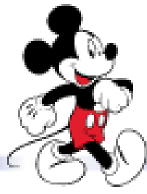

Goldman Sachs 23rd Annual Communacopia Conference

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Disney Speaker:

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

PRESENTATION

Drew Borst – *Analyst, Goldman Sachs*

Thanks, everyone, for joining us. I'm Drew Borst, media analyst. Pleased to welcome to the stage Jay Rasulo --- Rasulo, excuse me --- from Disney. He's the Senior Executive Vice President and Chief Financial Officer of Disney. Prior to doing this role, he ran the global Theme Parks. He was Chairman of the Theme Parks division where he played an instrumental role in the build-out of -- the rebuild of California Adventure, the build out of Hong Kong Disneyland and also Shanghai Disney. So thank you very much, Jay, for joining us today.

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

Thank you, Drew. Happy to be here.

Drew Borst – *Analyst, Goldman Sachs*

Thank you. Maybe we can start off with a big picture question. From your perspective, what sets Disney apart, not just from media peers, but maybe also from other large consumer

discretionary companies? Maybe to borrow a phrase that you guys have used in the past, what is the Disney Difference in your mind?

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

Well, I think that there are many differences, but I think for me --- and I think our strategy really demonstrates this --- there are three key elements that make us different. First is under Bob Iger's leadership, an incessant focus on franchises. And it's really evolved over the last five --- eight to five years --- five years more specifically. When we made the Marvel acquisition, really anchored it. But everything we do is about brands and franchises, and that wasn't true 10 years ago. 10 years ago we were more like other media companies, more broad-based, big movie slate, 20 something pictures, some franchise, some not franchise. If you look at our slate strategy now, our television strategy, almost every aspect of the Company, we are oriented around brands and franchises. And I think we're very unique in that regard.

The second piece is that that's not only on the creative side, but every part of our outreach to consumers. Every part of our ecosystem is also focused around that same orientation. So if you look at our Consumer Products business, Bob Chapek over the last five years has absolutely reoriented that business to be franchise focused and franchise run, consistent with that overall strategy.

And thirdly, I think the experience of the management team, their ability to work together to rally behind a core strategy for the Company, the core brands and franchises of the Company, is unique. Other companies have not figured out how to do that in our space and I think it really sets us apart from, by the way, as you said, not only broad consumer discretionary companies, but certainly everyone else in the media space.

Drew Borst – *Analyst, Goldman Sachs*

Yes, the recent consolidation among some of the distributors, as well as the situation with Fox and Time Warner a few months ago, has really focused investor attention on the concept of sufficient scale within the media businesses. And so I was wondering if you could talk about whether you believe Disney is sufficiently scaled in this sort of new world of consolidated distributors? And I guess probably would focus specifically on the TV channels business, your Cable Networks, but also on the production --- the TV film production side.

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

Look, I think you can define scale in many ways and the way we've chosen to define scale comes back to what I said about franchises and brands. And if you think about Disney, ESPN, Pixar, Marvel, *Star Wars*, ABC, ABC Family, you have scale in a way that is not simply related to size, but scale that's related to impact on consumers' tastes, consumers' interests and

consumer eyeballs. And from our perspective, I mean if you look at the Studio, for instance, the scale proposition there --- look, this has not --- it's no secret that this has not been a great year for the box office. It is an unbelievable year for us and that's because we went forward with franchises, brands, ideas like *Frozen*, like *Guardians of the Galaxy*, big, successful movies that have created that scale for us this year. But we haven't enlarged the Studio. In fact, we've taken it down, as I just mentioned, from way more pictures than we used to have to the low teens.

On the TV production side, again, I think that if you think of our businesses --- our brands and businesses in TV --- ESPN and its suite of channels, ABC and ABC Family, and the Disney Channels, it gives us an enormous amount of scale in the notion of having eyeballs, of having viewership, of having demand, being right on the front of the queue for why people subscribe to the multichannel system.

So I think we like our hand. We're well positioned and I don't think scale in sense of size is really that important.

