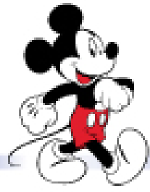


# Goldman Sachs 22nd Annual Communacopia Conference

## SEPTEMBER 24, 2013

**Disney Speaker:**

## Bob Iger

*Chairman and Chief Executive Officer*

**PRESENTATION**

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**Drew Borst** – *Analyst, Goldman Sachs*

Great, thanks everyone for joining us. I am Drew Borst, media and entertainment analyst at Goldman Sachs, and I'm very pleased to welcome Bob Iger, Chairman and CEO of The Walt Disney Company. Just as a very brief introduction, Bob has been CEO of Disney since 2005. He became Chairman in 2011. And then just recently in July, he agreed to extend his term as CEO by 15 months. So he will be on board until June 2016 as CEO.

During his tenure as CEO, the stock price of Disney has appreciated by 167%; that is versus the S&P up only 42%. During his tenure, he has made a number of investments to expand Disney, including adding two new cruise ships, rebuilding California Adventure, expanding into China with the Shanghai Park that will launch in a few years. He has also made some very strategic acquisitions, including Pixar, Marvel and most recently Lucasfilm. So thanks very much, Bob, for joining us.

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

Thanks, Drew, good to be here.

**Drew Borst** – *Analyst, Goldman Sachs*

Maybe we can start off with a high-level question about kind of the strategy that you see for the company. As you look at the assets, what are you most excited about and where do you see the biggest opportunities for incremental growth and returns over the next few years?

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

Well, I'm excited about the collection of assets. I think the company's brands, which is its most viable assets, and its businesses are unparalleled, unrivaled in the entertainment space globally these days. And they are all positioned to take advantage of what is I think a pretty robust marketplace, powered in many ways by new technology.

So you have got high-quality entertainment brands, Disney, ABC, Pixar, Marvel, Lucas, to name a few. And you have technology that is suddenly creating platforms that enable us to reach far more customers in many more ways than ever before. So I would say the first thing I'm excited about is this array of brands in this world that is definitely giving us more opportunity to reach people.

There are also some significant developments internationally that are very helpful to our company because of our ownership of those brands. There, the Disney name, Pixar, Lucas, Marvel, *Star Wars* under Lucas, obviously, have significant opportunities outside the United States, not only for what I will call filmed entertainment, but for all sorts of other essentially spin-off or leveraged businesses from the filmed entertainment. So I think it is a very, very strong, robust marketplace for a company like ours.

We have also made some significant investments -- not only the acquisitions that you talked about, but the investments that we have made in parks, both the cruise ships that you mentioned, but the investment in California, the construction of and creation of a new Fantasyland in Florida, the additions that we made in Hong Kong, the improvements that we've made in Tokyo and of course the building that is going on right now in Shanghai that I think is going to power the company's growth in that sector for many, many years to come. So I'm excited about the collection of assets and I'm excited about the world in which we operate.

**Drew Borst** – *Analyst, Goldman Sachs*

One of the trends in the media industry has been sort of scaling back the operations through spin-offs and in some cases sales.

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

Doesn't sound like we have done that.

**Drew Borst** – *Analyst, Goldman Sachs*

No, I get that is actually where I was going with this, is you guys have kind of been going in the opposite direction. When you look at the portfolio, are you pretty satisfied with where Disney stands today in terms of the assets that you have? Are there any that you might consider scaling back on?

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

Well, we divested a long time ago, when Disney bought Capital Cities ABC, and it sold most of the publishing assets that had been part of Capital Cities ABC -- there was a collection of them that included daily newspapers -- well ahead of a trend and well ahead of, I think, that industry's most significant issues and challenges.

We did the same about five years ago or more with our radio business, also believing that it was a business that was going to deliver low growth for the company and wasn't necessarily a core business and it was facing more challenges.

