The Walt Disney Company

Q3 FY15 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chairman and Chief Executive Officer

Tom Staggs

Chief Operating Officer

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Hello and welcome to The Walt Disney Company's Q3 FY15 earnings conference call. My name is Joe and I will be the operator for your call. (Operator Instructions) Please note that this conference is being recorded.

I would now like to turn the call over to Senior Vice President of Investor Relations, Mr. Lowell Singer. 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 third quarter 2015 earnings call. Our press release was issued about forty five minutes ago and it's available on our website at www.disney.com/investors. Today's call is also being webcast and a recording and a transcript of the call will be available on our website.

Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer; Tom Staggs, Chief Operating Officer; and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Bob, Tom and Christine will each make some comments and then of course we will be happy to take your questions.

So with that, let me turn this call over to Bob and we can get started.

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

Thanks Lowell, and good afternoon everyone.

Before we begin I would like to welcome our new CFO, Christine McCarthy. Christine has done a great job as the Company's Treasurer over the past 15 years. She is highly respected in the financial community, and her strong leadership and keen financial acumen make her ideal for the role of CFO. I'm sure you'll all have the opportunity to get to know her, and you'll be hearing from her a little later.

Now turning to the Quarter: We are very pleased with our performance in Q3, with record net income and earnings per share. Diluted EPS increased 13% to $1.45 and revenue was up 5% to more than $13 billion, with strong results across the board.

Since our last earnings call, we had the pleasure of unveiling the exciting details of Shanghai Disneyland, and with a 60-year history of relentless innovation, fantastic storytelling and extraordinary experiences, we are creating a truly one-of-a-kind, world-class destination. Shanghai Disneyland will have six themed lands, featuring the best of what everyone knows and loves about Disney parks, as well as a number of amazing original attractions created specifically for Shanghai, resulting in an authentically Disney and distinctly Chinese Disneyland. I'm happy to say that since we unveiled the details, the response in China has been tremendous, with nearly 150 million people expressing their excitement on the country's top social media platforms.

This investment represents one of the biggest creative endeavors undertaken by the company, and with an opening planned for spring of 2016 we are truly excited by the potential in the world's most populous market. For those of you who haven't seen the great images and details of Shanghai Disneyland, you can view them online at shanghaidisneyresort.com. I think you'll be impressed.

Before Tom takes you through the highlights of our businesses, I'd like to address an issue that has been receiving a fair amount of interest and attention these days, and that is the rapidly changing media landscape, especially as it relates to ESPN.

We are realists about the business, and about the impact technology has had on how product is distributed, marketed and consumed. We are also quite mindful of potential trends among younger audiences in particular, many of whom consume television in very different ways than the generations before them. Economics have also played a part in change, and both cost and value are under a consumer microscope.

All of this has, and will continue to put pressure on the multi-channel ecosystem, which has seen a decline in overall households, as well as growth in so-called "skinny," or "cable light" packages. ESPN has experienced some modest sub losses, although those have been less than reported by one of the prominent research firms, and the vast majority of them (80%) were due to decreases in multi-channel households, with only a small percentage due to skinny packages. Overall, though, we believe the expanded basic package will remain the dominant package of choice for some years to come, because of the quality and variety it represents, for a price that is generally considered fair and appropriate.

We also see the continued development of new platforms with smaller channel offerings, which we see as a positive trend for us, since ESPN is a must-have brand as part of the initial service offering for these new packages. And we all know why this is: ESPN is the number one brand in sports media, one of the most valuable brands in all of sports, and among the most popular, respected and valuable brands in media by consumers, advertisers and distributors. This is supported by the fact that in the first calendar quarter of this year alone, 83% of all multi-channel households turned to ESPN at some point.

ESPN has the most significant collection of sports program packages in the industry, and its license agreements for these sports typically run into the next decade, including the NFL, the NBA and Major League Baseball.

Its coverage of college sports is unparalleled, particularly Football and Basketball, and the first year of the College Football Playoff and National Championship was an enormous success. ESPN's rights to this fantastic package have 11 years to run.

And, we all know how valuable live programming has become, and ESPN is the leader in live programming. 96% of all sports programming is watched live, and this is particularly valuable in today's rapidly changing advertising marketplace. This year's upfront provided ample proof. ESPN enjoyed both increased demand and sell-thru rates, as well as pricing increases.

And, ESPN has embraced technology better than anyone in traditional media, reaching its fans and engaging with them in more meaningful ways online and on mobile devices, with its linear channels, as well as with an array of additional programming, sports information, commentary, conversation, and very rich social media features.

All of this adds up to a very strong hand, and gives us enormous confidence in ESPN's future, no matter how technology disrupts the media business.

Now, I'll turn it over to Tom to take you through the highlights across the rest of our businesses. Tom?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Thanks, Bob and good afternoon everyone.

