# The Walt Disney Company
# Q3 FY13 Earnings Conference Call

**AUGUST 6, 2013**

**Disney Speakers:**

## Bob Iger
*Chairman and Chief Executive Officer*

## Jay Rasulo
*Senior Executive Vice President and Chief Financial Officer*

Moderated by,

## Lowell Singer
*Senior Vice President, Investor Relations*

## PRESENTATION

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**Operator**

Welcome to the Q3 2013 Walt Disney Company earnings conference call. My name is Leslie, and I will be your operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Mr. Lowell Singer, Senior Vice President of Investor Relations. Mr. Singer, you may begin.

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

Okay. Thanks, Leslie. Good afternoon, everyone, and welcome to The Walt Disney's Company's third-quarter 2013 earnings call. We issued our press release about 45 minutes ago. It's available on our website at www.disney.com/investors. Today's call is also being webcast, and after the call, we will post a transcript of the call to the website.

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

So with that, let me turn it over to Jay, and we'll get going.

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

Thank you, Lowell and good afternoon everyone. Earnings per share in the third quarter, excluding items affecting comparability, were $1.03. Given the number of headwinds we faced in the quarter, we are very pleased with the financial results we delivered.

In the third quarter, Media Networks was once again the largest contributor to our performance. Operating income at Cable Networks was up a healthy 12% in the quarter, while operating income at Broadcasting was down compared to last year.

Our strong Cable performance was due to continued growth at ESPN and higher equity income from our investment in A&E Television Networks. ESPN's growth was driven by increased affiliate revenue and to a lesser extent higher advertising revenue. ESPN's programming and production costs were higher in the quarter, which relate to contractual rate increases for Major League Baseball rights and our expansion of the X Games.

I mentioned affiliate revenue was the driver of growth at ESPN in the third quarter. If you recall, last quarter we told you we expected ESPN to recognize 73 million dollars less in previously deferred revenue in Q3 compared to last year. As it turned out, ESPN actually recognized 64 million dollars more in previously deferred affiliate revenue in Q3 compared to last year. The 137 million dollar swing was the result of ESPN meeting certain programming commitments in the third quarter, which were met in the fourth quarter last year. ESPN was able to meet those programming commitments in Q3 due to the airing of incremental hours of Wimbledon programming.

As a result of this shift, ESPN has now recognized all previously deferred affiliate revenue for the year. As such, ESPN will recognize no deferred affiliate revenue in the fourth quarter, which is 172 million dollars less than last year.

ESPN's cash ad sales were up 9% in the quarter, which is roughly in line with the ad sales pacing we discussed on our Q2 call. ESPN's reported ad revenue was up 3%, as the increase in cash ad sales was partially offset by lower ratings. The decline in ratings during the quarter was primarily related to NBA comparability issues. During the quarter, ESPN aired fewer NBA regular season games compared to last year, when the lock-out created a more back-end loaded schedule. Also, ESPN aired fewer playoff games and those matchups delivered lower ratings than last year's playoff games. So far this quarter, ESPN's cash ad sales are pacing up 11%.

At Broadcasting, lower operating income in the quarter was primarily due to three factors. First, higher primetime programming costs as a result of airing more hours of acquired programming, which were more expensive on a per hour basis. Second, lower program sales compared to last year. If you recall, we sold *Grey's Anatomy* and *Castle* in the third quarter last year and had no comparable sales this year. And third, lower advertising revenue, as a 7% decrease in Station ad revenue offset a modest increase in ad revenue at the ABC Network.

Affiliate revenue at the ABC Network was up nicely in the quarter, but the increase wasn't sufficient to offset these three items.

Quarter-to-date scatter pricing at the ABC Network is running mid-teens above upfront levels. ABC and ESPN recently completed their respective upfronts, and we feel great about the pricing increases achieved and the amount of inventory each network was able to sell.

We continue to be very pleased with the performance of our Parks and Resorts business. The segment delivered another quarter of solid growth, as our recent investments at Walt Disney World and the Disneyland Resort continue to pay off. Revenue was up 7% and operating income was up 9% in the quarter due to growth at our domestic parks and resorts.

As we noted during last quarter's call, Q3 segment operating income was adversely impacted by an estimated 35 million dollars, as a week of the Easter holiday shifted into Q2 this year. Adjusting for this shift, segment operating income growth in Q3 would have been up 15%. Higher operating income at our domestic parks and resorts was primarily due to increased guest spending, occupied room nights and attendance, partially offset by higher costs, including ongoing spending for growth initiatives.

