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Disney Speaker:

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

PRESENTATION

Jason Bazinet – *Analyst, Citi*

We have Christine McCarthy, Chief Financial Officer of Walt Disney, here with us this morning. Christine, how are you?

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

Great. Pleasure to be here.

Jason Bazinet – *Analyst, Citi*

We're glad you're here. Thank you for coming.

So maybe -- I just wanted to maybe start by recapping what you said on the last call around modest earnings growth and talk about some of those potential issues in 2017, and then talk a little bit about the potential reacceleration as we move into 2018 and beyond.

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

Sure. Glad to do that. Our business and our company have had a very strong last few years. In fact, when you look back to 2013, our EPS has grown about 20% on a compound basis -- compound annual basis. So that kind of performance has really been driven by a few things. One -- and we have talked about this consistently -- it has been driven by the strength of our brands, a relentless focus on quality and execution, and that has been fueled by investments that we have made in our organic businesses, as well as through M&A activity.

So before I get to 2018, I do want to reiterate a couple of things that we did call out on our last earnings call regarding 2017. First, we said that you could expect modest EPS growth this year. Now that is obviously below our recent trends, and there are a couple of things I want to call out for reasons that are contributing to that. The first would be Cable programming expense. That will be up about 8% this year, due in large part to the first year of our new NBA contract, and that will add about $600 million of programming expense. You will see that starting in the first quarter, but ramping through the NBA season with the most significant impact being in the third quarter when we will be in the heart of the NBA Playoffs.

Second is the comparability that we will have with our Studio business. I think those of you who follow us know that our 2016 Studio performance was pretty phenomenal, and that was driven in large part by the tremendous success of *Episode VII* of *Star Wars: The Force Awakens*. And even though 2017 -- we are very bullish on our pipeline for 2017 and, in fact, we had three movies that have released so far this year, which will be in our first quarter: *Doctor Strange*, *Moana*, and *Rogue One* -- that is still going to be a tough comparison to 2016 because the output number of films that we have is only seven compared to 12 feature films last year. So it is that comparability factor. We are just, once again, very excited about that 2017 pipeline for the Studio, but a tough comparison.

And, lastly, I just want to call out, we made a comment about our Consumer Products business. That, too, is going to have tough comparability to 2016, and we said on the call that you could expect to see first quarter down year-over-year by more than 20%. And, once again, it is that comparability factor.

So, turning to 2018, we really are very encouraged by what we see in our businesses looking forward to 2018, and a couple of things really give us confidence in that. The first is, once again, Cable. The programming expenses will be much more normalized in 2018 with that first year of the NBA contract behind us. We will also have the Studio output once again going up to a more normalized level. Once again, seven films in 2017 will go up to 11 in 2018. And of the 11, we are really excited about having four Marvel films, two Star Wars films and three animated films. And last but not least, we are also excited about our Parks business. We expect to see continued growth in our domestic operations, and we will have one full year of Shanghai operations behind us and we will grow upon that. So all-in-all, from where we sit today, we feel really good about 2018, but obviously there is a lot of work to be done between now and then. And, of course, execution is going to be the key.

Jason Bazinet – *Analyst, Citi*

That's a very helpful summary. When I think back to Disney, at least over the last, I would say, 10 years, there have been -- there has been M&A, but it has been small or modest in terms of its scope. Right, I am thinking of Pixar or Marvel or Lucas or Maker. But, for some reason, the Street sort of has this narrative that is out there that you are going to pursue large-scale M&A. This is the year of transformational M&A for Disney. I know you don't want to talk about specific transactions, but does that strike you as a cogent narrative? Is there something going on inside Disney that says, yes, we have to do transformational M&A? Or do you think the buy side is staring at their navel for a bit too long and trying to come up with narratives?

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

Well, Jason, I think the best way to answer that is, I, too, have heard that narrative, but nothing has changed in our approach to M&A. We feel very good about our portfolio of businesses and our M&A strategy is still a part of our overall growth strategy.

And if I can take a step back for a moment, when Bob Iger became CEO, he set forth a pretty straightforward three-pronged strategy that we still use today. And that is, first, that we will invest in and create high-quality branded content. We will be leveraging technology, and we can leverage technology to create content, to enhance experiences, or to improve access to our content. And also, it was a priority of ours to focus on growing our businesses outside of the US. So none of that has changed.