A core part of our strategy and a key source of sustained advantage for Disney is developing and leveraging our powerful brands and franchises across our many lines of business and distribution channels. Our investments in Pixar, Marvel and Lucasfilm underscore and dramatically enhance that advantage. The benefit of our strategy is evident in this quarter's results, as our branded content led to healthy increases in operating income at our Parks and Resorts, Studio Entertainment and Consumer Products segments.

Parks and Resorts had their highest quarter ever in Q3 in terms of both revenue and operating income. We've seen remarkable excitement for Disneyland's 60th anniversary Diamond Celebration, which features a new fireworks show, an electrifying nighttime parade and a reimagined *World of Color* spectacular, resulting in the highest attendance and profit for any quarter in the resort's history. At Walt Disney World, attendance hit a record level for Q3 while also delivering the highest profit for any previous quarter for that location.

The Studio continues to execute extremely well on our branded tent pole strategy by delivering high quality, immensely creative and broadly appealing theatrical entertainment. Three of the top six films in the U.S. this year are from Disney: *Cinderella*, Marvel's *Avengers: Age of Ultron* and Disney*Pixar's *Inside Out*, and all three helped drive our strong results in the quarter.

Inside Out has grossed $330 million in the U.S. and more than $600 million worldwide, with more overseas markets yet to open. *Avengers: Age of Ultron* is now the sixth highest-grossing film of all time, with $1.4 billion at the box office. *Ant-Man*, the newest character to join the Marvel cinematic universe, spent its first two weekends at Number 1 and has already grossed nearly $300 million worldwide, with multiple overseas markets yet to open. And we're extremely pleased to have another great original Disney*Pixar film, *The Good Dinosaur*, coming this Thanksgiving.

Of course, we are all counting the days until December 18, when *Star Wars: The Force Awakens* makes its much-anticipated debut -- that's just about 135 days and 10 hours from now, in case you're wondering. To give you a sense of the excitement for this film, a single Star Wars panel at ComiCon this year drove 1.6 billion social and editorial impressions. Following *The Force Awakens*, we will release the first stand-alone Star Wars film, *Rogue One*, which is currently in production and will be released December 16, 2016. It will be followed by Episode 8 of the Star Wars saga in May of 2017. We'll come back in 2018 with a standalone film about young Han Solo, and then Episode 9 will hit theatres in 2019.

And that's just the theatrical lineup. On August 30th we'll launch the Star Wars-themed Disney Infinity 3.0 edition, followed by an unprecedented Consumer Products global event called *Force Friday* on September 4th. Stores around the world will open their doors at 12:01 a.m. to unveil an amazing array of merchandise inspired by *Star Wars: The Force Awakens*. Of course Star Wars is already a strong contributor among our broad array of powerful franchises for our Consumer Products business, where profits were up substantially in the quarter, led by the collective strength of *Frozen*, Avengers and Star Wars.

Our Cable Networks benefited from strong original programming at the Disney Channels and ABC Family, which both contributed nicely to Cable operating income growth in the quarter.

In Broadcasting, ABC was the only TV network with year-to-year primetime ratings growth this past season, thanks to the success of our lineup of returning and new hit shows, including *Scandal*, *How to Get Away with Murder*, *black-ish*, and *Fresh Off the Boat*. ABC also received the most Emmy nominations of any broadcast network this year -- 42 in all -- including ten for the critically acclaimed series *American Crime*. Looking ahead, we're optimistic about ABC's fall lineup, to which advertisers have responded by agreeing to give ABC industry-leading pricing gains in our just-completed upfront.

As Bob said, we're pleased with our results in Q3. We remain confident in our ability to create significant value for our shareholders, and we have a lot to look forward to across all of our businesses in both the near term and the years ahead.

With that, I'm extremely pleased to welcome Christine to her new role and turn the call over to her to take you through additional details of the quarter.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Tom and good afternoon everyone. It's a pleasure to be here on my first earnings call, and I look forward to working with many of you more closely in the near future. With three quarters of the fiscal year behind us, we are very pleased with how the year is progressing. Third quarter earnings per share increased 13% to a record $1.45, driven by strength across our businesses.

At Media Networks, growth in operating income was due to higher results at Cable, partially offset by lower results at Broadcasting.

Cable operating income was higher in the third quarter due to growth at Disney Channels, ABC Family and ESPN. Disney Channels and ABC Family results benefitted from program sales and higher affiliate revenue, while growth at ESPN was driven by higher affiliate revenue, partially offset by a 3% decline in advertising revenue. The decrease in ad revenue at ESPN was due to a difficult comparison with the men's World Cup in Q3 last year, which more than offset the benefit of an additional game of the NBA Finals in Q3 this year. We estimate that ESPN's ad revenue was up a little over 5% when you exclude the impact of these events. So far this quarter, ESPN ad sales are pacing up compared to prior year. Programming and production costs at Cable were relatively flat in the quarter, consistent with our expectations, and we still expect these costs to be up low-teen percentage points for the full year.

