The Walt Disney Company Fiscal Full Year and Q4 2012 Earnings Conference Call

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Disney Speakers:

Bob Iger
Chairman 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

Welcome to The Walt Disney Company's Fiscal Full Year and Q4 2012 Earnings Conference Call. My name is Ellen and I will be your operator for today's call. (OPERATOR INSTRUCTIONS) Please note that this conference is being recorded. I will now turn the call over to Mr. Lowell Singer, Senior Vice President, Investor Relations. Mr. Singer you may begin.

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

Okay. Thank you, Ellen, and good afternoon, everyone. Welcome to The Walt Disney Company's fourth-quarter 2012 earnings call. Our press release was issued about 45 minutes ago and is available on our website at www.disney.com/investors. Today's call is also being webcast, and we will post the webcast and a transcript of the call to our website later.

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

So with that, I'll turn it over to Bob and we'll get started.

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

Thank you, Lowell. And good afternoon, everyone.

I'm very happy to report that Disney has delivered yet another record annual performance.

Driven by improved results in each of our businesses, in the 2012 fiscal year, Disney achieved record revenue, net income, and earnings per share. Net income was up by 18% for the year, on a 3% increase in revenue, and our earnings per share, adjusted for comparability, were up 21% over last year.

I'm also very pleased with our fourth quarter results, which were primarily driven by growth at cable networks and Parks & Resorts. Net income grew by 14% and revenue was up 3% for the quarter. And our EPS for Q4, adjusted for comparability, grew 15% to 68 cents.

These results once again demonstrate our ability to grow earnings in the near term, while investing for the long term, and we're obviously proud of our performance.

Before I get into the highlights of fiscal 2012, I just want to mention the tremendous creative resurgence we are seeing at Disney Animation. Building on the success of *Tangled,* our newest release, *Wreck It Ralph,* just had a phenomenal opening weekend, bigger than any previous Disney animated movie.

With $58.6 million at the domestic box office so far, *Wreck-It-Ralph* continues the creative momentum that started with our acquisition of Pixar.

The Pixar deal brought us more than just great Pixar movies; it also reinvigorated our entire animation pipeline, led by the great team of John Lasseter and Ed Catmull.

Looking back, Fiscal 2012 was a great year for Disney by every measure – creatively, financially, and strategically.

Marvel had a fantastic year, capped by the extraordinary success of *The Avengers* -- which became the world's third highest grossing movie of all time, a global phenomenon, and an incredibly important franchise for us.

Pixar also generated a great deal of value for us this year -- from the opening of the phenomenal *Cars Land* to transform Disney California Adventure into an extraordinary park, to the opening of *Brave*, which became Pixar's 13th consecutive movie to debut #1 at the box office.

We opened two new lands in Hong Kong Disneyland, completed the first phase of our historic, multi-year expansion of *Fantasyland* in Walt Disney World, and made significant progress in Shanghai to keep development on track to open by the end of 2015. With the addition of the Disney Fantasy last March, we've now more than doubled our cruise business, and this year we were named the "#1 Large Cruise Line" by readers of Condé Nast Traveler magazine.

ESPN was a strong contributor for the year as well – adding Wimbledon to its world class sports line up, along with higher ratings, ad sales and affiliate revenue. ESPN also solidified its position in some critical sports, including college football and basketball, and Major League Baseball.

Disney Channels Worldwide continue to be an important brand and business driver for our company – reaching approximately 425 million homes in 167 countries. In [2012], we introduced Disney Jr. and Disney XD to new markets around the world and also launched our first over-the-air Disney Channel in Russia.

We also completed our strategic acquisition of UTV, making Disney India's leading film studio and TV producer -- as well as one of the country's leading broadcasters, reaching more than 100 million viewers every week.

And looking ahead, our Shanghai development is moving into an exciting phase as the construction work starts to define the shape of things to come, and our vision starts to become reality.

We look forward to completing our Hong Kong Disneyland expansion, which should only enhance the park's current strong performance.

And we're also very excited about the ongoing *Fantasyland* transformation at Walt Disney World. It's the largest expansion of the Magic Kingdom since that park opened more than 40 years ago, and it's going to be pretty spectacular.

And also in Florida, we are very excited about a new technology roll out, designed to enhance guest experience, and advance and expand guest engagement before their visits. We will provide details early next year, but among the many features and benefits of this technology is giving guests the chance to plan their itineraries ahead of time, including access to their favorite, and often our most popular, attractions.

On the Studio front, we're going to follow the success of *Wreck-It-Ralph* with four major films this fiscal year. *Oz the Great and Powerful* opens on March 8th and Marvel's *Iron Man 3* will be in theaters May 3rd. And this coming summer, Pixar's *Monsters University* will open on June 21st, followed by *The Lone Ranger* on July 3rd.

As all of you know, last week we announced our acquisition of Lucasfilm, and upon closing, we believe it will fit right in with Disney, ABC, ESPN, Pixar, and Marvel in our unparalleled portfolio of phenomenal assets and world-class brands.

And when you look at all the franchises and IP ever created in the history of entertainment, and rank them in terms of value, *Star Wars* is always at or near the very top of that list. It is the very definition of a "franchise."

It has global appeal, stands the test of time (35 years so far) and we see great potential well into the future. It enjoys strong, unwavering popularity with hundreds of millions of fans – even in the absence of a new theatrical release in the last seven years.

