that are out there, the quality of the programming, and the value that programming delivers to both the consumer and to the distributor, it's much greater than it ever was. And I would probably argue that the value that has been -- the money that's been invested in that programming has probably outpaced inflation as well. So I think that it's not -- it can't just be about price.

We also do not sense that the typical, expanded/basic subscriber is dissatisfied with their product. They generally are pleased with the variety of programming they get and the quality. When they look to find something that they want to watch, they can find it easily. When they're not certain that they have something to watch, they typically can find something to watch, and they're being well served. So I don't mean to ever be dismissive of criticism about our business,

the business model, particularly when it comes to the consumer. But I can say for the business but, specifically, for ESPN -- by the way, the same would be true for the Disney Channel and ABC Family -- we have invested aggressively to increase the quality of the programming we're putting on, and the results speak for themselves. They're more in demand by the distributor. They're more in demand by the advertiser. And they're more in demand by the subscriber.

Another thing that I find interesting is it's an odd business that the very distributors of this great product complain about the cost of the product, and they do that more than selling the value of the product to their consumers. There aren't that many businesses that you see doing that. Usually, if you've got a distributor out there that has a pretty solid business model, they're extolling the virtues of what they're distributing or reselling to the customer and not complaining about how much it cost them to buy it. And, again, I have to say that those that have complained typically have not had a word to say about the investment in quality.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

Not to belabor the point, but one last thing before I completely let you off the hook on the ESPN thing. There are people, certainly investors who I talk to, who want to talk about the risk or the notion of some pay TV distributor embarking upon a strategy of becoming a non-sports provider, basically, saying, you know what, there are people in the world who just don't care about sports. Inside the bundle it's too much. Is that something that you think is a real possibility? Is it a lot of talk about nothing? Is there any scenario where something like that could play out in your mind?

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

There are cable operators or distributors that are offering cable-light packages, and you should talk with them. But our understanding is that the adoption rate is not particularly high -- that people are interested in more variety and more channels than fewer, by and large. I'm sure there are some that have subscribed, but that's not a trend.

Look, it's hard to ignore because we hear about this all the time, the so-called threat of ala carte. Okay. So let's just say we get to a point, which I don't believe we will, that sports is broken out and you can just buy sports. Well, I don't -- I love sports, but I don't watch cable news 24-hour channels. I don't want that as a consumer. So if, suddenly, a whole group -- or I don't want to watch a specific channel. I don't want that. I don't watch kids' programming, so that gets broken out. Where does it stop? Why should the non-sports viewer be so served, so to speak, and not having to pay for sports? Why not sets of channels being eliminated?

And then, if that were to occur, I think, ultimately, what you'd have is you'd have consumers choosing from a menu of bundles. And then the price would -- they look at the price at the bottom, and it would be more than the expanded/basic service that they pay for today because

the collection of the so-called bundles -- because I don't think it would just be about sports -- would be greater than the bundle that they're paying for today, in my opinion.

Again, I don't mean to sound cavalier about it, and I don't want to just be dismissive because, clearly, the cost of some of the sports channels has gone up. Interestingly enough, ESPN gets tarred a bit with the same brush that some of the RSNs get tarred with. That's really unfair. Even though there are ardent, local sports team fans -- I'm one of them -- that are willing to pay substantially for their favorite, local team, if you look at the cost of those channels versus the ratings that they deliver and the amount of original programming they deliver, it's not even close to what ESPN delivers. In some markets, ESPN out-rates some of these RSNs -- I think it's four to one the collection of all the RSNs in a market in prime-time programming -- and programs hundreds and hundreds of hours more of live sports than any of those. So I think that, if you were to look just at an isolated case at ESPN, the value is being delivered to the customer. And we hear that from most of the cable distributors and from advertisers.

And the other thing I want to point out about ESPN is we're not trying to – because you mentioned we might have more leverage. We're not trying to kill the golden goose. We know we've invested more in programming and in quality. We know we have increased rates. We have been very mindful when we've increased rates that we're not getting to a point where we're pricing ourselves out of the marketplace, particularly for the customer, for the consumer. And I don't think we've been reckless about our rate increases. And I think they've largely tracked the increased value that we're offering.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

So, I see a list of questions in the audience piling up. I want to make sure we get to those. I have a couple more topics I want to make sure I cover, and then we'll get to the questions.