Domestic cable affiliate revenue was up mid-single digits in the quarter, as a result of contractual rate increases and the addition of the SEC Network, which launched in August of last year. These increases were partially offset by lower deferred revenue recognition at ESPN. If you recall, ESPN recognized $176 million in previously deferred revenue during Q3 last year and there was no deferred revenue recognized in the third quarter this year. Excluding the effect of the deferred revenue recognition last year, domestic cable affiliate revenue was up 12%.

Broadcasting operating income was lower in the third quarter as higher programming costs and lower advertising revenue more than offset increases in affiliate revenue and higher program sales. The growth in affiliate revenue was due to new contracts and higher contractual rates. Program sales were up in the quarter driven by the sale of a number of shows, including *Grey's Anatomy*, *America's Funniest Home Videos* and Marvel's *Agents of S.H.I.E.L.D*.

Ad revenue at the ABC Network was down low-single digits, as lower news and daytime ratings were partially offset by higher rates. Quarter-to-date scatter pricing at the Network is pacing modestly above upfront levels.

At Parks and Resorts, growth in operating income was driven by higher results at our domestic operations, which saw gains in both attendance and guest spending, partially offset by lower results at our international operations. Margins were up 100 basis points to over 22%.

Attendance at our domestic parks was up 4% and per capita spending was up 2% in the third quarter due to increased spending on food and beverage and merchandise. Occupancy at our domestic resorts was up 5 percentage points to 87% and per room spending was up 4%. So far this quarter, domestic resort reservations, excluding the 53rd week, are pacing up 4% compared to prior year levels, while booked rates are up 6%.

International operations were lower in the third quarter due to a decline in attendance and occupied room nights at Hong Kong Disneyland and higher pre-opening spending at Shanghai Disney Resort. Results at Disneyland Paris were comparable to prior year. The weakness of the euro compared to prior year resulted in about a $100 million adverse impact to Disneyland Paris' revenue; however, there was a corresponding benefit to expenses of roughly the same amount.

At Studio Entertainment, we delivered another strong quarter with operating income up 15% over prior year, driven by increases in theatrical distribution, reflecting the strong performance of *Avengers: Age of Ultron, Cinderella* and *Inside Out*, partially offset by the performance of *Tomorrowland*. Studio results also benefitted from higher revenue share from Consumer Products and growth in international television distribution. Home entertainment results were lower in the quarter as a result of a difficult comparison with the performance of *Frozen* in the prior year.

Our Consumer Products business continues to benefit from the depth and breadth of our licensing portfolio. Segment operating income was up 27% on revenue growth of 6%, and margins were up over 600 basis points. Growth in operating income in the quarter was due to higher results in merchandise licensing, which was driven by *Frozen,* The Avengers and Star Wars. On a comparable basis, earned licensing revenue in the third quarter was up 20% over last year.

At Interactive, results reflected lower performance of Disney Infinity, partially offset by higher results from our mobile games business.

We feel great about our third quarter results, and with the end of fiscal 2015 less than two months away, I now want to take a moment to give you an early look into fiscal 2016. As we look ahead to 2016, there are two items I want to address.

First, the strength of the U.S. dollar versus a number of key foreign currencies is expected to adversely impact our operating income in 2016 by approximately $500 million.

Second, in April of last year, we told you that we expected to grow both domestic cable affiliate revenue and Cable operating income by high-single digits, on a compounded annual basis, between fiscal 2013 and fiscal 2016. Due to the lower subscriber levels Bob discussed earlier, we now expect domestic cable affiliate revenue to fall a bit short of our previous expectation, though still in the high-single digit range. We now expect this lower affiliate revenue and the multi-year impact of foreign exchange rates to moderate our Cable operating income growth to mid-single digits during the fiscal 2013 to 2016 period.

We are disciplined in our capital allocation strategy and continue to take a balanced approach between investing in existing businesses, making strategic acquisitions and returning capital to shareholders. Our financial results over the past several years, including the record quarter we just reported, are evidence our capital allocation strategy has delivered, and continues to deliver, tangible results.

Returning capital to our shareholders continues to be a key component of our capital allocation strategy. Last month, the Board declared a dividend of 66 cents for the first half of this fiscal year, which represents an increase of 15% on an annualized basis. Going forward, we expect to pay dividends on a semi-annual basis.

During the third quarter, we repurchased 9.4 million shares for $1.0 billion dollars. Fiscal year-to-date, we've repurchased 32.4 million shares for $3.2 billion dollars, which, coupled with $3.1 billion dollars in dividends paid this year, represents approximately $6.3 billion dollars in capital returned to our shareholders so far in fiscal 2015. And given our outlook for next year, we currently expect to increase our level of share repurchase to between $6 billion and $8 billion dollars in fiscal 2016.