I am very satisfied with the asset collection that we have today. I think that they all have opportunities, given the dynamics that -- some of the dynamics that I cited earlier. We will always look to -- or opportunistically if there is a chance to essentially add to our portfolio of great brands. I also think in today's world that there is a greater and greater need to understand technology and to have technology expertise within a company like ours, because we rely so much on technology to reach consumers. And while third-party distributors are spending most of their capital to create these platforms that enable us to distribute and reach more people, I think it still serves companies like ours well to have embedded within the company some level of technology to enable us closer relationships to customers, and primarily to enable us to basically make better product and to tailor product in what is clearly a new media landscape.

**Drew Borst** – *Analyst, Goldman Sachs*

Last week you announced that you were going to increase your share repurchases, targeting next year's $6 billion -- minimum $6 billion, up to maybe $8 billion of repurchases. Could you maybe elaborate a little bit on your thinking there? What is giving you the confidence to increase the pace of buybacks now? And just generally what is the philosophy about returning capital to shareholders?

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

Well, let me look back first. Since I have been CEO, roughly 60% of our capital has been invested in our businesses to not only enable growth, but to essentially tailor them to marketplace changes that we have seen and to, I think, take advantage of these trends. About 20% has been spent on acquisition, and the remaining 20% has been spent on buybacks and dividends. In fact, we increased our dividend pretty substantially these last couple of years.

I don't think you will see much change going forward, although we have said that we don't see any potential acquisitions of the size of Marvel, Pixar or Lucas that are out there or that are imminent in any way. We are moderating our capital investment certainly domestically over -- we expect to over the next few years. And as is the case in 2014, which is why we made the announcement, we are going to increase our free cash flow.

So given the known about 2014, with a slight reduction in capital expense and continued growth in the company and its bottom line, we thought that it was a good time for us to be more clear and more specific, I guess, to the outside world about what our intentions were on buyback.

We've not made any decisions beyond 2014, although I think it's safe to assume that our free cash flow generation is likely to improve in the years ahead and we will have, I think, interesting decisions to make in terms of how we allocate that.

**Drew Borst** – *Analyst, Goldman Sachs*

Let's segue into the operating divisions now.

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

You know, I just want to touch on one more thing -- sorry to interrupt you. But the other thing I think that is important to note is that the investments we've made in our businesses and the acquisitions have, I think, generated a substantial amount of shareholder value. And just to your comment about the stock price since 2005, I think is, I think, one example of the kind of value that we have generated from those acquisitions and those investments.

And I believe that the investments that we've made both on the acquisition side and to essentially grow our businesses organically will continue to deliver substantially increased shareholder value in the foreseeable future.

**Drew Borst** – *Analyst, Goldman Sachs*

Yes, I should mention that that 167% stock performance didn't include the dividends, so that would actually lift up the total return.

At any rate, segue now to cable networks, which is the largest operating division. To bearish observers, the traditional multi-channel video model with its big channel bundles looks vulnerable as higher programming costs, especially for sports, leads to higher cable bills for the consumers, and that could increase the risk of cord cutting, especially as you have more and more digital over-the-top types of businesses coming into the market. How does your view of the landscape differ from that sort of bearish scenario?

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

We could probably talk about this for hours. Well, let me begin by saying that I believe that the $75 100-channel expanded basic package for the consumer is a really good bargain today. And I say that because when you look at the array of product available in that bundle, and you look at both the variety and the quality and all of the investments that have been made in that programming, which has been dramatic increases in quality over the last decade, I think the consumer is getting a good deal.

I also think the distributor gets a good deal, because with that bundle, the distributor has created a relationship with their customers that has also enabled substantial sales of broadband services and of telephony. So you can't look at the MVPD of today and only focus on their video business; you have to look at the collection.

And while the cost of programming has increased and perhaps that has resulted in some lower margins for the distributor, the fact is that they have put themselves in these other businesses that has powered great growth for them over the years. And they may have to accept lower margins on their video business because they are in a business that goes well beyond that. And to hold their consumers, I think the video business is vital. Not only did it put them in the business, but I think it is very, very important in terms of their so-called triple play.