So, on the topic of the media networks side, you brought up some of your kids TV channels. So let's talk about that for a second. Here at Bernstein, we've done, actually, a lot of work on there. And a topic we've been talking about a lot is the whole potential role that this new vehicle called Netflix is playing in the distribution and consumption of kids television programming. We actually believe we have some facts to suggest that Netflix may be contributing to an overall decline in traditional consumption of kids TV. I know you may disagree with that, at least when it comes to Disney Channels, and maybe you have some different data. So I'd love to talk about that.

But, most specifically, I'd love to talk about -- it seems like a new windowing sort of strategy is emerging. So is it fair to say that, when it comes, especially, to kids TV, there's at least three windows I can think of now, which is sort of the linear channels, a TV everywhere sort of product set, and then, ultimately, some sort of subscription video on demand product set? How do you think about that, and what tradeoffs are involved?

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

Well, any time we look to platform or window a product on a new platform, the goal is for it to deliver incremental revenue; if not wholly incremental, at least, more than we would have had if we had just kept the product on the first platform. We believe that our windowing strategy both on Disney.com and on Netflix has actually delivered more revenue to us for that product. Does it provide consumers' kids with an alternate form of watching? Yes, it does. But we don't think it's necessarily hurt us. Actually, Disney Channel is achieving its highest ratings ever. The windowing strategy has morphed a bit from super aggressive to slightly less aggressive than we were because we felt we could still reap the rewards or the revenue of selling a window to Netflix. But, by windowing it out a little bit longer, meaning moving shows more out of season than in season, we kind of have our cake and eat it too approach, and that's where we're headed on that.

You mentioned TV everywhere, which I think is very relevant because, in, I think, a matter of weeks, maybe next week, I think, we're launching a TV everywhere app for the Disney Channel. This is like the WatchESPN app that we launched a while back, an app that will enable kids or anyone, for that matter, to watch the Disney Channel and its programs on a mobile device using our app, provided they are subscribers of a multi-channel service. So it's the authenticated app world, which we think is a home run because it gives the consumer an opportunity to watch on a more time-shifted basis or live, linear in a new place and, obviously, on a mobile device, on a new device. It's sort of a best-available window strategy.

But it also helps, I think, increase value to the cable operator because they are not only selling now a service that enables people to watch these channels in their home but to watch these channels anywhere, and that's a big deal. And I know that the adoption rate for the ESPN app has been great. It's a fantastic product.

And we're going to launch Disney Channel in a couple of weeks or next week and then ABC, ABC Family, and so on. And they will available to Comcast subscribers. Time Warner was the first to step up as a big operator on the WatchESPN app, but Comcast launched WatchESPN a few weeks ago and is now launching the Disney Channel and, ultimately, the other apps. I think that's an important step because it delivers more value to the multi-channel distributor, and it delivers more value to the customer. And it has and will continue to enable us to deliver greater revenue if we got paid by Comcast, for instance, for what we call TV plus capability.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

Terrific. I guess I am mindful of that stack of questions. There's one obligatory question that I must ask any time we have the chance to, which is -- there's a lot of people out there just trying to gauge the television advertising market. We just talked about ESPN and some of the kids channels and certainly ABC. You have a pulse in that marketplace. The upfronts are underway in

secret rooms right now between the buyers and the sellers. Any visibility of recent note that you have on that area you can share with the crowd?

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

Nope. It's been a pretty good scatter marketplace for ESPN and for ABC. I've been around a very long time in this business. I guess my first upfront was in 1988. That's a long time. I've learned over the years it's very difficult to predict an upfront before you get into it because the buyers at the time are all saying it's a buyer's market, and the sellers at the time are all saying it's a seller's market. And, until you get in the room and cut deals, you don't know. And we're just negotiating now, and it's too early to tell. I'm not, at this point, I'm not going to give anything away.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

All right. Forgive me. So, the good news is we're not in one of those awkward situations where you have no, where you end up with no questions. We have lots of questions. So I'm not picking and choosing favorites so much here, audience. It's more I'm trying to see if there are sort of common themes that a lot of people care about, so we can address the most popular themes first.