Our approach to capital allocation has also not changed, and there are a couple of things I think are worthy of mention here. The first and foremost is investing in our businesses, and this can be through new initiatives or through existing businesses. A couple of things to mention. Parks: we invest in our business domestically as well as internationally, and I think many of you know that we had a great opening of a park that was a multi-year project to completion of Shanghai this past June. And I know we will talk about that a little bit later. We also invest in film and TV production, and that is across all of our studios. And another thing we invest in is long-term sports rights.

The other component of capital allocation I want to mention is doing strategic acquisitions. And three that I would like to call out as being kind of the tentpoles of our acquisition strategy have been Pixar, Marvel and Lucas. And once again, that is a consistent strategy. Has not changed.

And, lastly, I would say that the approach that we take to M&A is a very robust one, and we put our -- any idea, there is a funnel that our Head of Strategy, Kevin Mayer, uses. It goes through a very rigorous screening process, and it also goes through a very, very thorough evaluation process. And at the end of it all, we are going to do transactions that we believe that are going to create long-term sustainable shareholder value.

Jason Bazinet – *Analyst, Citi*

Last year, you did acquire a stake in BAMTech. This year, Hulu is poised to launch its linear service, we heard yesterday. You have mentioned, I think it was on the last earnings call -- no, I think it was when you announced BAMTech, -- that you are going to do niche ESPN content direct to the consumer over the Internet. And I just wondered, is there an overarching strategy that undergirds these particular tactics? Or is there not? Are these just sort of technical opportunities that you see out there, but there is no grand unified strategy behind them?

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

Well, I think the overarching thing is the environment is changing, and the consumer is changing how they want to consume content. And we have been at the forefront of addressing that change and embracing technology. Bob Iger has been at the forefront of this for many, many years. And, in fact, when you look at our Company, he led us to be the first company to put our TV content on iTunes. And, also, ESPN was the first company to have a live linear stream.

So this is -- these investments that we have made in BAMTech and in Hulu, they are consistent with an overall strategy of embracing new technologies, leveraging these technologies to bring our content to the consumers.

Jason Bazinet – *Analyst, Citi*

You have spoken in the past about the importance of controlling the user interface. Why is that so important to you?

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

Well, we have talked about that and it is important because we think there are three key elements that are essential to creating a really good consumer experience, especially with video, and that is pretty simply: high-quality content, mobility and user interface.

When we look at high-quality content, we feel really good about the position we are in and the portfolio we have. And that goes across the spectrum of Disney, ESPN, Pixar, Marvel, Lucas properties. We feel like we have a really good hand to play with the content side.

Mobility is something that we know is in the hands of the consumer. The consumer is now the one determining when, how and where they are going to access their content, and they are also going to choose what platform they are going to use, what service they want to use, what device they want to use. So that mobility is really a key component.

And last is the user interface. Put simply, user interface, it can always be improved. But the three things that we think are essential there: it has got to be easy -- it has got to be easy to use, easy to navigate, and easy to find content. So when we look at that, once again, why is the user interface important to Disney? It is because it is important to the consumer. And we approach strategies like this as: the consumer is at the core of everything we do. So we know that technology has empowered the consumer. It has given them a lot more power on what they do, how they do it, and technology has also allowed us to have better customization and more personalization in our products.

Jason Bazinet – *Analyst, Citi*

When we think about you guys focusing on the user interface, is that sort of through the Hulu mechanism -- and you showed a UI yesterday through Hulu? Or is it something that transcends that -- that goes beyond that?

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

Well, I think there is -- Hulu is not the only platform. There are several new services out there, and they are meeting with what seems to be very good demand initially. We hope that that demand continues. And we believe that, with our kind of content, that any new digital MVPD, when they look at what they want to provide to their consumers, Disney content is going to be high on the list, if not the top of the list, because our content is compelling. It is broadly appealing, it is differentiated and consumers want it. So we think that the user interface is one where -- Hulu has one that you saw, many of you saw yesterday, but there are others that have new products in the marketplace and we think that there will be continued improvement.