Before I turn the call back over to Lowell for Q&A, I want to take a moment to say how honored I am to be the CFO of this company, and I look forward to continue working with so many great colleagues here at Disney, as well as many of you in the near future.

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

Thanks, Christine. Joe, we are ready for our first question.

Q&A

Operator

(Operator Instructions) Michael Nathanson, MoffettNathanson.

Michael Nathanson – *Analyst, MoffettNathanson*

I have one for Christine and one for Bob. Christine, following up on the guidance you just gave on foreign exchange, can you talk a bit about how Disney hedges and why didn't we see more foreign exchange impact in this fiscal year, given the movement in dollar a year ago versus being felt in 2016? So talk a bit about the timing of that impact.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. Thank you, Michael. That's a great question. The way we hedge foreign exchange is on a multi-year basis, so it does have the benefit of mitigating the full impact of changes in currency rates on operating income.

So let me just give you some perspective, which I think will explain the year-over-year change. Back in the summer of 2014, when the U.S. dollar started strengthening, we were mostly hedged for fiscal 2015. With the continued dollar strength that we saw in this current year, 2015, as we layered into additional hedges for fiscal 2016, they were at less favorable rates. Hence, the year-over-year 2015 to 2016 impact is currently estimated to be around that $500 million dollars.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, thanks. And then, Bob, something you said at the beginning -- it's a question that I know all of us get and Lowell gets too. It's about the right number of subscriber losses at ESPN, and all us track Nielsen, you put it in your 10-K in terms of the yearly change in ESPN subscribers. What's the right level of subscriber growth? And when you think about your current guidance, what is the right level of future near-term subscriber losses, do you think, for ESPN, maybe for the basic bundle in total?

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

Well, first of all, Michael, we report in our filings Nielsen's numbers. But they don't necessarily track the number of subs that we get paid on. And in fact, the numbers that have recently been in the press, which were Nielsen numbers, were higher in terms of sub losses than those that we're seeing. But we are not, at this point, ready to give specifics in terms of what those numbers are. Does that answer that question?

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. And can --?

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

It does, at least partially. I think.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, okay. And then you are changing guidance is because -- have you taken a more conservative view of the next year on subscriber revenue? Or is it based on where you were --?

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

On the revenue side, Christine said we are sticking to the high-single digits. On the OI side, the combination of slightly less subscribers than we predicted at the time with foreign exchange rate changes leads to us taking the OI guidance down from the high-single digits to the mid-single digits. But on the revenue side we are maintaining the high-single digit outlook.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Thanks, Bob.

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

Ok Michael, thank you. Operator next question please.

Operator

Alexia Quadrani, JP Morgan.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you, Bob just staying on that same topic about the outlook for ESPN and subs, how do you balance maintaining the current ecosystem and helping sustain traditional subs with new opportunities that Over-the-Top can present themselves? And ultimately on that same point, as Over-the-Top platforms expand, do you think it's just a share shift from linear TV? Or do you think it actually can expand the reach of the market for ESPN?

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

Well, I think you can look at this many different ways. One, you can look at it in terms of the overall television landscape and the linear MVPD expanded basic business versus the growth in so-called Over-the-Top businesses. Or you could look at it specifically with regard to ESPN.

I guess I will take the broader market look first. First of all, I think while there has been a lot said about what is going on in the multi-channel universe, and as I said in my comments, it's still the dominant form of television viewing and it is the dominant form, clearly, for sports viewing as well. And we mentioned an 83% statistic -- 83% of all U.S. households watched ESPN -- U.S. multi-channel households watched ESPN in the first quarter. So you are still looking at a significant amount of consumption through the multi-channel universe.

We also look at that business and we look at it as a consumer offering, and we see a huge variety of programming -- a lot of live or topical programming that's on, meaning you don't have to wait a year to watch library, as a for instance; I mentioned a significant amount of variety and quality, obviously -- for a price that's generally considered reasonable and a price that's often bundled with broadband and in some cases with telephony.

So when we look at that universe, we don't really see dramatic declines over the next, say, five years or so. And therefore we are not taking what I will call radical steps to move our product into Over-the-Top businesses to disrupt that business because we don't think right now that it's necessarily the greatest opportunity, and we just don't think it's necessary.

That said, there are new platforms that are launching, some multi-channel and some other types of platforms that, on the multi-channel front they all want our programming. They want ABC, the want Disney Channel, they want ESPN. There isn't one that has talked about launching without coming to us, suggesting a desire to have us. And we're going to, obviously -- because we believe that it's in our best interest -- we're going to take advantage of those opportunities and at the right price, under the right circumstances, license our linear channels to those platforms.

In addition to that you have the growth of platforms like Netflix or SVOD. That's interesting as well because, while one could argue that for all the right reasons that’s starting to incentivize -- or maybe incentivizing -- people including millennials to cord cut, it's also providing us opportunities because Netflix has become a really important partner to us in buying our off-network product, buying original programming for us, the Marvel deal is a good example, and then our film library kicks in, the output deal for the 2016 slate kicks in.

