The Walt Disney Company
Q3 FY14 Earnings Conference Call

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Disney Speakers:

Bob Iger
Chairman and Chief Executive Officer

Jay Rasulo
Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer
Senior Vice President, Investor Relations

PRESENTATION

Operator

Welcome to the third quarter 2014 Walt Disney Company earnings conference call. My name is Ellen and I will be your operator for today's call. (Operator instructions) Later, we will conduct a question and answer session. Please note this conference is being recorded. I will now turn the call over to Lowell Singer, Senior Vice President of Investor Relations. Mr. Singer, you may begin.

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

Thanks and good afternoon, everybody. Welcome to The Walt Disney Company's third quarter 2014 earnings call. Our press release was issued about 45 minutes ago and is available on our website at www.Disney.com/investors. Today's call is also being webcast, and a recording and a transcript of the webcast will also be available on our 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. Bob is going to lead off, followed by Jay. And then of course we will be happy to take some of your questions.

So with that, let me turn the call over to Bob, and we will begin.

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

Thanks, Lowell and good afternoon, everyone. We delivered the highest quarter in the history of The Walt Disney Company -- with adjusted EPS of $1.28 -- and we've generated greater EPS in the first three quarters of fiscal 2014 than we have in any previous full fiscal year. As evidenced by these results, we remain committed to building strong brands and growing franchises, a strategy that is creating value across the company.

On top of this earnings report, this week we're especially excited about the fantastic debut of Marvel's *Guardians of the Galaxy* -- with $181 million in global box office so far. Domestically, *Guardians* delivered the biggest August opening weekend ever, and with Monday added in, it's at over $106 million. This result reinforces what we've known for a while, and that is that we have incredibly talented people making films for and with Marvel. Combined with a very strong brand, and a rich array of characters and stories, the future for Marvel is incredibly exciting.

We're looking forward to *Avengers 2* next May -- the footage we shared at Comic Con was a huge hit with fans. We'll follow *Avengers* with *Ant Man* in July. Then *Captain America 3* in May of 2016. Last week we announced we are going to make a sequel to *Guardians* and we see great promise in *Guardians* as another fantastic Marvel franchise.

We also have strong franchises from Pixar, Walt Disney Studios, Disney Animation, and Lucasfilm -- truly an unprecedented collection -- and we're seeing the impact across the company.

For example, Disney Consumer Products just delivered its fourth consecutive quarter of double-digit growth in both revenue and operating income. We have multiple franchises that have already generated more than $1 billion each in retail sales so far this year -- and we're very excited about our new line of *Frozen* merchandise coming this holiday season.

This quarter also marked Disney Interactive's fourth straight quarter of profitability. *Disney Infinity* continues to be a key driver, and we'll add Marvel characters, including *Guardians of the Galaxy*, to the *Infinity* universe when *Disney Infinity 2* launches next month.

Turning to theme parks, progress continues on Shanghai Disney Resort. This is our most ambitious project ever, and we're thrilled with the way this spectacular destination is coming along. We hope to set an official date for our grand opening sometime within the next six months or so.

At World Disney World, this was the first full quarter in which *MyMagic+* was available to all guests. About half of the guests now use *Magic Bands*, and 90% of them rate the experience as "excellent" or "very good." We're very pleased with the growing popularity of *MyMagic+*, and expect it to contribute to Parks earnings growth starting in the fourth quarter.

We are also developing ideas and designs for a far greater *Star Wars* presence in our parks, and we expect to provide details about this sometime next year.

Production on *Star Wars: Episode VII* is on track, and the footage we've seen so far is spectacular -- it's certainly worthy of the fan frenzy and excitement this movie is generating around the world. *Episode VII* will open on December 18, 2015 -- so *Star Wars* fans who've been waiting a decade for a new movie only have about another 500 days to go. Until then, they can enjoy *Star Wars Rebels*, a new series launching on Disney XD this fall.

Turning to ESPN, the spectacular 2014 World Cup once again demonstrated the value of having the #1 sports brand covering the world's biggest sporting events.

With its unprecedented reach across all platforms, ESPN delivered the most-watched World Cup ever on English language TV here in the U.S. -- and with almost 44 million hours of live viewing on WatchESPN, this year's World Cup was the most streamed sporting event in history.

In the month of June alone, an astounding 80 million people connected to ESPN via computers and mobile devices to keep up with the World Cup and other sporting events such as the NBA Finals, the NBA Draft, the U.S. Open, Wimbledon, and Major League Baseball games.

ESPN's new SEC Network will debut in almost 60 million homes nationwide on August 14th, making it one of the most successful launches in cable TV history, and making a lot of sports fans extremely happy.

