The Walt Disney Company Fiscal Full Year And Q4 2014 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 Walt Disney Company fourth quarter fiscal year 2014 earnings conference call. My name is Hilda and I will be your operator for today's call. (Operator Instructions) Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

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

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

Good afternoon and welcome to The Walt Disney Company's fourth quarter 2014 earnings call. Our press release was issued almost 45 minutes ago and it's available on our website at www.disney.com/investors. Today's call is also being webcast and 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 will lead off followed by Jay and then we will, of course, be happy to take your questions.

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

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

Thanks, Lowell, and good afternoon everyone.

I'm happy to announce that fiscal 2014 was the biggest year in the history of The Walt Disney Company – with operating income up 21% to over $13 billion, and adjusted EPS up 27% to $4.32.

We're obviously very pleased with this historic performance, and believe it reflects the extraordinary quality of our creative content. It also demonstrates our unique ability to leverage our content across the company and to adapt to emerging consumer trends and technology.

Today I want to focus on our unrivaled content pipeline and its tremendous value in an evolving distribution environment.

The accelerated advances in technology have created a new golden age for content, with more opportunities than ever before to reach people around the world. Our extensive pipeline of branded content from Disney, Pixar, Marvel, *Star Wars*, ABC, and ESPN puts us in a unique position to create significant value in this dynamic era – as evidenced by our four consecutive years of record performance.

Our Studio business has been a tremendous content engine driving opportunity across the company. In Fiscal 2014, the Studio achieved record operating income and also released four of the year's biggest movies: *Frozen*, *Guardians of the Galaxy*, *Maleficent*, and *Captain America 2.* Most are franchise drivers, and this focus on creating and growing franchises is even more pronounced in our slate of future releases.

The most obvious example of this strategy is Marvel, which has become a strong brand since our 2009 acquisition. The five Marvel movies we've distributed to date have averaged almost a billion dollars in global box office, and established two new franchises – *The Avengers* and *Guardians of the Galaxy.*

Marvel has a brilliant team of storytellers, with an incredible slate of upcoming movies that create unbelievable potential for our entire company – starting with the long-awaited *Avengers* sequel, *Age of Ultron*, which will be in theaters next May. *Ant-Man* will open in July; followed by *Captain America 3* and *Doctor Strange* in 2016; and then *Guardians of the Galaxy 2*, *Thor: Ragnarok* and *Black Panther* in 2017. There will also be three Marvel releases the following year: *The Avengers: Infinity War* (Part I) as well as *Captain Marvel* and *Inhumans*. And in 2019, we'll release the second part of *Avengers: Infinity War.*

And on the *Star Wars* front, this morning we announced the name of *Episode VII*, which is *The Force Awakens*, and we're looking forward to its release on December 18th of next year. I was on the set in London just before filming wrapped and saw some exciting footage – and so far, everything suggests this will be the movie *Star Wars* fans around the world have been waiting and hoping for. We'll follow *The Force Awakens* with the release of our first of three stand-alone movies in 2016. *Episode VIII* will be in theaters the following year, and we'll complete the trilogy with *Episode IX* in 2019.

We've got a strong slate of upcoming Disney-branded movies, including our very first live-action *Cinderella,* which brings one of our most beloved heritage characters to life in a whole new way for a new generation. We're also looking forward to *Into the Woods*, *Tomorrowland*, *The Jungle Book*, and *Alice in Wonderland 2*, as well as a new movie from our *Pirates of the Caribbean* franchise.

And our animation is stronger than ever as well. In the last four years we've released seven major animated movies under the Disney and Pixar brands to an average global box office of $750 million – including *Frozen*, which became the most successful animated movie of all time and a tremendous franchise.

Our creative momentum continues with Disney Animation's *Big Hero 6.* It's a great movie and, given the incredible reviews it's generating, we expect a strong opening weekend when it opens tomorrow.

Next June, we'll release *Inside Out,* a truly innovative original movie from Pixar; and we'll follow that with three animated features in Fiscal 2016 – Pixar's *The Good Dinosaur* and *Finding Dory*, the sequel to *Finding Nemo*, and *Zootopia* from Disney Animation.

And today I'm thrilled to announce that John Lasseter will direct another fantastically original *Toy Story* movie. *Toy Story* 4 will be in theaters in June 2017. John created *Toy Story* and directed its first two films, and it's great to have him back, directing one of our most valuable properties. As you know, *Toy Story 3* was a tremendous success, generating wide critical acclaim as well as more than a billion dollars in global box office and almost $10 billion in retail sales, demonstrating that these wonderful characters are clearly just as relevant and beloved as ever.

In Fiscal 2014, we had 11 franchises drive more than a billion dollars each in retail sales, and more than half of them originated from our Studio. We're releasing a total of 21 tentpole movies under our great banner brands over the next three years, compared to only 13 in the last three. While there is no "sure-thing" in a creative business, we believe the proven appeal of our brands and franchises reduces risk and maximizes our unique ability to create significant long-term value by leveraging successful content across our diverse array of businesses.

Turning to our Media business – ABC is off to an excellent start this season. While other networks have seen ratings trend down significantly, ABC is holding strong and is #1 in C3 ratings, excluding sports. We're especially pleased that the Network's performance is driven by the success of shows owned by ABC Studios. *Once Upon a Time* is up 22% year-over-year in C3 ratings for the key demo; and *Scandal,* one of the fastest-growing shows last year, is also up this season. Additionally, ABC has the #1 new comedy, *black-ish*, as well as the #1 new drama, *How to Get Away with Murder*.