Drew Borst – *Analyst, Goldman Sachs*

Okay. I want to ask you about sort of new distribution platforms, alternative forms of distribution. I think over the past couple years, we've observed that Disney has been among the most aggressive in embracing some of these platforms. I mean I think back, you were one of the first to sort of put the ABC broadcast shows up on iTunes for download. You were one of the first to engage with Netflix on the SVOD. And then more recently, the DISH PSS, the personal subscription service, striking a deal a few months ago.

But I was wondering if sort of broad strokes, as you look at these sorts of different platforms, what kind of lessons have you learned in general about your business and about these platforms?

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

Well, I think that you talked about a lot of different things in there, but I think there are some common threads in how we look at this space. First of all, and I'm channeling Bob Iger a little bit here because he said it even before we learned these things, that we have to be a company that looks at technology as a friend and not an enemy. And that we have to embrace those new technologies rather than see them as obstacles or detractions from our fundamental business, our status quo business. And that the status quo can't be a business plan in a space that continues to evolve as quickly as the spaces that we're in.

But having said that, the principles that we've kind of fallen out of is, first of all, is that brands still matter. Brands matter in a big way and brands give you entree into trying new things with consumers because they're interested in your product. And if you can meet them where they

are technologically, or you can move them to a model because of the power of that brand that utilizes new technology, then you should do that.

I will say that we've also learned that being first into the market --- it's not worth sacrificing quality to be the first into the market. Because at the end of the day, if you go out with a product that isn't consumer friendly, that has difficulties, it just doesn't work. So we worked a long time to get our WATCH apps to where they needed to be. We had the idea earlier, we probably could have come to the market earlier with some lesser product, but we really waited until we felt we got the product right with our partners, the MVPDs, to offer something that is really terrific. And anybody who uses those applications knows that they're really great.

We continue to follow something I've talked about for a long time, which is, we like in general, even though there are exceptions, as there are in life to everything, to be non-exclusive and to be short-term in this space; that you don't lock yourself in in a rapidly evolving space. The models --- or exclude the possibility of doing something else because of being locked into something that you've already decided.

We've also tried to view technology, as you mentioned in many of --- in the list that you threw out there --- OTT, Over-the-Top technologies to deliver media, also the growing SVOD business in delivering media. We try to use technology both to enhance the ecosystem that we're a big part of, the MVPD ecosystem, and you know the products that have come out as a result of that. But at the same time, try to move our media, and our brands, and our products into new delivery systems. And we've done both. I think, not to toot our own horn, I think we've done that incredibly well in balancing it. So it's not like: let's depart from everything that we've done and do everything new. I think we're also trying to continue to build and enhance the value in something that has been very good to The Walt Disney Company, very good to content providers, which is a broad-based, enormously popular --- in terms of subscribers -- MVPD system.

Drew Borst – *Analyst, Goldman Sachs*

Yes, on a similar theme, you guys have also made some acquisitions in sort of the quote-unquote new media space, if we can call it that, things like Club Penguin and Playdom. And you made a recent acquisition of Maker Studios, which is another sort of newish type of business. But I was wondering if you could elaborate a little on the opportunities that you see with Maker Studios and how it fits into your longer term Disney strategy?

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

Yes, sure. I think Maker --- fundamentally, when we look out at acquisitions, there are two types of acquisitions we look at. One is big IP acquisitions that we think have enormous potential. Marvel, *Star Wars*, examples of that, there have been others. And acquisitions that

we think can extend --- get in front of consumers in new ways, extend our ecosystem, the mechanics of the ecosystem.

I think Maker is a little bit of both. On the front end, it is clearly an enhancement of our distribution system. Many, many, particularly Millennial eyeballs, spend a lot of time on YouTube. Maker has an incredibly strong position on YouTube. They have --- they're now up to nine billion monthly views on YouTube. They have over 450 million subscribers to the YouTube --- the Maker channels. So we saw this as a very, very obvious way for us to get our content into this short-form system and into this digital media system in a rapid way, rather than to try to build that organically.