Jason Bazinet – *Analyst, Citi*

We have suggested, and maybe incorrectly, that once you have some semblance of direct-to-consumer video delivery, that there may be an opportunity to do some sort of ESPN premium service. And the reason I say that is, when you look at what Sky has done with some of their sports content or what Comcast did with the Olympics, at least for me, the light bulb went on that you could actually create a much more interesting experience that is a bit more interactive that might allow you to capture more value from the consumers for the narrow subset that is a true sports enthusiast. Do you think that is a crazy notion? Or is that sort of part and parcel with the potential way to monetize an enhanced user interface?

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

It is not a crazy notion, but I would say that we are fortunate to have very strong brands and cable networks. So we have a lot of flexibility in where we choose to put our content, and once again, we believe that services are going to want our content.

We made the investment in BAMTech, and when we made it, we said that there would be an ESPN-branded, direct-to-consumer offering. That offering, we expect to have it launched in 2017, and right now it is premature to talk about anything specific around that. But, suffice it to say, that that is not a substitute for ESPN linear networks. It is a complement to what we do on our linear networks. Without getting into specifics, it will have sports and sporting events that are not there, and that is totally consistent with ESPN's strategy of super-serving sports fans of all kinds.

Jason Bazinet – *Analyst, Citi*

That's helpful. So the SEC network was a really successful launch for Disney. In August of 2019, I think, is when you launch the ACC network. What would you -- for those that are out there modeling and doing things a little bit longer-term beyond 2018 -- what would be the things that you would say are similar or different from the SEC launch?

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

Sure. Well, the SEC success was well documented, and we think that the ACC, when it is launched, will also be a successful business for us.

Now, a couple of things on the -- on college sports. There are about -- rough numbers, about a little under 200 million sports fans for college sports in the US. So that makes a pretty good market for sports viewing of all kinds. And when we look at college sports, we know there is a demand, and we know that the SEC and the ACC are two of the best conferences out there.

Now, I just want to give a shout out to a couple of my colleagues because we talk about sports a lot. John Skipper, who I think many of you know, is our head of ESPN, he went to North Carolina. And Lowell Singer, our Head of Investor Relations, who I know a lot of you know, went to Duke. And they would both say that the ACC is the best conference for basketball. And I think many would agree with that. Also, when you look at football, we are in the third year of our College Football Playoffs. And when you look at the ACC participation in that, the ACC has been in the Championship all three years. So I would say they are a force in football as well.

Now, when we look at the marketplace, we estimate there are around 3 million active alumni for the ACC in the country, and they tend to be concentrated in some major metropolitan markets like New York City, Boston, DC, Miami, Atlanta, and even Charlotte. And those also -- I had mentioned that about a third of Nielsen households have alumni in the 10-state ACC footprint. So we believe, with those kinds of demographics, that the ACC network will be met with high demand once it is launched.

Jason Bazinet – *Analyst, Citi*

Interesting. What about sports ratings? There has been a lot of anxiety over the last six months around sports ratings. Do you view that as something that is sort of the beginning of the demise of sports viewership? Or is it more a function of the presidential election or bad matchups or --?

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

Well, I think there are a lot of things that contribute to any kind of rating in a short-term timeframe. So I would just like to take a step way back and say that, when you look at our ESPN business, it has been an enduring success for over three and a half decades. So that is something that shows that sports viewing has a lot of viewership, a lot of demand over time.

So, when we look at some of the specifics around live sports -- we live in a time shifted environment. We all have to deal with it. Live sports is one of the few things that you really need to see or want to see on a live basis, and there have been some major sporting events that have set records in the last year, and I would like to just mention a few of them. One was the NBA finals that we had on our networks this past June. Phenomenal ratings, great matchup, seven games. It was awesome. Another one, which wasn't on our networks, but I will mention it because it just, once again, reinforces the strength of live sports and viewer engagement, was the World Series. And a lot of people -- how could you not watch that? And I would also like to mention our New Year's six football Championship games -- our New Year's six games. The Championship is on Monday, but we have been through six of the seven. The ratings for those six games are up double-digits over a year ago. And I don't know how many avid USC or Penn State fans are out in the audience today, but I would say, if you didn't see the Rose Bowl live, either there or on ESPN, you really missed a game for the ages. It was an incredible game, and, if you heard about it and watched a replay, it just wasn't as good as watching it live. So that is just another point I would like to highlight that live sports, when you see them, I mean, they are really a must see.

