Nomura U.S. Media, Cable & Telecom Summit

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Disney Speaker:

Jay Rasulo

Senior Executive Vice President and
Chief Financial Officer

PRESENTATION

Michael Nathanson – *Analyst, Nomura*

Okay, let's get started. I want to thank Disney for coming, I really appreciate it. Next speaker, Jay Rasulo, Senior Executive Vice President and CFO of Disney. He has traveled to get here and I really appreciate you being here, Jay, I look forward to talking to you. And the ground rules again would be, we have cards for Q&A, pass them to the middle, at about 20 minutes to go I will pick them up and I will ask them for you. So please send your cards up a little bit later. So, thanks so much. Jay, thank you. And thank you Lowell.

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

You're welcome, Michael, happy to be here.

Michael Nathanson – *Analyst, Nomura*

So a while back we started to hear the phrase "The Disney Difference" used by the company to describe the uniqueness of your assets and your strategies. Now I would say the Disney

Difference can be extended to your approach to building businesses and capital usage. Let's use this time together to learn more about the impact of those allocation decisions.

I want to start with Media Networks, which is a business that contributes 60% of your operating income. You spent the past few years building a moat, in other words, acquiring key sports rights and adding new applications around ESPN. Are you worried that either the competition by new entrants or a changing regulatory environment or slowing pay TV growth will ultimately hurt the profitability of this great franchise?

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

Wow, we could probably do the whole 45 minutes on that whole -- those questions. But first of all, let me tell you that I appreciate your talking about The Disney Difference. It is something that we talk about a lot. And I want to spend a couple of minutes talking about that.

But before I get into that I want to get something out of the way that is specific about Q3. And it kind of refers back to the earnings call that we did a couple of weeks ago where I talked about some comparability items. And they were a little bit complicated, so I think it is worth repeating and maybe giving some clarification to a couple of items, because when we look across the estimates out there on the Street, I don't think that -- maybe either I wasn't clear or they weren't properly reflected.

First of all I want to start with the Studio. So obviously we are thrilled with the outcome of *Iron Man 3*, it is well on its way to doing $1.2 billion, that is what we think it will wind up in box office, which normally everybody would say “that is terrific.” But remember a year ago in Q3, just about in the same timing in terms of release, we released *Avengers*. And *Avengers*, third-largest box office movie in history, did $1.5 billion in box office. I also talked very explicitly about the fact that we will be marketing a film we are very, very excited about, *Lone Ranger*. All of the -- a big portion of the marketing of that film will fall in Q3. But the release, on July 3rd, is a Q4 event. So we will be having that marketing out there. And the combined impact of those two things is going to be about a $150 million decrease in OI for the Studio in Q3 compared to prior year. So I just wanted to be -- I talked about all of that on the call, but I just wanted to be a little bit more explicit.

On the Media Networks side I'm just going to repeat that ESPN is going to recognize $73 million less in net deferred revenue in the quarter, it has to do with the covenants and timing of our different deals. That is a pure timing effect.

And lastly, on the Parks, I mentioned these things but again I want to be a little more explicit. In terms of the Easter holiday, which fell in the previous year in Q3, it is one week less of the Easter holiday will be in Q3. And also we are now lapping a full year of the *Disney Fantasy*. We are now -- it was sailing for the full quarter last year and this year. And the combined effect of those things is about $65 million on the Parks numbers.

So I just wanted to get that out of the way. I know you want to talk about loftier things. But I wanted to get those items out there and be sure that we were as clear as we could be about those items.

So talking about The Disney Difference and our investment strategy; I think our strategy has been very consistent. And you know, one of the things I love about working at Disney with the management team, with Bob, is that we don't invest around business cycles. We tend – we have an investment strategy, I think it is clear, we create and buy outstanding IP that we think has deep and long legs. We have a big ecosystem under which we can capitalize on that. And it creates, we think, a very different kind of company compared to those that we are generally compared to.

And I will say that if you take an example, so let's say both happen to come through acquisitions, but Pixar is now so long ago as an acquisition it's kind of a part of the corpus of the company. But if you take the *Cars* franchise, of course the films have done outstandingly well, we don't have to talk too much about the impact that has had on our Consumer Products business. Obviously it plays right into a long-term play pattern with boys and die cast cars and giving them sort of names, faces and personalities has obviously been a huge boon to our Consumer Products business. But then you can't forget that a lot of the success of Disney California Adventure and the re-launch there was really on the back of that great franchise. *Cars* was the tentpole behind the re-launch of Disney California Adventure, and it has just blown out.

So we look at franchises in those very powerful ways, how they can affect the rest of the company.