And on the same notion --- and so far that's gone extremely well --- we're still in early days, but the integration, the interest among our business units to get short-form, snackable forms of content out there, it's like 50 years ago movie studios trying to make television. It's not completely natural. And for a big, long-form media company, short-form media is not completely natural. So it made sense to acquire a company that is very good at this.

And that sort of bleeds into the second half of that acquisition. Maker has a studio mentality. They create a lot of product. They create their own channels -- they have -- they've created their own stars. They have creative people on staff. So beyond the technology, beyond the algorithms that the vast amount of data they get from their YouTube channels provides them, they also have creative studio people that kind of speak the same language as we do.

So as I said, early days we believe it's mostly a distribution play and broadening that. But over time, we believe that Maker will be a big studio, just like the Marvel studio, and just like the Lucasfilm studio, and just like Disney Animation. It will be a content creator for the Company.

Drew Borst – *Analyst, Goldman Sachs*

So is sort of phase one taking Disney franchises and brands and putting them into the Maker Studio channels? And then is that kind of the initial idea? And then phase two is maybe they could help you launch your own?

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

Yes. Well, both things are going on simultaneously, but you can imagine we have enormous library content that has been --- and that content has been through lots of --- and most recently through the SVOD system --- has been through lots of the ways it can be monetized. Short-form is another way it can be monetized that we haven't even scratched the surface on. And so we expect that Maker is going to be the fundamental driving force in the Company for taking that library content into the next step, whether that's ESPN library content, Disney Channel library content, the ABC local station content, the ABC network content, all of that stuff can be reformatted and reused in short-form.

So that would be the start, but at the same time, it's not like they're waiting. They're also doing creative work --- they have a creative content engine, they continue to hire great executives from that space, and they work with celebrities that we all know from other media forms, Snoop Dogg, will.i.am --- to really start to put together media directed specifically at that space.

Drew Borst – *Analyst, Goldman Sachs*

There's several of these players in this --- I guess we'd call it an MCN, right, multichannel network market, I think --- I believe Maker is probably the biggest.

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

By far the biggest, yes.

Drew Borst – *Analyst, Goldman Sachs*

Well, maybe you could --- I think one of the criticisms I've heard about this business model is people wonder about the profitability of it and I think the challenge for --- and maybe this doesn't apply to Maker, so correct me if this isn't applicable, but that they have a difficult time making profit because they are so reliant on YouTube as a form of distribution. And so some of these companies have started out on YouTube, built an audience, gotten traffic, and then when they try to wean themselves off or try to establish themselves independently where they cannot give a cut of advertising to YouTube, they go off to their own website and the traffic just falls off. And so then, they have to come back.

I don't know, is that not an accurate description of what's happening at Maker? And how do you think about the profitability of this business?

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

It is an accurate description of --- I don't agree with the premise that it can't be profitable --- but it is, Maker is playing both of those pedals at the same time. So Maker.tv is an independent, apart from YouTube channel, where a lot of the content that I'm discussing is housed in short form. We'll continue to put great content on Maker.tv and try to make it something. So far, it's doing pretty well. We're selling ads pretty well into that space. But of course, the behemoth right now in the digital advertising that goes into short-form is clearly on YouTube. And obviously, the business model there is a split of the advertising revenue with YouTube. But we don't see that as either a short-term or a long-term obstruction to profitability for Maker.

The split is still --- allows you to have a lot of revenue and that revenue is growing incredibly rapidly. And the pie is gigantic. I think when we acquired Maker, I believe they were 6% of all

YouTube volume. I think that may have crept up a little bit, because their monthly views over the time we've owned them have gone from four billion monthly views to nine billion monthly views. So I'm sure our share of YouTube has gone up. So look, I think that advertising pie is vast. I think advertisers, I think YouTube is starting to say the right things and do the right things with advertisers in terms of guaranteeing eyeballs, just like we've had to do for years and years in television. I think they're making all the right moves and I think Maker is moving along with them. But we are not neglecting our own direct-to-consumer access where we would own 100% of the revenue.