At ABC News, *Good Morning America* continues its reign as the #1 morning show, and *World News with David Muir* is number one in the key news demo.

ESPN has locked down an extraordinary portfolio of sports rights well into the next decade, including deals with the NFL, NBA and Major League Baseball as well as the SEC, ACC, Pac-12, and Big 12. ESPN will also be home to the College Football Playoffs for the next dozen years, starting with the first-ever playoff in January, which is already generating a lot of buzz.

Now I'd like to turn to the evolving distribution landscape. The media environment is far too dynamic for anyone to expect the status quo to continue. We've clearly demonstrated our willingness and ability to be at the forefront of change impacting our industry – driving technology and business models that enhance value to consumers. Given the quality of our content and the strength of our brands, Disney is in a great position to thrive in any distribution environment.

The multichannel model provides compelling value to consumers relative to a collection of SVOD and Over-the-Top services – as evidenced by the fact that there are 101 million multichannel subscribers in the U.S. today, down only slightly from 101.5 million a year ago. Economic factors as well as technical advances and an explosion of entertainment choices drove this relatively small erosion.

Consumers in most markets can get a multichannel subscription with more than 150 channels and a wide array of diverse and quality programming for around $65 a month – a much greater value than a do-it-yourself portfolio of stand-alone options.

Between ESPN, ABC, ABC Family, and Disney Channels, we own a collection of compelling broadcast and cable networks. We continue to invest in high-quality content across the board to ensure they remain relevant and valuable to viewers on any platform, and we believe we are extremely well positioned for the future.

And now, I'm going to let Jay walk you through the details of our fourth quarter and fiscal year. Jay?

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

Thanks, Bob and good afternoon everyone. Fourth quarter earnings per share, excluding items affecting comparability, were $0.89 cents, an increase of 16% over last year. And for the fiscal year, earnings per share, excluding items affecting comparability, were a record $4.32, or 27% higher than last year.

The financial results we reported in the fourth quarter, and the record revenue, net income and earnings per share we posted in fiscal 2014, demonstrate how our strategy of investing in high-quality content can generate attractive financial returns across all of our businesses while further strengthening our brands and their position in the marketplace.

I am going to spend a few minutes discussing our fourth quarter results in more detail and then I'll go through some key factors to consider as we look to fiscal 2015.

Let's start with the Studio, which had its best year ever with over $1.5 billion dollars in operating income in fiscal 2014. *Frozen* was the biggest contributor to Studio results in the year, however, the record Studio performance in 2014 was due to broad-based success across the entire slate. And by the way, the Studio's record financial performance this year was without the release of a Pixar film.

Studio operating income more than doubled in the fourth quarter compared to the fourth quarter last year due to strong performance in worldwide theatrical and home entertainment markets. Higher worldwide theatrical results reflected the performance of *Guardians of the Galaxy* and *Maleficent* in the fourth quarter compared to the performance of prior year releases. Home entertainment results reflected the strong performance of *Frozen*.

Q4 operating income at Media Networks was comparable to the fourth quarter last year. Results at Cable were comparable to prior year as lower operating income at ESPN was partially offset by higher operating income at Worldwide Disney Channels.

As expected, at ESPN, higher programming costs for Major League Baseball, NFL, college football, and the World Cup more than offset higher affiliate and advertising revenue. We also incurred incremental programming costs due to the launch of the SEC Network.

Domestic cable affiliate revenue in the fourth quarter was up high-single digits due primarily to higher contractual rates.

Ad revenue at ESPN was up 5% in the quarter driven by an increase in units sold and higher rates, partially offset by lower ratings.

At Broadcasting, operating income was comparable to prior year as higher affiliate revenue and higher income from program sales were largely offset by higher primetime programming costs and lower ad revenue at the ABC Network. Programming costs were higher in the quarter as a result of higher programming write-offs and a higher-cost mix of programming, as well as contractual rate increases.

Ad revenue at the Network was down low-single digits in the fourth quarter due primarily to fewer units sold. Quarter-to-date, primetime scatter pricing at the ABC Network is running 12% above upfront levels.

At Parks and Resorts, the investments we've made over the last couple of years, specifically in our domestic business, continue to pay off. During the fourth quarter, operating income was up 20% on revenue growth of 7%. We continue to see strength in our domestic operations due to increased spending and attendance at our domestic parks, and higher spending and passenger cruise days at the Disney Cruise Line.

Results at our international parks were lower compared to last year driven by lower results at Disneyland Paris. Disneyland Paris recently announced a recapitalization plan aimed at helping to improve its capital structure and liquidity, while enabling it to continue investing in the guest experience, which we fully support.

Total segment margins were up 190 basis points in the fourth quarter and benefitted by about 30 basis points due to new initiatives. As we've said in the past, we expect investments in new initiatives to be accretive to operating income and margins over time, and while two significant components of the investment plan, *MyMagic+* and Shanghai Disney Resort, are still in ramp-up mode, the other investments are clearly making meaningful contributions to the segment's results.

The early returns we're seeing from *MyMagic+* are encouraging. During the fourth quarter, *MyMagic+* had a positive contribution to the year-over-year increase in the segment's operating income.