If you look at Marvel and *The Avengers*, here is a film again that in its own right -- I mentioned already did $1.5 billion in worldwide box office -- but at the same time it has had kind of a lifting compounding effect. And you have to see the result of *Iron Man 3* and what that has done in the box office, which is more than the previous two films combined, as in some way having been affected by the success of that franchise that we built around *Avengers*. Obviously that reflects itself in Consumer Products. We have now announced that in September a show called *S.H.I.E.L.D.* is going to be released by ABC. We were talking outside -- that was the other show that I told you there was so much buzz about -- there is just an enormous amount of buzz around this franchise.

And this is -- when it's working at its best -- this is how we like to allocate our capital. Whether it is an internally developed franchise or brand or concept that we do that with, or whether it is through acquisition, we really like to think about the allocation of our capital across that kind of strategy.

So coming back to Media Networks, you mentioned ESPN and this sense of the moat. And of course when we talk about the moat, when we talk about capital allocation there, largely we are talking about the acquisition of the right portfolio of sports rights. And we feel -- I've got to say that ESPN is one of, if not the most, predictable business for us in terms of its consistency, in terms of our confidence in what it can deliver to the company.

And that is not because -- okay, it is the number one sports brands, it's got 33 years of history. And it's not just because of that, and because sports fans tell us over and over, it has to do with the actual structure of how we've invested -- very long-term sports rights deals, we pretty much know what our hand is going to be there for eight to 15 years depending on the league, the conference, the sport. But also 70% of our affiliate deals done with a similar timeframe, eight to 10 years.

So we really do know in large -- of course there is the advertising portion which is a little 30% plus of the revenue. But a lot of where we are in that business is pretty well secured and pretty well locked in in our mind. And when we look at the competitive environment there, I mean we always get asked about Fox 1 and other competitors. Look, what we think is that there may well be a very fierce battle for a distant number two in that business.

People are going to spend a lot of money. They are going to step up to bid on a lot of rights. And they are going to wind up a distant number two. So I feel -- we feel pretty confident about our hand there, we feel very good about the business. Let me be clear. We are not complacent; we look at everything that comes up. You've seen some recent deals that we have done in the tennis arena. We continue to look at things that around the edges, or in the main, continue to give us that hand that allows me to speak with the confidence I am speaking about this morning.

Michael Nathanson – *Analyst, Nomura*

Right.

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

And in terms of the use of multi-platform, in terms of having a broad array to continue to be the most popular brand for advertisers, the most popular brand for fans, we are not complacent about that. We constantly re-launch. You have heard about our Digital Center 2 up in Bristol under which our studio shows are going to have a completely new and exciting look and feel. We are not sitting back and resting on our laurels, but we do feel incredibly secure and confident about our position.

Michael Nathanson – *Analyst, Nomura*

How about the side of the question -- one thing you can't control is the regulatory environment. So how do you assess the regulatory environment and any changes coming potentially?

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

Well, of course from time to time and behind your question of the regulatory environment is this whole question of a la carte that from time to time comes up. Look, I don't think there has been any serious thoughtful analysis that suggests that an a la carte world is actually better for consumers. You know we have a strong belief that in an a la carte world consumers will wind up paying more for less available content on television.

And then if you look at the extent of basic content and the quality of the production that goes into it, not only sports production and the viewing of sports, but all the other production values that have shown up on cable networks, it is still what we think is a wonderful value.

If you look at ESPN subscribers over the last two years, you know there has not been a net change in the subscribers to ESPN. So we feel like, yeah, from time to time there is going to be some rabble rousing about this concept of -- and it always kind of ends up being focused on sports. But we still believe that the value is there for consumers and that they will continue to -- rational thinking will prevail in that belief system.

Michael Nathanson – *Analyst, Nomura*

Okay. So let's talk a bit about -- you mentioned before a key component of the rights packages lately have been multi-channel rights. How has monetization of those rights turned out, first in terms of affiliate fee dollars, and now you are done with 70% of your deals, so how does that get constructed in the affiliate fee conversation?

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

Well, we used to -- we have been for years and years we have been talking about this idea that ESPN had some time ago called “Best Available Screen” for fans. I mean we certainly know that over 99% or nearly 99% of sports is watched live, that sports fans want access wherever they are on whatever device they have near them, around them or can look over somebody's shoulder at. And we have always sought to have a very broad multi-platform offering and we continue to enhance that.

When the tablet technology and the diffusion technology came out such that we could produce something like WATCH ESPN, which is now in 55 million -- there are 55 million households who have availability to WATCH ESPN. And when we talk about a big complex deal like our deal with Comcast and say there are 70 services that were sold to Comcast, obviously we don't have that many channels, so a lot of those are different means of distribution of the same content.

And so we've gotten that out there, I think it has been -- it is well known, it's well accepted and of course it was reflected in the deals. You know, we said all along that this notion of making television programming available to consumers was a value that we were going to get remunerated for that and we waited longer than others to get out there with it until there was a monetization model that could work.