Drew Borst – *Analyst, Goldman Sachs*

Okay. Before I ask a few questions about the individual segments, maybe I'll get one in about sort of capital allocation. You guys had stepped up your pace of your buyback to $6 to $8 billion target for fiscal 2014. I was wondering if you could talk about, number one, your philosophy in terms of share buybacks and capital allocation. And then also just if you have any expectations for the pace of buybacks into fiscal 2015?

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

Yes, if what Drew just said about our buyback statement sounded to you like it sounded to me, it's not $68 billion. It's $6 to $8 billion.

Drew Borst – *Analyst, Goldman Sachs*

I'm sorry. Excuse me. I should have enunciated…

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

It sounded a lot like $68 billion to me, $6 to $8 billion. Look, number one, we are on pace to be squarely within that range of $6 to $8 billion for this fiscal year. And frankly, it's a little early in our planning cycle internally and with the Board to really talk about what's going to happen in fiscal 2015 and beyond, and I won't. But we've had a capital allocation strategy that has served us incredibly well over the last, I guess now I'd call it last decade. Two-thirds of the cash we generate from our operations we invest back in those businesses. 15% to 25%, depending on the year, in M&A to continue to grow the Company and grow those business units in the ways that I described earlier. And we've been sure not to forget to return capital to shareholders, both in the form of dividends and buyback. I think every year, and certainly --- every year over the last 10, and certainly vastly in aggregate, we have favored a buyback as a vehicle to do that, believing over that period of time up until today that that is still a very good investment for the Company. And we'll continue to do that until such time as either -- in the short-term, we find other needs of cash or we don't find it opportunistic to buy in the market.

So I don't think you should expect to see a huge change in that strategy. $6 to $8 billion was more than a typical year, if you look at the last 10. Certainly not wildly outside the range of where we've been and as I say, we haven't made our decision for 2015 and beyond, but we like our strategy.

Drew Borst – *Analyst, Goldman Sachs*

So moving to the Media Networks business, I wanted to ask a little bit about DISH's personal subscription service that sounds like they're moving ahead and they're targeting a year-end launch. You guys were one of the --- I think you were *the* first contract that they signed. I think what investors are worried about is the potential for the spin-down risk of this lower-priced video service, Over-the-Top video service being --- if it lives up to its billing, which is lower-priced but very high-quality channels, including ESPN and Disney Channel --- that people who are doing the $100 multichannel subscription might spin down.

Now, I know you've said publicly in the past that you view this as more targeting Millennials, younger people who aren't even subscribing today. So it's like an on ramp rather than an off ramp. Maybe you could talk about how you look at this risk and how you --- what kind of protections you have in your deal with DISH.

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

Yes, first off I think that what you've just brought up with DISH is a perfect example of what I meant before about continuing to look towards technology as a way to enhance being part of the MVPD infrastructure for consumers rather than basically sow all our new seeds outside of that system. And I think this is a good example.

Look, you kind of answered the question in the way you asked it. This is a product that's basically targeted at the 7+ million, whatever we want to call --- the Millennials, cord nevers --- people who are not part of the MVPD system today, would like to be part of it or would like to experience some of the benefits of it. But for economic reasons, not part of a household yet, haven't formed their own household, want to take this personal service. And we do see it, and I know DISH does see it, as an opportunity for people to sample what is great --- what is part of the great value of being a subscriber in the MVPD system. So that's sort of the words around what we mean by an on ramp and what DISH means by an on ramp into the MVPD infrastructure.

The people already in the system are already experiencing what is probably the best bargain in entertainment today. The average consumer pays $75 for 100 television channels, many of which are of incredible quality, many of which are also niche. And when people say, "well, people pay for channels they don't watch." Well, that may be true. The channels they don't watch for you, me, and every other person in this room, and people not in this room --- we may all watch the same thing --- but people not in this room are all different.

So it's easy to make sweeping statements like, “well, people pay for channels they don't watch.” But --- you don't watch them, but the guy next door to me watches it and it's one of his favorite channels. When you ask people to list “what are your favorite channels?” they are very different across households. So I think if we --- if you think about the quality, the investment, the production value that's put into television today, the cost of a monthly MVPD subscription, it’s still an incredible value. And I don't think that DISH or the other MVPDs who supply that product of great value are really worried that people are going to say, “wow, I can do that and it costs less” --- that they're all going to, to use your words, spin down and buy less.