We're obviously very proud of our performance this quarter -- it's satisfying to see the growing impact of our strategic focus on building strong, sustainable franchises across all of our brands and businesses. It's also a long-term growth opportunity that is unique to Disney -- and one that we will continue leveraging to deliver results and create greater value for our company and our shareholders.

Now, I'm going to turn the call over to Jay to talk about the details of our Q3 performance. Jay?

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

Thanks, Bob and good afternoon everyone. We delivered yet another strong quarter of financial performance with record third quarter earnings per share of $1.28.

The strong performance in the quarter was broad-based with operating income growth and margin expansion at Studio Entertainment, Parks and Resorts, Broadcasting, Consumer Products, and Interactive Media. As expected our Cable business was adversely impacted by higher programming costs at ESPN.

Let's start with Studio Entertainment, where operating income doubled in the third quarter compared to last year. For the second quarter in a row, *Frozen* was the biggest contributor to growth in segment operating income at the Studio due to its performance at the international box office and at worldwide home entertainment, where it drove higher profits per unit as well as an increase in unit sales.

Operating income at Media Networks was comparable to the prior year as an increase in Broadcasting was offset by a decrease at Cable.

Operating income at Broadcasting was up nicely due to higher affiliate revenue and increased operating income from program sales due to lower amortization expense and higher revenue from Marvel's *Agents of S.H.I.E.L.D*. Ad revenue at the Network was up in the third quarter. So far this quarter, scatter pricing at the Network is running mid-single digits above upfront levels.

Turning to Cable, operating income was lower in the quarter as a result of higher programming and production costs at ESPN, lower recognition of previously deferred affiliate revenue and the absence of contributions from ESPN UK, which, as you know, we sold in the fourth quarter last year. The impact of these factors was partially offset by higher affiliate rates and advertising revenue. Higher programming and production costs were driven by increases for Major League Baseball, due to the first year of our new contract, and the World Cup. These higher costs were partially offset by the absence of both ESPN UK rights and production costs for the Global X Games.

Domestic cable affiliate revenue in the third quarter was comparable to the prior year due, primarily, to the adverse impact of the timing of program covenants. At the time of our Q2 earnings call, we expected ESPN to recognize $190 million less in previously deferred affiliate revenue for the third quarter. As it turned out, ESPN recognized only $98 million less as ESPN met certain program commitments during Q3.

As a result of this shift, ESPN has now recognized all previously deferred affiliate revenue for the year. So like last year, ESPN will not recognize any deferred affiliate revenue in the fourth quarter.

Adjusted for the timing of deferred revenue at ESPN, domestic cable affiliate revenue was up mid-single digits in Q3. We expect domestic cable affiliate revenue to return to high-single digit growth in the fourth quarter and expect high-single digit growth for the full fiscal year. We also remain confident in our ability to drive high-single digit growth in domestic cable affiliate revenue through 2016, as we discussed at our recent ESPN investor day.

Ad revenue at ESPN was up 10% in the quarter due to the strength of the World Cup, partially offset by lower ad revenue for the NBA Finals as the series went five games this year compared to seven games last year. Adjusting for the World Cup and the absence of games six and seven of the NBA Finals, ESPN ad revenue was up an estimated 5%. So far this quarter, ESPN ad sales are pacing up.

At Parks and Resorts, total revenue was up 8% and operating income was up 23% due to continued strength at our domestic operations, partially offset by lower performance at our international resorts.

The results this quarter include the benefit of one week of the Easter holiday compared to the third quarter last year. Adjusted for the timing of the Easter holiday, operating income would have been up an estimated 17%.

Growth in operating income at our domestic operations was driven by increased guest spending, higher attendance at our parks and higher ticket prices at Disney Cruise Line, partially offset by higher costs primarily related to the continued rollout of *MyMagic+*. Operating income at our international operations was lower in the quarter as a result of lower performance at Disneyland Paris.

Total segment margins were up 260 basis points in the third quarter and were adversely impacted by about 60 basis points due to new initiatives.

We continue to see positive trends in the business with third quarter per capita spending in our domestic parks up 8% on higher ticket prices, food and beverage and merchandise spending. Attendance at our domestic parks was up 3%. Per room spending at our domestic hotels was up 7% and occupancy was up 3 percentage points to 82%.

So far this quarter, domestic resort reservations are pacing up 5% compared to prior year levels, while booked rates are up 3%.

At Consumer Products, growth in operating income in the quarter was led by our retail business and merchandise licensing. The Disney Stores continued to be a positive story with double-digit growth in comp store sales in North America, Europe and Japan. Growth in licensing was driven by the performance of *Frozen*, Disney Channel, *Spider-Man*, and *Planes* properties, partially offset by lower revenue from *Monsters*. On a comparable basis, earned licensing revenue in the third quarter was up an impressive 13% versus last year, and that's following 8% growth in earned revenues in Q2. We are very happy with the performance of this business, as it continues to consistently deliver strong results quarter after quarter.