I also believe that the collection of this programming will only be enhanced by the ability for the consumer to watch this programming out of home. And it is essential for programmers and for distributors alike to make sure that those channels are available on mobile devices. Because I think the most dramatic change that I have seen in the 40 years that I have been in the media business is the growth of mobile or smart mobile devices, whether they are phones or tablets.

And it is clear to me, not just from my own personal taste, but to those that I observe in the marketplace and to our customers, that that platform, the called smart mobile platform, is becoming very, very robust to consume video on. And people want to consume video on that, not just in more convenient ways in the home, but out of the home. Now this is really good in

many respects because it is going to enable greater consumption, because the flexibility that people have to consume this video has and will continue to increase tremendously with this out of home experience.

What we have been doing is we have been going to the multi-channel distributors and offering apps -- we call them WATCH apps, Disney, ABC, ESPN. We've been getting paid incrementally to enable the distributor to sell those apps to their customers, because they are selling their customers mobility that they haven't had before. That is of added value to the distributor and of added value to the customer.

We have got to, as an industry, I believe, basically grow or enable all of this to happen. Because I think not only does it create relevance to the multi-channel package, but it enables the consumer to do something that is far greater than they have been able to do before, and it keeps the multichannel platform healthier and basically more competitive to all of the other entrants in the marketplace.

Now, we don't have our head in the sand; it is a much more competitive marketplace than it has ever been before for people's time and for people's money. And new platforms, which I cited earlier, which are a boon to us, because we are a content creator, is no question putting pressure on the bundle and will continue to. So we have to make the bundle more attractive by enabling it to be consumed anywhere, anytime. To me that is very, very simple.

And I hope that we can come up with ways -- we believe that we have, but it takes a village -- it takes basically a two-way partnership -- for the consumers to access this in very, very user-friendly ways. Because the ability to find it, download it, sign up for it, has to be really simple for the consumer in order for the consumer to adopt it. I think again, it is of great value.

Now on the cord-cutting side or the cord-never side, so far we don't see evidence of this occurring. We don't see evidence of people basically turning off their bundle because they can watch hundreds and hundreds and hundreds of hours on Netflix. Now, they are different products. The Netflix product is obviously less timely in the market than what is offered on the linear channels. And so I think the linear channels compete well with what else is available.

But I think it is really, really important that we continue to offer product as part of the bundle that is as viable and as attractive to consumers as it has been in the past.

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**Drew Borst** – *Analyst, Goldman Sachs*

You know, with the mobile, you guys have been at the leading edge of it, I think, with your WATCH apps. And I think your WATCH ESPN was one of the first ones to kind of come out. Where do think you are in terms of getting that scaled up in terms of monetization and what are sort of the gating factors there?

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

Well, first of all, we are just at the tip of the iceberg, because we haven't made deals with all distributors yet. I don't know the numbers in terms of the millions, but we have done a number of deals, and the apps have been downloaded by the tens of millions. But I don't have numbers that I can give you off the top of my head in terms of how many people have actually authenticated those apps.

There are three ways, as we see it, that we will be able to monetize that business. One, I mentioned, and that is getting paid incremental amounts by the MVPDs for their -- to give them the ability to sell mobile video to their customers.

Second is advertising. Now, the measurement system is very, very nascent, if non-existent in some cases. So measuring consumption on these platforms needs to happen in order for us to monetize from an advertising perspective better than we are today. But I believe that will come. And I believe that you will see probably a substantial growth in native advertising on these platforms; that is, advertising that is specifically tailored for those platforms.

And the third part, which I think will tie ultimately into the advertising, is getting access to user data so that we can target ads better, so that you can create native ads that are basically of more value to the advertiser. But also getting access to user data so that we can get closer to the customer, figure out what their wants or their needs or their interests are and ultimately offer them product that is much more customized or personalized. And I think there is obviously revenue to be mined from that. So some form of low subscription fee, advertising and user data will be the ways this gets monetized.