I really think they are talking to people who say, “you know what, I can't make that jump but I want to be in the system. I want to be Over-the-Top, to personalize. I want to watch it on my iPad, I want to watch it on my laptop.” And they get them into the system with the hope of them enhancing their own value in the future.

Drew Borst – *Analyst, Goldman Sachs*

I want to ask a question about sort of the traditional MVPD service and sort of the concept of the channel bundles, right. And this is --- we know that sports rights costs, you know better than I do, that sports rights costs continue to kind of escalate at a fairly healthy clip.

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

I've heard that.

Drew Borst – *Analyst, Goldman Sachs*

And that is usually the number one sort of area that the distributors will point to when they say, “well, we have to raise prices.” So and on the most recent quarter, you guys did underscore that you saw a little bit of a decline in ESPN subscribers. And we know, looking at the sub numbers from all the distributors, we still are seeing cord-cutting happening. There's a net contraction in the marketplace.

So I guess my question ultimately is: do you ever see a day where the traditional MVPDs have to go to more of a premium tier for these sports networks, that they have to sort of get away from this big bundle? I mean is that something that could happen in the long run?

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

Well, that's a big question. I'll try to give you the salient points of our thinking on this. First of all, yes, there's a lot of focus in this dialogue, in this supposition or pretext that sports are the problem for the MVPD ecosystem. First of all, I don't think the MVPD ecosystem has a problem. As I just said before, enormously popular in terms of the number of American households that

subscribe to it. Enormous value proposition. So I would dismiss the word that there's a problem.

Secondly, sports being the key to that, one of the reasons that many people are in that ecosystem is because of sports. Sports is still something that you are not going to buy on a library basis. You're not going to buy SVOD to sports, right. You're not going to watch last year's Super Bowl a year from now. And so the simple fact is that sports, while they are often the recipient of criticism, are an absolutely essential part of the MVPD bundle and are --- if you look at the statistics, at least what we know, and I'll only talk about what we know relative to ESPN, drive advertisers, drive consumers, drive distributors. When you ask those three key groups to the television business, ESPN comes out the top for value.

They're also --- ESPN subscribers are more likely to buy broadband from the MVPDs, are more likely to trade up to HD. It really is the driver behind what is a very successful and powerful system. And by the way, referring back to what I said before about the value proposition, it is still an enormous value proposition. So I have yet --- nobody has yet to demonstrate that a system that breaks the bundle up that we know today will really provide a better value and experience to consumers.

It's a very easy and very populist notion to say that, I think because it rolls off your tongue --- “I just want to buy what I want.” But when you really start to analyze it and you look at what it will probably cost to put a la carte bundles together with the stuff that you really like, I'm not sure the value proposition is going to be there, and you may end up with a worse situation, less channels and not a lot different cost. Because one of the compelling reasons that you're part of the system are the very things that you would try to put into your own made up bundle. So --- and by the way, some specialty things that either might go away, which isn't good because you like them, or you'll have to pay a lot more to continue to support them.

So I think that this notion that we're going to be better off with a bifurcated, trifurcated, whatever system of different kinds of bundles. Look, I'm sure MVPDs who also believe the status quo is not a business plan are going to continue to look for ways to keep consumers engaged, enhanced, to bring back the loss of subscribers that we believe and they have been very open about that we think is due to economics, slowing down of household formation over the last few years, that it's been slight. It's maybe churn. We're not 100% sure but it isn't dramatic enough to point to a specific direction.

I don't think that a la carte is going to change that story and I think that the continued enhancement of the bundle, which both we do and the distributors do, is key to future success.

So we feel good about, again, we feel good about our --- the stations we offer. We know they're all of high value and we continue to focus on that.

Drew Borst – *Analyst, Goldman Sachs*

I want to ask you about the status of the current TV market --- TV advertising market. Maybe specifically, firstly, focusing on the upfront, which was generally pretty weak and there seems to be kind of two schools of thought in terms of what happened there. Sort of the money was just sort of shifted from upfront maybe to scatter, or alternatively, maybe some of the TV budgets are being shifted to digital, online, mobile, et cetera platforms. What's your perception? What have you guys seen?