We continued to see positive trends in the business with the fourth quarter per capita spending in our domestic parks up 6% on higher ticket prices, food and beverage and merchandise spending. Attendance at our domestic parks was up 4%, with Walt Disney World setting a new fourth quarter record. Per room spending at our domestic hotels was up 5% and occupancy was up 5 percentage points to 83%.

So far this quarter, domestic resort reservations are pacing up 11% compared to prior year levels, while booked rates are up 3%. The 11% includes the benefit of the timing of promotional offers, but nevertheless we feel very good about the volume and pricing trends we're seeing in the business.

Our Consumer Products business continues to benefit from strong merchandise sales. In the fourth quarter, growth in operating income was driven by the sales of *Frozen* and Spider-Man merchandise. On a comparable basis, earned licensing revenue was up 10%.

At the Interactive segment, operating income was comparable to the prior year as strong results from our Japan games business and the recognition of a minimum guarantee were largely offset by lower *Infinity* sales driven by the timing of the release of *Infinity 2.0*.

As you recall, *Infinity 2.0* was released in late September this year, so we had a shorter window for selling into retail versus *Infinity 1.0*, which was released during the middle of August last year. We were very pleased with the results of the first installment of the game and we feel good about the launch of the second installment thus far, but we'll have a better sense of overall performance as we enter the holiday season.

During the fourth quarter, we repurchased 16.4 million shares for about $1.4 billion dollars. And for fiscal 2014, we repurchased 84.4 million shares for $6.5 billion dollars.

Before I conclude, let me proactively address a couple of questions you may have about 2015. We expect total consolidated capex in 2015 to be about $1.5 billion dollars higher than in 2014, or up $1.1 billion dollars adjusted for the contribution from our Shanghai partner. The increase in capex is primarily due to the ongoing investment in Shanghai Disney Resort.

We expect Cable programming costs to grow low-teen percentage points in fiscal 2015 primarily driven by the first year of both of our new NFL and College Football Playoff contracts. The increase will be heavily skewed toward the first half of the year given the timing of the NFL and college football seasons.

Total segment operating income in fiscal 2015 will be adversely impacted by about $225 million dollars due to higher pension expense and a negative impact from FX. We will benefit from a 53rd week in our accounting calendar, which will fall in the fiscal fourth quarter.

Also in 2015, we expect to continue to return capital to our shareholders via share repurchase and dividends. So far this year, we have opportunistically purchased 11.3 million shares for $970 million dollars.

Fiscal 2014 was a record year for our company and, as Bob discussed, there is much to look forward to in fiscal 2015 and beyond.

And with that, I'll now turn the call over to Lowell for Q&A.

Q&A

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

Alright, thanks Jay. Operator, we are ready for the first question.

Operator

(Operator Instructions) Todd Juenger, Sanford Bernstein.

Todd Juenger – *Analyst, Bernstein*

Hi, thanks. Two questions, if you don't mind. Both on the same theme, which is around affiliate fees at the Cable Networks. So Bob, you gave a rather impassioned defense and advocation for the value of the bundle as it exists.

I know in recent quarters -- or at least in the most recent quarter -- you had a comment around how some trading down to lower bundles or skinnier packages did have -- did make the list of things that had hurt affiliate fees at ESPN, and -- I think in the past quarter.

I didn't see that on the list today, so I just wonder if there's any update on sort of the trends or any more evidence of the growth of people seeking those lower bundles. And then the very quick follow-up, if you don't mind. Jay, I don't know if you're willing to comment on anything specifically on affiliate fees in Q4, just how they paced and any puts and takes on that. Thanks.

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

We saw, Todd, some modest erosion of the expanded basic bundle, but it wasn't a driver of earnings in the quarter that we just announced. And I did have some bullish comments to make, because if you look at the numbers, and you see that 101 million households have some form of multichannel bundle, it's still clearly the dominant entertainment or television package in the home. And we think that's going to continue for the foreseeable future.

And while clearly the economy has had some impact over the last few years and we do see that millennials seem to be becoming subscribers a little bit later than perhaps they used to, we just feel that when you look at the quality of what's offered, meaning the number of channels and the programming across those channels, and you consider the price, that that is likely to remain dominant for a long time.

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

On the Cable affiliate revenue growth, Todd, as I said last quarter, we expected to see high-single digit growth in the fourth quarter. And in fact, domestically, we did see that high-single digit growth, mostly due to contractual rates increases.

Todd Juenger – *Analyst, Bernstein*

Okay, thank you for that color. Thanks.

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

Todd, you are welcome. Operator, next question please.

Operator

Michael Nathanson, MoffettNathanson.

Michael Nathanson – *Analyst, MoffettNathanson*

I have one for Bob and one for Jay. Bob, last month, the news came out that you're extending your contract for two more years. And in the past, when we've asked you about your priorities, you've said that you wanted to be sure that Shanghai and *Star Wars* would be successfully opened.

Now that you're staying for a few more years, what other priorities are you going to add to that list of things that you're focused on?

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

Well, thank you for the question. When I got this job almost 10 years ago, there were three priorities. One was to make great content, high-quality branded content, and to put most of our capital in that.

Second was to use technology to distribute more broadly, to make our company more efficient, to get closer to the customer, and to innovate, meaning to make our products better through innovation and to create new products.