During the quarter, attendance at our domestic parks was up 3%, with Walt Disney World and the Disneyland Resort each setting new Q3 attendance records. Per capita spending was up 7% on higher ticket prices and food and beverage spending. Average per room spending at our domestic hotels was comparable to prior year, and even though available room nights increased in the quarter, occupancy was comparable to prior year.

So far this quarter, domestic resort reservations are pacing up 3% compared to prior year levels, while booked rates are up 4% versus prior year.

Total Parks and Resorts segment margins were up 40 basis points in the third quarter compared to prior year. The year-over-year change in Q3 margins was adversely impacted by an estimated 140 basis points due to the timing of the Easter holiday and spending on growth initiatives.

At the Studio, we released two films in the third quarter, *Iron Man 3* and *Monsters University*, both of which performed exceptionally well at the box office. *Iron Man 3* generated 1.2 billion dollars in global box office revenue, however it faced a difficult comparison with *The Avengers*, which generated 1.5 billion dollars in global box last year and is the third highest grossing film of all time. *Monsters University's* box office performance compared favorably to that of *Brave* last year, however operating income at the Studio declined year over year. This decline was due to pre-release marketing expenses for *The Lone Ranger* and the aforementioned Avengers—Iron Man 3 theatrical comparison. *The Avengers* also had strong DVD sales in Q4 last year, so the DVD release of *Iron Man 3* in Q4 this year faces a difficult comparison, which we expect to result in a headwind to the Studio's Q4 results of about 45 million dollars.

Needless to say, we're disappointed with the performance of *The Lone Ranger* and in light of the film's box office results, we expect to incur a loss on the film in Q4 of between 160 and 190 million dollars.

Consumer Products' growth in operating income resulted from increases in merchandise Licensing and Retail. The increase in Licensing was primarily due to the inclusion of Star Wars in this quarter's results. Also, earned licensing revenue was up 3% versus last year---and that growth is on a comparable basis, which excludes any revenue from the newly acquired Star Wars property. The performance of our retail business was driven by higher comp store sales in North America and Japan and higher online sales in North America.

We continued to return capital to shareholders by repurchasing our stock during the third quarter. We repurchased 12.6 million shares for about 800 million dollars. Fiscal year to date, we have repurchased 57 million shares for 3.2 billion dollars.

And with that, I'll now turn the call over to Bob.

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

Thank you, Jay. And good afternoon.  We're pleased with our performance in Q3 and we believe we are well positioned going forward.

I'd like to address a couple of specifics about our businesses, starting with ESPN, which was once again a key driver in Q3. Jay commented about ESPN's ratings in the quarter, and I'd like to add some perspective.

In an average week, more than 113 million Americans tune in or log on to access ESPN content, with the average person spending almost seven hours a week engaged with ESPN media on a variety of platforms.

In Q3, nearly nine out of ten homes with access to ESPN tuned in to at least one of the ESPN networks.

Since 96% of sporting events are watched live, sports are virtually DVR-proof, making ESPN incredibly valuable to advertisers as well as cable operators – who have ranked ESPN the #1 network in perceived value for 13 years in a row and the most important network for nine straight years.

Even though ESPN is the clear market leader, it continues to refine its sports portfolio, expand original programming, invest in new technology, and innovate to enhance the fan experience. ESPN's recent acquisition of the exclusive rights for U.S. Open Tennis, its growing array of digital services including Watch ESPN, and the new SEC network launching next summer are a few recent examples of ESPN's constant innovation that will deliver even greater value to consumers, operators, and advertisers.

And with so many of the major sports rights locked up for the next ten years, given ESPN's brand strength, and its continued focus on investment and innovation, we remain confident in ESPN's value and its position as the #1 brand in sports over the long term.

Our acquisition of Marvel also continues to drive real value for us across the company. Following the record-setting performance of *The Avengers* last year, the huge success of *Iron Man 3* this summer continued the Marvel momentum, which bodes incredibly well for upcoming Marvel releases including *Thor: The Dark World*, *Captain America: The Winter Soldier*, *Guardians of the Galaxy*, and of course, *Avengers 2*.

We previewed this slate at Comic Con a couple of weeks ago. And, if the phenomenal audience reaction is anything to go by, there's a huge appetite for more great Marvel content. There's also a great deal of excitement around ABC's new series, an *Avengers* spin-off called *Agents of SHIELD*. The first episode got a standing ovation at Comic Con, along with rave reviews. And this month, Disney XD premieres its third animated Marvel series.

We continue to be extremely pleased with the creative success of our animation studios. *Monsters University* opened in June to become the latest in Pixar's unbroken string of hits. *Planes*, from Disney Toon Studios, opens this Friday. And *Frozen*, another great movie from

Disney Animation, will introduce two new Disney princesses when it opens in theaters at Thanksgiving.