And when our affiliate deals came up for renewal, obviously it was something that the affiliates were very eager to have and paid for in the new deals that we did. But we also have the opportunity to stream advertising to those things and -- separate streams of advertising that are addressable.

Now there is a bit of an issue with measurement today. There isn't really third-party measurement on the tablet, on WATCH ESPN. By the way we have done this for WATCH Disney Channel and WATCH ABC, as was announced a couple weeks ago at the upfront. But we know since these are addressable mobile units and we know exactly what we are sending, we have the data and advertisers are paying for the ability to get those ads in front of consumers.

We are hopeful that down the road there will be the typical third-party calculation and recognition and it will impact ratings. Today it doesn't impact ratings. We do believe that the tablet watching is mostly incremental and isn't hurting our ratings, but nor are we getting credit in the ratings for the viewing on the tablets. We do have a means by which we can sell that and tell advertisers what they are getting.

Michael Nathanson – *Analyst, Nomura*

Can you give us any update on how much time -- what type of usage you are seeing on WATCH ESPN? Anything you can share on minutes a day or hours, like how many --?

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

We don't have that detail. As I said, I think we're at the point where we pretty much believe that it is incremental but I can't give you the details. I'm sure our TV people have some sense of it, but not for public distribution.

Michael Nathanson – *Analyst, Nomura*

Okay, and then you mentioned third-party measurement. What is the timeline from where you stand for third-party measurement to kick in? Is there anything you are looking at as saying --?

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

Well, there are a couple of pilot programs that are out there that we are looking at with Nielsen. Others are also working on it. We're hopeful that it will be sooner rather than later. But

I don't have any good fix on when that will be literally out there like we have for other (multiple speakers).

Michael Nathanson – *Analyst, Nomura*

Okay, I want to give you a chance to comment publicly about -- there was a report in the Journal that perhaps ESPN was subsidizing mobile usage. I think you guys said that is unlikely, so is that what you want to say?

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

Yes, it is extremely -- this is extremely unlikely and there is nothing to announce and there is nothing imminent that will be announced and I'm just not saying today. Look, we have a constant dialogue with our distributors; we are in close partnership with them across many things. There are many ideas that are batted back and forth between us and them. This was probably one of them. I don't think you should spend another minute thinking about it.

Michael Nathanson – *Analyst, Nomura*

Okay, so let me tell you this question. How do you assess –when we look at the acquisitions of sports programming rights -- how do you assess what the return on these program decisions will be? So how do you figure out what to buy and would you walk away from any rights auctions or pass on rights that you don't truly need? How does that work into your thinking?

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

Well, I think the easiest way to describe how we look at this is really we look at it as additions and subtractions to a portfolio. We look -- it is very hard when you are talking about, as I mentioned, nearly 70% of your revenue coming from affiliate revenue that isn't really dependent on whether you get the rights to the US Open tennis tournament or not, you know, as to what the pure economics of any specific decision might be.

But we do look at -- as I said, we have a good fix on what our affiliate fees are going to look like down the road. We have a good fix on what we can invest in totality around programming. And then we make assessments as to the power of each different property that comes up and how it will enhance our hand and enhance our portfolio, etc., etc., both first and foremost from a fan perspective; secondly, from a competitive perspective; thirdly, from an advertising appeal perspective. And we really kind of look at it that way.

Look, we are going to show up for everything. To repeat what I said, we are not complacent about the hand we have. We will show up for everything, but understand, and there have been many examples now, that there are things that just get bid up to the point where we certainly can't see a return on it and I sometimes question how anybody could see a return on the kinds of numbers. If you look at the NCAA Final Four, who wouldn't want that property in the sports business? But at some point, yes, I know who wouldn't, somebody who is not willing to pay what it went for. The Olympics. hockey. There are things that we have looked at, we have looked at hard, we would love to have, but we know that within the budget we know we can spend in totality and what we have got already, they won't -- they will break the budget and they won't incrementally add enough to pay back. So it's complex but it is not, unfortunately, as arithmetic as maybe you would like to hear me say.

Michael Nathanson – *Analyst, Nomura*

Okay. So let me turn to some arithmetic answers.

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

Okay.

Michael Nathanson – *Analyst, Nomura*

Okay, so we always look at the single biggest revenue driver, I don't know why, affiliate fees seems to be an important part of that Disney statement.

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

We look at it too.

Michael Nathanson – *Analyst, Nomura*

Exactly. In the most recent quarter we saw underlying affiliate fee growth close to 10% excluding all the deferrals. So given this was the first quarter of many new deals kicking in, can you help us think about affiliate fee growth over the next couple of years?