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

Well, first of all, I don't think we --- I don't think the upfront was uniformly weak. ESPN had a fabulous upfront. They were up in both volume and CPM but I know that the net --- it's been reported that the network upfronts were not as strong, the growth was not as strong as they had hoped or that it had been in the past. I do think that kind of commenting on your suppositions behind that, our folks do feel that we've seen a certain hesitancy in commitment at the front end of the year for advertising. It has --- of course, you're making a bet against future scatter pricing when you do that. It isn't dramatic in terms of the amount of our expectations we've sold in the upfront, but it is definitely less. Advertisers have been, over the last few years, been holding onto their dollars longer into the year. The good news is that by year end, they've still spent those dollars. But they have held them back from the upfront and been active in the scatter market, and of course, you've seen the pricing differential over the last few years on that, and it's been pretty dramatic. I don't want to pretend I have a crystal ball to know what the coming year is going to be, but that trend, we have seen that trend and it may well account for, your term, "softer upfront."

In terms of TV advertising to digital, there's no question that digital advertising is growing at a much faster rate than television advertising has been for the last few years. It's not --- and it would be silly to say that some of that is not coming out of TV. But it seems to us, and we've done some analytics around this, it's coming more out of other forms of media than it's coming out of television, whether that's print, whether that's outdoor. It seems to be finding --- television continues to be a very strong value for advertisers.

By the way, we not only, of course, you all know, we not only sell advertising but we buy a lot of advertising, for our Studio, for our Theme Park business around the world, particularly here in the US. We buy a lot of advertising so we get to both be inside the heads of the buyers as well as the sellers.

And our people still feel very strongly about television. And that's not because we put their arms behind their backs, but because they still feel it is an incredibly powerful way to reach consumers. So as we continue to push them, by the way, I'm cheering on the people who sell advertising in the Company, and then on the other hand, I'm like beating up the other guys for

not using more digital. The simple fact is that they are increasing more in their digital buy, but they're not taking that out of their television budget.

So we see a microcosm of that even inside our own Company. So I think that that accounts for part of it, but I don't think it --- one would say that the increase in digital advertising is driving a decrease in television. It is taking a lot out of some other forms of media, however.

From the perspective of our businesses, we, with ESPN's multiplatform option, 80% of ESPN's advertising is sold in packages that include not only the channels but also ESPN.com, digital and other forms of social buying. We have, I don't know, we just passed I think in the last quarter a billion likes on Facebook. So social media is a place that we feel strongly about in terms of digital ad sales, and also ABC.com, Hulu, these are all vehicles for us to be selling in that digital space because we see the attractive growth in that market and are sort of adding it to our television packages because advertisers really want to be in front of consumers when they've got two screens, which is very common, but also when they're not on their main screen and they're only using either their tablet or online, they want to be in front of consumers there too.

So we continue to try to use the power of our channels to get those eyeballs on our advertising there too.

Drew Borst – *Analyst, Goldman Sachs*

Okay. Let's move to Theme Parks now. On the last earnings call, Bob Iger mentioned that *MyMagic+* will positively contribute to earnings for the first time starting this fiscal quarter. I was wondering if you could outline the revenue and cost dynamics that are going to drive that improved earnings?

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

Yes, just a little bit of background on *MyMagic+* so we're not talking in a vacuum for anyone. First, let me clarify what I think he said. I think he said that *MyMagic+* would contribute to earnings growth in the fourth quarter, not necessarily earnings. But the *MyMagic+* proposition was a big upfront investment in technology with a number of very crystal- clear goals: Enhance the planning process, get our guests to plan their activities at Walt Disney World up front. Orlando --- Walt Disney World is a big property, with lots of things to do, but Orlando is a very competitive space. When people go down to Orlando, there are many distractions from the products we offer that are other offers in that market and we know that when people plan at home, they plan more time with us than if they come down to Orlando unplanned. They're thrown into the fray and there's a lot of shiny objects, and they spend less time with us.