We're also looking forward to the launch of Disney Infinity on August 18th. We've showcased *Infinity* to a number of audiences and we're very encouraged by the overwhelmingly positive response we're getting across the board – from retailers, reviewers, and consumers alike. And we're also very proud of the several "best of" awards that Disney Infinity earned at this year's E3.

Given what's ahead for Disney, ABC, ESPN, Pixar, and Marvel as well as the upcoming *Star Wars: Episode 7*, we are incredibly well positioned for growth and expect solid results in 2014, 2015, and beyond.

I'm going to turn this call back over to Lowell so we can take your questions.

Lowell?

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

Thank you, Bob. Leslie, we are ready for the first question.

# Q&A

**Operator**

(Operator Instructions). Doug Mitchelson, Deutsche Bank.

**Doug Mitchelson –** *Analyst, Deutsche Bank*

Thanks so much. Jay, a clarification. I'm trying to figure out the math on the fiscal 4Q loss for Lone Ranger. What might help is, could you give us a sense of the P&A expense that was in June in prior versus what might have been in the fiscal fourth quarter? And then either Jay or Bob, you talked about ESPN at length. Bob, have you noticed any competitive impact in the upfront or in the current ad market related to the entry of Fox Sports 1?

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

Hi, Doug, let me start. It's Jay. So, the $160 million to $190 million range that I gave you is the impairment that we will take on the asset of the film and then the operating loss that we will experience in Q4, and you'll get a very explicit breakout of those numbers in the Q. Basically you know it's like $86 million on impairment, and the rest we don't know, of course, what the actual operating loss will be.

The reason that we are recognizing that in the fourth quarter just for all of your edification is that the accounting rules for film cost impairments were amended by the Financial Accounting Standards Board and adopted by us, of course, right thereafter in Q1 of fiscal year 2013. Under the old rules, if a film was released at the end of the quarter but prior to the Company's filing its statements, then the film's performance -- and the film's performance resulted in impairment, the Company generally was required to record that impairment in the previous quarter. In this case, it would have been Q3. But under the new rules, the impairment analysis is limited to information that was available as of quarter end and, therefore, doesn't incorporate the actual performance of the film after the balance sheet date. So, that number is a Q4 number. In the past, it would have been a Q3 number.

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

And to the second part of the question, Doug, ESPN had strong upfront both in terms of increases on the CPM front and in terms of overall revenue and did not detect any impact whatsoever from any new competitive forces, including Fox Sports 1.

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**Doug Mitchelson –** *Analyst, Deutsche Bank*

Great. Thank you very much.

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

Thanks, Doug. Operator, next question, please.

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**Operator**

Jessica Reif Cohen with Bank of America Merrill Lynch.

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

Thank you. I have two questions. One, now that you've decided to keep Hulu, just wondering if you could give us your vision for how it may change or evolve, and the second thing is obviously the press the last few days has been completely focused on retrans.

I was just wondering if you could give us your take on how much longer these kind of battles can go on before you think the government will start to step in?

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

On the Hulu front, Jessica, we, as you know, with our co-owner, Fox, explored a sale for a considerable amount of time and went pretty far down the road in terms of that process. And during that time, we became more and more convinced that there was real strategic value to Hulu, and there was value from a financial perspective, meaning we could grow it at a rate that would be overall positive for the shareholders of our Company.

We also decided, when we decided to keep it, to infuse Hulu with approximately $750 million of new capital that is aimed at strengthening its team, strengthening its technology because we believe we need to continue to invest in the technology platform and, of course, strengthening its content or its programming, which, as you know, we've seen new entrants, and there are other entrants in the marketplace do extremely well with.

I won't get specific in terms of a direction because we are going to leave that to the management team of Hulu, but we think that there is considerable opportunity here, and that opportunity will bode well for both Hulu itself but also for content owners who will have a robust platform to sell content to and for the creative side who will have another entity to sell programming to or to create for.

On the retrans front, we never like to see battles like this obviously because we think that sometimes they bring attention to the business that isn't necessarily helpful. That said, maybe you'd expect this from a programmer, but we feel strongly about the need for broadcasters to be paid adequately for the value that they deliver both to consumers or customers of multichannel services and to the distributors themselves. Even though these broadcast stations can be, as you know, obtained for free over the air, we know that distributors repackage these signals and, in fact, sell them as part of other services to consumers, and thus, we think we should get paid.