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

Sure. The -- so I said back on our call that we were looking at, for the rest of this year -- I think you asked the question -- we were looking at affiliate revenue growth between the high-single-digits and low-double-digits for the rest of the year. And I don't really like giving a range like that, but the truth is that in that range there are a couple of unknowns. There is what is going to happen with subscribers and there are the pending deals that -- re-ups -- that are still out there, not knowing exactly when they are going to fall.

I can tell you now that it is very unlikely that a deal -- a new deal -- is going to happen in the third quarter, so we're probably going to end up in the low end of that range that I gave on the call for Q3. But in terms of looking out beyond that, I don't want to be too predictive, but, as I have said, we are pretty happy with what we already know from the 70% of deals we have done and what we know the underlying sports rights costs will be over the period.

Michael Nathanson – *Analyst, Nomura*

A point of clarification, how do you feel -- is there a philosophy about new deals with big first year step-ups dropping down which was the previous regime's deals versus a more consistent level of price increases over the life of the deal?

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

Well, I don't want to get -- A: every deal is different, B: I don't want to get into details about any of the deals. But again, when we say "oh, what did you re-up ESPN for." So we think about ESPN 1, but there is the deuce, there are the other channels, they all are in different -- and then when you think about the entirety of our Cable offering -- Disney Channel, Disney Junior, XD, ABC Family -- they are all at different points of their lifecycle.

And some have history where they were launched at a rate that we thought was actually below their value and below market and you get those -- you step those up. So there is a lot that goes into what the eight or ten years of affiliate fees look like. And I don't want to kind of give you a one size fits all that hey, our strategy is to raise it and have it go flat. It is not quite that simple.

Michael Nathanson – *Analyst, Nomura*

Okay. Now going back to something you said about your visibility on this business, Cable Networks. Bob on a call last year stated the long-term margins, it was interesting that you guys, the first time I've heard this on that for a while was long-term margins are going to expand at Cable Networks over the life of the deals you are doing.

But given the step up in sports rights since that point in time, and any affiliate deals that you now have done, do you still believe that vision Bob had of a long-term margin expansion within the Cable Networks group is sustainable?

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

Well, look, first of all we don't give guidance on margins and there is a reason for that. We don't run our business on margins. It's not how we -- knowing the lumpiness that goes into the running of our Cable Networks, new deals and all the stuff we've been talking about -- we don't tend to look at quarter-by-quarter margins and so on and so forth.

I will say that with everything we know, we see ESPN as a growth business and we still believe that it will continue to grow. The specifics of how we get there I don't want to get into. But I think that what Bob meant is that we see ESPN as a growth business, that he is confident of that. He was asked a question that happened to be about margins. I think what he was -- the news he was delivering was that ESPN is a growth business.

Michael Nathanson – *Analyst, Nomura*

Okay, let's switch over to another growth area which is international. So can you talk a bit about driving growth internationally in Cable Networks? And you may want to separate Disney from ESPN.

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

Well, let me start with ESPN and kind of wrap up on that because I think you have asked every question there is possible to ask about ESPN. But so, look, we -- all of you know that we have moved out of the UK, we've unraveled our joint venture with Sky in Asia -- Southeast Asia and India. And it looks like kind of a retraction of our international strategy for ESPN. I would say that it is a repositioning of our international strategy at ESPN.

We continue to be very bullish about our growth prospects in Latin America for ESPN, that business is doing great. Our Canadian business is doing well, our businesses in Australia and New Zealand are doing well. And I wouldn't say that we are forever out of the sports business in either Asia or India. Just under the format we were in, it was a situation with two partners that started to see a divergence in their interests in the region and we decided to go our own way.

So, look, I think that ESPN on the large in the intermediate term is fundamentally a North American business as far as you guys are concerned. But we continue to push ESPN around the world wherever we think we can have a successful business model. That was not the case under the circumstance we were in in the UK. So we decided to pull out of that.

But more importantly, in terms of the Cable business, the Disney Channel's international expansion is almost the exact opposite story. We are extremely bullish, we now have 106 Disney Channels in I think 147 countries. We are absolutely sure that the Disney Channel is the leading edge of bringing the Disney brand to most places around the world.

The explosion of mobile access to consumers in markets where it took forever to get wired from a cable perspective, we think presents an incredible opportunity for our programming and we will continue to push that as one of our key business strategies either under the sort of traditional cable distribution system or free-to-air.

And we have opened a lot of free-to-air channels, Russia, Turkey, we have moved to free-to-air in Spain, South Korea. We continue to realize that the Disney Channel is the bearer of our brand around the world. Of course once we have a theme park in a region that becomes a shared equity. But we know that is a great way for us to enter a lot of markets and we continue to be bullish on it and like the business model that goes with it.