And the third was to grow internationally. And it's interesting, that here I am essentially almost 10 years after becoming CEO, and those are still the priorities. We look at the movie slate and you look at *Star Wars* and you look at Marvel and you look at what we're doing with Disney Animation and Pixar, there's no better example probably in terms of the first priority than that.

Of course *Star Wars* is something -- particularly for the first film since we've purchased Lucasfilm -- that is a priority. But I talked on an earlier interview about our movie slate. We have great visibility at the Studio to our movie slate between now and 2020.

I mentioned that in the next three years, we've got 21 tentpoles versus 13 in the last three years, but if you look at the lineup that is -- not only has been talked about, but we've actually put into production – we've got writers and directors and titles and development -- it's unbelievably strong.

And that ability, as you know, to -- well, the ability the company has to leverage that across our businesses should drive great growth. So there's nothing probably greater from a priority perspective than that.

Shanghai Disneyland represents our best international growth initiative in a long time. And it's rising from the ground as we speak in a pretty compelling way because of its size and the innovation and the breadth of its quality, and we hope to be able to announce an opening date sometime in early 2015, meaning the date that we will open.

We think that will be a great driver of growth in China and we believe that we've got more opportunities in Asia -- not just in China, but in other markets for the company. So international continues to be a priority.

On the technology front, we took stock fairly recently of the technology and the technological efforts across our company. And even we were blown away by the scale. *Disney Movies Anywhere* is just one recent example of that. The *MagicBand* is another. When you see *Big Hero 6* and you see where we've taken the quality of Disney Animation, that's another one.

So I don't intend actually to change my priorities at all in the remaining 3.5 years that I'm in this position. And I'm really excited about not only what we've got in store, but what those priorities have meant for the company in terms of creating value in the past nine years.

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks, Bob. Let me ask Jay, following on the Shanghai comments. Jay, when you look at this fiscal year coming up, what is the impact on Shanghai on the operating expenses on the Parks side? I know you've been building expenses as you've not opened, but had operating expenses, so how do you think about that in 2015?

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

Michael, you know at the outset, when we announced the building of this park, we said there would be $300 million to $400 million of expenses that were part of that overall spend. And that that tends to be very back-loaded, because a lot of those expenses are the hiring, training and preopening rehearsals, if you will, before we start taking in revenue for the park. So they are very back-loaded.

And we also believe that when we announce the opening date, we will have a better fix on exactly how those numbers will affect fiscal 2015. But you should assume that they will be pretty significant. But the good news is that as *MyMagic+* ramps up in terms of overall new initiatives, we hope that the benefits from that project will actually offset, if you're looking at the segment as a whole, the incremental costs that we're going to take on for Shanghai Disneyland.

So I don't think on balance, they are going to be a huge driver in your model for Parks returns for the year.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Thanks, Jay.

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

Thank you, Michael. Operator, next question please.

Operator

Alexia Quadrani, JPMorgan.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. With so many great brands gaining momentum here that we are seeing, how should we think about the Consumer Products business long-term? And specifically how much of a positive influence might the opening of Shanghai Disney have on the growth opportunities in Consumer Products in China?

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

I don't think that the opening of Shanghai Disney will have an appreciable impact on Consumer Products in China. What's having the best impact and what will continue to have a strong impact on Consumer Products in China is the movie business.

As you know, China has become among the largest movie markets in the world -- I think it's second. It probably will be first sometime in the next five years. They continue to open screens at an unbelievable pace.

Our films have done extremely well in China, particularly the films that drive success at Consumer Products or at retail -- Disney and Pixar, Marvel. We believe *Star Wars* will do the same thing. So we are quite excited about that.

If you look at Consumer Products overall, their growth the last three years has been stunning. It's actually been over 20% over the last three years, which I think has gone largely unappreciated and unrecognized.

The movies that we've been talking about, the more successful ones this past year, of course led by *Frozen*, with the Marvel films *Captain America*, *Guardians of the Galaxy*, *Maleficent* -- are all drivers of the Consumer Products business. The Marvel slate that we just announced, what we talked about with *Star Wars*, they will be as well.

But then we will have other creative content engines of the company that are also helping Consumer Products. Disney Junior is another example of that, when you look at *Doc McStuffins* and a variety of other product coming out of the Disney Channel organization.

So Consumer Products right now has a wealth of properties or intellectual property to mine across the board, meaning in so many categories. I just asked the other day our head of Consumer Products what the outlook is for the Christmas season. And he said that our stores in the United States, in Japan and in Europe -- I emphasize Europe, because everybody's been talking about the woes of the European economy -- but even our European stores are comping up significantly over a year ago.

And buy in at mass retail across the globe for our consumer products is also extremely strong going into the holiday season. I think they've done a great job of mining our IP and creating some of their own. And we're going to look to continued growth from that unit over the next three to five years.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you, and just a quick follow-up for Jay, if I can. I think this time last year, Jay, you gave us some range for the buyback going into the year. I guess is there any way you can sort of give us some sense of how we could expect the buyback to be in fiscal 2015?

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

I am not going to make you happy with my answer, because I'm really not going to give you any guidance into what the level of buyback would be. But I will remind you of this: We said that over the long run, we look towards about 20% of the cash generated by the company being returned to shareholders in the form of dividends and buybacks. We have been very much on track with that. You know what the numbers have looked like over the last three years that have been in that range between $3 billion and this year $6.5 billion on an annual basis.