We also believe the combination of programming, both national or network and local, particularly news, is really compelling as evidenced by the ratings that these stations deliver compared with the ratings of numerous other channels. And, therefore, we think that the station should get paid accordingly.

I don't really have details about this negotiation, so I don't really want to weigh in specifically about it. But I don't sense that the government is close to jumping into the fray on this one. Look, I think they probably prefer that we work this out or that owners of stations and distributors work this out themselves, but I don't get a sense that there is government intervention that is imminent because of this.

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

Thanks, Jessica. Operator, next question please.

**Operator**

Alexia Quadrani, JPMorgan.

**Alexia Quadrani –** *Analyst, JP Morgan*

Thank you. Just staying on the broadcasting there, could you give us an update on how you view the ABC network going into the fall season? Should we expect also on that topic a lift from the *Scandal* syndication in the fiscal fourth quarter? And are you still comfortable with the guide of, I think, $400 million to $500 million retrans revenue by 2015?

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

We do feel comfortable with the guide on the retrans revenue by 2015 of $400 million to $500 million. We love Scandal, and it has been sold to, I guess, a couple of entities and also is being sold internationally. But the impact in the fourth quarter is relatively small.

As it relates to the ABC network going into the season, you know, we've been saying now for a few quarters that ABC is due to put on its schedule a couple of new strong shows to replace what was the foundation of its schedule over the sort of *Desperate Housewives*, *Lost*, *Grey's Anatomy* years. We are hopeful that the new schedule will deliver what ABC needs, not only in terms of what I'll call downstream revenue through owning the programs, but also from the ratings perspective and ultimately an advertising perspective. We think they've got a couple of really hot comedies and a couple of hot dramas. I mentioned one earlier in S.H.I. E.L. D, and we are going to go into the fall feeling relatively bullish about ABC's ability to strengthen its schedule and deliver a better bottom line. But until the season unfolds, you never can quite tell.

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

Alexia, just as a follow-up since you asked about broadcast, as Bob said, the Scandal number is pretty small, but there is a little bit of headwind in the fourth quarter because last year we sold *Castle* and *Wipeout* in the fourth quarter to the tune of about $40 million. So we will not see that revenue repeated in the fourth quarter this year, and not that it relates directly to broadcast but to the media group in general, we are making some investments. You've all heard about Fusion, our joint venture with Univision, as well as the channel we bought in Germany called Das Vierte, and that will create headwinds of about $25 million for Q4.

**Alexia Quadrani –** *Analyst, JP Morgan*

Okay. Thank you very much.

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

Thanks, Alexia. Operator, next question, please.

**Operator**

Ben Swinburne, Morgan Stanley.

**Ben Swinburne –** *Analyst, Morgan Stanley*

Thank you. Bob, could you talk a little bit about the Parks' top line trends in the domestic market, particularly the per caps which has remained really strong. I know you guys put in some pricing during the quarter, and I'd love to hear your thoughts on how you thought about that pricing in this economy and given the investments you have made and sort of the sustainability of kind of monetizing all the CapEx of the last several years in that segment.

And then Jay, can I ask you on ESPN or on cable in general, I looked in the Q, it looks like if you adjust for the deferrals, the affiliate revenue growth was sort of in the 6% to 7% range. I just wanted to see if you had a number around ESPN for the quarter that was clean so we could understand the trends there.

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

Overall, the business for our parks domestically is quite good, good enough for us to take another price increase. But this one was somewhat different in that for the first time we created price differential between the Magic Kingdom and the other parks. For the obvious reasons, the Magic Kingdom is the most popular park, the most iconic, and so we thought there was an opportunity there, and we didn't sense any backlash from the marketplace at all. And, as you said, we've had strength not just in terms of attendance growth, but we've had strength in terms of spending, not just ticket prices but room rates and merchandising food and beverage.

I'd say that we've also had increases in international attendance. Year to date it's up domestically 7% both Orlando and in California. So we think that bodes well. And we think that we are well-positioned in this quarter, particularly coming off the third quarter. Magic Kingdom in Florida had record numbers, as Jay mentioned, in the third quarter.

By the way, that was also true for our park in Tokyo, and our park in Hong Kong is also doing quite well. If we've seen softness in our parks unit, it's in Europe at Paris, which Jay also mentioned.

So we think we are well-positioned. We've got new products in the marketplace. We are not finished with Fantasyland in Orlando. We still have one big attraction to open which is going to open in 2014. Cars Land and the impact of that on California Adventure has also continued to show great, great strength. Although in California, we are lapping the success of the opening a year ago a bit.