Michael Nathanson – *Analyst, Nomura*

Okay. I have run out of ESPN questions for you. So I've got to ask you about the real estate cost. But let me ask you about Parks and Resorts business that you know a lot about. We have now essentially completed all the major projects started under your watch as Chairman way back when. Can you help us think about which projects are outperforming your initial plans? So we will start with that.

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

Sure. Well, we have been pretty vocal about Disney California Adventure and the expansion there. And I don't know, there are so many measures against which you can try to -- so many metrics against which you can try to measure the success of something like that.

And it is an A+ on every single metric in terms of the quality of the product, the buzz it has created, the distribution of guests in that property, which was one of the underlying strategies, we had a very uneven distribution where most people spent most of their time at Disneyland and Disney California Adventure was empty which was causing capacity issues at Disneyland and holding back our attendance, all solved. Now about half of the folks go to one, half of the folks go to the other, it is almost a dream come true.

You have seen the trends quarter after quarter in terms of what it has done to the attendance there, how it has allowed us to price behind it. So that project has fulfilled -- is on the trajectory of everything we had hoped for.

Cruise line, now with the *Dream* and the *Fantasy* out there -- full all the time, getting incredible premium rates, great guest ratings. Clearly that was a capacity need. That need has been met by the demand that we thought was out there. And we are very happy about it.

And so far, early days, but in the Magic Kingdom down in Florida great reviews against what is the single most demanded event at a Disney park which are our character meet and greets, many of those being Princess character meet and greets. It is fulfilling a real need there.

So if you look at those new projects, in totality, they are actually accretive in fiscal 2013. The flip side is that that increase in OI is being offset by the investment we are still doing in *MyMagic+*, which will probably launch before the end of this year in its, I don't know, I won't say totality, but largely be launched by the end of this year and fiscal year. And we have very high hopes for it, the early read is good, but right now it is still a drag on our earnings. In totality we expect in 2014 that all of those new initiatives will be accretive.

Michael Nathanson – *Analyst, Nomura*

You must have a drag in your earnings from start-up costs at Shanghai, so there was a bit of a cost pressure there.

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

Yeah. But more in this towards the end of this fiscal year from *MyMagic+*, although Shanghai has definitely got expenses associated with that investment underway.

Michael Nathanson – *Analyst, Nomura*

I think I've made a living keeping track of all the projects at the Parks. And one of the questions we always get and we will ask you is, if you exclude all of the new projects and initiatives, okay, do you expect to surpass the old peak margin in the years ahead?

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

That is a favorite -- that is a favorite question. So, the nice thing about that question is the total lack of specificity about old and peak. But that is okay. I don't want to go back 100 years and back to the days where we weren't consolidating our foreign operations, we weren't pushing down incentive comp, pension costs weren't where they are and so on and so forth.

So if we don't go back too far and we go back like, I don't know, 10 years or five to seven years, I would say 10 years. If you back out a lot of stuff that has been going on that we were just talking about, we are basically at where we were in terms of the peak margins. And you know I have been saying when I was in my old job and I have been saying on behalf of the new team and Tom has been saying on his own, there is nothing to keep us structurally from achieving those margins in what was the base business.

Now at some point the base business looks radically different. But I will tell you that as we see all of these new initiatives not only being accretive to OI but accretive to margins, the new normal, we should wind up better than we are when those things are all running in their steady state.

But if you tear away today all of the stuff like that we didn't have in the first half of the 2000s, we are basically already there on the base business in terms of where the margins are now. I think we have still got, to be frank, a little way to go in terms of economic recovery. Not sure we're 100% back yet. So we are bullish, we are bullish on the business. I mean we are very, very happy with the way that business is evolving.

Michael Nathanson – *Analyst, Nomura*

And get more consumer confidence as it feels like (multiple speakers).

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

Yes, exactly.

Michael Nathanson – *Analyst, Nomura*

Let me talk to you about Shanghai as the biggest -- it is now your biggest opportunity in front of you on the Parks side. Can you give us an update on the early developments and how should we think about the longer-term financial opportunity relative to Hong Kong or Euro?

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

Well, to state it at 50,000 feet, we look at Shanghai and the capacity is there and the market is there in terms of land, available middle class people, growth of the middle class market, for Shanghai to be our second largest theme park destination in the world. Now, there is a long way between today and it surpassing very successful businesses or aspects of our business in California, in Tokyo, in Paris, etc.

But if you look at the fundamentals and you look at the capacity in terms of the deal that we have done with the Chinese government in terms of access to land and infrastructure access for both people, utilities, etc., to that site, it certainly has the potential to be big.

Vertical construction started a couple months ago, all the infrastructure is well underway, and we feel pretty good about the -- where we are creatively, we haven't made a whole lot of announcements way in advance about what the creative content will be. But I think if you look at our history here and if you go way back and you look at Disneyland Paris, I think we over anticipated, particularly in hotel capacity, what could be delivered on opening day to that park.