So when you mentioned the NFL -- NFL ratings were well documented in the press that they were challenged, and I think some of the things you mentioned did play factors. I think we could all agree that we have been through a very, very interesting election season, and that was probably kind of one-of-a-kind when you look at election seasons in previous falls. And there were also some things that are going to happen with specific matchups or injuries to key players, but I think those are things that -- whether or not they are long-term remains to be seen -- but I think, when you look at this particular year, there were a lot of factors that contributed.

Jason Bazinet – *Analyst, Citi*

Liberty had an analyst day, I think it was a couple of months ago, last year and Dr. Malone, who sort of has a big following on the buy side, said, you know, Disney's problem is they need to structurally separate ESPN from the rest of the business. And that narrative sort of got a little bit of wind in its sails. Is that something that you think is possible or makes sense for Disney to pursue, or do you still view the totality of all of the Disney assets under one corporation as the right model going forward?

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

Well, Jason, I think I would say that everyone is welcome to their opinions, but we are very pleased with our Company assets. They are very strong. Our Company asset mix is very strong, and we also are very, very bullish on the future of our Company. And I would also say, we don't comment on that kind of speculation.

Jason Bazinet – *Analyst, Citi*

I think -- at least I was surprised, I think a number of investors were also, that you said on the last earnings call that you expected Shanghai to achieve breakeven EBIT this year versus, I think it was, at least $300 million of startup losses. What was it that caused that inflection to occur so quickly, and does it have derivative implications for future investments that you might make in Europe or in Hong Kong for your other parks? In other words, was it a scale-driven inflection that has derivative implications for the other parks that you have?

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

Sure. Well, I mentioned Shanghai early on in the conversation. We did open our park in June, and we could not be happier with the launch of our park in Shanghai. It has set a solid foundation upon which we can grow, and within the first four months, we welcomed 4 million guests to the park. Now, I would remind you that those four months did include the peak summer travel season. We also have found that consumers and guests at our park are staying longer than we anticipated, and that is also a very good sign of engagement. And we also are seeing more visitation from guests coming from outside of Shanghai and much more so than we had anticipated. And hotel occupancy is also at very high rates.

So when we look at where we are starting from, we feel very, very good about where we are.

Now, when we build these parks in locations outside of the US, we try to make them as locally relevant as possible. And this park, I would say, I think we did an incredibly thorough assessment of the sensibilities and what the Chinese market wanted, and we like to refer to that park as authentically Disney and distinctly Chinese. think some in the audience may have already visited the park, and I think you would agree that, when you are there, you know you are in a Disney park, but you also know you are in China.

So where we are today on that park, there will always be things that we can tweak around the edges. What you want to get right when you go into a new market is understanding their travel patterns, making sure you understand school vacations and weekends, and just some of the things that are going to be more specific to a local market. And we will tweak those around the edges. Some things will be as kind of discrete as food offerings. And we know, and I know this was well reported in the press, we found that they like turkey legs and corndogs quite a bit, especially at the opening of the park. And we will also tweak merchandise offerings.

So getting it right takes a little bit of time, so we are very bullish on the long-term future of that park. But we also believe that where we are today, that we will be at or near breakeven.

Now, as it relates to -- I just want to make a couple of comments on the other two parks that you mentioned internationally. Disneyland Paris has had some real challenges, and part of it was that that park started out with a very onerous capital structure. We have taken measures over the years to simplify the capital structure, and we continue to do that. Also, our park is in Paris, and I think we all know that there have been some issues specific to Paris that have affected tourism and they have also affected tourism throughout Europe and France in particular. So those things all impact the desire to go to a park.

I would also say that we have made some investments recently to improve the guest experience because Disneyland Paris is actually celebrating its 25th anniversary that will launch this coming spring. And we are feeling good about that, and we will see how it goes.