**Drew Borst** – *Analyst, Goldman Sachs*

So there has been a lot of rumors recently about companies like Intel and Sony looking into sort of what people call these virtual MVPD models, which is -- basically the concept seems to be they will offer a channel bundle that is pretty similar to what is being offered by traditional satellite and cable companies, although it is just going to be delivered over broadband, over the top.

I wonder what you think about this business model. Is that something that you guys are interested in discussing or pursuing? What are sort of the pros and cons you see in terms of this model?

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

Well, we have been platform-agnostic for years. So if a new platform, whether it is an over-the-top platform or not, comes along and is willing to offer us basically deals or packages that are

similar to what we are doing in -- I will call it the more traditional world, then we are completely open to selling our product to them.

We also want a platform that is user-friendly. So -- and technology plays a big part of that. Actually, what is interesting to us is that some of the new platforms, I believe have the ability to offer services to the customer that in many ways leapfrog the existing platforms, because they don't have the legacy technology; they are using new technology.

So -- and I think it is very, very interesting to hear some of what Randall Stephenson had to say before. You are looking at platforms that will use very, very high-speed technology that will deliver services to customers anywhere, wired or unwired, in many cases, unwired. And that is of great interest to us, because it gives us an opportunity not only to tailor product for those platforms, but to offer customers product that is in many respects more attractive than what we've been able to offer before, more bells and whistles.

So I think it's, again, going all the way back to what I said earlier. For a Company that owns Disney and ESPN and ABC and Marvel and Pixar and Lucas, it is a pretty interesting world, because we are typically one of the first calls that is made by a new platform owner who wants access to content. Why wouldn't you -- you almost have to have our product in order to launch a platform.

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**Drew Borst** – *Analyst, Goldman Sachs*

Yes. I wonder how much -- like in terms of your thinking, as you are evaluating that, how much are you concerned this is an unproven sort of business model? Do you worry about the consumer being disappointed? They subscribe through a third-party company for the service, but then they can't get their ESPN through it. Do you worry about there being negative impacts on your brand, or do you think that that is not necessarily a big risk for you?

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

Well, meaning they will offer product without ESPN?

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**Drew Borst** – *Analyst, Goldman Sachs*

No, sorry. They offer product --.

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

That would be a huge mistake.

**Drew Borst** – *Analyst, Goldman Sachs*

I think it would be pretty -- I agree with you, probably be pretty hard to launch a product without ESPN, et cetera. No, they offer a product that has ESPN and a whole suite of channels --

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

Oh, and something doesn't work?

**Drew Borst** – *Analyst, Goldman Sachs*

Yes. It --

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

I think there is going to be -- look, we have taken the position that we are better off being first or near first at making our product available to these platforms, because one, it helps them get started. Secondly, by launching early, we end up learning a lot more quicker, and I like that. There will be some experimentation and some trial and error, but we are willing to take those risks, including, in some cases, putting product on platforms where monetization is not necessarily as obvious.

Now the over-the-top that you talk about obviously will have to come with the kind of monetization that we typically glean from the MVPD deals that we've made. But I think there are going to be times -- and what we did with Apple when they first launched the video iPod back in 2005 or 2006 was an example of that, where we thought it was important for us not just to keep our product relevant, but for us to learn more about mobile video at the time, and how consumers were using it or what consumers would want from it. We thought it was interesting even though monetization -- then it was all sell-through -- monetization was somewhat in question.

We will continue to experiment on new platforms to learn earlier about it, to -- and it's not just learning how the consumer behaves, it is also learning how technology can be used to basically improve access for us with distribution.

**Drew Borst** – *Analyst, Goldman Sachs*

Wanted to ask you about margins at ESPN, and just get sort of your high-level thoughts. I recognize you guys don't give guidance on margins. But ESPN is going to go through an interesting time here next year. Many of their major sports contracts get reset higher, Major League Baseball, *Monday Night Football*, et cetera.