One could argue at Hong Kong the pendulum swung in the other direction, we undersized it for expectations behind what a Disney park is. I think that in Shanghai we are going to hit the nail on the head. We are going to be just where we want to be when we open with already an understanding between the partners and certainly internally at Disney that this could be a place that needs to ramp up very quickly in terms of capacity.

And we feel very strongly that with our partners we have come to a great blend between things that are authentically Disney and everybody wants -- no matter where in the world it is -- they want something that they recognize as authentically Disney, but distinct in the Chinese aspects of it. So we kind of coined the phrase authentically Disney, distinctly Chinese. And I think that is going to take us a long way.

Michael Nathanson – *Analyst, Nomura*

And that is what we learned from Hong Kong, right?

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

Yes. Over time more and more sales of Hong Kong packages and visitation came from the mainland. So we have learned a lot about selling practices, about the structure of agents -- the travel agent business, how to sell in mainland China and that is going to give us a huge advantage for the opening of Shanghai, even though we believe that it is fundamentally a separate market it will -- it is still a mainland Chinese market and we feel like we have gained a lot of experience since the opening of Hong Kong.

Which, by the way, its expansion has done remarkably well. We opened a couple of weeks ago the last phase of that three land expansion that we did in Hong Kong. And the place is just on fire, it is just doing great. So I think that we are well prepared for Shanghai.

Michael Nathanson – *Analyst, Nomura*

Okay, let me take you to the Studio for a bit. With the tremendous success of *Avengers* last year and now *Iron Man 3*, the $1.2 billion number. How does the return profile now look on the Marvel deal? Because when you're sitting here and you see the deal it's incredibly hard to measure it in the short cycle, you need to look at it...

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

Yes, well, look, after we acquired Marvel we -- so going in there was all this untapped IP. You heard it from us, it was written up broadly, 7,000 to 8,000 characters, really untapped. But just beneath that was also the sense that as a company the size that Marvel was at that time, they simply did not have access to the worldwide markets the way Disney does. And they were using reps around the world. Anybody who is in the licensing business knows you pay out 25% of your revenue to be repped by companies around the world. And we knew we could sweep all of that away virtually on day one and give that business over to Disney people that were already in the market to sell. We also knew that combining it with the sale of Disney licenses in regions around the world that we were more powerful together as Disney and Marvel than we were -- than Marvel could be on a freestanding basis. And that was sort of the early days.

But we looked out and said, this isn't about taking a bunch of characters and trying to do better licensing deals. This is about using the entire Disney ecosystem, the machine that Disney has for distributing content around the world against what were largely nascent properties. So *Spider-Man* was doing well already, *Iron Man* had the inkling that it could do well, but by and large most of the Marvel characters and properties were pretty nascent.

And we set our sights specifically on *Avengers* with a strategy that we would release what is called an origin film for *Thor*, an origin film for *Captain America* who would eventually show up in *The Avengers*. Of course *Iron Man* was already out there and then we'd end up introducing a few more characters into it -- *Hulk* was already out there, that we would ultimately grow this thing.

So when we released *Avengers* we did put the power of The Walt Disney Company behind that and I think for two years we were incredibly patient and got asked lots of times the question you just asked me about well, what's going on with Marvel and how is the integration going and so on and so forth. When we knew all along that we were setting ourselves up for this huge event that we believed would have, as I mentioned earlier, compounding effects on all the future films for those characters and be in its own right something that was sequel-able, and so one and so forth.

So anyway the plans turned out exactly as we'd hoped, we are firing on all cylinders, we have now got television production both on the animation side, *S.H.I.E.L.D.*, as I said. We are looking at theme park applications of Marvel, we use the IP in the digital space. It is just -- everything we'd hoped for that acquisition is happening. So we feel great about the returns there, it is the least of our worries. And we just hope and are starting to prepare for doing the same thing for Lucasfilm.

Michael Nathanson – *Analyst, Nomura*

I will take you there. So that was a surprise, the Lucasfilm acquisition. You just mentioned all the Marvel things that you've been able to do. So like Marvel, do we need to wait and evaluate the returns of the box office or are there things you can do right now that can drive returns on Lucasfilm?

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

Well, look, clearly, we are as a company very focused on 2015 and the release of the next -- the first film of the next *Star Wars* trilogy. But we are not sitting back on our laurels waiting for everything to happen. So if I kind of tick through -- and maybe some of this will be a little bit vague. But if I tick through what is going on -- so Lucas had the same situation with reps around the world outside of the US. And we have already sort of issued notice that we will take that in house.

We have already started to strategize and in fact taken out into the field with some pretty important licensing deals to us, sort of the combined force of *Star Wars*, Marvel and Disney and sort of presented that as a single unified idea and shared the "best ofs" across the different ways of thinking about our contracts.