I'm not sure that I have anything else I would necessarily want to add. We have a lot of other product coming. Beyond Fantasyland, ultimately we're going to add *Avatar*, as we've said, although we have not announced an opening date yet in Florida. A couple of years out at least. And we are going to continue to invest in Disneyland. We've got some pretty exciting things that we will be announcing over the next couple of months.

**Ben Swinburne –** *Analyst, Morgan Stanley*

You didn't mention My Magic Plus. Any comment on how that's impacting business at this point?

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

It's really not having an impact from a revenue perspective really at all because we're still rolling it out in what I'll call a test phase. The reason for that is that this is a very significant undertaking from a technological perspective, and we really want to make sure that we walk before we run because we don't really want to overload our technological backbone.

So we are in what I'll call another beta phase that started August 2, and it is basically designed for us to have a full rollout -- a probable full rollout in the early part of fiscal 2014, and that's when you'll start to see an impact from a revenue perspective. But right now, we are mostly adding costs associated with Magic Plus ahead of what will be, we believe, some interesting revenue generating opportunities.

I can also say that it's working, meaning those that are using it and we've got a number of people that have used it, have reacted very well. This test that we are in right now will probably be used by over 80,000 people, 80,000 guests, based on the reservations that we've written against that with this initiative attached to them.

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

On your question on ESPN affiliated revenue, I think you mentioned, Ben, 6%. You're a little bit low. The cable affiliate revenue for Q3 grew in high single digits. ESPN, of course, is the biggest number there, and it grew a little bit higher than that, but still in the high singles.

**Ben Swinburne –** *Analyst, Morgan Stanley*

Even if I adjust for the deferrals?

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

Yes, that's adjusted. If you unadjust it, it's closer to 10%.

**Ben Swinburne –** *Analyst, Morgan Stanley*

Thank you.

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

Okay, Ben. Operator, next question, please.

**Operator**

Anthony DiClemente, Barclays.

**Anthony DiClemente –** *Analyst, Barclays*

Thanks a lot. Bob, I would love to get your thoughts on just the general theme of consolidation elsewhere in the media ecosystem. I guess two big areas where there has been some consolidation or talk of it would be media buying on the agency side and then, of course, cable distribution. And so I was wondering if you thought that scale in other parts of the ecosystem could impact your business in any way, and then I have a follow-up, thanks.

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

Well, on the advertising agency front, that announcement was made only recently, and so we don't have any sort of real experience in terms of how to judge it. I would say we are studying it. That doesn't in any way mean that we're worried about it necessarily, but it's still pretty new, and we want to understand what its potential impact could be before we comment about it publicly.

In terms of consolidation on the distribution front, this is probably the most robust era we've ever seen from a distribution perspective. Meaning the number of outlets that are available to us and to other content owners to distribute their products has grown significantly and pretty dramatically in some cases. Obviously, Netflix is probably the most recent one.

And we feel that some consolidation among cable owners, if that occurs, is going to have no impact whatsoever on our business because there are so many buyers in the marketplace. We also have, as you know, an array of services that everybody wants fortunately, and therefore, we think that we have basically the kind of leverage necessary not just to gain access but to achieve the kind of pricing that we need to achieve to grow our businesses.

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**Anthony DiClemente –** *Analyst, Barclays*

Got you and thank you. And just one quick follow-up as we head into football season here, I'm just wondering as ESPN has looked at its matchups for the upcoming NFL season and college football, I mean is there anything to look out for in terms of the ratings outlook, number one? And then just this question may be a little bit out there, but given digital distribution and authentication, wondering if there's anything that we should be mindful of that maybe the ESPN ad sales force has done, be it packaging on digital ad sales or innovative forms of mobile distribution of your robust football package at ESPN? Thanks.

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

I've long since learned that judging the football schedule before the season unfolds can be, I guess, a bit premature. I either overreact to it, meaning thinking that it's positive or overreact the other way season by season. And I've discovered year after year, that until you really see how these teams play, what dynamics occur, what, as you know, a star quarterback gets injured and suddenly a team that you have 2 or 3 times becomes substantially less attractive than before.

So I don't want to judge this one except to say that at least on paper going in, we feel that we've got a good solid schedule. Last year we were somewhat disappointed by our results. That's not just a function of how teams ultimately perform but sometimes the quality of the game. I'm not suggesting -- what I mean by that is how competitive the game is.

So it's just too tough to predict. I like the schedule going in this time around, but I've been there many times before only to find out that I might have been wrong, and the opposite is true. We've been pleasantly surprised.