Star Wars is an incredibly relevant and vibrant franchise with tremendous opportunity for global growth, especially with a new slate of feature films – starting with *Star Wars: Episode 7* in 2015.

The addition of Lucasfilm to our strong portfolio of assets will continue to fuel Disney's creative engine across our entire company to create additional value for our shareholders.

We're obviously very pleased with what we've achieved in fiscal 2012, and overall, we believe we're well positioned for continued strong performance and growth.

And, I'm now going to turn the call over to Jay Rasulo to go through the details.

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

Thanks, Bob and good afternoon everyone. We are pleased with our fourth quarter results, ending yet another record year of financial performance for the company. We reported record revenue, net income and earnings per share in fiscal 2012, surpassing last year's record results.

Our performance is the result of relentless focus on maximizing the value of our existing assets and realizing returns from recent investments, while continuing to invest for future growth. We

believe this balanced approach will deliver consistent and attractive returns for our shareholders for years to come. I am going to spend a few minutes discussing the fourth quarter in more detail and then I'll highlight a few 2013 items.

In Q4, Media Networks was the largest contributor to our performance driven by growth in operating income at Cable Networks due to continued growth at ESPN and higher equity income at A&E Television Networks.

Growth at ESPN was due to an increase in affiliate revenue, which was driven by higher rates, partially offset by higher programming costs for college football and Major League Baseball, as well as our new Wimbledon contract. Higher equity income at A&E Television Networks during the quarter resulted from increases in advertising and affiliate revenue.

Advertising revenue at ESPN was flat in the quarter, as higher rates were offset by lower ratings. We experienced a less robust marketplace around the Olympics and we did not see as strong of a pick-up in demand as we expected after the Olympics ended.

During the quarter ESPN signed a new long-term agreement with Major League Baseball. This deal extends our rights through the 2021 season and significantly enhances our current deal with more games, greater co-exist rights and an increase in annual studio programming hours of more than 100%. Extending our partnership with Major League Baseball further strengthens our unrivaled sports content portfolio, which continues to make ESPN the #1 destination for sports fans as well as cable television's most valuable network.

Operating income at Broadcasting was down modestly compared to last year due to lower advertising revenue at the ABC network, partially offset by higher program sales. Lower advertising revenue at the network was driven by lower primetime ratings. Higher program sales were driven by the sale of *Castle* and *Wipeout* in the quarter.

At the ABC Network, quarter-to-date scatter pricing is pacing mid-teens above upfront levels. ESPN ad sales are pacing down modestly and ABC Family ad sales are pacing up high single digits. TV station ad sales are pacing up mid-single digits as well.

Our Parks and Resorts segment delivered solid results with revenue up 9% and operating income up 18%. The increase in operating income was due to higher results at our international resorts and Disney Cruise Line. Total segment margins were up 100 basis points compared to last year. Growth initiatives reduced segment margin expansion by about 90 basis points.

Results at our international resorts were high due to increased attendance at Hong Kong Disneyland and Disneyland Paris. Royalties from the Tokyo Disney Resort were also higher versus prior-year quarter.

Higher operating income at Disney Cruise Line was driven by increased passenger cruise days due to the launch of the *Disney Fantasy.*

Results at our domestic parks were comparable to prior year, as growth at the Disneyland Resort was largely offset by higher costs at Walt Disney World as a result of our growth initiatives. We are encouraged by Disneyland Resort's overall performance in the quarter and are particularly pleased with its attendance and per capita spending results, following the opening of Cars Land in June. Overall, domestic attendance was up 3% driven by strong attendance at the Disneyland Resort. Per capita spending at our domestic parks was up 7% on higher ticket prices and food and beverage spending.

Average per room spending at our domestic hotels was up 8%. The increase in per room spending was driven by higher pricing and higher merchandise spending. Occupancy at our domestic hotels was down three percentage points to 78% due to an increase in available rooms at Walt Disney World. The increase in available room nights was driven by the completion of the final phase of Disney's *Art of Animation* hotel.

So far this quarter, domestic hotel reservations are pacing up mid single-digits compared to prior year levels, while booked rates are also up.

At Studio Entertainment, the decrease in operating income was driven by lower worldwide theatrical results and higher film cost write-downs, which were partially offset by stronger performance of our worldwide home entertainment business. Worldwide theatrical results were lower due to the strong performance of *Cars 2* and *Lion King 3D* last year compared to *Brave* and *Finding Nemo 3D* this year, as well as higher pre-release marketing expense compared to prior year. Worldwide home entertainment results were up due to higher unit sales and increased effective pricing driven by the successful release of Marvel's *The Avengers*.

At Consumer Products, operating income was up in the quarter due to higher results in merchandise licensing and retail. Growth in licensing was driven by higher earned royalties due to the strong performance of *Spider-Man* and *The Avengers* merchandise. On a comparable basis, earned licensing revenue was up 5%. Higher retail operating income was primarily driven by strong results in North America and Europe.

At the Interactive segment, lower operating losses compared to prior year were due to continued improvement in our social games business, which benefited from a lower impact of purchase accounting. Results in our console games business faced a difficult comparison to the performance of *Cars 2* and *Pirates Lego* in the prior year, with no comparable titles in the quarter this year.

I would now like to turn to fiscal 2013. Overall, we feel great about our prospects for this fiscal year, but I would like to discuss a few timing and comparability issues, particularly related to Q1 and provide some insight into a few cost considerations for 2013.