On the other side, on the revenue, you guys have also gone through and renegotiated many of your distribution, your carriage deals, with cable and satellite. So could you talk to sort of generally about how you see the short and long-term growth of ESPN and how that kind of contributes to the cable network division?

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

Well, most of their deals with various sports organizations are done, and they're long-term deals. There is, I think, one left that is of significance and that is with the NBA, and they've got a couple of -- ESPN has got a couple of seasons to go on that deal. So they have locked in these fees.

The new deals start to kick in starting in -- some kick in 2014, so there will be increased program costs for ESPN. But the knowns in terms of their program lineup are significant. And what is really important there from a competitive perspective is that ESPN has stepped up and improved, I think significantly, the quality of their offering by making these deals. And there are countless examples of that, from the BCS to the new packages that they've negotiated with the NFL and Major League Baseball and the tennis events that they bought, and I could go on and on.

So they have a higher-quality offering and the knowns in terms of their program schedule are significant for pretty much the next decade. That is a big deal, particularly in a world that is getting more competitive.

They have also done, as you said, a lot of long-term distribution deals. They have a couple left to go in that regard -- actually a few. I think somewhere in the neighborhood of 65% of their distribution deals are locked in long-term. I think these deals are bellwether deals in many respects because what they bring to ESPN is continued growth on the sub fee basis, not just for ESPN -- we'll call it 1, but for ESPN2 and for some of their other channels.

Many of these deals also enable more distribution for new products that ESPN has offered. The SEC Network would be a good example of that. They have a product called ESPN3, which is also gaining traction in terms of distribution. So you can't look at just ESPN1; you have to look at a collection of products that ESPN is now offering in the marketplace, including, by the way, the mobile app, which is a big deal, particularly for the sports fan, to be able to basically be anywhere and watch ESPN -- and not just one linear feed, but multiple feeds of ESPN, is a big deal.

So ESPN's growth profile over the next certainly five years, and I would argue 10 years, is significant, because new products in the marketplace, growth in subscription fees, growth, I believe, in advertising, because their ratings will remain strong given the programming that they are offering, and then that use of technology, which is going to, I think, substantially

improve the relationship with their customer, because they are enabling so much more customer engagement. So I think ESPN's best times actually are ahead of it.

And that said, they have got an unbelievable competitive advantage and a number one position in terms of that space. And they are not going to be complacent about it. So that is what you read about a new marketing campaign and changes that are being made to *SportsCenter* and the improvements that they are doing in technology and what they have done in programming. They are not going to rest on their laurels, because they believe they have an opportunity, even in the face of more competition, to create growth.

**Drew Borst** – *Analyst, Goldman Sachs*

Maybe switching to the Disney Channel, which sometimes gets lost in these discussions about the cable network, but it is a very important brand and network. Could you talk about the growth opportunities for the Disney Channel, both domestically as well as internationally over the next couple of years?

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

Yes, I agree with you, the Disney Channel, I think, doesn't get as much attention or appreciation as it maybe should. But it is not -- it is not that sensitive.

There are 107 Disney Channels now worldwide, which is substantially more than existed just a decade ago. So we have grown that platform globally. The programming on the Disney Channel has really performed well. They were the number one network in the United States last year in kids two to 11, as a for instance; that is a big deal.

They have put programming on the channel, a lot of it in what they call a Disney Junior block, which has also spun off to its own channel, that is enabling a lot more growth for the Company in other sectors.

So I had a presentation the other day by our consumer products group of product that is entering the marketplace basically this Christmas and beyond. And you see what you would expect would be obvious, so the *Star Wars* product and Marvel product and core Disney character product, like Mickey Mouse and Minnie Mouse, et cetera.

But there is an array of product that comes from Disney Junior that is on fire from a retail perspective, powered by shows like *Jake and the Never Land Pirates*, *Doc McStuffins*, *Mickey Mouse Clubhouse*, to name a few. So the ratings of that channel with young kids is substantial. But what that is doing is it is driving our other businesses, licensing and retail, publishing, where we are growing our digital apps business nicely, the mobile business, because we have also launched WATCH apps for that platform. And that is pretty significant because young people

are using these devices in the back seats of cars and all over the place to also access this product.