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

I think you're actually secretly editing out the easy questions.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

All right. While I continue to sort out, I'll ask you one that seems like it would clearly be a nice segue from what we were just talking about and, I'm sure, on a lot of people's minds. So talking a little bit more about the fragmentation – and we talked a little bit about Netflix specifically, but we probably should have talked more broadly. Right? So, every day, there's some new service provider or some new distribution concept that emerges. And, on this list, I see Amazon, iTunes, Hulu, Netflix, Google TV, Apple TV, on and on and on. I think the genesis of this question is less about, specifically, how do you monetize each of those windows but probably more about what does that overall fragmentation of viewing do to the revenue model and sort of the long-term nature of the business, if that makes sense.

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

Well, first of all, it's not just about that or that collection of platforms that you mentioned. We're in a world that is more and more fragmented in terms of opportunities to spend your

time and your money, meaning there's just so much more available to us today and to our kids than ever before. It's no longer just a television market; it's a media -- or a television world; it's a media world. And it's rich. And it's no longer just in the home; it's everywhere. It's in school, in your car, walking down the street. You name it, you can consume media. And it's not just filmed entertainment, it's casual games and surfing websites and social networking. I don't have to tell this audience. So it's already fragmented.

So the question that we have asked ourselves is -- in a world that is more fragmented than ever before and is going to fragment even more because technology is going to enable that, where's the best place for us to be, and how can we create or preserve the most value? We start with brands and quality. We believe that high-quality, branded entertainment is going to continue to deliver real value to our shareholders, not just the value that we've delivered in the past but growth in a world that enables more and more distribution of that product and more consumption of it.

So, if you are a platform -- I won't be specific about the ones that you mentioned, but I can tell you that virtually all of them have called us and continue to and say -- we want ESPN, we want Disney, we want ABC, we want Pixar, we want Marvel, we want ABC Family, you name it. Every one of our brands is in high demand by any new platform. You can't launch a platform today without some good content on it, and we're very well-positioned, probably better than anybody in the business, in that regard.

Are we seeing some threats to old business models? Of course. Of course we are, which is why we're trying to take a very proactive position as a company in embracing technology and looking at it as more of an opportunity. We don't have all the answers. We don't know how fast some of these business models will break down. We don't know whether the new business models will ultimately be just as robust as the old. We do know there will be more business models. What we're trying to do is continue to create or generate more value with high-quality, branded entertainment. That's it.

And, so far -- let's just look at the last ten years or five years even at how much the world has changed. We didn't have iPads five years ago. No one talked about Facebook five years ago or Zynga, for instance. And, now, they're household words or household names or household devices. And here we are with all of this sea of choice, whether it's the device and the place you use it or whether it's the product you use over the device, and we're still talking about the value of Disney, ABC, Pixar, Marvel, ESPN with all this change in that period of time and not just us. There are a number of other companies in the space, between Paramount and CBS and Time Warner and NBC Universal. They've all got great brands and great product. And, as much change as we've all seen, these businesses still stand relatively tall.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

So there are -- I think the most common theme in these questions, which is not surprising, given a roomful of media investors, is capital allocation. I think it's a fair topic to push one step further, which is – the Disney company is, clearly, a huge profit-generating, cash-flow-generating engine. And you were right to point out that you've made lots of different uses of that capital over time, whether they're traditional capital investments in places like the networks or the theme parks, whether they're buying back shares, whether they're dividends, whether they're acquisitions. If it's true that traditional Capex, at least in the theme parks, should be expected to come down, but Disney is going to continue to generate lots of cash flow -- I think the nature of a lot of these questions is any comment you can say on what is likely to be the beneficiary of that, arguably, sort of increased amount of disposable cash.

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

Well, we don't have the opportunities nor are we certain that we have the needs over -- I can't look ten years out very easily -- in the next five years to allocate the kind of capital we've been allocating in the parks and resorts area. We built out 103 Disney Channels. There are still opportunities there, but that's much less capital than building a park in Shanghai, for instance. We've bought back our stock. I imagine we'll continue to be opportunistic about that. We increased our dividend last year. We don't have anything to say about that going forward at this point. It's just too early. We've made a few notable acquisitions and a number of smaller acquisitions. We'll continue to look opportunistically. At the moment is there a Pixar or a Marvel out there? Not that I'm certain. It's -- I can't really give you much specifics about that.