At Cable, domestic sports rights costs will be $170 million dollars higher in Q1 versus last year driven by increases in College Football, NFL, and NBA programming. The college football increase is due to our new deals with the Pac-12 and the Big 12, along with the expansion of the SEC. Our Q1 NBA costs will be higher compared to last year, when fewer games were played in Q1 due to the lockout. However, ESPN's full year results will reflect the benefit of several new affiliate deals, one of which will commence in the second quarter.

At Studio, we face a very difficult home entertainment comparison in Q1 given strong operating income from *Cars 2* and *The Lion King* last year. Specifically, we expect this comparison to drive a year-over-year decline in home entertainment operating income of more than 150 million dollars. *Cars 2* delivered very strong home entertainment operating income last year driven in part by lower cost allocations given the strength of its merchandise licensing revenue. The strong performance of *The Lion King* was volume driven, as the title had not been available on home video since January 2005.

Our Q1 Parks and Resorts results will be impacted by a timing shift due to our fiscal calendar, as a portion of the New Year's holiday will shift from fiscal Q1 to fiscal Q2. We estimate this will shift about 30 million dollars in operating income from Q1 to Q2.

2013 will benefit from a full year of performance from both the *Disney Fantasy* and Disney California Adventure. We expect these two projects to be accretive to operating income.

However, the gains will be offset this year by incremental spending for projects in Orlando and Shanghai. In Orlando, we are continuing to work on the guest experience enhancement project Bob discussed. In Shanghai, we are beginning to ramp up spending for our new theme park.

So, in fiscal 2013, in aggregate, all of our growth initiatives, both launched and to-be launched, will contribute roughly $500 million dollars of both incremental revenue and expense. We expect these initiatives to be accretive to operating income in fiscal 2014 and increasingly add to operating income each year thereafter, and each to deliver returns above our cost of capital.

We expect the Q1 tax rate to be about 2 percentage points higher than last year due to the benefit of tax settlements in prior year.

Pension and post retirement medical expenses will increase by approximately $70 million dollars in fiscal 2013 due to a decline in the discount rate.

On top of these items, we do expect Super Storm Sandy to impact our Q1 results, though it is a little too early to quantify.

This list of comparability and one-time items I've just shared with you will impact our Q1 reported earnings. But rest assured, we remain confident that our operating performance for the remaining quarters will result in solid earnings growth for the entire 2013 fiscal year.

We continued to repurchase our stock during the fourth quarter with 19.1 million shares repurchased for about $973 million dollars. For the fiscal year, we repurchased 72 million shares for $3 billion dollars.

So far this quarter, we have repurchased 8.2 million shares for $419 million dollars. Over the next two [years], we expect to repurchase in the open market up to 40 million shares in connection with the Lucasfilm acquisition. And that's in addition to our regular share repurchase.

2012 was another great year for our company and in 2013 we expect to deliver another year of strong operating performance.

Now I'll turn the call over to Lowell for questions.

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

Ok, Jay. Thanks. Okay, operator, we are ready for the first question.

Q&A

Operator

(Operator Instructions) Michael Nathanson, Nomura.

Michael Nathanson – *Analyst, Nomura*

Thanks. I have a couple of quick housekeeping questions for Jay, then one for Bob. Jay, could you just give a sense of where affiliate growth was for this year for the cable networks?

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

Yes, sure. The full-year adjusted cable revenue was high-mid-single digits. This adjusts for some -- high-single-digits -- yes. Isn't that what I said? I'm sorry. This adjusts for unfavorable FX impact, and also the impact of Leap Day, which I don't want to get into in great detail. But it affects our revenue for the year. And reported cable affiliate revenue mid-single digits.

Michael Nathanson – *Analyst, Nomura*

Okay. And then, Bob, as you've been around broadcast networks a long time, and it just seems to make sense if I ask you this question, what do you think is happening to the start of the season? Everyone is worried about broadcast over the years. Is this decline in kind of the ratings something that you think is going to be fixed over the course of the season or are you more worried than that?

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

Well, I think the story of the year are really two things. One, the greater penetration of DVRs and the greater usage of DVRs, which clearly, have shifted the rating in the direction of C3. And ultimately, hopefully, C7. Because I think it speaks for an expanded look from a Nielsen and advertising perspective at seven days versus three.

And I think the other story is that there seems to be somewhat of an absence of what I'll call new big, real sort of buzz-worthy hits. And because of that, I would say that it would be premature to either write the epitaph or suggest that we're seeing a trend. We've seen years where the presence of a big hit -- by the way, as in the case with NBC, if you look at the impact of *The Voice* on their schedule, it's improved their numbers dramatically.

So, I think -- I happen to believe that ABC's schedule is pretty solid. Their Sunday schedule with *Once Upon a Time* and *Revenge* is working, and they've got *Modern Family* and *Grey's*, and other shows - some real strong base. And their ratings from a C3 perspective without sports are down in the 7% to 8% range, which I don't consider to be that noteworthy.

Would I have liked ABC to put on the schedule a really big hit at the beginning of the year, of course, but they put on a few shows that are, I think, quite serviceable and have potential -- *Nashville* being one.

Michael Nathanson – *Analyst, Nomura*

Okay, thanks.

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

Before we go to the next question -- this is Jay. Lowell just handed me a note that I misspoke on the share repurchase. I think I said that we buy back the 40 million shares issued for the Lucasfilm acquisition in the next two quarters. I misspoke. I meant the next two years, which we stated previously. Sorry, Lowell.