So the number one goal was to basically get them to plan up-front and I'm happy to say that I think 50% now of all guests that come down are using the *MyMagic+* planning tools that, by the way, not only helps us but helps them a great deal, enhances their vacations enormously,

allows them to book attraction times of their favorite things, allows them to really get a clear view of the offer, how they can most efficiently spend their time. So that was --- that's where we think a lot of the value for us, of *MyMagic+*, will live in addition to, of course, enhancing the overall guest experience.

The onsite benefits of the technology are: reducing friction in consuming the entertainment. And that friction is transactions, even entering the park, having to show a ticket, having somebody check the ticket, see if it's still valid --- it all takes time. And it doesn't take a lot of time for Drew Borst, but when Drew Borst and 40,000 other people are trying to get into the park in two hours, guess what, it all adds up and it does end up adding a lot of time. Well, we've kind of eliminated that through the use of this technology. Transactions at our merchandise stores, transactions at our restaurants greatly enhanced. It's your hotel key. It's your wallet. It's your portfolio. It's terrific. It also keeps your *FASTPASS*es, that whole itinerary you planned, you're wearing it with you, you can alter it in the Park. But it works for everybody.

So the guest satisfaction ratings, which are the ultimate driver of our future success and our future business, are also incredibly high with like 90% of the people rating the experience in the top two boxes, which doesn't happen very often. And the use of *FASTPASS* is up like 50%, which we know drives our future business. People go home feeling like they had a better time. They come back more often, et cetera, et cetera.

So the overall proposition --- that's the basis of the overall proposition. We are still -- we've just reached the point where we're lapping on quarters, where all guests now utilize the experience, a year before it was in beta and not all guests were experiencing it, so we're just coming out of the ground and seeing what those revenue drivers can be. Bob's comment referred to the fact that we know it will contribute to earnings growth in the next quarter and we expect future great things as we continue to iron out, make it more efficient. We are absolutely determined to introduce great product, even if the cost of introducing that product is kind of having your arms around it more than you need to when it's in its steady state. And we've been doing that, we've talked about that on our earnings call, the additional cost we've experienced with the *MyMagic+* introduction, whether it was communication about it or the handholding and help that guests get when they're in the park. That will not last forever. Guests will figure it out and we will really start to see the revenue come through.

So we're very happy with the investment in this project. It's going to have very strong returns in that business segment in years to come.

Drew Borst – *Analyst, Goldman Sachs*

Let me get one more in before we go to the audience for questions, and let me ask about Shanghai Disney, which is slated to open roughly, give or take, a year from now. It's one of the largest expansions in the Company's history. Earlier this year, you guys actually accelerated, I guess you might call it phase 2, your phase 2 investment to sort of build out the park even

further. Can you give us an update on how the project is going and can you talk about what you were seeing that gave you the confidence to kind of accelerate the expansion?

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

Sure, the project is going well. I mean it is by far and away, even for a company that has done really big projects around the world, it is far and away the biggest, most audacious project we've ever undertaken in the Theme Park space, probably anybody has ever undertaken. And it is --- we've, as you said, announced along the way not only that we were going to open slightly more enhanced, slightly larger in terms of capacity, and of course that means slightly larger in terms of entertainment offerings than we originally planned. We've announced that. That's being fully integrated into the construction process, but we've also announced some creative things that are unique to that location, that really have sparked a lot of excitement.

The motivation behind accelerating some of the stuff that we thought we would do post opening is the absolute growth of interest as we continue to kind of poll the markets that we intend to attract to the park, their level of interest, their intent to visit, and also, simply the growth of consumerism and the growth of the level of consumption within China that would be a market for this park. So that's grown very quickly since we signed our deal with the government to build this park, and we both mutually felt that, you know what, things are growing faster than we thought. We'd be better off having a larger offering than we originally agreed to for opening day.