I can say I look back at the last year and breaking ground in Shanghai, launching two new cruise ships, opening up *Cars Land* in a couple of weeks, buying a media company in India, buying a network in Russia to brand the Disney Channel, all big -- and buying our stock back and increasing our dividend and, I think, proving to the world that the Marvel acquisition was a strong acquisition. So it's been, I'll call it a rich and aggressive time, one that we feel good about in terms of the impact on our bottom line, both current and future. And we'll continue to look opportunistically. We obviously have demonstrated that we're not averse to allocating capital in multiple directions. But we also believe that we're fairly disciplined and that each one was a decision that was made for its very, very specific merits or on its specific merits.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

I think the only reporting business segment that we haven't covered yet, and so the crowd is thirsty for a little comment on it, is the gaming division. I think it confluences with some of the technological discussion we've been having here. So, if I could sort of summarize the several questions here, I guess people would love to hear both any update on your strategy on mobile games, social games, the evolution of gaming -- how that relates to any commentary you have

on choices you make in technology in terms of building, owning, partnering and how it leverages back to the brand. So I know that's a multi-faceted question.

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

We have an interactive division that includes games and a number of our Disney-branded websites. We've lost money in that space. The division overall is small when you compare it with the other big divisions of the company and it will continue to be relatively small. We've said that we're targeting 2013 as a year of profitability. It's about time, because we've invested a fair amount.

We made some obvious mistakes on the gaming side, initially, with a focus on the console space. And, clearly, the whole gaming area has changed radically, particularly with the advent of social games and mobile games.

Our goal now and our strategy is to diversify our gaming efforts. Some modest investment on the console front, very Disney-branded and Marvel-branded, some investment on the mobile front, and investment on the social games front. So it's a blend. There are a number of products that are in development that will be rolled out over the next couple of years. We're still targeting 2013 as a year of profitability.

At the same time we're doing that -- we also believe it's a space that we should be in because the brands, we think, can perform well in that space. And we also believe that we can create somewhat of a balance between self-published and games that we invest in and build and license. You'll continue to see some evidence that we're going to pursue some licensing opportunities as well.

We're also -- at the same time we're doing that, we're building out our website capability to increase traffic, to increase engagement with our consumers on a variety of fronts, both for marketing purposes and for the purpose of entertaining and getting closer to our customer.

So there's a Disney video product that's just rolling out that's extremely exciting to us. There are many opportunities, thanks to technology, for us to aggregate our branded businesses under one brand umbrella, one destination, and we're looking to do some of that, some with an eye toward direct sales, some with an eye toward just improving the connection that we have with our customers -- universal registration, gaining more information about their behavior, ultimately using it as a tool to not only market but to sell more effectively too.

It's all -- again, that division, which has gotten a fair amount of attention over the years, is still very small.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

Right.

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

I don't say that to the folks that are running it, by the way.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

A question here that I want to pick up on because I think it's a topic I have been noodling on recently. It has to do, actually, with piracy. So I will admit that it wasn't too long ago when I was sort of a skeptic on the economic cost of piracy to the studios; particularly, the theatrical. I know that's heresy. And, please, don't tell anybody at the studio division that Todd said that, or they won't want to talk to me anymore. But you still hold an opinion that, in places around the world where a lot of piracy was taking place, it wasn't displacing people who would have gone and seen the film or rented the film anyway.

My thoughts on that have evolved, though, especially in the TV market, especially in the States. So I think there's a really interesting question here around, as the cost of pay TV, as we talked about still comes up, economic times are hard, as bandwidth increases, and as more and more of your content becomes available in sort of authenticated services, Hulu-type services, which may or may not be moving towards -- it's accessible in different ways on the Web, how big is the risk that -- since it's out there, does piracy become a real threat as an alternative to pay TV subscribers?

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

Well, piracy is a threat, and technology is piracy's friend, for the obvious reasons, because it enables them to distribute more effectively. You don't have to have a guy set up a blanket on the corner of 5th Avenue and 57th Street; you can just have a website, and it could be housed overseas, which is what SOPA was aimed at attacking, but I won't get into that, and off you go. And you're aided and abetted by a variety of other entities, whether it's search or pay, meaning credit card companies, and that's definitely a concern to us, which is why we're fairly aggressive about the need for governments, not just the United States government but governments worldwide to help stem the increase in piracy. It's bad for the economy. It kills jobs. I could probably list a number of other things that make it non-redeeming.