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

No worries. Thanks, Michael. Thank you. Operator, next question, please.

Operator

Alexia Quadrani, J.P. Morgan.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. Just on the domestic park business, you highlighted growth initiatives hurting profits in the quarter, and it sounds like they'll continue into fiscal '13. Just want to clarify that any significant margin expansion towards your historic levels we should now assume will happen more likely in 2014? And then staying with the parks, I think you mentioned Disneyland drove the good growth in attendance in the quarter. Can you talk about attendance trends at Disney World?

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

Hi, Alexia. Thank you. So relative to the new initiatives and the ultimate impact, I said that they will affect, of course, the rest of fiscal 2013 and begin to be accretive in 2014. I don't want to give too much guidance on where that takes us from a margin perspective.

We have said for some period of time that there is no reason structurally -- including, by the way, what I just said about these new initiatives -- that will ultimately keep us from reaching our pre-recession margin levels at the parks. So I think that is your -- I hope that answers your question.

On the attendance trends on the two coasts, obviously, the great success of Cars Land, both from a quality and from a quantity perspective in terms of attendance and pricing, has reflected itself in Disneyland Resort greatly outgrowing Walt Disney World. I'll say that -- you know, Walt Disney World attendance was down modestly, but Disneyland attendance was up substantially, resulting, if you add the two together, in domestic attendance being up the 3% that I mentioned.

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

We also feel good about expected attendance at Disney World for the year. We have seen some pretty decent Christmas bookings, although there's a quirk in the calendar in terms of when Christmas hits. So if you look at it over a three-week period, it's the two later weeks of that three-week period that are the strong weeks, because Christmas is on a Tuesday. And that

does bleed into what would be our next fiscal quarter, not our -- which is our second, not our first.

But the bookings are strong. We also feel really good about Fantasyland rolling out. It is, as I mentioned, the first big improvement that we've done at the Magic Kingdom in about 40 years. The product is already, in some cases, open and doing really well. And we think that's going to drive some attendance gains at that Park.

And then, lastly, we opened a big new hotel, Art of Animation, which features a family suite concept, which is growing in popularity in the marketplace. And the bookings for that hotel have been great.

Alexia Quadrani – *Analyst, JP Morgan*

And we saw -- recently I saw some reports that Hong Kong reached profitability for the first time. Have you really turned the corner there? And given the success, are you likely to build out, maybe even further than what you originally had planned?

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

We're seeing really strong trends and we believe we have turned the corner there. Just look at the attendance patterns, particularly from the Mainland, as a for instance. We expanded with three Worlds; two of the three are open, including a Toy Story Land. And that's doing -- they're all doing quite well. And the third one is going to open sometime this spring.

So, we feel really good about the trends at Hong Kong Disneyland. We always said that we were going to expand. We have the land to do so. And we have projects that are in varying stages of development, but we have nothing to announce at this point about that.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you very much.

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

Thanks, Alexia. Operator, next question.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

I guess a couple of parks questions. Jay, I don't know if you'd be willing to give us the domestic international park splits for the quarter? I think we have to wait for the 10-K usually for that. But I thought I'd ask anyway.

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

Yes, I'll tell you that I've talked for a long time about that range being, like, 18% to 22%, 23%. And in this quarter, at World, they were up at the high end of that range. They had a very strong fourth quarter relative to international attendance. Fundamentally driven by Brazil and Argentina, but even the UK, which is, of course, one of our other big markets, was up for the fourth quarter.

Ben Swinburne – *Analyst, Morgan Stanley*

Okay. And then just staying on the parks -- you mentioned in the release and on your remarks that operating income at the domestic parks and resorts, so ex-cruise, was basically flat year-over-year. Was there anything unusual on the expense side? It seems, based on the numbers you gave us, that revenue growth was pretty solid. So I just wanted to come back to that point.

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

Yes, Ben, Bob mentioned in his comments these enhancements that we are doing to -- what I would say is really the essence of a visit to Walt Disney World, starting all the way back with planning, pre-reserving up through your experience at the park, with the use of technology and the use of a bunch of enhanced services to make guests' visit more efficient and enjoyable while they're there.

And we will start to see revenue inure to us from that, but we are, like many things, just before you start, there are costs. And those costs, in fact, have had -- are offsetting the revenue increases that are implied by our attendance and per capita spending increases in terms of the quarter.

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

Also, because we're in a testing phase to make sure the technology is working the way we both expect and need it to work, we've been hesitant to roll out more details to all of you and to the public, for that matter. There's been a fair amount of chatter about the features of this technological advancement or investment. But we've been hesitant to give details until we're ready to really basically -- before it's ready for primetime, so to speak. But we're getting close.

Ben Swinburne – *Analyst, Morgan Stanley*

Maybe I could just ask one more, Bob -- or to either of you -- about the sort of list of items you named for us to think about in '13, as we furiously write them down and try to digest them.

I'm trying to understand if you think this is a year, 2013, that's sort of an investment year for the company on the operating side or where growth is going to be, kind of below the historical average we're used to seeing from Disney? Or if these are -- it seems like every year there are things going on at the company where you're investing, but you seem to pump out 15% to 20% earnings growth every year. Any way to kind of put a bow on this for us and list these things to think about?