Results at Interactive Media continued to improve. We had yet another profitable quarter, swinging from an operating loss of almost $60 million in the third quarter last year to almost $30 million in operating income in the third quarter. We saw improvement in our core games business due primarily to the success of *Disney Infinity*, which was released in the fourth quarter last year and, in addition, this quarter we also saw a nice uplift from our mobile games business.

During Q3 we repurchased 22.8 million shares for about $1.8 billion. Fiscal year-to-date, we have repurchased 74.3 million shares for $5.6 billion.

And with that, we are now ready to take your questions.

Q&A

Operator

(Operator Instructions) Jessica Reif Cohen, Bank of America Merrill Lynch.

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

I have two questions. You have always been able to drive your franchises throughout the organization, and I'm just wondering when you see something like *Harry Potter* becoming a game changer for Universal, is there a franchise for you that can do -- not that you need to have a game changer -- but is there something that can drive that kind of a lift? Maybe that's what you were referring to, Bob. And then, I have a second question.

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

I think we have a lot of them. *Cars Land* is a great example of it, or *Cars*. Clearly, Disney Princesses is a franchise that is all over our parks globally. *Star Wars* is going to be just that. We have global licensing rights to *Avatar*. I mean I could go on.

Pixar, there is plenty of *Monsters* presence. There is a *Toy Story* attraction in every one of our parks around the world. I think there are literally dozens of them. We have more than anyone, and unlike competitors in the marketplace, except for a couple, *Avatar* being probably now the only example, we don't have to license from third parties. We own them all.

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

Right, right. I meant -- maybe that's -- you mentioned *Star Wars*. There was something with *Star Wars*.

And then the other question is also park related. With *MyMagic+*, could you talk about any -- you have anniversaried the costs. Is there a longer-term benefit in terms of a revenue component?

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

There is, and we have said that it is going to contribute to our growth in the next quarter. This is actually -- the quarter that we just announced is the first full quarter that it was basically fully operational or available to all guests, both those that come as basically walk-up guests to our parks, or single-day ticket holders, and those that reserve in advance, and the plan all along was for it to enable us to grow revenue. Clearly that happens in a variety of ways. It's increasing guest satisfaction, so that should have an impact on essentially length of stay, repeat visitation, word of mouth.

There are other opportunities from a direct revenue-generating perspective that I won't get into in great detail, but we would be glad to detail it at a later date. But *PhotoPass* is one specific example of that, but there are many more. And this is going to start delivering basically a positive impact to the bottom line in the quarter that we are just in -- that we are now in.

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

Thank you.

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

Thanks, Jessica. Operator, next question please.

Operator

Michael Nathanson, MoffettNathanson.

Michael Nathanson – *Analyst, MoffettNathanson*

I have two, one for Jay and one for Bob. Jay, firstly, when you look at your domestic parks, it looks like over the past couple quarters or years, you have been getting low-single digit attendance growth and good mid-single digit per cap spending growth. And I wonder when you look out over the next couple years, and given your history in parks, do you think that's the right way to think about the drivers to the revenue model there?

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

Well Michael, if you look at the last five years, we have really seen incredibly strong results from the addition of attractions, lands and experiences based on franchises that have been incredibly powerful. A few minutes ago, Bob just mentioned *Cars*, and before that, *Toy Story*.

And we know that these are the kinds of attractions that pull people from "Gee, I'm going to go to a Disney park someday" to "I want to go this year."

If you look forward, whether it is *Avatar*, and we have spoken of the opportunity for *Star Wars* in our parks, these are the kinds of things that have been absolutely the basis of our growth here in the U.S. And if you look overseas, like at Hong Kong for instance, you will see *Iron Man* being introduced into that park soon.

So I think that from a volume perspective, we remain keenly focused on enhancing the experience, having guests who come to central Florida or Southern California extend their stay with us, and that has served us for 30, 40 years as a strategy, and I don't see any reason why we won't continue that.

In terms of the other side you mentioned, on per caps, Bob just mentioned that we expect *MyMagic+* to have some revenue impact as it continues to be fully utilized by guests. We also have been able to continue to price behind the value of our offering, so I also see that as a continuing trend.

So we don't like to get out and predict what's going to happen tomorrow, but the fundamental strategies that have delivered those results you mentioned are still in place and are still serving us well.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, thanks, Jay. Then for Bob, over the years you have been pretty straightforward about challenges you've seen in different businesses that you guys are in. I wondered, given the past upfront, when volumes were pretty weak for broadcast and cable, whether or not you see that as a sign of change in the TV ad model, or is it just something else? I wanted to get your opinion on what happened in the past upfront.

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

I think that you are definitely seeing more compelling growth in advertising spending on new media platforms, digital platforms, than you are on the traditional.