So we look at Netflix actually right now as more friend than foe because they become an aggressive customer of ours. I also think that products like Netflix are pretty attractive because they offer a very user-friendly, efficient and often times much less expensive way for people to watch television.

I'm going to say one more thing. I realize I'm getting wordy. But the average American is watching about 5.5 hours of TV a day. And we see that going up to about 6 hours. The reason they are watching 5.5 hours of TV a day is because of just what I just described, this huge value in the multi-channel product for customers. And it's popular, and the reason we believe it's going to increase from 5.5 hours to 6 is because of the advent of new technology-driven platforms, whether they are Over-the-Top, whether it's SVOD, whether it's new smaller services.

So it's a long way around my saying that we actually believe that with Disney, ABC, ESPN, and our other products, we are really well positioned. We have been among the first, if not the first, to offer our product on new platforms, even if it's somewhat disruptive. We still believe in the expanded basic service for years to come but we're going to take advantage of opportunities. And it's just hard to say when something either feels too disruptive, too fast, or not. But when we see it we will tell you about it.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you very much.

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

Thank you Alexia. Operator next question please.

Operator

Todd Juenger, Sanford Bernstein.

Todd Juenger – *Analyst, Sanford Bernstein*

Thank you. Guess what I want to talk about, too? Just the multi-channel universe and PayTV subscribers. Let me take a shot at this and see what you're willing to engage in. I'd love to hear, as you construct your traditional distribution arrangements, especially for ESPN but your general Cable Networks, would you be willing to talk about what type of protections or options you generally might look for in the case that subscriber losses accelerate or are more than you expected? Are there minimums? Are there pricing resets? Are there opportunities to protect yourself? I'm sure there are on the downside. I would love to hear those. Thanks.

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

Todd, we cannot get specific about it. I can tell you that our distribution agreements do address the number of subs that are being delivered or that we're being paid for. And there are facets of those agreements that enable us to amend the business relationship with a contractual relationship we have with these distributors, should subs go below a certain number. And when I say amend, I'm not going to get specific about how we would go about that or what the specific mechanisms are in the contracts for that because, frankly, it's confidential.

Going -- since you asked a little bit about the future and new deals, I can only say -- and you know a lot of these deals run for multiple years -- but I can only say that when we enter new deals we will probably take an even longer-term view about what threats and what opportunities exist for us in the marketplace so that we are both protected against the threats and we are given full opportunity to take advantage of changes in the marketplace that could strengthen our business, like going direct to consumers should we conclude that that becomes the more attractive alternative to us.

Todd Juenger – *Analyst, Sanford Bernstein*

Fair enough. And then one follow up, if you don't mind, I'll make it quick and somebody has got to ask: just anything that you care to say about the status of your relations with Verizon and what's going on there? Thanks.

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

No, we're not commenting on that except to say we've had ongoing discussions with them. I think they clearly recognize that the channels and the product that we offer have great value to them in their current services and in new services that they are contemplating launching.

Todd Juenger – *Analyst, Sanford Bernstein*

All right, fair enough. Thank you.

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

Thank you Todd. Operator next question please.

Operator

Jessica Reif Cohen, Bank of America Merrill Lynch.

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

It's BAML, but okay. I have two topics. One is film and one is theme parks. And it's a couple of small questions. On film, can you just clarify -- was any shortfall on *Tomorrowland* fully in the third fiscal quarter? And Bob just following up on a comment you made about television viewing and your view that viewing will actually go up because there's more ways to see including Netflix, do you have a point of view on films, like both film distribution change or film viewing change because of technology? And then I guess I'll come back with the theme park questions.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Very briefly, Jessica, on *Tomorrowland* we did see an impact of *Tomorrowland* in the quarter. Obviously, that was more than offset by the success of the other titles. But yes, the underperformance there did show up.

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

On the motion picture side we see global motion picture consumption actually growing. A lot of that is obviously due to the number one growth market in the world in terms of grosses, and that's China, where we've seen just massive increase in movie going over the last even 2 to 3 years.

I know a lot has been said about the window and whether technology and the opportunity to view under higher-quality circumstances in the home is going to compress the theatrical window. For the kind of movies that we make, which are largely what I'll call tentpole films, we actually believe the theatrical window is incredibly important to us. And at the moment we don't really see any need to aggressively compress it. We time our -- I'll call it, the home video product that goes into the marketplace -- very carefully, mostly to track the retail opportunities that we have as a Company, retail opportunities to both sell the movie into that window and retail opportunities to take advantage of the Consumer Products sales that we generally get at retail from a lot of the movies that we make.

So, we think that generally motion picture consumption is increasing in the world. It has been relatively flat in the United States, by the way; I don't think that's going to change. And for at least us, we don't really see taking steps to decrease the theatrical window because, frankly, it's working for us.