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

Yes. Let me -- well, let me start by emphasizing Ben that almost everything that I did check through, we see as primarily a Q1 impact, not primarily as an overall fiscal 2013 impact. And we are still very confident that this will be a strong year for us in terms of performance.

Obviously, the comparability, just to go through it, the large items -- the one we just talked about in terms of costs associated with these guest enhancements before the revenue comes in; secondly, the home video comparison, where we'll be off pretty substantially on a comparability basis there. Because if you think about *Cars 2*, which was not only a successful video title; but because of all of the merchandise success in prior periods around that title, that bleeds off a lot of the amortization that goes with the making of that film.

When you -- because consumer product sales are part of the ultimate package in which the film is amortized against. So a lot of that was bled off in prior periods, which made that a particularly profitable title a year ago in the home video front. *Brave* was also a profitable title, but it doesn't have the benefit of bleeding off all of that amortization when the units sell.

So that has created a very tough comparison. And then I mentioned *Lion King* versus *Finding Nemo* in terms of its release, where *The Lion King* had been kind of in the vault since 2005, and of course, had enormous response in the marketplace due to that. *Nemo* was more available on a regular basis in the market, and therefore, didn't benefit from that bump.

So those two factors are about $150 million, but that's a first quarter event. And that is not -- and that doesn't affect our performance at the studio in the rest of the three quarters of the year.

The tax number I ticked off again is -- has to do with a tax favorability in the prior year. It's a first quarter event as well, of course, because taxes tend to carry that for the whole year. We'll have a little bit up in our tax -- our effective tax rate for the year, but not as much as in the first quarter.

So I tried to emphasize -- and it's always difficult in prepared remarks -- to kind of emphasize that these are really largely comparability items that we're trying to give you info on, in the first quarter, and are not to lead you to believe we don't have confidence in strong results for the whole year.

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

And Ben, as Jay suggested, we're not going to give you specific guidance for the year, but since you asked us to characterize or categorize the year, I'd say that we are entering a phase of transitioning out of an investment mode, and transitioning into a more compelling growth mode. But again, it is a transition year in that regard, because of some of the things that Jay talked about.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you very much for the comments.

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

And that's also reflected in a ramp-down of capital spending.

Ben Swinburne – *Analyst, Morgan Stanley*

Sure. Great, thanks.

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

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

Operator

Jessica Reif Cohen, Bank of America Merrill Lynch.

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

Thanks. I was just wondering if you could address your boys -- the initiative -- your boys initiative. I'm not sure how to phrase that. I mean, given the *Star Wars* acquisition, your Marvel acquisition, it seems like you really have a completely different product to offer boys. And historically, the focus maybe has been more girls. So could you just talk about how you're

viewing that as a category and what you can do to address that? I mean, you are addressing it; but what's the opportunity?

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

Well, I think the opportunity is pretty broad in terms of what it will ultimately present to the company. I can start with our theme parks. While we haven't really had a gender problem at our theme parks, we've always been mindful of what we're offering is something for everybody. And as some of the IP gravitated more in a girl's direction, it made us turn to some other IP that maybe wasn't derived from movies or television series, for instance, in order to essentially deliver against the -- basically, the interests of our guests.

Obviously, we've had *Star Wars* in the past. This gives us an ability to expand that presence in our parks. Marvel in certain circumstances -- because you may recall there are some encumbrances there -- will give us an opportunity to expand. But mostly internationally. So that's one way.

Obviously, on the TV front, we launched or we re-launched a channel a few years back called Disney XD, which had other names in its past. If Disney Channel is focused a little bit more on girls than boys, this is going to be focused a little bit more on boys than girls. We're starting to roll out Marvel shows there. We referenced in our comments about the Lucasfilm acquisition that there are opportunities for television. One big opportunity for us in Lucasfilm's derived IP is on that channel.

Again, it gives the ability to fulfill the promise of that channel that much quicker. The footprint from Consumer Products, obviously, will give us much more of a blend. That enhances our relationship in the marketplace with retailers and with licensees, as a for-instance, and just generally broadens the profile of the brand. The Lucas product, by the way, will be co-branded with Disney's name on it.

And then, of course, on the games front, we also have that ability to turn more to Disney IP, particularly since games are a little bit more boys-driven anyway. And so I don't want to -- we'll proceed with caution in this direction, but I think it enhances our opportunity, particularly in the mobile space, which is very driven by boys.

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

Great. And then I guess just -- I heard you on CNBC this morning. So you'd stated on CNBC today that there probably are not big acquisitions or acquisitions of this size. Can you just give us your thoughts how you -- do you feel like you're strategically complete? Or what other areas would you look at, even if they are smaller?

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

Actually, we felt we were relatively strategically complete in the past. The Lucasfilm acquisition, even though I just responded to your question about boys in a manner that would suggest we might not have felt strategically complete from a gender perspective -- imagine talking about being strategically complete from a gender perspective. I think I should be shot for that.

But we don't necessarily make acquisitions to fill in strategic holes and we didn't in the Lucas case. That was an opportunity to buy IP that, as I described, is unparalleled, really, in terms of its value, the strength of its franchise, and the potential that it represents, particularly or especially to a company like ours. And we're not looking right now at anything from an acquisition perspective that is in any way tied to something that we would consider a strategic hole.

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

Okay, Jessica, thanks. Operator, next question, please.

Operator

Todd Juenger, Sanford Bernstein.