On the other question that you asked? ESPN has been selling multiplatform advertising for quite a long time. I don't know the percentage, but it's extremely high in terms of the number of buyers at ESPN that buy across their various platforms from their new digital services to the radio to the magazine to their channels, and they've grown that nicely. The Watch app is an opportunity for them to generate more advertising revenue, and they are, in fact, selling ads for the Watch app, but the numbers, even though they are in the tens of millions of dollars at this point, they are still relatively small when compared to their total advertising revenue and their total revenue. But we believe they will continue to grow, and we obviously believe that I'd say that the penetration of mobile media and not only how fast it's occurred but how quickly it's being adopted by the consumer is one of the most dramatic changes we've seen in the media business in a very long time and I think provides us with a great opportunity, considering the fact that we've been at the forefront in many respects of making sure that we are putting products on the mobile platforms or making the product that we have available on non-mobile platforms available via mobile.

**Anthony DiClemente –** *Analyst, Barclays*

Thanks, Bob. Much appreciated.

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

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

**Operator**

Todd Juenger, Sanford Bernstein.

**Todd Juenger –** *Analyst, Bernstein*

So we haven't talked much about the Film or Consumer Products business yet, so let me turn there.

On the film side, I think it's fair to say that the summer box office was not great at least domestically. Probably a pretty crowded schedule and some audience fatigue. How should we think about that going forward for you guys, especially given your reliance on Marvel and Lucasfilm, and the risk that you are a little bit highly leveraged against sort of the sci-fi, superhero genre, any risk of longer-term fatigue of that?

Then the related question is, how should we think about the opportunity on the Consumer Products side, especially from Lucasfilm and I guess still a little bit from Marvel as you really try and capitalize on those properties? How long does that take to get through the system and into the retail shelves, and should we think about that as incremental, or is some of that displacing other shelf space and just changing the mix a little bit? Thanks.

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

Okay. Let's first characterize summer box office. These last number of summers have been very competitive and quite crowded. I don't know that the summer got any more crowded or more competitive than before, although certainly there was a lot of attention paid to it.

We actually think we had an excellent summer in that we ended up with Iron Man 3, which did over $1.2 billion in global box office, which is substantially above what Iron Man 2 and Iron Man 1 did, and the highest box office -- Marvel box office film of all time next to Avengers. We actually think Avengers helped Iron Man 3, and we believe that the impact of Avengers will be felt on future Marvel products, particularly Thor, which is coming out first and then Captain America and, of course, Avengers 2.

There has been a lot said, I know, about the risk of basically high cost tentpole films, and we certainly can attest to that given what happened with Lone Ranger, and Jay went into the details. We still believe that a tentpole strategy is a good strategy. That one way to rise above the din and the competition is with a big film. Not just big budget, but big story, big cast, big marketing behind it. We think that the Disney, Pixar, Marvel and ultimately the Star Wars/Lucas brand will actually contribute to our ability to rise above that din and compete quite effectively. But we also know -- and I know I'm probably saying the obvious -- but you still have to make really strong films.

So I don't know that the dynamic has changed that much, except that if there are more tentpole films being made, I guess technically there is more risk in the marketplace. But we've known all about that risk for quite some time.

As we look forward, as I mentioned, we feel comfortable, very confident in the Marvel slate. I mentioned three of them, Guardians of the Galaxy is another one, which we are very excited about, and the Marvel character library has only been mined from a tip of the iceberg perspective. We'll be mindful of not going to the well too often because it's hard to make great films.

So our charge to Marvel is bring films to market where you really believe in the stories and the storytellers.

Disney live-action, we are going to continue to make probably in the neighborhood of five to at the very, very most 10, but most cases it's less than that, Disney live-action films. Some will be tentpole films, like we have *Maleficent* coming up as a for instance; Tomorrowland is another one. Some will be much lower budget films like *Saving Mr. Banks*, which is coming up at the end of this calendar year. And, of course, we believe in Lucas and *Star Wars*, which is in '15.

And then our animation strategy is clearly working. You know, we did almost $260 million in box for *Monsters 2*, and we are hopeful that it's going to exceed $400 million in box office outside the United States, which will make it, I think, the fourth highest grossing Pixar film of all time with *Toy Story* and *Nemo* and one other ahead of it. That's a pretty good story.

We like what has happened with Disney Animation. We've had a couple of real hits in *Tangled* and in *Wreck-It-Ralph*, and we believe in Frozen coming up. And we've got a really fine movie coming out this weekend in *Planes*, which is made by DisneyToons Studios, but it bears the Disney brand, was at one point going to be a direct-to-video, and we looked at it, and we saw the quality. We decided that bringing it out theatrically was a wise move.