So I think it's --- the signals are all very positive. It is a massive undertaking. As we sit here, well, it's nighttime, but as we sit here there are probably 10,000 plus people working on that construction site, many of whom we house onsite. And the level of infrastructure investment by our partners as well as direct investment underway is enormous. But we feel we're incredibly buoyant about it. It is one of the most exciting projects in the last decade in our Company, if not in the last 50 years, and one that we are keenly focused on for success.

Drew Borst – *Analyst, Goldman Sachs*

Let's see, are there any questions from the audience? All right, maybe I will keep going then. Let's hit on the film Studio and Marvel. I mean the performance of Marvel over the past couple of years has been amazing and this year was no exception. I mean *Guardians of the Galaxy* is a tremendous success for you guys. I guess the question I want to ask is you also acquired Lucasfilm, which is a similar type of asset in terms of franchises, intellectual property. Are there certain things about the integration of Marvel into Disney, lessons that you learned in that integration that you can apply to Lucasfilm?

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

Yes, I will say that you're right about Marvel in terms of its success. There have been incredible milestones in the five years, nearly five years since we acquired Marvel. And those milestones are obvious to the world and some less obvious to the world. Obvious to the world, the notion that you could put together a series of origin films, of characters that were not that well-known, whether it was *Thor*, whether it was *Captain America*, even *Iron Man* before our acquisition, and then have those characters assemble in a movie that just blew the doors off, called *Avengers*. It was something that was on the drawing board when --- shortly after we made the acquisition --- it was on the drawing board with the Marvel Studio people. But then we actually did it and that was fantastic. Wow, that was great.

The more amazing thing about it is that the next version of those films --- so we said, well, *Avengers 2* should do really well because *Avengers* was so great. But even more importantly, the next version of those origin films, the next *Thor*, the next *Captain America* did way better than the original version. So not only did we build these ensemble superhero films into something great, but each one along the way. And then to come, while you're in stride with that, with a completely new franchise, a group of characters, some extremely unusual and unknown, in this film called *Guardians of the Galaxy* and have the success that we've had really shows that we have figured out the pulse of the fan for this movie. We've broadened it, in terms of its appeal, to families, humor, women. It's just not --- even though we had those ambitions, we had to deliver on them and we feel very strongly about that.

So those are the things that are obvious. The fact that the Consumer Products business follows that, we don't have to go into, you all understand that. Under the surface, we had more subtle things we wanted to accomplish. We wanted to internationalize the Marvel franchises that were very North America-focused, done with distributors outside the US. We wanted to get rid of those distributors, take it in-house and integrate it into a big armature that already distributes products for the biggest licensor in the world, The Walt Disney Company and all of its brands. And we wanted to do it in that same franchise fashion, with that same focus on vertical franchises and how you get them across all categories. Also, Marvel was very focused on the toy business and we wanted to broaden it into all the products that we do for Disney. We wanted to lessen their dependence on toys, move more into all the other categories.

All of that has happened, which is less obvious to all of you because it's not the easiest thing to track the bits and pieces that make up our Consumer Products business, which, by the way, is absolutely blowing the doors off. Even on a reported basis, you can see that. But that business, whether you're talking about Disney stores, licensing, publishing, it is on fire, blowing the doors off, in part because of the successful reorientation of the management team, and in part because of Marvel.

Okay, so then come --- sort of dial back to your question about *Star Wars* and what have you learned about Marvel? Okay, so I think we've learned: do everything, do it faster because you

already know the route and take it through those same channels. So I think that there are similarities. There are some differences, but the similarities are far greater. It's a franchise that can be much better utilized and exploited in the film space. Now, you see we've done a Netflix deal for original content on television. We've got television shows on ABC. We've got television shows on Disney XD. We are doing what we do for our Disney franchises and do so incredibly well and so uniquely with *Star Wars*. And it is mirroring Marvel, but we already know the path. So it's going to go faster, smoother, with the same goals about North America to international, toys to broader consumer products and the film cadence being one that puts out successful movie after successful movie.

So you can tell I'm a little excited.

Drew Borst – *Analyst, Goldman Sachs*

Yes, it is very exciting. We're out of time so thank you very much for being here, Jay.

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

Thank you, Drew. Pleasure being here.

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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 28, 2013 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.