I don't think, though, that it is matched dollar for dollar in the sense that I don't think all the money that flowed away from broadcast in the upfront necessarily flowed directly into new digital platforms, even though I believe that these platforms have siphoned off some money from the traditional broadcasters. I think some of the money just wasn't expressed because advertisers are choosing to essentially commit to spending much closer to the time that the spots actually run.

So I think you're going to see some of the money that wasn't in the upfront expressed in scatter and some of it clearly moved to new platforms.

That said, ESPN had an extremely good upfront. It happened late, so it basically just ended. But there, the numbers were very compelling in that you had absolute increased volume of spending over last year, so not just increased rates or increased units sold, but increased dollars committed to ESPN in the upfront.

Now that may speak volumes about live programming and about the nature of the live programming that ESPN has, but I think you are definitely seeing a shift.

We have made a conscious decision as a company to essentially not be as reliant on advertising as we were in the past. So it represents probably somewhere in the neighborhood of the low 20% range of our total revenue. That's pretty purposeful because we see a much more competitive environment out there for advertising. We intend to participate in that environment in the sense that, by moving product onto new digital platforms, we fully expect to gain revenue on the digital advertising front.

But I think you're going to see basically continued pressure on traditional advertising platforms. We're certainly seeing it a lot, not we as a company, but you are seeing it in the business, in print and in radio and probably in outdoor, and I think that's pretty telling. Television, a little less susceptible to that because as an advertiser, we can say it's still a very, very effective way of advertising a product. But definitely, the world is changing.

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks, Bob.

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

Thanks, Michael. Operator, next question please.

Operator

Alexia Quadrani, JPMorgan.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. You have done such a great job improving profitability at the parks. Can that continue? How should we think about profitability longer term, at least domestically?

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

We have been steadily adding to our margins in our domestic operations, you are absolutely right about that, Alexia.

And we have said that the ramp up of all the new initiatives that we've launched over the last three to five years have been a drag on those margins. Those -- as they continue to become fully operational and now start contributing, as we always thought they would, to the profitability of the parks -- you are seeing quarter-on-quarter and year-on-year growth in our margins and I think that you will continue to see that.

Now, remember, as I answered to Michael's question, the introduction of new product and new initiatives is part of our fundamental strategy. It does have short-term impacts on margins, but positive long-term impacts on value. So, it's not a straight line upward as we introduce major new products, but the fundamental operation of that business has been strong, and, of course, volume and pricing increases help that and support it.

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

The other thing I will add is -- and this goes back to the question that Jessica asked -- is as we spend money at the parks on new attractions that are based on known intellectual property and brands, the likelihood of their success is greater. So when we increase *Toy Story's* presence or other Pixar presence, when we put *Frozen* in the parks, when we grow *Star Wars* presence, which we will do significantly, when we do it with Princess, for instance -- you're going to see, I think, basically better bets being made that pay off -- that are more likely to pay off for us than some of the bets that were made in the past.

So again, it's just a question of essentially leveraging the great collection of franchises and IP that the company has in ways that have better returns on capital expenditures at the parks than we saw in the past.

Alexia Quadrani – *Analyst, JP Morgan*

And just a follow-up, if I may, given your success with Marvel and you have very high optimism for Lucasfilm, I guess combined with a growing value for content these days, have your priorities shifted at all when you are thinking about use of cash? Are you more focused now than before on M&A?

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

No, we made those three big bets in Pixar, Marvel and Lucas. Two of them clearly have paid off handsomely and one we are pretty certain will -- Lucas.

We have had a blend, as you know, in terms of how we are allocating capital or cash between acquisition, organic growth -- Disney Junior is a good example of that, for instance, the Disney Channels worldwide, another example -- and of course, our continued increase in dividends and our buyback program, which Jay addressed.

I don't necessarily see that shifting that much. We have said that we are not targeting any acquisitions that were of the size of the three that we bought, and I don't want to speculate at all whether that could change or not, but we feel right now that we've got a great hand as a company and we are spending a fair amount of time and capital investing in the assets that we currently have.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you very much.

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

Alexia, thanks for the questions. Operator, next question please.

Operator

Todd Juenger, Sanford Bernstein.

Todd Juenger – *Analyst, Bernstein*

Hi, thanks. Two, I will keep them quick. Jay, a bunch of releases recently on the SEC Network. Can you just update us on where you hope that will stand in terms of distribution at launch? Were there other rights or services often attached to those new agreements as they were signed? And any indication on the financial impact that we should be thinking about? Thanks.

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

We are incredibly happy with the SEC Network launch. Best cable channel launch in history, I think. We are now reaching, as of the deals we have done, about 80 million American households, and we suspect that that will translate into about 60 million subscribers that will, on August 14th, start watching great programming on the SEC.