Hong Kong was actually too small at the beginning, and we expanded that park in 2011, 2012 and 2013, and just next week, we are opening our first Marvel-themed attraction in a theme park. It is called the *Iron Man Experience*, and we think that is going to drive demand -- significant demand as Marvel characters resonate really, really well in that market.

And we also have a new a hotel opening in Hong Kong this -- coming later in the year. It is a 750-room hotel. So Hong Kong has had some macro issues over the last few years, but we build these parks for the long-term, and we are very bullish on the Hong Kong market.

Jason Bazinet – *Analyst, Citi*

That's very helpful. This summer at Disney World you are opening Avatar. How should investors think about that? Is that just sort of one of those normal maintenance refreshes? Or would you put this in a different category in terms of its likely financial impact in terms of what investors will see?

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

Well, that is a great question because it is a lot more than a refresh. *Avatar* will be -- it is called *Pandora: The World of Avatar* -- and it is a 10-acre land inside of Disney's Animal Kingdom. It is the first major expansion we have had inside of Animal Kingdom, and it will continue to build out that park to be a full-day experience. It will be a fully immersive land. It will have not only attractions, dining, retail, entertainment, but you will feel like you are in the world of *Avatar* when you are there.

The analogy that I would make with that is, when we opened *Cars Land* in 2012, it really transformed Disney California Adventure. And what we saw there was we had an immediate uplift in attendance, and it rebalanced the mix between our park with Disneyland -- the Disneyland Resort -- Disneyland Park, and the Disney California Adventure Park. And even now, five years later, we are still seeing a very good balance between those parks because that lift was immediate, but it has also been sustainable.

Jason Bazinet – *Analyst, Citi*

That's interesting. Last year, you began construction in Orlando on a new Toy Story attraction, and in Orlando and California, you are working on these big Star Wars attractions. Can you discuss these projects as well? Anything you want to share?

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

I can discuss them a little bit. Let's talk about Star Wars first. Those are two significant projects. We have one in Orlando that will be at Disney's Hollywood Studios, and we have one in Anaheim that will be in the Disneyland Park -- the Magic Kingdom Park. They are both 14-acre lands. Once again, fully immersive experiences. They will have two primary attractions that I just would mention for the Star Wars fans out there. The first is one where you can take the controls of the *Millennium Falcon* and go on your own customized mission. That is kind of cool. And the other is another immersive experience where you will be in the middle of a battle between the Resistance and the First Order. Also very cool.

There will also be plenty of dining, retail, entertainment. And once again, a fully immersive experience. We haven't announced the opening date. These are very long-term, these are massive projects, and they take years to complete. So stay tuned on that.

Toy Story Land is also going to be in Disney's Hollywood Studios down in Orlando. That is an 11-acre land once again. We are big into lands as you can see. That is -- and that is also an immersive experience. But it is going to be an immersive experience for Toy Story Land. It puts you in Andy's backyard. So it is -- just because of the nature of the content, of the IP, it will skew more towards families with younger children. But also, something we are really looking forward to. So with both *Star Wars* and *Toy Story*, down in Orlando and Hollywood Studios, that will really transform that park.

Jason Bazinet – *Analyst, Citi*

I was chatting with the CEO of Cedar Fair the other day and he said, one of the only investments that he has seen in a theme park where the investment was made and it sort of created a new permanent plateau was Universal's *Harry Potter* down in Orlando. Have you seen other -- I mean, I guess you would characterize *Cars Land* out on the West Coast as sort of a permanent plateau. Is that sort of what the objective is with a lot of these 10-acre, 11-acre upgrades as seeking a new permanent plateau?

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

Well, I think if we can look back at *Cars*, the reaction to opening *Cars* was an immediate uplift, and it was sustainable. It is -- once again, those are the kind of step function changes you can see in parks like this. I am not going to predict what will happen. But I think when you look at the fan bases that we have for all of these IP, whether it is Star Wars or Toy Story, both powerful, powerful IP, as well as *Avatar*.

Jason Bazinet – *Analyst, Citi*

Do we have any questions for Christine? If you do have a question, we can get you a microphone. There is one in the front.