Todd Juenger – *Analyst, Bernstein*

Great, thanks a lot. I have two questions, if I may. One on TV and one on consumer. From the TV side there's a -- can you hear me?

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

Yes, we can hear you.

Todd Juenger – *Analyst, Bernstein*

Okay, good. Sorry. On the TV side, there is a comment in the release about the Disney channels having a significant program sale in the prior year. I just wondered if you can confirm -- I think that might have been the Netflix or the Amazon deals? And I wondered if you could confirm that. And whether it was or wasn't, I would love to hear just an update on how you're feeling about those services, and the role of them in your platform.

And then the question on the Consumer Products side, just given all the increased breadth of your franchises with Marvel and now Lucasfilm, I wondered if that changes the way you think

about your retail strategy at all, in terms of the aggressiveness about what you might think about opening more store locations, or what the store concepts might be, or square footage? Any comments on that would be much appreciated.

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

Okay. The second part of your question, the impact of the Lucasfilm acquisition on our store strategy -- it will not change our store strategy. We've approached that, I guess, with some degree of caution, because of the obvious risks associated with being the specialty retail bricks and mortar business. So it's not going to change our footprint.

It will change our SKU makeup at the stores as a great opportunity, as we saw with Marvel, to infuse our stores with Star Wars merchandise, for instance. And we look forward to doing that. And also to grow our online retail or our eCommerce business -- which, by the way, has grown very, very nicely since the relaunch of Disney.com. And noticing what we've noticed in terms of sale of Lucasfilm merchandise online, we think there's real potential there.

To the first question, we were not specific about the deal that we referenced that was -- that impacted, I guess, the fourth quarter a year ago, and we won't be specific. You're pretty good at guessing. But I'll leave it at that.

We feel very, very good about opportunities in SVOD and on digital platforms, as we've seen, and other large media companies have seen, the opportunities to monetize owned IP are only growing; not just because of new technology, but globally. And I think you'll continue to see growth in both revenue and growth in bottom line in income from output deals to these third-party or new platform owners. It's an exciting time for intellectual property owners.

Todd Juenger – *Analyst, Bernstein*

Okay, thanks. And just -- your content is still on Netflix -- a lot of Disney Channel content is still there. So regardless of the timing of specifics, it seems like you're still in business with them, clearly today, and it sounds like you intend to be.

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

We're in business with Netflix. We're in business with others, and we'll probably continue to be in business with those and new entrants in the marketplace. And we are engaged in discussions in a number of directions about that.

Todd Juenger – *Analyst, Bernstein*

Terrific. Thanks.

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

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

Operator

Doug Mitchelson, Deutsche Bank.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much. Bob, you've started to address this, but if I sort of think back a decade ago, you were -- you know, you're always brand-focused, right, and you were running the brand committee. And there was an appeal of elegance to having two umbrella brands, Disney and ESPN, and having the focus on those two brands seemed to be an advantage.

And now you've spread out with so many brands, with Pixar and Marvel and *Star Wars* and now ABC, as you mentioned, pretty consistently is -- one, was there an underlying strategy to diversify or expand your brand portfolio beyond those sort of two initial core brands? And then, what gives you comfort that you can successfully manage this many brands when -- again, in the past, it seemed like focusing on just two umbrella brands was thought of as an advantage.

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

Well, seven years after the Pixar acquisition -- or I guess, technically, it's six -- sorry; six-and-a-half years -- I think there's ample proof that that brand has been managed very effectively. And during the period of time that we've owned Pixar, the equity in the Disney brand, almost no matter how you measure it, has also increased. So I think we've demonstrated our ability to be ambidextrous in that regard.

We also co-brand Pixar films with Disney. And we found in the process that that enhances both impression of the Pixar brand and impression of the Disney brand. Marvel has seen, I think, real strong brand growth. That's largely been tied to a couple of things. One, quality of their films, particularly the last three -- *Captain America*, *Thor*, and obviously, *Avengers*.

But also, the growth of the presence of the brand, which is in part enhanced by self-distribution. So when we take over the distribution of their films, for instance, and we are also the owner of the brand, we're much more focused on growing the brand in the process than

the third-party distributors that distribute their product before were interested in. So there are opportunities there.

The *Star Wars* brand, I think, basically doesn't need much help, except obviously will, I think, benefit greatly from the release of a film. We intend, in that case, to co-brand, as I mentioned just a few minutes ago, Disney-Lucas or Disney-*Star Wars* in some form -- different forms. And I think that's again another opportunity like Pixar to enhance both the *Star Wars* brand and the Disney brand.

ESPN is doing just fine. ABC is also doing fine, although from a brand perspective, we leverage the ABC name, obviously, in much more limited fashion than we do the other brands that we've been talking about.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks for that. And if Lowell will let me ask one for Jay, just a quick one. I want to take a shot at the park margins a different way. Would you say that the growth initiatives you've been nice enough to give us the revenue and OpEx impact for each of the past three years -- would you say those will prove margin accretive to the park division in time or in-line or margin dilutive? So, not from today but in aggregate, will those growth initiatives be margin-accretive or dilutive to the parks?

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

Yes, margin-accretive, Doug. We are very confident that if you -- if I tick through the list quickly, you know, the cruise ships, the enhancement of DCA, the Magic Kingdom expansion, the Aulani hotel, and this new guest enhancement at Walt Disney World that we were talking about -- every single one of those was done with a strategic and financial -- pretty tight strategic and financial goal. And they will be in aggregate accretive, as will someday Shanghai. I didn't put that on the list because it's much longer-term than the rest of those things. But we think that all of these projects will be accretive to the ultimate margins of the business.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much.