I do believe that not only do we need to be aggressive at creating and enforcing laws; we need to be aggressive about putting the product out there legitimately.

So, to your point, we don't really know whether the people that are accessing our product illegally wouldn't have accessed it under any circumstances or whether that act is replacing, I'll call it, a legitimate form of consumption. We just, we really don't know. I have to think that, in some markets where it's simply not accessible, it's not harming current business. In other markets where it is accessible, it obviously is having an impact. I think that we have to fight it not only by pushing for laws, but you have to fight it by being more present in the space.

For the most part, a consumer when faced with a choice between buying or accessing legitimate product and accessing something that's stolen, for the most part, will go to the legitimate product. And we just have -- usually, because it's the right thing to do, but it's also, typically, slightly better in quality, although the quality gap is also narrowing, thanks to technology. So we have to be careful of that.

It's a subject that's on our minds all the time. We are still going to push for some form of legislation to combat, mostly offshore piracy, sites that are located offshore for the sole purpose of gaining access to our product illegally and reselling it or selling it to folks in the States. And we've got a lot of work to do on that front. But I think it's still important. It's just as important for us to be present with legitimate product.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

In the spirit of, again, trying to cover sort of all the bases, I think it's probably true that -- we haven't talked about either ABC or the stations as much as maybe we should have. So we probably should pause a second and just get your commentary on that. I think most of us have heard you talk before about the value of the ABC brand and the role it plays in the company. But maybe -- here we are again. What is your latest thinking, your current thinking, on the broadcast network, the local TV stations, their growth profile, their role in the company, and how that plays out in the returns to investors?

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

The television studio, ABC, the network, and the eight stations that we own -- we only own eight stations -- are a nicely profitable business for us and should continue to be nicely profitable. One of the reasons they're profitable is that, by using the studio and the network to support the creation of pretty high-quality, intellectual property or filmed entertainment, we've taken advantage of what has been a real growth market globally in the consumption of American-based filmed entertainment. So the business of making these shows, while they don't always, as we know, succeed on your network, by and large, has become a large business for us, and we believe that we'll be able to continue to grow that business, provided we make decent shows.

So, the shows that ABC put on last year, *Once Upon a Time* and *Revenge* as a for instance, we own and produce and distribute globally. There are a few new shows being added to the

schedule this coming year that are in the same category. Hopefully, they'll do just as well. That's not a bad business to be in. And it is akin to what we do as a company, which is create high-quality product and leverage it as much as we can across platforms, across territories, and we believe we'll continue to do that.

The station business is definitely a different business than it was. I know there was an interesting article yesterday about local news -- stations, basically, combining local news efforts across stations. I don't think that's -- certainly, it wouldn't be considered good for our business. We think we have distinctive, local news brands. Our stations tend to be -- most of them are number one in the market. If they're not number one, they're number two. And they tend to rely on a very strong local news brand. And we don't want to diminish that or dilute it in any way with a partnership. It could be tempting because of the cost savings, but, in doing so, you can damage your brand pretty quickly. I'm not sure what that business is without that strong, local news brand.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

So I think we're down to sort of our final word. I have a feeling it will be a short word. But several questions here. Speaking of things in the news, some interest in the audience if you have any comments on what Dish Network is doing with their DVR product recently and the whole Auto Hop service.

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

You wouldn't hear the word "marvelous" coming from me. I happen to believe that what they're doing is harmful, both to our business and to theirs. It feels like a bite the hand that feeds you approach in my opinion because the quality of the programming that we make, which is reliant on a variety of forms of revenue, including advertising, is important to them. So, by attacking the revenue model or the business model, one has to question, in the end, what, ultimately, if they're successful, that does to the ability to invest in that product. If that gets limited or hindered in any way or diminished, what does it do to them? They don't seem to care about that. I'm confident in our position legally, and, probably, it would be better if I didn't say much more about it.

Todd Juenger – *Analyst, Sanford C. Bernstein and Company*

Well, with that, I think we are officially out of time. Thank you, everybody, for your time and good questions, and attention. Thank you, Bob, for spending time with us.

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

Thank you.

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 1, 2011 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.