And the other thing that is important is because it is now global, the perception of the Disney brand, people's knowledge of Disney and appreciation of Disney, in many markets is generated by or powered by these channels. So it is a very, very important part of The Disney Company and a very, very important part of the -- I'll call it the Disney brand equation.

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**Drew Borst** – *Analyst, Goldman Sachs*

Let's move over to the theme parks now. You have obviously -- we have talked a lot about the investments that you made over the past couple of years. A lot of those are now online, adding to growth and profits. It does feel like there is a little bit of an air pocket here, where the next big opening is probably Shanghai, China. Can you talk about what is going to happen over the next one or two years in terms of new projects and investments?

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

Sure. Well, first of all, I wouldn't call it an air pocket because the growth that is created with things like these new cruise ships or California Adventure is going to continue to drive value for the company.

We also put a substantial amount into a new Fantasyland in Florida. The Magic Kingdom in Florida is the most popular park, the most visited park in the world. And the Fantasyland is one of the critical elements of that park. And we had record attendance in the third quarter in Florida, which is a direct -- from that park, which is a direct result of that investment in Fantasyland. And we haven't even finished it. It will be completed in 2014. So -- and that is obviously our number one facility or number one park in the world. So there is, I think, a lot more to come there.

We're also in design on Avatar Land there. We've not announced a date, but we are very excited about building Avatar Land, which will be in Animal Kingdom. And I think that will generate substantial growth down there.

I mentioned Hong Kong, where we added three new lands to Hong Kong, and visitation to Hong Kong has been up double-digits over the last year. That, we believe, will continue to grow and there are expansion capabilities there. And you mentioned Shanghai, and as I said yesterday on CNBC, I'm not sure there is anything else that we've got going in the company that I'm excited about in terms of its growth prospects and how it can change The Walt Disney Company than I am about Shanghai Disneyland, where we are building a park to open in late 2015 in the most populous city in the most populous country in the world.

There is an article today -- I think it was either in The Journal or The New York Times -- about high-speed rail in China. And the great thing about this park is that Shanghai is linked by high-speed rail to a number of other markets in China, and that high-speed rail is linked directly to our park. In fact, there are subway lines that are being constructed right now that will link to high-speed rail.

When we decided to build the park and when we did the deal to build it, we actually estimated that the number of people that would come to the park via high-speed rails was much lower than it will be because the Chinese have built it out further and faster, just as a for-instance. This is going to be, I think, a tremendous, tremendous asset for The Walt Disney Company, not just in what it will generate itself in terms of impact on the bottom line, but in terms of launching the brand and bringing Disney to a country with well over 1 billion people.

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**Drew Borst** – *Analyst, Goldman Sachs*

You know, back here domestically, you have been working on the MyMagic+ project down in Orlando. Can you talk -- it has been in beta. Can you talk about what you learned so far and maybe talk about your long-term vision of how this benefits the parks division?

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

Yes. So for the benefit of those that may not know what MyMagic+ is, we're basically using technology, a technology-driven platform to make the experience of going to Walt Disney World in Florida even better than it is today in a variety of different ways. And it will enable our guests to -- by wearing an arm -- a small wristband to gain access in ways that they've never had before.

And we have tested it with over 200,000 guests at this point, and it is rolling out fully in the months ahead. It will be fully rolled out fairly soon. And we think it is really exciting.

For one thing, the most, I think, attractive feature of it -- and this is what we are hearing from the guests that have used it already -- is that it enables a guest to reserve time on their favorite attraction before they come to the park. So one of the issues that obviously any popular park has to deal with is, obviously, the size of our crowds, and the access that people have to the things that they want to do most. It is really important for us to make it as user-friendly as possible to enhance that experience. And if your favorite attraction is one of our most popular attractions, and you have the ability to reserve that before you come -- so you are guaranteed not just the fact that you are going to experience that attraction, but you are going to do it at a certain time -- that is a big deal and a game-changer, we believe, in terms of the park experience.