You saw that we opportunistically -- given what happened in the marketplace -- we opportunistically took a big buyback -- so far this fiscal quarter. I would not look to that number for guidance on what the whole year would look like in terms of the pace.

But obviously, we meet with our Board on this subject. That meeting is coming up. And we have not -- we have neither made a decision as to what the level will be yet, nor am I inclined to announce that. But as I said, part of our fundamental philosophy has been to use that vehicle on an opportunistic basis to return capital to the shareholders.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you.

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

Thanks, Alexia. Operator, next question please.

Operator

David Bank, RBC Capital Markets.

David Bank – *Analyst, RBC Capital*

Thanks very much. Two questions. I guess the first one for Jay. Jay, can you talk about the progress or the -- I guess the progress on Maker. Now that it's been part of the portfolio for six months or so, or a little more than that, how are you tracking kind of the earnout progress and how are you using the Maker audience? Are you directing it to other audiences within the Disney portfolio? How are you monetizing it beyond just the impressions on Maker?

And then the second question, I know you can't give us guidance on the Studio earnings run rate that I always ask for, but when you think about -- you have such great visibility into the film slate for the next five years. When you think about what those films cost, from the past couple of years, and what the P&A spend has been, both -- negative cost of P&A, do the expense profiles of the upcoming slate look pretty similar to the ones that we've just had? So would the profitability per film tend to be about the same on average? Thanks very much.

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

Okay, thanks David. Let me start with Maker. So as you know, we don't report Maker's financials and I'm not going to get into details there. But I can tell you from a progress report perspective it is notable how well-integrated Maker's efforts have been across all of the segments of the company.

They've engaged with every segment of the company and are beginning to mine the opportunities that each of those segments have, whether it's IP, whether it's better distribution, whether it's taking content and envisioning short-form applications of that content. They have also really put their shoulders to the wheel on the marketing front.

And I think that *Guardians of the Galaxy* and the fact that they were way out ahead of it in their space was a perfect example of the kind of marketing that you can have on distribution vehicles like Maker.tv and YouTube, which are ubiquitous and really target the audience for a lot of our films.

So I think that so far we are extremely pleased with how integrated they have become into all of the thinking around the use of the platform that they are so predominant in and how their skill base, both on the analytics side as well as the content side in terms of short form, is showing real promise moving forward. So stay tuned there and I think you'll see a lot more.

On the Studio side, in terms of -- I guess ultimately what was your question, do we envision that the kinds of films that we announced from an expense perspective -- and ultimately I guess I would like to lean toward the P&L and return perspective -- will they look like the incredible successes we've had with these franchise films in the past? And I think the answer is yes. That we do see a similar cost profile in terms of both the negative cost and the likely range of P&A.

But more importantly, when these films hit their ultimates with every part of the company, whether it is spinoff work in other divisions, whether it's Consumer Products, the rates of returns on these films are staggering, as you can imagine.

And that's why we are in the much more limited-slate, dedicated-to-franchise-and-branded-films business that we are in. Because we like the way the economic profile looks and we like the kinds of returns they deliver.

David Bank – *Analyst, RBC Capital*

That's exactly what I was looking for. Thank you.

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

David, thank you for the question. Operator, next question please.

Operator

Jessica Reif Cohen, Bank of America Merrill Lynch.

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

Thanks, I have two questions. I was hoping you could comment on some of the impact of some of the bigger global issues, like the strong dollar, lower gas prices, on your Parks and if you could on your other businesses.

And then secondly, you haven't gotten the advertising question yet, so clearly, if you've listened to any of the other media company calls, there's tons of concern about what's going on, how much is cyclical, how much is secular. You probably actually are enjoying very solid advertising, so I'd love to get your views of not only the current marketplace, but how you see share shifts in different evolving models.

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

I'll take the advertising question. Jay can answer the other part of your question, Jessica. And I'll break it down between ESPN and ABC, although I think they both are experiencing a marketplace that has similar characteristics.

First of all, from the secular -- cyclical question or angle, I'd say there's no question that some money has siphoned out of traditional media and onto digital platforms. We know that, because we have taken advantage of it with our digital presence.

We also know it because we are an advertiser and a substantial component of our advertising buys, particularly the Studio and our Theme Parks, is digital. Even though, by the way, there is still a little less data than we would like to back that up. But digital has become a large component of most advertising campaigns -- or a component. And that came from somewhere.

That said, there's still huge value in the 30-second spot, which we are seeing particularly when the spot runs in high-quality programming. The other thing that I think is a dynamic that I've heard, both from our salespeople but also from the advertising community in general, is that many advertisers are now resorting to far more surgical approaches to developing their media campaigns and their buys than ever before. And there's sophisticated procurement procedures in place behind that. So I've heard complaints from an advertising executive fairly recently that all of his clients are using procurement officers. We've seen that too, in terms of selling ads, and that's changed the buying patterns a little bit.

The other thing I'll add on the secular side is the marketplace right now is -- I will call it mildly off or soft. On the ESPN front, we are not really declaring that a trend. We had a very, very strong upfront at ESPN and we have properties on ESPN that are selling extremely well, notably the NBA, college football leading into the College Playoffs, which is a really hot property. So our outlook for the advertising marketplace from ESPN's perspective for the year is actually not bad.