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

And then on theme parks, just a couple of really quick ones. But you mentioned the currency impact you expect in fiscal 2016 overall. But is there any -- are you seeing an impact from international visitors -- with the stronger dollar on international visitors? Second, the 60th anniversary: is there any way you can frame the impact of that for Disneyland? And then finally -- sorry about that -- but finally there has been speculation that you guys have gotten some approvals in California, so there's speculation that you are building a new land. Do you have any comment on Star Wars land or something like that?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

First of all, on the foreign exchange, Christine talked about that overall impact for next year. But in terms of looking at international attendance right now, overall we haven't seen dramatic impacts on the currency rate in terms of the total attendance. Now, if we look at it, the correlation with where the economies around the world are weakest, we also see that in the attendance. So, for example, the UK was relatively strong this past quarter, but Brazil was a bit lower. And so that economic status coupled, probably, with some change in the exchange rate, does have an impact.

But if you look at international attendance for Q3, as an example -- Q3, by the way, is perennially the lower of the quarters in terms of international attendance, percentage wise -- it was in the range that we normally experience. So we don't discern a very big impact there.

With regard to the 60th, there's no question that people have responded well to the 60th and there's obviously a lot of attachment to Disneyland. And that has led to what we talked about, which is the best quarter ever for Disneyland Resort in terms of attendance and profitability. And so, I would say that the 60th is one of the key drivers there. But it's really the new content and the product that we have put in around the 60th that drives it. So Disneyland we expect to continue to do well going forward.

And then, with regard to Star Wars, as we have said, we are excited about Star Wars across the Company, and Parks is no exception. So I would say stay tuned for more specifics about our plans there.

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

Thank you.

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

Thank you Jessica. Operator next question please.

Operator

David Bank, RBC Capital Markets.

David Bank – *Analyst, RBC Capital Markets*

Ok thank you very much. I will not ask about ESPN and the evolving ecosystem. You guys have two incredibly seminal events that are going to occur over the next 12 months, in the re-launch of Star Wars and the opening of Shanghai. And we are really close to the eve of those events at this point. And I think, for many of us -- I know the questions I get -- we still have a pretty hard time putting our arms around the incremental income statement impact from those two incredibly seminal events in 2016 and beyond. And so, I guess I'm hoping for a little more color as we sit on the eve. I think we have a framework for the box office. But is there any sense of incremental order of magnitude you could talk to us about, aside from the *Force Friday* impact on Consumer Products? What is the order of magnitude on the income statement? And for Shanghai, can you give us a basic sense of impact on that first 12 months? Is it going to break even? Is it earnings drag? Is it earnings lift?

Any incremental color on those two events on the income statement would be really, really helpful. Thanks.

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

On the Star Wars front, David, we know that there is just incredible interest in this film. We've put two teaser trailers out and the response has been enormous. Anything that moves gets a lot of attention, and anticipation is obviously huge. And we've seen some examples already of Star Wars product going to the marketplace on the Consumer Products front, including in markets like China that are very, very encouraging.

That said, as enthusiastic as we are for what we know of the film, we have not seen a Star Wars film -- an original one -- since 2005. And there are markets around the world that are less familiar with Star Wars than, say, the United States, for instance. So, while the enthusiasm is, I think, rather apparent, we just want to be careful that the world doesn't get ahead of us too much in terms of the estimates, and we have seen them as well. We are making, at this point, no estimates whatsoever in terms of what we believe the film will do. We know we have probably the most valuable film franchise that ever existed. We know we have the ability as a Company to leverage it in very, very compelling ways, whether it's in Disney Infinity, whether it's at Parks, as Tom cited, whether it's on the Consumer Products front, or on the TV front. And we fully expect that the success of this film will reverberate throughout the Company not only in 2016 but in the years beyond because we obviously have a rich slate of Star Wars films coming.

So we just want to be careful here that the market doesn't get too far ahead of us or ahead of itself, even, on this. Let's all continue to anticipate the movie and be optimistic about it. But we have to take a wait-and-see approach in terms of what it will do.

On the Shanghai front I'm going to let Tom talk about the economic impact in 2016. But you know, there, too, like Star Wars in many ways, there's huge anticipation. As I mentioned in my comments, the reaction to what we revealed a couple of weeks ago in Shanghai was extraordinary not just in terms of the level of interest but the level of enthusiasm and the positive reaction to the fact that we were building a park that was of such scale and was so unique in many ways, particularly in its blend of what I will call traditional Disney theme park experiences and a lot of things that are both original and very, very specifically tailored for the Chinese market.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

And I think the real headline for 2016 -- and as we get closer to the opening we will do more to help you understand how to look down the road with Shanghai -- but for right now it's really about the pre-opening expenses. So in 2014 we started to incur some opening expenses of size that were noticeable. That number, of course, has gone up in 2015, which is part of what you'll see in the international theme park results. And then that will ramp even further in 2016. And you should anticipate that roughly half of the total pre-opening expenses for the project we will see in 2016. And so, the net result of that is Shanghai won't contribute to profitability in 2016, based on our best assumption right now. But then in future years you will see the real impact in the financial returns, which we continue to believe will be quite attractive.