I don't want to get into, and I won't get into, the details of the financial arrangements and results, but we are very bullish on this.

Todd Juenger – *Analyst, Bernstein*

All right, fair enough. And then one quick follow-up. Bob, wanted to just hear your thoughts on how big an opportunity you think international pay television is for Disney, and if you have any ambitions to get bigger there, either through organic or even M&A efforts? Thanks.

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

Well I think growth in international pay television is good for us because of the great content that we have and the content that we have is fairly universal in appeal.

So as entities grow their presence in pay television worldwide, our content is sought after more and we're monetizing that well. The Marvel TV product that we recently announced is a great example of that, for instance, everything is Disney-branded.

In terms of us getting involved directly, we have said for a while that we are going to launch product in marketplaces around the world that is going to enable us to sell some of our product direct to consumer. I don't want to get too specific about that, but those opportunities to sell directly to consumer -- and that would be movies, TV and probably other Disney products -- will be international and domestic in terms of opportunity.

Todd Juenger – *Analyst, Bernstein*

All right, fair enough. Thanks, guys.

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*

Ok, thanks. I feel like I ask this question about every other quarter when you have just a blowout Studio performance here, but I will take another crack at it. If you look back four or five years ago, the expectation for the Studio was a run rate of like $600-700 million of EBIT, and beginning with the first *Avengers* movie and the rollout of this staggering pipeline of intellectual property related to Marvel on top of Pixar, and now Lucas, it sort of looks like you are in a -- unless something goes just incredibly wrong -- there has just been a massive step function up in the earnings power of the Studio that looks to me like a run rate of $1.1-1.2 in EBIT.

Can you talk about what your expectations are, given the incredible visibility in the pipeline for profit generation for the Studio for the next couple years?

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

I can agree with most of what you said, but I will not give you specifics in terms of a predicted run rate because we just don't do that.

But given the pipeline that includes basically the brands and the franchises you mentioned, the slates -- not just for 2015, but beyond -- are incredibly rich with tentpole movies that are branded, known, that should work worldwide. And obviously, releasing a *Star Wars* film every year starting in 2015, what we said about Marvel with *Avengers* and *Ant-Man* and *Captain America 3* and a sequel to *Guardians* and plenty others, the obvious Disney Animation success, which is now three pictures in a row and growing -- because I think that the one we've got this Christmas, *Big Hero 6*, will also be strong -- and then a very rich Pixar slate coming up, you are going to see some great results from the Studio. On top of the fact that we feel very well positioned both in terms of our slate and our talent on the Disney live-action front. *Maleficent* has done well over $700 million worldwide. If you look at the slate coming up from *Tomorrowland* and *Cinderella* and a number of other films, we think that group is operating at a top level and we are very bullish about their prospects, too.

So we think we are well positioned for the Studio to be a significant driver of bottom line results for the company certainly through the next five years, and I am not sure I know what's out there that could disrupt us, except for wide-scale creative failure and I certainly don't expect that.

David Bank – *Analyst, RBC Capital*

Okay. Alright, thanks very much.

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

Thanks, David. Operator, next question please.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Thanks. Bob, in light of the Fox/Time Warner news, which is obviously dynamic as we speak, presumably one of the ideas there is that having significant scale in the domestic pay-TV business and having size and affiliate fees has value. And I am wondering -- given Disney's position with ESPN and ABC and Disney Channel where you already have scale -- do you view adding even more scale as helpful in creating value for the company, adding more cable networks to your portfolio? Or maybe conversely, there starts to be some dyssynergy from size; that you become sort of, there are too many mouths to feed, so to speak? I would love to get your color on that since it is obviously pretty topical.

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

Well we like the hand that we have and we believe that we can continue to mine growth from the channel properties that we own in Disney, in ESPN, obviously, in ABC, and our 50% ownership of the A&E/Lifetime networks, which is also very significant for us. We like that hand.

We don't necessarily believe that we have to grow those businesses in order to prosper. We think we are positioned to continue to prosper in that business.

I will say that in the multichannel business, there is a lot out there. There are a lot of channels, and channels that have questionable brand propositions, channels whose ratings are not necessarily consistent I am not sure are going to be served as well over time.

I don't think the marketplace continues to grow for all. I think the marketplace will continue to grow for those channels that are best branded, most in demand, best programmed. And I think we have got those channels.

Ben Swinburne – *Analyst, Morgan Stanley*

Got it. And if I could just ask a follow-up to Jay on a different topic, on cable affiliate revenue growth, I guess same topic, but on the quarter. Jay, you mentioned that domestic affiliate revenue growth, I think, was up mid-singles in the quarter. I think it was high-singles last quarter, so any color on the deceleration and then the acceleration into Q4? Is that basically the SEC Network kicking in or is there anything additional you would want to add?