On the ABC front, a similar story in that the marketplace today is -- scatter, not great. But when you have *Scandal* and other returning shows on ABC and you have hot new shows in *black-ish* and *How to Get Away with Murder*, you've got really high-quality shows, including, by the way, *Good Morning America*, which has done extremely well in the ratings. Now *World News Tonight*, which is doing quite well. Our sales team has a lot of good product to sell, and so when you ask them their outlook, it's actually not that bad.

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

All right.

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

Jay, you want to...

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

Yes. Let me take your question, Jessica, in two parts. First, oil prices. We've over the years been asked a lot of questions about oil prices and I can tell you that it -- other than an indicator of overall economic activity, oil prices per se have never been a real driver for our business, either on the upside or the downside. So I don't expect there to be big movement, particularly in our Parks and Resorts business, where that -- people tend to believe that that would be very relevant. I don't expect that to be a driver, as it's never been before on much more dire situations.

In terms of the strength of the dollar, obviously I mentioned in my prepared remarks that we have an FX impact coming up. We've also had one this year. It was part of the reason, for instance, that international parks was down due to the weakness of the Yen. Obviously we took the Venezuela devaluation this past year below the line. And we expect to see a -- not gigantic, but an impact from basically the conversion of our business, our foreign businesses, into dollars.

If you look, on the other hand, relative to the impact of the stronger dollar on our Parks business, this year -- this quarter, we happen to be kind of at the high end of the range that I usually talk about in terms of percent of international attendance at our parks, which tends to be between 18% and 22%. We are at the very high end of that.

So I would say that has not yet affected individual consumption. There are lots of other things that drive that that are more economically driven, I think, than exchange rates. So we will stay tuned, but we don't see any fundamental impacts on our business yet.

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

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citigroup*

Thanks. Just a question for Mr. Iger. At the press event that you had when you rolled out your Marvel slate, I had a chance to speak to some of your most avid Marvel fans and one of the young gentlemen framed the three Studio acquisitions you've done in the last eight years in an interesting way. It went like this: That Marvel is actually the least risky, because you bought intellectual property and talent. Pixar, you really weren't buying IP, you were just buying moviemaking talent. But Lucas, in a way, was actually the most risky, because you are just buying intellectual property, but no talent.

And so I know that's a somewhat simplistic formulation, but can you just remind us or walk us through the steps that you're taking today to ensure that the *Star Wars* films are successful, in terms of the talent you're putting there.

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

Well, interesting assessment. Because I think that -- about Pixar and Marvel, that's largely correct. There was IP, too, at Pixar, in the sense that there were great movies that had been made in *Nemo* and *Toy Story* and *Monsters* and *Incredibles* that had the potential for sequels. And today we announced *Toy Story 4* as one example of that.

And while when we bought Pixar, we weren't guaranteeing we were going to make those sequels, we thought with the companies combined there was a better shot at making them and making them well. I think we've proven certainly that that was true.

Marvel came with a brain trust, which is I guess another way to put it -- to steal a Pixar term -- of moviemaking talent that was extremely impressive; something that I learned very early on in the exploration process.

And so, as you said, it was a combination of the brand and the storytelling and the affinity for those stories that people had with this great moviemaking talent, and a real discipline. We didn't think it was necessarily a no-brainer, because there's still a lot of work that goes into it. But we certainly believe that if you're looking at a business that is inherently a risky business because of creativity, we were actually reducing the risk.

In *Star Wars*, there's no stronger IP in terms of the passion that people have for storytelling, characters and a brand, I think, than *Star Wars*. And we are seeing that already. It's actually exceeded the expectations that we had when we made the acquisition.

We knew with that we couldn't just essentially say we are making a movie and end up with a great one, that there was a lot of care that went into it and we were fortunate to have Kathy Kennedy to manage that process. But we also knew that that IP would attract great moviemaking talent. And JJ Abrams is a good example of that.

Now there wasn't a long list of people that wanted to direct *Star Wars* films, because that's a tall order. There's a lot of pressure on those folks that do so. But we were fairly certain it would be long enough and that the talent interested in doing it would be strong enough that we would be in good shape. And we are really pleased that a combination of the writing team, JJ, Kathy, and everyone else that's been involved in the creative on the *Star Wars* film is really delivering, which we can't wait to prove to everybody next December.

Jason Bazinet – *Analyst, Citigroup*

Thank you very much.

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

Jason, thanks for the question. Operator, next question please.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Thanks. I have two related to ESPN. Bob, there were some comments from Time Warner yesterday about the potential for an Over-the-Top service from ESPN including the NBA, and how that product might look. But obviously I would love to hear from you what you and the folks at ESPN are thinking about in trying to attack the broadband-only sub base, which may be growing in the US, as you put rights together and think about packaging and pricing ESPN Over-the-Top.

And related, maybe for Jay, you have guidance of high-single digit OI growth for Cable, 2014 through 2016. And you just did, I think, 7% reported this year. You said that programming costs would be up teens, so that's an acceleration.

So I'm wondering is that CAGR sort of -- are we going to see a step down in 2015 and then a reacceleration in 2016 to hit that high-single digit number? It would seem that might make sense mathematically, given the programming cost comments you made.

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

Ben, the whole issue of the sustainability of the bundle, Over-the-Top, the impact of new technology, is a really interesting one and a tricky one. ESPN has got a few priorities.

First of all, buy great product and buy a broad array of rights that gives them the flexibility to essentially exhibit those rights in multiple forms of media so that they have the ability to essentially adjust or adapt to the changing media universe, thanks to technology.