So that is a long way of my saying that we think the Marvel, Disney, Pixar, Lucas branded film strategy is a good one for us, not only because of what we believe it can deliver from a box office perspective, but the obvious value it delivers to this Company across so many platforms from games -- Infinity is a good example -- to our Consumer Products, and you have to consider publishing as part of that, to the digital side of publishing. And, of course, what it means for us in our Parks where evidence of all of these branded franchise films is clear both domestically and internationally across all of our Parks businesses.

On the Consumer Products front, we believe that there is upside or incremental earnings from the mining of the Consumer Products that will come from not only the Marvel franchises but also from Lucas. Even though there have been a lot of Star Wars, a lot of Star Wars product out in the marketplace, we think that we, when we put these companies together, combining the teams and taking all this great product to market, that there's a substantial potential, not only to increase sales but to increase royalties for these products. And so we view the Consumer Products side of these acquisitions as truly additive.

**Todd Juenger –** *Analyst, Bernstein*

Fantastic. Thanks for the comprehensive answer, guys. Thanks.

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

Thanks, Todd. Operator, next question, please.

**Operator**

David Bank, RBC Capital Markets.

**David Bank –** *Analyst, RBC Capital*

Thanks very much. So, I guess a question with respect to CapEx and capital allocation. I think you know while there are always ample opportunities to invest in the business, it seems like the perception is that CapEx is sort of peak and, you know, probably headed downward trajectory-wise. Yet, your leverage is still amongst the lowest in the industry, and what are your thoughts in terms of increasing capital returns over time? Is there something in particular you are keeping that powder dry for, and what are your thoughts around that?

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

Thanks, David. I'm probably not going to reveal anything to you that you haven't heard me say before, but let me reiterate how we think about this.

I think that, first of all, you are correct in that our belief is that a lot of the capital investment we've been engaged in, particularly in Parks and Resorts over the past three or four years, plus the deployment of capital in acquisitions, will yield returns such that we will have the great problem of dealing with increasing cash flow as the years go by.

You know, we look very hard for internal and organic ways to invest our capital above our rate of return. We think that's why our investors give us their money to invest, and I think we've demonstrated a pretty good track record at finding projects in our businesses that allow us on an incremental basis to create returns that are very, very attractive to shareholders.

That being said, we are not departing from kind of the formula we've used in returning capital to shareholders where we have consistently returned 20% or so of the cash generated by the Company to shareholders in terms of buybacks. If you look at this year's buyback plan, you see that it's so far this year pretty consistent with that at $3.2 billion. Remember, we committed to buy into Lucas shares over two years, and if you look at last year's CapEx, I'm sorry buyback versus this year's, you'll see that it is nicely up, and to sort of comment on are you keeping your powder dry, we are not cash hoarders. We have an excellent balance sheet that we've worked very hard at keeping as a strategic asset for the company to allow us access to the capital markets. You see our interest expense is way down this year. That's due to the fact that we have been able to both refinance high-cost debt like we had at Disneyland Paris, as well as borrow money at record levels in terms of the issues we've made.

So we feel very good about our balance sheet, access to cash. We don't feel the need to hoard cash. So, if we do not find ample internal opportunities in terms of investment or interesting acquisitions, then we will, in fact, increase our returns to shareholders.

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

Operator, next question, please.

**Operator**

Marcy Ryvicker, Wells Fargo.

**Marcy Ryvicker –** *Analyst, Wells Fargo*

Thanks. I have two questions. I think the first, there seems to be a little bit of variability in affiliate fee growth from quarter to quarter, and Jay, I think you've made it a point to call this out during an investor conference at some point in late May. Is there any way to think about affiliate fee growth in fiscal Q4 or even beyond, and just other than new contracts coming on, what are the various puts and takes for affiliate fee growth? That's the first question.

And then second, just in the Broadcast sector, is there any color on how you are pacing right now at the broadcast networks and stations?

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

Okay. On the first half, I appreciate your, I won't call it frustration -- I didn't hear frustration in your voice -- but the difficulty in quarter to quarter forecasting of affiliate fees, and it has to do with the way we bill -- for instance, let me give you an example. In Q2, our affiliate revenue benefited from an extra day in the billing cycle in 2012. So-called Leap Year and that affects the growth in that quarter more than you might imagine.

Relative to giving you some insight into Q4, we are looking at high single-digit growth in terms of affiliate revenue, and I'm sorry I can't help you with all the adjustments that come in and out every quarter in terms of how that affiliate number grows. The range is pretty tight, I'll tell you that. But within a couple of percentage points, it's very hard for you guys to predict that accurately.