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

Thanks, Doug. Operator, next question, please.

Operator

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citigroup*

Just had a clarifying question for Mr. Rasulo. Going back to those -- the park investments that you talked about, were you saying, I think you said -- I wasn't sure if you were saying you're going to invest $500 million in all of these initiatives next year? Or you were saying all of the growth initiatives that you've done historically will generate $500 million of revenue at a certain margin, and whatever sort of incremental EBIT that generates, we'll be investing that much in these improvements?

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

Okay. What I said was a little bit of all the things that you said.

Jason Bazinet – *Analyst, Citigroup*

Okay. (laughter)

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

So, let's start at the top. In aggregate, they will generate $500 million of revenue. Some of those -- incremental revenue above our base business -- some of those that have been up and running for a while, like the cruise ship and DCA, will in fact generate -- will be accretive to earnings. They will generate positive operating income in the year.

The guest enhancement project that Bob talked about and Shanghai Disneyland are still in the investment -- not the investment -- sort of generating operating income -- there is investment -- but generating operating expense that exceeds any revenue that they will generate. So if you look at all these things in aggregate -- the Disney Cruise Line expansion, the Fantasyland expansion, Disney's California [Adventure], the guest enhancement program that we're talking about, and Shanghai Disneyland -- in aggregate, their incremental expenses will match the aggregate incremental revenue. So, they will generate $500 million of incremental revenue and $500 million of incremental expense.

Jason Bazinet – *Analyst, Citigroup*

Perfect. Got it. Thank you very much.

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

You're welcome.

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

Okay. Thanks, Jason. Operator, next question, please.

Operator

Anthony DiClemente, Barclays.

Anthony DiClemente – *Analyst, Barclays*

Thanks. I don't think anyone's asked about advertising pacings at ESPN. And I guess -- I think you said in your remarks that they were pacing down, which was a little surprising to me for a couple of reasons.

First, I remember you guys had a bullish tone about ESPN moving forward on the last call. So, I'm wondering what really changed during the quarter. And then, secondly, just wondering, does that add pacings being down include the return of the new NBA games? Or is that normalized for the impact or normalized for the benefit of the return of the new NBA games?

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

So, let me start out at the top and maybe Bob will want to jump in. Starting at the top, we did say that the pacings were down modestly for ESPN. And, you know, some of that has to do, needless to say, with distraction from the elections, what that implies on ratings, debates -- you know, the things that basically attract interest that are extraordinary. And sporting events are sometimes, consequently, have lower ratings. But your question about the NBA, I'm sorry, could you repeat it?

Anthony DiClemente – *Analyst, Barclays*

Well, the question is, really, for the 1Q, you talked about on the cost side, sports rights fees going up about $170 million. And then just trying to think about that in terms of revenue as well. And if one of the reasons that the cost side is going up, you said it's because of more NBA games. So are ad pacings going down despite the favorable year-over-year comp, despite having NBA games where you had the lockout last year?

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

Yes. Yes, Anthony. Yes.

Anthony DiClemente – *Analyst, Barclays*

Okay, thank you. And then I just have a quick follow-up, which is, I didn't think that Hulu was a big driver of broadcasting. But since you mentioned it in the press release, just wondering what was going on with the higher equity losses at Hulu in the quarter? Just wondering if you could comment on that. And how should we think about that?

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

Yes, it's not a big effect. It did make it because we ranked the impacts from largest to smallest, and at some point, we cut them off. I would say this one -- we usually like to put two or three -- this one made it; in other quarters, it probably wouldn't. But it's basically increased programming costs. It's above -- if you back Hulu out of the broadcasting numbers -- in fact, broadcasting would have been slightly positive; it turned out to be slightly negative because of it. I want to emphasize it's not a real driver for the quarter.

Anthony DiClemente – *Analyst, Barclays*

Okay, that's fine. Okay, thank you very much.

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

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

Operator

David Miller, Caris & Company.

David Miller – *Analyst, Caris & Co.*

Hey, guys, I have one for Jay, one for Bob. Jay, you mentioned in the press release something about a film write-down under the studio line. Could you just detail what you wrote down in the quarter? And I apologize in advance if it was already in your prepared remarks. I had some technical difficulty on the call.

And then, Bob, on the Lucas deal, or on the ensuing conference call last week, vis-a-vis the Lucas deal, there was some confusion after the call, particularly out of the buy side, about any legacy agreement with 20th Century Fox that Lucasfilm has currently, and what you have to pay out, if anything, to extract yourselves out of that. Appreciate you taking my question. Thank you.

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

David, let me take the short answer. I think I mentioned at a conference, and it was broadly reported, that the write-down was for a film that was in progress in stop action animation called *Cinderbiter*. And that was the vast majority, 98% of the write-downs for the quarter.

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

And on Lucas, what we were referring to is the fact that Fox has certain distribution rights to films that have already been made and released, and will be released in varying forms going forward, as they did recently with a 3D release of one of the *Star Wars* films. In valuing Lucas going forward, we did not factor in any need on our part whatsoever to acquire any rights back from News Corp.

We may choose, at some point after closing, to explore that, but all the value that we're looking at is going forward value associated with all the rights that we've bought from Lucas. And any new IP that is created, which is not encumbered by any of the deals that Fox had.