David Bank – *Analyst, RBC Capital Markets*

Terrific, thank you very much.

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

Thanks David. Operator next question please.

Operator

Anthony DiClemente, Nomura.

Anthony DiClemente – *Analyst, Nomura*

I have two questions, one for Christine and one for Bob. Christine, just given the clarification to the ESPN guidance, I wanted to just follow up on that. Maybe I'm getting ahead of myself, but as we look even further beyond that guidance window, you don't have any big sports rights step-ups in fiscal 2016. But in the first quarter of 2017 you have the NBA rights fee step-up, which is a big step-up. So what are the things that you are doing or plan to do in order to make room for that in the budget at ESPN, for the increase in the NBA rights fee at that time?

And then secondly, for Bob, you talked about China, you were talking about Shanghai and the park. I wanted to just talk about the media market or get your thoughts. The theatrical market, obviously huge and massively growing. Your release slate will presumably help you with share gain there. But what about the home entertainment market? You recently partnered with

Youku for exclusive local marketing of Marvel films. I know there's a lot of piracy there but also presumably a massive opportunity. What is the strategy for home video distribution in China?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay, Anthony, your question about ESPN -- the new NBA deal will occur in 2017. And we still believe that ESPN has plenty of room to grow.

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

On the question about China, the announcement that was made about a deal with Youku, I think you mentioned, was not correct. We have not entered into a partnership arrangement with them. The home video market in China is obviously challenged by the fact that it's a market that has been, as you know, rife with piracy. And so, there wasn't -- a legitimate home video market never quite develop there. That said, there are a number of new platforms that have launched or that are expected to launch. And we are in a number of conversations, none that we can discuss because we're not ready to announce it, with some of them about output deals for our films. And we feel good about essentially digital delivery of these films into a window that is likely to be lucrative for us over a long period of time, and essentially enable us to put legitimate product into the marketplace swiftly to hopefully counter what we have encountered in a lot of Asian markets, which is piracy.

Anthony DiClemente – *Analyst, Nomura*

Thanks a lot.

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

Ok Anthony thanks. Operator next question please.

Operator

Doug Mitchelson, UBS.

Doug Mitchelson – *Analyst, UBS*

Let me add my welcome to Christine. Bob, I think we've gotten what we can from you on ESPN. So I'm going to turn to Tom and Christine.

Tom, I just wanted to make sure you could give us a sense about the benefits of the domestic park investment cycle, *MyMagic+* in particular, relative to the 2% per cap rate for the quarter. Was that just a tough comp? Or are we starting to see any kind of wind down in the benefits of prior investments at the U.S. parks?

And for Christine, the comment on the $500 million of FX and the fact that you hedge over a multi-year period suggests there could be some lag in fiscal 2017 or beyond, above the $500 million relative to the current interest rate levels. Is that right? Is there further impact if you mark-to-market everything to current exchange rates?

And lastly, I guess also for Christine, maybe I missed it. But the moderating EBIT growth for Cable Networks from fiscal 2013 to fiscal 2016 -- is some of that currency as well as the subscriber growth that we have all been talking about? Or is it just ESPN subscriber growth?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

So Doug, let me start with the first question. The Parks per cap growth of 2% that you saw -- the real driver there really was the attendance mix, where we saw very strong demand at the local level and especially in the annual pass. And that then shows up on the attendance per cap. Food and beverage and merchandise were in line with what we have been seeing in prior quarters. So that really is guest mix.

But the major new initiatives -- we continue to be very pleased with them broadly and with *MyMagic+*, in particular. It has been broadly available for about a year now. We've actually had about 13 million folks use the *Magic Bands* and they have overwhelmingly called it an excellent experience. So we are very pleased there.

The intent to return, all of those metrics that we look at are pointed in the right direction. And *MyMagic+* actually was a contributor to the results positively in the quarter. And also you continue to see the strength of things like the re-launch of California Adventure driving the gains at Disneyland. So we feel very good about both that set of initiatives and their continued ability to drive our results.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Doug, on the $500 million, that's another good question regarding foreign exchange. It's not the simplest subject. But if we had not hedged at all, the FX impact would have been more significant in fiscal 2015. But the reason I say that is we don't know what rates are going to do in fiscal 2016. But right now for fiscal 2016 we are expecting that $500 million adverse impact. And the hedged ratios that we have in place are actually more favorable than current levels. So if there were changes in different directions during the year, we would continue layering in during 2016 for 2017. But right now the hedges that we have in place for 2017, albeit more modest than where we are for 2016, they are -- right now they look like they would benefit us in a strong dollar market.