In terms of pacings, I'll say this -- the stations are pacing down in Q4 in part due to comp issues that we had last year. We had the benefit of the Emmys, which, you know, is 3 percentage points to 4 percentage points of growth in ad revenue. This year the Emmys will be on CBS; we won't have that. So that will obviously affect it, and there's a more challenging political comp this year versus last year. And that, again, is a couple of percentage points, which is affecting the ad pacings at the stations.

**Marcy Ryvicker –** *Analyst, Wells Fargo*

Thank you.

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

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

**Operator**

David Miller, B. Riley & Company.

**David Miller, –** *Analyst, B. Riley Caris*

Hey, guys. A couple of questions. Jay, on the prognostication of losses for *Lone Ranger*, the $160 million to $190 million, I'm just curious, why give a range now? Why do you not -- I mean why give a range at all? Is it just because the film is just sort of swimming around various theatrical markets overseas, and you're just kind of waiting to see what the final number is, or are you just kind of waiting to do additional analysis? Why give a range? Why not just kind of pinpoint a little bit more exactly what the loss is going to be?

And then Bob, correct me if I am wrong, but I believe your NBA contract comes up for renewal with ESPN in 2016? With the emergence of Fox Sports 1 and just given Rupert's sort of ready, fire, aim kind of mentality with regard to sports rights in general, if Fox Sports 1 wants to overbid or bid against you for the NBA, and you come to the determination that you cannot make the NBA work terms of your ROIC targets, are you prepared to walk away from the NBA in the same way that you guys walked away from the NHL? Thanks very much.

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

David, it's Jay. I'll be brief on the reason for the range. We're only open in 40% of international markets with *The Lone Ranger*, and it goes all the way out to, I think Japan opens in September, if I'm not mistaken[1]. So I think that is the last market. So that's the reason for the range.

**David Miller, –** *Analyst, B. Riley Caris*

Got it.

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

The NBA, David, is very important to ESPN, both from a quality of programming perspective but also from a volume perspective, and it's certainly a priority of ESPN's to extend their relationship with the League. I think the League would believe that it would be beneficial for

[1] The film opened in Japan on August 2nd.

them as well stay on ESPN, which is a very, very important platform for them. I don't want to sound in any way as though we are complacent, but I think that it would be safe to assume that we are reasonably confident that we will be able to extend that relationship. And I do not want to in any way give any prediction or whatever as to what we might do if the price gets to a point that is substantially above what we expected.

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**David Miller, –** *Analyst, B. Riley Caris*

Okay. Thank you.

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

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

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**Operator**

Barton Crockett, Lazard Capital Markets.

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**Barton Crockett –** *Analyst, Lazard Capital Markets*

Okay. Great. Thanks for taking the question. On the topic of the expansion of distribution as an opportunity right now for Disney that came up earlier on the call, there's been a lot of press reporting about new over-the-top services that could emerge. Companies like Intel and others have been reported. I was wondering, without kind of commenting specifically about a company, if you could talk generally about this type of service in terms of your belief in the probability that we could see something materially over the next few quarters and the possibility of getting some type of material minimum guarantee that could be noticeable in your P&L?

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

I don't know that you'll see much impact in the next few quarters, although I think there may be some new distributors out there that are looking to make content deals in the near term. You mentioned Intel being potentially one of them.

I still believe that overall these new platforms, whether they are over-the-top or not, will offer us more and new opportunities to monetize our content, and our approach to them will probably be somewhat consistent with how we've approached other distributors, both incumbents and new distributors. We look with an open mind toward distributors that we believe have the ability to create a viable platform in terms of their ability to pay us for our content, but also a viable platform for the consumer, one with a good interface and one that's likely to ultimately stick in terms of distribution.

So I don't think that you're going to see a substantial change in the environment, meaning the distribution environment in the near term because of these, but I think it's safe to say that over certainly the next five years, there's going to be more than one new entrant into the marketplace.

**Barton Crockett –** *Analyst, Lazard Capital Markets*

Okay. Great. I'll leave it there. Thank you.

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

Thank you, Barton, and thanks, again, everyone for joining us today. Note that a reconciliation of non-GAAP measures that we referred to on this call to equivalent GAAP measures can be found on our website.

Let me also remind everyone that certain statements on this call may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including those contained in our annual report on Form 10-K and in our other filings with the Securities and Exchange Commission.

This concludes today's call. Have a good afternoon, everyone.

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**Forward-Looking Statements:**
Management believes certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including:

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

Such developments may affect travel and leisure businesses generally and may, among other things, affect:

- the performance of the Company's theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- expenses of providing medical and pension benefits;
- demand for our products; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended 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.