Unidentified Audience Member

I had a couple of questions from a European perspective, actually. We have seen a couple of examples of Disney coming in and testing the water with its own direct-to-consumer exposure. It disintermediated one of the RTL channels and has gone direct-to-consumer with a children's channel in Germany. And then there is the *DisneyLife* experiment in the UK. Can you talk about direct-to-consumer outside of the US and whether those are just simple trials for what you are planning to do here, or is there a move to be more proactive as an actual channel in some of those European markets?

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

Sure. I think you're referring to *DisneyLife*, which was launched in the UK a year ago -- a little over a year ago. That was -- it still is a product that we have in the UK. It has Disney content that is available. It is a subscription service, direct-to-consumer. I think, once again, this is very consistent with the way we are -- where we experiment, we try things, our strategy will evolve, and it is just another thing that we have done. And we did it in a market where we could really test various elements. You know, look at the technology, look at the engagement, look at how the consumers were using it. It is just consistent with us, there is not one path that we are taking. I think we are trying a lot of different things and, once again, really trying to assess how the consumer wants to engage with our content most fully.

Jason Bazinet – *Analyst, Citi*

About five years ago, you added two new cruise ships to your overall portfolio with *Dream* and *Fantasy*. And I think it is right that in another five years, you're going to add two more cruise ships. Is the derivative implication from that that every time you build one of these, the financial returns are successful and you just add another one in the portfolio? And is there a limit to how much demand there is for sort of a Disney-branded cruise? I mean, I know you have a good reputation. You get good -- better-than-average -- better-than-industry average pricing in terms of cabin prices. But what -- I mean, I would infer that all signals are positive from all of your past investments in this segment.

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

Yes. They certainly are. We launched -- we had a fleet of two. We doubled it to four. We put two new ships into commission in 2011 and 2012. They were both profitable the first quarter they were in operation, which is pretty phenomenal. We expect the two new ships that we are building to also be very profitable. The returns on the last two ships when we put them into operation, we are getting mid-teens ROIs on that, and we expect the two incremental ships to have similar returns. And, as you mentioned, Jason, we have a product -- we have a family cruise product. It has a lot of demand. We have a lot -- high, high guest satisfaction. A lot of repeat visitation. A lot of multi-generational families go on these cruises. But we also have premium pricing and very high occupancy and load factors on the ships. So it is a product that we think is going to continue to be successful. And, in fact, in 2016, we set records for both revenue and operating income in that business.

Jason Bazinet – *Analyst, Citi*

Interesting. Maybe we can go to the first question and make it a bit interactive. You should all have the clickers on your table. So let's just see, if we go to the first --

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

Can I play along, too?

Jason Bazinet – *Analyst, Citi*

Yes, you can play along. There is a clicker right there. Absolutely. So Disney will pursue large-scale M&A this year. True or false?

I missed that. Sitting there looking at my notes. I missed which one you clicked. Are you going to share with me? Wow. That is shocking. So 41% said true; 59% said false. That is a much higher percentage of true than I would have thought.

Okay. So we are right. So the market is focused on this.

Let's go to the next one. If Disney's earnings growth normalizes in fiscal 2018, I expect mid- to high-single digit growth, double-digit growth, or mid-teens growth.

We give you 1000 weighting points. So. Okay. So 32% mid- to high-single, 53% double-digit and only 15% mid-teens growth.

All right. We will go to the last question. The single most important factor that prevents me from buying Disney stock is: one, it is unclear how management navigates changes in the Pay-TV ecosystem, given ESPN's fixed costs; two, I expect the strong string of hit movies to come to an end; three, theme park trends have to rollover; or, four, I need to know who the next CEO is before I can invest.

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

I am not playing on this one. I am long Disney stock.

Jason Bazinet – *Analyst, Citi*

Wow. 84%. Unclear how Disney navigates the changes in the Pay-TV ecosystem. Only 2% were concerned about the movie hits coming to an end. None expect the theme parks to roll over. And only 15% even need to know who the CEO is. Wow. That is interesting.

That is probably the most skewed result we have had of all the questions we have asked. So what about *Rogue One*? Can you tell me about *Rogue One*? I know that the reviews were really bad. I have to tell you a funny story. I went -- well, they -- well, I think they were bad. I went to see it with my son and I told him, I said, look, I just want to warn you. Some of the reviews were pretty bad for this movie, and he said, I still want to go see it. And right after it was done, the lights came on and -- he is only nine -- he looked over at me and he said, I don't know why the reviews were bad. That was a really good movie. So we enjoyed it. But the results were pretty good, right?