ESPN, in particular -- the FX issue there is separate and distinct from the $500 million that we talked about. The foreign exchange impact for ESPN is over that three year period. And when we talked back in 2014 at the Investor Day for that outlook, right -- at that point in time the U.S. dollar had not started its significant strengthening, that was in the summer of 2014. So during that period the dollar has significantly strengthened across a number of key currencies for our Cable Nets, including the yen, the euro, the pound, as well as the Brazilian real. So that FX impact is part of that outlook guidance that we gave.

Doug Mitchelson – *Analyst, UBS*

Okay. And just to be clear, the lowering from the high-single digits to the mid-single digits was a mix of currency and domestic subscribers? Or just domestic subscriber shortfalls?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

It's a combination -- it's the -- it's both the adverse impact of lower expected sub levels and the adverse impact of the stronger dollar.

Doug Mitchelson – *Analyst, UBS*

Okay, great. And there's no way you can give us the breakdown of those two, by chance?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

No. I think just the way we've explained it is what we can do.

Doug Mitchelson – *Analyst, UBS*

All right, thank you so much.

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

Ok thanks Doug. Operator next question please.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

I have questions for Bob and then for Christine. First, Bob, you have been very vocal about the shift of advertising from TV to digital. Can you just help us think about how you think about ESPN, ABC ad sales going forward? Do you expect those businesses to grow over time? And do you expect the industry to grow when you look out over a multi-year forecast?

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

We are seeing real growth. But it's still relatively small in terms of total dollars versus what we see on the traditional platforms. In ESPN's case, as we have said before, they package their ad sales across all of their platforms -- basically their linear, more analog platforms as well as all their digital platforms and platforms like radio and even their magazine. But we think that there's going to be tremendous growth from a percentage basis of digital. And we are going to continue to work with advertisers and with the research firms that are out there to work to not only get more creative but to provide more details, essentially more consumption research so that we can grow the business even more.

The demand is clearly there. What you see in the advertising community -- not only do you see much more opportunity for what I'll call addressable advertising, but you see a huge demand from the advertising community as well.

By the way, while we're on the subject of ESPN, because we have been on it a lot, so why not, I want to make one other point about it. First of all, we've said a number of times when you think ESPN you have to think about the NFL, the NBA, Major League Baseball, the best package available in college football, College Football Championships, college basketball, events like Wimbledon, U.S. Open, et cetera. The other thing you have to consider is that in many of these cases we're only at the beginning -- or, in some cases, not even at the beginning, like the NBA -- of new deals that kick in. Those new deals all provide for more programming, more opportunity for content on digital platforms, which will enable us to increase consumption on digital platforms and grow that business even more. And generally, more flexibility in terms of how we distribute this product.

So the NBA is a great example. You are going to have a huge increase in essentially inventory on ESPN across its platforms. So while there is definitely increase in cost, there's huge increase in terms of opportunity as well to reach more people, to serve advertisers more effectively and to grow our digital platforms.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. Christine, just on the 53rd week, any way to think about the impact, the benefit in Q4? You mentioned ESPN is pacing up in the quarter. I didn't know if that was both including and excluding the 53rd week impact. And then any way to think about the 53rd week impact in 2016, when you are going to comp the 2015 benefit?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Ben. You can think about the 53rd week in terms of it being an additional week of operations. So it's relatively proportional in the year, so that would be a benefit here in fiscal 2015 and it would have the reverse effect in fiscal 2016.

Ben Swinburne – *Analyst, Morgan Stanley*

Okay, thank you.

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

Ok thanks Ben. Operator we have time for one more question.

Operator

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citi*

Maybe a quick question for Ms. McCarthy. Regarding leverage, the gross leverage has come down very gradually over the last decade to below 1x. The cost of debt is quite low, obviously, in the markets. Your ROICs, even if I include goodwill in all divisions, seems to be in the low double-digit range. So why is this the right level of leverage for a firm like yours?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks Jason. You are absolutely correct, our leverage has reduced as the company has continued to perform. We generate cash flow that we deploy to returning to shareholders, as well as investing in businesses, doing strategic acquisitions. So when we look at our leverage, the number that you quote is actually a gross number. And we do look at our leverage in terms of the way the rating agencies look at it. So they will make some adjustments to that for things like pension obligations. So it's actually a little bit higher from a rating agency perspective.

That being said, we do enjoy a mid-single A credit rating. We also are a tier 1 commercial paper issuer. So as it currently stands, we feel like we are returning capital to shareholders as well as investing in businesses, doing acquisitions, and at the same time we are maintaining financial strength and flexibility.

Jason Bazinet – *Analyst, Citi*

Okay, thank you very much.

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

Thank you, Jason. 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.

Thanks again for joining us today.

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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 27, 2014 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.