The second thing they want to do is they want to engage more with their consumers. That essentially means be present on new platforms in a robust way, get closer to the consumer. And I said this in an interview earlier too -- no traditional media company has done a better job at going digital than ESPN. We see that in the bottom line with huge growth in advertising revenue. We see it in numbers -- ESPN's uniques basically off-channel are just staggering in terms of their numbers.

That said, we also have a priority, and that is to do whatever we can to make sure that that multichannel bundle is sustainable and valuable and continues to add value to consumers, because it is a more competitive marketplace today than it has ever been.

So we don't feel a compelling need to take a product to market right now that is a direct challenge to that multichannel bundle, in part because if the bundle were to break up, which we don't foresee happening anytime soon, we are very well-positioned to move very quickly to take advantage of -- I'll call it a broadband-only universe, or an a la carte universe, because of the strength of the brand, the programming, the rights that we've bought.

There's no need to do it now in a way that precipitates the downfall of that bundle. Bragging rights to say we are doing it, to say that we are -- we've already established as a company we are pro-technology. We've probably been at the forefront of it from a media perspective in terms of leading change and adapting to change, but if you do it to a point where you are endangering your own business model, which is already facing a fair amount of challenge because of all the changing dynamics of the media landscape, it just doesn't seem to make sense to us right now.

We are ready to do it if we have to. There may be some experimenting with new product. We're going to create new product like the NBA Over-the-Top that is designed as -- add-ons. It's not designed to -- the package of NBA games that's going to be on ESPN will be stronger than what we will ever offer on an Over-the-Top package, including the finals, which will be on ABC, and a good part of the post-season.

If you're really a great NBA fan, you're not going to -- your Over-the-Top package isn't going to satisfy you enough. It may enhance your connection to or your enjoyment of the sport, but it's not going to replace it.

And that's how we are looking at it. It's interesting, because I think that some may call that a conservative approach. We think it's actually a smart approach, because we're going to continue to grow our digital offerings nicely, but we are also going to work really hard at making sure that that bundle is viable.

Interesting what we've done on the mobile side with the WATCH apps is one great example of that. We've got really compelling product that is available. You can watch it on a computer or a great new mobile device if you're a subscriber. And that makes subscribing that much more valuable.

And I also want to say it's not just about ESPN. You look at ABC and you look at Disney and other potential products that we could create as a company under the Marvel and the *Star Wars* brand, we will be well positioned to go direct to the consumer or -- with a la carte offerings if the marketplace demands it. But we don't feel a great need to do that now.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you.

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

Ben, relative to the perspective on the OI at ESPN, I guess I will say this. I'm not going to change the guidance that we gave on the Investor Day relative to the compounded annual growth rate out through 2016.

But as a way of perspective, I think it's worth noting as you think about this that obviously over the next two years, the first year of those, we've talked about the step-up in costs that we are facing. We kind of articulated those in the prepared remarks.

But whether it's NFL or Major League Baseball, the cost of the College Playoffs -- College Football Playoffs, the SEC, those are all step-ups in costs that we will see this year, which, when we look a year from now at fiscal 2016, obviously coming against those, you won't see that as an increase in the relative cost base.

So I think maybe that can give you some perspective on how to think about sort of the path to that overall compounded growth guidance.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you both.

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

Ben, thank you. Operator, next question please.

Operator

John Janedis, Jefferies.

John Janedis – *Analyst, Jefferies LLC*

Thank you. Maybe a related question on advertising and sports. It seems like the number of hours of live sports have increased fairly appreciably across TV this year, and so I'm wondering, are you sensing any kind of sports fatigue or pricing flexibility in the market, from either an advertiser or a ratings perspective?

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

No, not really. ESPN's lineup up of sports is fantastic. Actually, in talking to their sales group about the current marketplace, one of those things they emphasized is the strength of their hand from a programming perspective, in a marketplace that I said is, at least at the moment, not all that great.

We do know that live programming has a lot of value to advertisers. And in ESPN's case, it's got a great demo with men, so that's also quite attractive. So we are not seeing what you described.

John Janedis – *Analyst, Jefferies LLC*

Okay. Thanks, Bob. Maybe a related question. I think there's something like 33 games in at the SEC network, so I know it's early. But can you talk about how you view the Network's performance and to what extent you are seeing some of your traditional ESPN advertisers maybe spending on the SEC Network as well?

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

So far, what we have seen -- and we are not prepared to be public with any numbers -- it's been very, very encouraging, both their football game performance and adjunct programming around it. They actually have a great *SEC Nation* Show -- I think it's called *SEC Nation* -- which is tremendous. They're doing quite well.

I don't have any facts to address the second part of your question about whether we've cannibalized ourselves from an advertising perspective. I do know that we've moved some games from what would've been on ESPN or ESPN2 onto the SEC Network, but that had always been the plan.

It's also nice that this Network has launched in a year that the SEC has been even stronger than it is traditionally and -- it has traditionally been. That's actually -- if ever there was a great time to launch this Network, it's now.

John Janedis – *Analyst, Jefferies LLC*

Great. Thank you.

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

Thank you. Operator, next question please.

Operator

Anthony DiClemente, Nomura.