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

Thanks, Ben, I will be happy to try to shed some light on that. There are a number of factors that have led to this quarter's affiliate revenue growth to be in mid- rather than high-single digits as it has been.

First, as you probably know, we haven't completed all of our deals with the multichannel operators. Some are still operating under the old rate card and that is something that obviously we expect to change going forward.

Secondly, we have experienced some modest ESPN sub losses that we believe are mostly economically driven. We have talked about this in the past.

And finally, the growth rate was impacted by some contractual adjustments during the quarter.

But what is important to know, as you said in your question, is that we do expect to be back to delivering the high-single digit domestic cable affiliate growth in Q4 that we have been speaking of, and also that the full fiscal year will be high-single digits for fiscal 2014.

And as I said at the ESPN investor day, we still expect that that will be high-single digit compounded annual growth in domestic cable affiliate revenue through 2016. We don't really break out individual products, like the SEC Network, so I am not going to specifically speak about it.

Ben Swinburne – *Analyst, Morgan Stanley*

Terrific. Thanks a lot.

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

Thank you, Ben. Operator, next question please.

Operator

Anthony DiClemente, Nomura.

Anthony DiClemente – *Analyst, Nomura*

Thanks a lot. Just a question on your ongoing relationship with Netflix. It seems that Disney has been more aggressive than your peers in terms of deals with Netflix on the SVOD side, not only the pay one deal that you have in the U.S., but I think in the quarter you struck a similar deal with Netflix in Canada. Why have you guys been more aggressive than other media content companies? Do you think it is your genre, the kids' genre is more value add from SVOD as compared to traditional premium pay TV? Or is it just that you're getting a pretty material pioneer tax from Netflix? Thanks.

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

Netflix -- we are growing our business with Netflix, first of all, because we believe in their platform and its future, and we have from the beginning when we did the output deal with our Studio. And we also believe that our brands can be well monetized on their platform, which is evidenced by what they're paying for our brands and our content.

As long as that continues, which I think it will, not just domestically but internationally, our business is expected to be robust with them or even grow. It is just a good combination. We have got brands and content that they want and they have a platform that we like and that we want, and they are willing to pay the right price for our content, good prices for our content. I think it is mutually beneficial.

Anthony DiClemente – *Analyst, Nomura*

Okay, and then just maybe a follow-up, maybe I guess for Jay more specifically. As Netflix expands into new territories internationally, France and Germany coming up, you guys being natural partners with Netflix, should we expect that you will see a bump in digital revenue as Netflix turns on new countries? And should we expect to see that flow through the P&L?

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

I am not going to foreshadow what revenue will come off of Netflix in the future, but everything that Bob said, I believe, applies to every market that Netflix would enter in the future.

Anthony DiClemente – *Analyst, Nomura*

Okay, thanks a lot.

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

Anthony, thanks. Operator, next question please.

Operator

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citigroup*

Maybe this is a little bit of a strange question, but I think it was probably about a decade ago, Disney invested in *MovieBeam*. And I was just wondering, is there still an appetite on the part of Disney to have something that is more direct-to-consumer? Or was that just an experiment and strategically you have sort of moved on?

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

Well I've definitely moved on from *MovieBeam* itself, barely remember it. I think it actually was a noble experiment. Might have been slightly ahead of its time and a little bit off-base in terms of the technology because it required an extra device in the home.

I think, actually, this company is very well positioned to offer product directly to the consumer. Right now, we do that primarily at Parks and Resorts. I think that we would in all likelihood grow our direct-to-consumer business and on the media space, in the movie space, et cetera and so on over time.

And I think that will be an important strategy for the company in the future for all kinds of reasons -- one being that I think that access to the consumer has all kinds of value. Secondly, I think we can better serve the consumer with certainly our Disney-branded product by going direct. That said, we have good relationships with distributors, whether they are big-box retailers or theater operators or MVPDs or pay television or pay media platforms, like Netflix.

So I think you'll see over time growth in Disney's direct-to-consumer business, but that doesn't necessarily mean we will get out of the third-party distribution business. That would be an impossibility.

Jason Bazinet – *Analyst, Citigroup*

Understood, and can I just ask one unrelated question? Do think that there is any chance at all over the next few years to clean up the A&E / ESPN ownership structure?

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

Well you say clean it up, suggesting that there is something wrong with it. We have a great relationship with Hearst, a great partnership with them that dates back decades and works extremely well for both companies. We like being partnered with them. They have been great, both in terms of investing for future growth and also sustaining and supporting the current business.

Jason Bazinet – *Analyst, Citigroup*

Okay, thank you very much.

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

Thanks, Jason. Operator, next question please.

Operator

Michael Morris, Guggenheim Securities.