We've announced that we've got that first film in 2015 and at the time of acquisition said we would come back with a *Star Wars* film every two years. But subsequently have announced that we will do sort of origin stories or stories within the story of the *Star Wars* worlds, the years in between. So now we will be coming out with a film every year that will be wrapped up in the *Star Wars* mythology.

We've also launched *Star Wars Rebels* as an animated television concept and we just -- we continue to really push the envelope on what can happen while we are working on what will be a highly anticipated film release in 2015.

So lots of stuff is happening a little below the surface. By the way, lots of stuff was happening on the Marvel acquisition before the release of *Avengers* as well. But we clearly know that this will be a big event for us and we'll be fully prepared to take advantage of it.

Michael Nathanson – *Analyst, Nomura*

Let me ask you, is there a philosophical question here? Disney has moved away -- with Marvel, Pixar, Lucas -- from building its own viable IP to becoming a portfolio company that can successfully monetize other people's IP. Is that a statement about the ease or the challenge in building franchises going forward?

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

No, I don't think so. If you -- you have to say that with *Tangled* and *Wreck-It Ralph,* Disney Animation is really back hitting all cylinders. Those were two amazingly successful franchises, the first of which, *Tangled*, has already largely worked its way through the ecosystem, *Wreck-It Ralph* just beginning to work its way through the ecosystem.

And if you look at the Disney Channel, the Disney Channel now number one among kids programming. Franchises like *Doc McStuffins* and *Jake and the Never Land Pirates* -- I mean these are incredibly powerful classical Disney franchises that, as you said, you and I are old and we don't have three and five year olds running around our house.

Michael Nathanson – *Analyst, Nomura*

I have a two-year-old.

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

Three and five-year-olds, but if you did have a three and five-year-old running around your house you would know all about *Doc McStuffins* and *Jake and the Never Land Pirates*. So I don't want to say that even though Marvel has a concept so huge, *Star Wars* is a concept so huge, casts a very big shadow, it doesn't mean that we are out of the IP creation business. IP creation is the DNA of Disney, there is an incredible expectation behind the Disney brand for what that means and it is not the same as Marvel and it's not the same as *Star Wars*.

And we continue to feed that pipeline. We've got *Monsters University* coming out very soon. I think you are going to see that Pixar has kind of slid into what people think of as Disney. It has been part of the company long enough to be that. And then we've got *Frozen* coming out, our next animated release. And I think that the IP that we are creating within the company has just as much impact on some of the franchises we haven't talked about like Princess, *Cars*, *Toy Story* as those things that we acquired.

Michael Nathanson – *Analyst, Nomura*

Okay, let me take you through some of the questions here.

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

Sure.

Michael Nathanson – *Analyst, Nomura*

When are retrans, a hot topic for the Broadcast Network -- how quickly should we expect the ramp of retrans to $1 billion after you hit your target which you've stated at $400 to $500 million. So what does the next level look like?

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

You know, we've got -- I'm not going to give any predictions about that. We've got -- we put our $500 million -- $450 to $500 million number out there by 2015. We've got long-term deals that obviously have escalations as part of them but I am not going to get into the details about the trajectory there.

Michael Nathanson – *Analyst, Nomura*

Well, how about this? From the moment when you put that prediction out, are the fees getting better than what you first imagined?

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

Consistent with what we put out.

Michael Nathanson – *Analyst, Nomura*

Okay, as far as non-authenticated, can you share your thinking on selling SVOD your first pay window for films plus ABC.com and Hulu strategy with non-authenticated access given how important affiliate fees are? So the strategy of allowing some of your better content to go to places that are not authenticated.

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

Look, as a content creator from a pure economics basis or a pure economist perspective you would love to have more people out there looking for your content. And the success of your business strategy is how nimble you can be in making the right decisions both from a short-term economic perspective and long-term structural perspective in the exploitation of your IP.

I have reviewed many, many times with all of you the principles under which we like to think about non-authenticated use of our IP. Obviously we are huge beneficiaries of the authenticated ecosystem. And we continue to value it and want to continue to strengthen it and I think we do do that in every deal that we do and the bells and whistles that come with the multi-platform strategy we are using.

But, let's face it -- there are big dollars out there to be had for those who are finding a sort of opportunity in the non-authenticated world to provide a service that clearly is being demanded. And as a content provider we want to take advantage of that and have been.

So I don’t want to be too predictive about what our next deal will be. But we talk to lots of people and I think our job is to continue to create content that five people show up and want to do a deal to use including our authenticated partners.

Michael Nathanson – *Analyst, Nomura*

Okay. A couple on Parks. One is, do you have increased confidence looking at Parks that the US consumers is getting healthier based on any kind of things you are seeing in the Parks business?