Anthony DiClemente – *Analyst, Nomura Securities*

Thanks. One for Jay and one for Bob. I hear you guys on the really constructive commentary on the ad sales outlook for ESPN. I was just wondering Jay, if maybe you'd give us the ad pacings, specifically for the December quarter. If you have it, that would be great.

And then there have been a lot of great questions on this call in terms of the changing media ecosystem. I thought maybe I would ask about the soft ratings in cable. And Bob, you guys mentioned the ratings at ESPN in the quarter that you just reported, but more broadly in terms of cable ratings, you sit at the top. You have a very robust internal research team at Disney.

What's your best explanation for the accelerating declining ratings over the summer? And if you will, which are, in your opinion, the digital platforms that are taking the biggest share of those eyeballs, be it ad supported, subscription video formats, or EST formats online? Thanks.

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

Hi, Anthony. First, let me talk about your question on advertising. So I'm going to reiterate a little bit about what Bob said, because I want to put it in context.

First, ESPN had a very strong upfront in terms of both volume and pricing. And we are seeing -- he talked about NBA advertising, we're up like 21% year-on-year in NBA advertising, and the excitement about the College Football Playoff series is palpable.

I will say, though, that we are looking at a very late-moving market in advertising. I think if you've talked to the different media companies, you've heard this over and over, that people are committing cash late, which makes it very hard to read what the numbers really are going to wind up for the quarter.

But suffice it to say that there's a little bit of softness in the pacings. They're slightly down, to the tune -- I would call it low- to mid-single digits for ESPN. But I think that we are optimistic that as the quarter comes to its end and those events that I just mentioned take hold, that we may feel better about it at the end of the quarter. But right now, we are down slightly.

Anthony DiClemente – *Analyst, Nomura Securities*

Okay.

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

On the ratings front, we have seen some ratings erosion. I actually don't want to jump to too many conclusions, because I don't think it's fair to compare a season to a season, meaning this year versus last year, and all of a sudden declare it a trend.

I do know at the Disney Channel, where we have seen some ratings fall off, we've had less original programming. That's more a timing issue than anything else, and we are not concerned about it.

In terms of where competition is coming from and where we see, I guess, the competition the greatest, you'd have to conclude that it's from all over the place. It's just a very, very competitive, fragmented marketplace that has people consuming media from multiple sources on multiple devices and multiple platforms across the board.

And if I were to conclude anything there, it would be that the haves, or the better brands with the stronger programming, will endure, even if they see some erosion. The product that is in danger are the -- the product that is marginal in nature, that is either unbranded or does not have the kind of audience affinity or built-in audience affinity that many of the other channels have.

I actually think when you think about the health of the bundle as well, while if the bundle were to fray or break up, everyone would suffer. The ones that will suffer the most are those smaller, less-branded, less-popular channels.

By the way, they are not going to suffer, they're going to disappear. In an a la carte world, they completely disappear. Interestingly enough, what happens in a la carte is much lower choice from traditional platforms or traditional programmers. And just even more fragmentation. But everybody talks about diversity and everybody talks about variety, and that goes away. It's that simple.

We like our position because of ABC and Disney and Pixar and Marvel and obviously Lucasfilm and *Star Wars*. Because they are branded, and in a world where there's substantially greater choice, whether you looking at movies, whether you looking at television, whether you're looking at apps, whether you're looking at Internet sites, we think we're fairly well positioned there because of the value of those brands.

Anthony DiClemente – *Analyst, Nomura Securities International, Inc.*

Thank you very much.

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

Operator, we'll take one more question.

Operator

Tim Nollen, Macquarie.

Tim Nollen – *Analyst, Macquarie Capital*

Thank you very much. I wanted to ask also about advertising. And I'm particularly interested in your position with ESPN, which is very much obviously about live sports, and then ABC, which faces some of the same broadcast issues as its peers.

My question is: How are you thinking about alternative measurement for these two networks -- ESPN being very much about out-of-home and mobile, ABC being perhaps more about time-shifted?

I guess what will it take to fully adapt and commercialize new ratings methodologies so that we can start to really finally close the gap between what I think real viewership is, which is not declining that much, versus your ability to actually monetize these networks? Thanks.

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

That's a very good question. And it describes a very frustrating situation, in a way. Because we know there's more consumption. But the measurement isn't there to back it up.

There is some data available, but it doesn't cume the audience with what's on the Network. And so it's harder to use. In other words, if we were to try to figure out who's watching *Scandal* on the WATCH app and who's watching *Scandal* on the Network, we'd get numbers for both, but it wouldn't necessarily be cume numbers. And there could be some -- all kinds of duplication.

So right now, it is not a particularly positive situation. And I don't know what it's going to take, except probably significant investment to come up with numbers that really reflect where consumption is today. Which I think would be quite important and quite interesting for those that sell advertising time and those that buy advertising time.

And I can't predict when or even if that's going to happen, but I am assuming at some point the marketplace is going to demand it and it will develop. But it doesn't seem to be anywhere -- it's not in sight at the moment.

Tim Nollen – *Analyst, Macquarie Capital*

Are you saying we need different types of measurement to capture that? Or is it just simply not being used effectively enough by the industry as a whole?

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

I'm not a tremendous expert on this, but my sense is we need a different type of measurement that doesn't exist today, which will take investment.

Tim Nollen – *Analyst, Macquarie Capital*

Okay, thank you.

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

Thank you, Tim. And 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 Investor Relations 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.

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

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

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

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

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

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