Now there is a lot more that comes with it, customization and personalization. It enables us to know who you are and essentially enable -- not only you to tailor the experience that works

best for you, but for us to help you do that; that is a big deal. The wristband also is your room key, it is your ticket, it's your entrance to these attractions that you reserved. It is also your wallet so that you can have a cashless experience, which also will make things easier, whether you are buying food or buying merchandise at one of our stores.

I think this is a big step for us. It is a big investment. It's a complex project, something that we have been working really hard at for a few years that we are working to really roll out right because we think it has so much potential ultimately, not just for this park, but for the park experience that we offer around the world. But we are starting with Florida because of the scale that Florida offers us.

**Drew Borst** – *Analyst, Goldman Sachs*

Before we go to the audience for questions, I want to get one more in, and it is about margins at the theme parks. In the past, you have discussed getting the core theme park margins back to pre-recession levels. And by my math, it actually looks like you are getting awfully close to that, maybe 100 basis points away from achieving that sort of objective. So I guess I am wondering is it maybe realistic to expect that you can surpass those pre-recession margins?

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

We are at those pre-recession margins without the major new initiatives. So we are already there. The major new initiatives, which we are very excited about, as witnessed by some of the exuberance that I have been, I hope at least, showing today, the major new initiatives will power us beyond where we were pre-recession. But they have to -- obviously, it takes a little time for them to work their way into the system. But once they do, I am confident that we will have margin expansion certainly at our domestic parks.

**Drew Borst** – *Analyst, Goldman Sachs*

Are there any questions from the audience? Yes, sir.

# Q&A

**Unidentified Audience Member**

[Inaudible]

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

The question is about Disney Interactive and how that affects the rest of our company, the rest of our businesses. Disney Interactive is kind of split into two groups. We have a collection of Disney-branded both web and mobile app experiences. Those are largely designed to not only create a destination where all of Disney lives in one place digitally, but to better market our product and also to enable sales of our product through one destination.

And then we have got a collection of games that also come under Disney Interactive that are split into three categories, mobile, social and console.

We are in the middle of a launch of one of the more exciting projects that we have ever had in that space, where admittedly we have been challenged in that space, and that is a product called *Disney Infinity*, which launched in August. This is a console game experience, and I am pleased to say that the numbers have been very encouraging. It was quite a successful launch from a sales perspective. We are also pleased that we've gotten good reviews and that the demographics of those playing the game are more core gamer than we actually expected.

The product is not something that just launches once and goes away; it continues to iterate because we're adding characters and character play to this product as we go on. And the holiday season will be very, very important for this product. So while we'd like to declare victory on the launch itself, which was quite successful, we are in this for the long run, and the holiday period coming up is very, very important to the success of this.

But we think that if the success that we have seen continues, this will enable profitability in the Disney Interactive division, which is something that we have been hard-pressed to deliver over the last number of years.

And I think it is important for us to be in this space. Admittedly, it is tricky space because the technology is changing significantly. But a lot of our customers, particularly young people, are playing games, both social or social mobile and console. And I think it is important for Disney to provide our customers and our more important demographics with Disney-branded, Marvel-branded, Lucas-branded experiences in that space.

**Drew Borst** – *Analyst, Goldman Sachs*

We have another question down here in front.

**Unidentified Audience Member**

Bob, strategically, can I ask you about the relative competitive balance in the SVOD window, and whether -- how you see that evolving? Netflix has gotten themselves pretty far out ahead

of the game here now, and it's kind of like an HBO redo, and whether you see that being an issue.