Michael Morris – *Analyst, Guggenheim Securities*

Two questions on ESPN. First, there is some growth in sports advertising inventory, whether it is launched at SEC Network, another night of NFL on broadcast this fall. I am curious what you are seeing in terms of growth on the demand side for the inventory. Are you seeing growth from your existing or traditional sports-focused advertising partners, or are you able to draw new partners into buying into sports programming?

And then, second of all, I am curious about the relationship between ESPN and the parks. They are both, obviously, huge businesses for you. The relationship between the two does seem relatively limited. Why is that? Is there an opportunity for expanding that relationship? Or are there some structural limitations to a partnership there? Thanks.

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

The first question, we definitely have seen growth in terms of number of advertisers coming into the sports space.

We have also seen a lot of growth with advertisers who want to buy the sports space on a multi-platform basis. In fact, I think virtually 100% of all ESPN sales -- or close to it, certainly well north of three-quarters of their total sales -- are bought cross-platform, so they're buying the digital platforms, the magazine, radio, the television channels, et cetera.

I think sports is definitely a growth area for advertisers. Obviously live means a lot. But there just seems to be growing interest in sports in general. I think that's one of the reasons why you have seen more competition for sports rights in the last, probably, five years because it's just more appealing to advertisers.

On the second part of the question, there is limited presence of ESPN in the parks. We have the big branded sports space in Orlando. We have tried our hand at some ESPN Zones in a few locations. There is one at downtown Disney in Anaheim. We're kicking around some other ideas possibly for some other locations. But in general, the experience people want when they enter our parks is more of a, I will call it, a storytelling experience, not necessarily a sports experience, even though there are a lot of stories created and told in sports. It just doesn't -- the blend just doesn't seem to be that obvious, or the presence doesn't seem to be that obvious. So there is not much in development in terms of increasing ESPN's presence in Parks and Resorts.

Michael Morris – *Analyst, Guggenheim Securities*

Thanks. On the first question, are there any categories that seem to be coming in more on the sports side? Or is it pretty broad-based, the incremental demand that you mentioned?

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

I don't know any categories off the top of my head. I do know, though, that advertisers that have traditionally looked for a varied audience, meaning not just men, are coming in, which is interesting. So in other words, advertisers that typically look for audiences that included women's components or young people components are buying more sports time. Maybe because the audience is more diverse.

Michael Morris – *Analyst, Guggenheim Securities*

Great, thank you. Appreciate it.

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

Thanks, Michael. Operator, next question please.

Operator

Alan Gould, Evercore.

Alan Gould – *Analyst, Evercore Partners*

Thank you. Bob, I want to go back to David's question a second. My question is, can the film business get any better than this? I recognize that you have an *Avengers* sequel next year and *Star Wars* the year after, but you are on track to have the highest profits any studio has ever had in a year and it seems like every single film seems to be working.

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

Well, I can pretty much guarantee over time that every single film will not work. I have been in the business long enough to know that. I can't tell you which one won't right now, but that's the business.

I will say that we have got a great team across the board, from Marvel to Pixar, Disney Animation, Lucasfilm folks, and Disney live action. It starts with that team, which all rolls up under Alan Horn's leadership. Really pleased with the team that we have got in place, and when you combine that team with the quality of intellectual property that the company owns, you have a much greater likelihood of sustainable success, which is something that has eluded us in the past and, I think in some respects, has eluded many studios. We just have a great hand of people and a great hand of intellectual property.

Alan Gould – *Analyst, Evercore Partners*

But you even think there will be growth off of this level?

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

I am not predicting that there will be, but I think given the slate, particularly when you consider the cadence of *Star Wars* films and the growth in Marvel and the addition of some Pixar films, look, you are talking about a potential record year in 2014 that doesn't include a Pixar film, which is something that we pushed purposely because the film that we were slated to release we didn't feel was ready and we thought we were much better off seeking quality than rushing a product to marketplace, which we will continue to do.

And so, just the fact that we are doing as well as we are doing without a Pixar film probably says a lot about what is up in the future, but we don't want to make specific predictions.

Alan Gould – *Analyst, Evercore Partners*

Okay, thank you.

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

Thanks, Alan. Operator, next question please.

Operator

David Miller, Topeka Capital Markets.

David Miller – *Analyst, Topeka Capital*

Hey, guys. Congratulations on the stellar results. Bob, what, if anything, can you tell us about the accident to Harrison Ford on the *Star Wars* set? There are just a lot of rumors flying around, or I guess there were maybe two or three weeks ago. Is it going to affect your release date? Are you still targeting the -- I believe it is a December 18, 2015 release date.