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

Well, look, we kind of give you -- you get of course our reported numbers, but we try to give you trends looking out at every quarter at what we are seeing. We have seen -- I don't -- I guess by way of the fact that we are a couple weeks down the road I am updating what we said on our Q3 numbers. But we are seeing the same trends across the board that we saw when we announced our Q2 results in terms of our bookings pacing, our per capita spending and so on and so forth.

So I would have to say that for every quarter that you continue to see improved results in that business you have to say that the consumer is getting healthier. Would I say stepping back from the observations of our own business that there is something indicating that all the clouds have separated and the world is a sunny place? I don't think so. I don't think we have enough information to know that.

Michael Nathanson – *Analyst, Nomura*

Okay, a couple on capital returns. One, in light of many other companies in your peer group taking steps to get smaller through asset sales and spin-offs, can you help us think about how Disney views the needs of being in all of the businesses that you are in now?

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

Look, I think that we -- when we step back and we look at our businesses we think that each and every one supports the notion that we started with an hour ago about the Disney Difference and what gives us the opportunity to distribute great content to just about every way it can be consumed. And some of those are through great partnerships and some of those are direct, like theme parks and the Network.

And I would say that we don't see -- we don't have any holes in our asset – in our ecosystem that I feel like we need to go out and buy something to fill it. And nor on the flip side are we desperate to get rid of something because it is just a terrible fit. Now, are there things that are more consistent with the Disney ecosystem than other things? Yes, there are some things that are more consistent. But we feel like living up to fundamentally what we are, a family entertainment company, a content creator. We are pretty happy with the mix of assets we have today.

Michael Nathanson – *Analyst, Nomura*

Okay, one question on RFID or -- okay. So the question is --.

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

Sounds technical.

Michael Nathanson – *Analyst, Nomura*

Any additional details you can share both financial or technical or updated timing of roll out for the projects -- so at what point do we start seeing it?

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

Yes well, we have done a lot of pilots down there. If you have been down to Walt Disney World over the last two or three months you may well have been walking around wearing a wristband. We have done -- all the hotel room keys have been converted to RFID. And I think that the team just wants to live up to our reputation of being perfect when they launch this thing.

It is a big undertaking, I think it has amazing, amazing value to consumers whether it is in the preplanning; whether it is carrying those plans around with you; whether it is having the access to your planned itinerary via advanced fast passes; being able to make transactions in a seamless, quick, easy way; being able to be exposed to opportunities because we know where you are and when you show up at places if you so desire to opt in -- I think opens up a world of opportunity both for consumers' enjoyment of our property and our ability to retain loyal customers, increase the frequency of their visits, perhaps bring some people in who have been turned away by -- frankly turned away by our success, the number of people who are down at Walt Disney World or Disneyland on any given day, as well as upselling opportunities.

So I think it is a huge win for consumers, I think it is a big win for us. As I said, I think by the end of this fiscal year you're going to feel like it is rolled out, but there are aspects of it that will continue to be enhanced over time.

Michael Nathanson – *Analyst, Nomura*

I feel like both from the cost side but also the revenue opportunity [multiple speakers].

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

Yes. I think the revenue opportunities -- and remember that what we said on our last earnings call in some detail was that a lot of the revenue opportunity is literally increasing the volume of people and the amount of time that they spend with us. There will be other bells and whistles that tier into that and maybe not all of those will be available by the end of this fiscal year, but will be over time.

Michael Nathanson – *Analyst, Nomura*

Okay, last question and you are going to laugh because it is about sports and ESPN, is given the increasing value of sports rights, why not buy more teams in local markets and maybe get into the local market business in terms of the local RSN business versus the national business. How do you feel about that?

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

You know, we did a lot of -- obviously a lot of chatter about RSNs and the incredible numbers that have been attributed and associated with their services. We've really had the chance to think strategically about what we are and what they are. And we like to believe at ESPN that we are a network for sports fans. RSNs are generally a network for -- call it whatever, Dodger fans, Yankees fans. And we like our positioning as being the sort of number one brand in sports for sports fans. And if I'm interested in sports I'm going to turn on ESPN, as opposed to if I'm interested in the Chicago Cubs I'm going to turn on XYZ.

So I don't see us moving into that business. I think we are happy with the definition of the business as we see it. We are good at it and fans and advertisers and our MVPD partners tell us that every year. In 13 consecutive years we have been the number one valued network. I feel like we know the business we are in and we will stick to it.

Michael Nathanson – *Analyst, Nomura*

Okay. And with that, thank you so much Jay Rasulo. Thank you, Lowell.

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

Thank you.

Michael Nathanson – *Analyst, Nomura*

Thank you so much.

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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 September 29, 2012 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.

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