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

Well, no question Netflix has a running start. And we have helped them because we did a movie output deal with them that was pretty significant. Even though they don't have access yet to the new release movies, they have a library already. When they do, I think that will power even more success for Netflix. And we have also sold television programs. And we may, by the way, continue to as I said earlier we look pretty openly at new platforms, particularly when they offer not only the right price, but good customer experience, which Netflix does. I think they have a great customer experience.

I don't think the game is over though. The technology has created the most dynamic media space that we have ever seen. And while I think it would be appropriate to declare Netflix victorious in some form, I don't think it would be right to say they are going to be the only game in town and that they are going to be the only game in town forever.

There are already new entrants into the marketplace, there are already others that are looking to improve the quality of their offering. There are others that are going to use technology to offer varied product in terms of how it is windowed and how it is priced to the consumer. So I think this is much more of a marathon than it is a sprint and it is far from over.

But again, I think in many ways, we like what we have seen from Netflix, because having a viable platform like that to pay good prices for our intellectual property is not necessarily a bad thing. But I think it is going to be really hard for them to corner the marketplace, so to speak, or to monopolize the marketplace, because the barriers to entry because of technology, I think, are lower than what they may have been in the past in traditional media.

**Drew Borst** – *Analyst, Goldman Sachs*

Any other questions? Well, let me ask you -- I'm sorry, right here in the front, please.

**Unidentified Audience Member**

Thank you. You talked about how the 107 Disney Channels globally really fuel the consumer product sales in that business. How do you think about global opportunities for ESPN? And what are the major obstacles that you envision to developing that into a much more global business, if you will?

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

We have tried our hand at growing ESPN globally, and it has been really difficult, although we are doing nicely in Latin America, where not only have we grown, but we believe we will continue to grow. In many markets, it is very, very difficult because there is an embedded platform that typically buys the most popular sports, sometimes as a loss leader, in order to grow subscribers. You see that a lot in Europe.

The other thing that is challenging, particularly in Europe, is the most popular sport, which is football, or soccer as we call it, and the most popular league in that sport, the Premier League, can only sell its rights for a three-year duration. So if you want to launch basically a big brand, it is pretty difficult when you can only rent the most popular product for three years.

We tried. As it turns out, we had a much lighter package than our primary competitor, Sky, and we got some traction, but not enough to not only grow the company, but not enough to deliver profitability short-term. And so we have decided to scale back substantially, and not quite exit the business completely, but kind of I'll call it a near exit in that market -- in the European market.

So I think from a global perspective, ESPN is probably less likely to be able to grow its brand outside of Latin America than more likely.

**Unidentified Audience Member**

Bob, you talked about mobile advertising on ESPN and your other platforms. Where are you now compared to the opportunity? How long is it going to -- how big can it be? Can it be a third of your ad revenues on the platform such as ESPN, where you are selling ads and going to native ads, and how long is that going to take?

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

Right now, 100% of ESPN's advertising is sold multi-platform. So they are selling an ESPN ecosystem across basically every customer touchpoint that ESPN has. So when an advertiser is looking to buy television, their package typically includes radio, magazines, a website, an app, et cetera, and so on. And that has enabled ESPN to grow, I will call it its digital advertising dramatically over the last few years. And it is substantial, but it still pales in comparison to the mother ship, or television advertising.

And I think it will be -- a couple of things have to happen. One, measurement on mostly mobile devices. And two, penetration of mobile devices, not the devices themselves, but ESPN on mobile devices. So I think -- I'm not going to predict exactly when, but I think it will be -- I don't know -- five years maybe before -- maybe three years -- three to five years, let's say, before

advertising I will call it off-channel at ESPN takes on a substantial portion of their total advertiser base.

I know that is very amorphous, what I just said, but I just don't have an estimate. But I think the possibilities are dramatic because I know from my experience when I watch ESPN on a mobile device, done well, advertising can be pretty effective. But it has to be done well. That is why I talk about native ads and I think there's some great opportunities there.

**Drew Borst** – *Analyst, Goldman Sachs*

I am afraid we are out of time. Thanks very much, Bob.

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

Thank you, Drew. Thank you.

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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.