And then related to that, and David Bank's question aside, it just seems like overall over the last maybe two or three years that the Studio is just a lot leaner. You guys have used technology in many wonderful and creative ways to lift operating income. It is not just about film performance, it's about use of technology. Do you agree with that and is there other stuff there left to do? As you go to bed at night, do you think about other things that you can do technologically to uplift that margin within the Studio? Thanks a lot.

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

The second part of your question, the Studio is definitely running more efficiently for a variety of reasons, one being something that has nothing to do with technology. They have reduced their development costs significantly, meaning basically the overall deals they have with certain talent, which I think over time didn't prove to be as valuable as they would have liked.

And so, if you look at the commitments long term, we have these commitments to great intellectual property, but we have reduced our development costs.

In addition to that, the Studio has found all kinds of efficiencies, some the result of technology, some the result of just better or strong leadership.

And I believe the question about as I go to bed at night, the one area that I think that there is still potential for efficiency, which is somewhat technology driven, is in the marketing area. I know there have been some things written recently about studio marketing costs. I think in today's world, the opportunities that studios have to reach people with marketing messages on new technology platforms, obviously, have grown significantly, and I think with that should come some more efficiency. I know our Studio was looking at accomplishing that.

In terms of the first question, we're not going to get into any details about Harrison Ford's accident, except to say that we are on track to premiere the film on December 18, 2015.

David Miller – *Analyst, Topeka Capital*

Okay, thank you very much.

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

Thank you, David. Operator, next question please.

Operator

Vasily Karasyov, Sterne, Agee.

Vasily Karasyov – *Analyst, Sterne, Agee & Leach*

Thank you. I have a couple. You mentioned that you now have three $1 billion franchise properties in Consumer Products revenue. I think I know the two of them -- two of them, Princess and *Star Wars*. Do you mind telling me what the third one is?

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

The third one is followed by five others, and we have eight -- Pooh, Mickey Mouse, *Monsters*, *Star Wars, Spider-Man*, *Cars*, *Disney Junior*, and Princess.

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

Okay, thank you, and then, Jay?

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

That's all over $1 billion in global retail sales in fiscal 2014.

Vasily Karasyov – *Analyst, Sterne, Agee & Leach*

All right, thank you very much. And Jay, I have a question about the income and the equity of investees for Cable Networks. It seems like it is getting a little bit more volatile in terms of year-on-year change recently and I think you are highlighting elevated spending at A&E. Can you please tell us what the -- is $230 million to $250 million a quarter a good run rate to think about it? What are the puts and takes going forward there?

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

Well, I think we have shared with you that it was our expectation that with some of the product investment that we were doing that we were -- in the back half of the year that we expected A&E's results, which is by far and away the largest driver of that number, would have a back half of the year that would be flat or lower than it had been before.

So, it really does have to do with the content building and rebuilding that is going on at the A&E Network. We have got channels there and the leadership has done extremely well with them, but wants to continue with that success. And of course, that involves investing in new programming, as it does with any successful cable or network channel, and that's really what you are seeing in those numbers, nothing beyond that.

Vasily Karasyov – *Analyst, Sterne, Agee & Leach*

So if I understand it correctly, we should see a slight decline in Q4, too, year-on-year, is that correct?

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

Q4 is looking flattish, and I think we said we were looking for flat numbers for the second half of the year.

Vasily Karasyov – *Analyst, Sterne, Agee & Leach*

Thank you very much. Have a good afternoon.

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

You're welcome.

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

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

Operator

Marci Ryvicker, Wells Fargo.

Marci Ryvicker – *Analyst, Wells Fargo*

Thanks. You were asked a little bit about increasing your scale domestically, and then global pay-TV penetration. But do you feel any need to gain global scale in Cable Networks through M&A? That's the first question.

And then, we have been hearing some of the weakness in national advertising pretty much across the board might have been some sort of displacement due to the World Cup, and since you had the World Cup, I am just curious if you saw some advertisers really move money out of the traditional marketplace into the World Cup?

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

We don't really believe that we need to gain any additional scale in terms of global channels. Our primary basic channel play worldwide is the Disney Channel, or the Disney-branded channels. That includes Junior and XD. We continue to invest in growing that portfolio of channels. It is now well over 100. We will continue to do that. We're not necessarily looking to acquire more for more scale.

With these brands and the content opportunities that we have to mine them, there are plenty of places for us to bring our product beyond just an owned channel, as we have talked about on this call, with various growth in pay television, for instance, across the globe.

The second question was World Cup advertising. Honestly, no one has cited to us internally the fact that the World Cup may have taken advertising away from the more traditional broadcast channels. I think what you saw is, one, some money migrating to new digital platforms and, two, money not being expressed in the upfront, being held back for scatter and essentially being expressed nearer term to when the spots would run.

Marci Ryvicker – *Analyst, Wells Fargo*

Thank you.

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

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

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

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

Thanks again, everyone, for joining us today. Have a good afternoon.

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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.