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

The results were very good. So *Rogue One*, we are very excited about. We had an opening weekend with global box just a little under $300 million. Currently, the global box is a little over $825 million with a little over $450 million of that being domestic. Most of the major markets are open with one -- which I want to call out and mention -- tomorrow, which I think is today over there, is in China, and we are very excited about the opening of *Rogue One* in China.

Jason Bazinet – *Analyst, Citi*

This is maybe an unfair question, but when I think back to the Disney pre-Pixar, Marvel, Lucas, I wouldn't say that I sort of thought of you as a fantastic studio or someone that never had sort of an unsuccessful film. It was just a normal studio, hits and misses. And then post these acquisitions, it is just -- everything has changed. Like all the movies come out. They are great movies. The box office results are consistently strong. What is it that is happening behind the scenes that is allowing you to make great movies? I mean, obviously, IP is an element of that, but that is a necessary, but not sufficient, condition to make a great movie. So what is happening?

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

That is a great question. So I would say we have a great track record, but no studio is immune to a miss. This is a creative business. But what we have -- we have two elements that really differentiate us in our Studio business. One, as you mentioned, is great IP, and the other is a sound strategy. And we talk about our IP acquisitions because they have been so powerful and been so successful for us, but when we did Marvel -- Pixar, Marvel and Lucas, since those acquisitions we have released 32 films, and the average box office of those 32 films is almost $800 million. And I say that very deliberately because that is a pretty stunning number.

So one of the things when we bought those -- when we bought those studios, it wasn't just about buying IP. It was also about buying talent and management. And when we bought Pixar, Bob Iger was very, very adamant that Pixar had a way of doing business and we were going to keep it intact. And we did. So that has worked out. That wasn't a mistake or by luck. He very much wanted to keep their creative brain trust intact, their processes, what I call their secret sauce. Some people may call it their special DNA. But we kept it intact, and they also helped transform our Disney Animation business as well. So they kind of oversee all of our animation. But we also took that and applied that same methodology and management practice when we bought Marvel and Lucas.

So when you look at those, we have studios within our studios, and it has really enabled them to make the kind of movie that is really true to their genre and true to their kind of franchise. So that has been very, very important.

Jason Bazinet – *Analyst, Citi*

That's helpful. Any other questions for Christine? All right. I'm going to ask you one last question and then we will let you go. You mentioned earlier that, as we go out to 2018, the number of films that you are going to be releasing will be more than 2017. I think it was seven and 11, if I --

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

Seven and 11.

Jason Bazinet – *Analyst, Citi*

Seven and 11. What are the films that you are most excited about internally at Disney when you go out to fiscal 2018?

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

Well, before I get to 2018, I just want to mention 2017, and we talked about the three we have already released -- *Doctor Strange*, *Moana* and *Rogue One*. In our second quarter, we have one movie coming out, *Beauty and the Beast*. And *Beauty and the Beast* broke records for 24-hour viewing of trailers when the first and second trailers hit. So there is a lot of demand -- anticipation and demand for *Beauty and the Beast*.

And then, we have three movies coming out in our third quarter. We have *Guardians of the Galaxy 2*. I am very excited about that, and I'm looking forward to the music. We have *Pirates 5* and we have *Cars 3*. And *Cars 3* will also, we anticipate, have a strong merchandise business as that is an evergreen kind of Consumer Products business for us.

So that is 2017. And when we look forward to 2018, I think one of the big ones that we are looking forward to is *Episode VIII* that will come out a year next Christmas. And we also have -- before that, we have four Marvel movies, as I mentioned. And the first one is *Thor: Ragnarok*, and we also have a Pixar movie, *Coco*, that is coming. And then we have the others that will cycle through the year.

So I would say we couldn't be more excited about 2018, but we are looking at 2017 and feeling really, really good about that Studio slate as well.

Jason Bazinet – *Analyst, Citi*

That's fantastic. Well, Christine. Thank you very much for the time. This has been great.

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

Thank you, Jason.

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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 October 1, 2016 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.