David Miller – *Analyst, Caris & Co.*

Okay, great. And then, Jay, on the Hurricane Sandy impact, you said you couldn't really quantify it as of yet. But would the majority of that impact, whatever it is, be due to disruption at the parks? Just because folks in the tri-state area couldn't fly down to Orlando, obviously; may still not be able to fly down there. Or is it more of a make-good situation at any of the networks? Or is it a combination of both? What is sort of the majority effect, if you don't mind me asking? Thank you.

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

Not at all. Let me just tick off a list of things that we're looking at. Obviously, due to the hurricane, there were a number of Disney stores in the Atlantic area that were closed. I think we closed over 40 stores for a number of days.

Secondly, when you don't have people with power, and you don't have people watching television, you've obviously got some impact there on the broadcast side. On the park side,

there -- the Northeast is a good feeder market to Walt Disney World. It's probably the toughest to quantify. In the past, I will tell you that we have found, from natural disasters, that people make their way back in the course of the year. So that could be a short-term impact. We have not seen a raft of cancellations, I will tell you that. That much we know so far.

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

Interestingly enough, this is a week that most New Jersey schools are closed for the week. And that is, as Jay referenced, an important feeder market to Orlando. And obviously, New Jersey got devastated by the storm. We have seen very little impact this week. I've talked to folks down in Orlando this morning, and it appears that the makeup of attendance at Disney World this week from New Jersey is just as strong as it usually is. So that's a pretty interesting sign.

David Miller – *Analyst, Caris & Co.*

Hey, thank you very much.

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

David, thanks. Operator, next question, please.

Operator

Michael Senno, Credit Suisse.

Michael Senno – *Analyst, Credit Suisse*

How you doing? Just a couple of question in regard to CapEx. You guys have mentioned that you expect it to ramp down in '13. Just in sizing that, should we attach some capital expenses to these enhancement projects in the incremental costs and investments that you've articulated for next year? And then also, you mentioned this being the peak CapEx year; but looking ahead with the Shanghai consolidation, should we be expecting re-acceleration back up to these peak levels during that time?

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

Yes. I'm happy to answer that. So, let me just set the table. So we said that 2012 would be our peak CapEx year for some time to come. And that we would be ramping down significantly in parks capital thereafter, while Shanghai was ramping up. So let me talk to that.

If you look on the domestic side, we're probably -- domestic park side -- we're probably down, will be down at the end of fiscal '13 about $1 billion from where we were in fiscal '12, in terms of capital expenditures. A lot of the capital expenditure that is behind what Bob talked about as guest enhancing technologies is behind us.

On a consolidated basis, though, it's only going to look like a $500 million decrease. And, in fact, the difference has to do with investment in Shanghai Disneyland. But remember, as only 43% owners of that project, we only spend 43% of the capital. So 57% of the capital spent on Shanghai Disneyland will make its way back to us in a financing line. So, if you look at it that way, even on a consolidated basis, we're going to be down about $800 million for the year.

Michael Senno – *Analyst, Credit Suisse*

Okay. And is there any impact on the timing of that cash that's flowing back? Or is it pretty much in synchrony?

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

You know, I think there's paperwork that goes to it, but it's not like it's backloaded or it's a bullet payment. It's supposed to be contemporaneous with the expenditures.

Michael Senno – *Analyst, Credit Suisse*

Okay, great. Thanks.

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

Thank you, Michael. Operator, we have time for one more question.

Operator

Vasily Karasyov, Susquehanna Financial.

Vasily Karasyov – *Analyst, Susquehanna Financial*

Thank you. Jay, I have a couple for you. One, you mentioned that ESPN has a couple of affiliate deals coming up in the year. And you said one will be done by March. Can you please remind us what percentage of subs will be covered by that?

And also, on film, you highlighted the tough comp in the first quarter, but if you look at the remainder of the quarters, you have a major comp with the *John Carter* write-down, and then you have *The Avengers* for the next two quarters. So when we try to estimate, is it going to be a up or down quarter -- or year, sorry -- for the studio, what kind of put and take should we keep in mind there?

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

Okay. Let me take your first question -- which I've already forgotten, I'm afraid to say.

Vasily Karasyov – *Analyst, Susquehanna*

The percentage of subs coming up.

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

What I said in my comments -- I'm sorry, Vasily -- what I said in my comments was that we were going to see the kick-in from the revenue side of some new affiliate deals in the course of fiscal '13, one of which was going to be in the first [calendar] quarter. And that's not the renegotiation of that deal, but that is, in fact, the realization of the revenue from the negotiation of a prior deal.

I don't want to -- we've kind of made a habit of not getting into the details about the timing of our affiliate deals with our partners for all the right reasons of confidentiality, and not wanting to get in the way of negotiation. So I'm sorry I won't be any more articulate about that.

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

And as to your question about the comps and our film slate, obviously, we'll have tough Q3 comparisons because of *Avengers*. But we feel good overall about the slate and the year -- *Oz The Great and Powerful* in March, *Iron Man 3*, *Lone Ranger*, and of course, *Monster's University*. So we think we've got a strong film slate coming up.

Vasily Karasyov – *Analyst, Susquehanna*

Thank you very much.

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

Vasily, thank you. And thanks, again, everyone, for joining us today. I note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our 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 for joining us.

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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 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.