# Deutsche Bank Media and Telecom Conference

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**Disney Speaker:**

# Jay Rasulo

*Senior Executive Vice President and*
*Chief Financial Officer*

## PRESENTATION

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

Good morning. On to our next keynote. I'm Doug Mitchelson, the media analyst at Deutsche Bank. Very pleased to have Jay Rasulo, Chief Financial Officer of Disney. Thank you very much for coming Jay.

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

Pleasure.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

So as you all know, Disney had an analyst day recently and also just reported the quarter. So it's very kind of Jay to come down. And I think rather than do the sort of a normal run through of each of these segments we'll try to peel the onion back on a few different things that might not have been covered at the analyst day.

But I did want to start off sort of generally with strategy. As we sit here today and you think about execution in calendar 2011, you think about what you're working on the next 12 to 18 months, what is the best opportunity for management at this point to position the company better for the future? Or to continue to position the company well for the future?

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

Well, I think if you think about it at the highest level, we really are a company that is about creating high-quality branded content, particularly branded content that has franchise potential for us. And seeding those under our five major brands -- Disney, Disney•Pixar, Marvel, ESPN and ABC. It is job one, two and three.

That content really fuels what makes our business model and our ecosystem unique, which is all of the business units taking franchise-able content and using them in their appropriate spaces, bringing them to consumers everywhere that consumers are and want to consume that content; whether it is in the digital space, whether it is theatrically, in our theme parks, consumer products and so on.

Part and parcel with that, and probably becoming increasingly important, is seeding and using technology both to improve those products, but also to deliver those products in unique ways, trying to meet the ever-evolving trend among consumers and needs among consumers for portability, immediacy, platform agnosticism and the use of technology and our embracing of technology as part of our business model, is absolutely essential and is something we spend a lot of time doing.

Whether that is in the traditional space where technology is thought about, or even in our theme park business where we've got to think about the fact that what worked in 1955, a sort of broadcast model for theme parks, where you came and the experience was exactly the same, needs to evolve to sort of addressable individuals wandering around our parks that we can deliver specific experiences to.

And lastly, we continued to focus - we don't talk as much about it - we probably didn't focus as much on it on our analyst conference - but the internationalization of our company. Like a lot of studios the founding of our company was fundamentally as an exporter. That model, like I mentioned the broadcast model in the theme parks, doesn't work anymore.

You have to become not The Walt Disney Company in Japan or The Walt Disney Company in Europe, but a European version of The Walt Disney Company, a Japanese version of The Walt Disney Company. Which means that we've got to deliver the same fundamental bits and pieces of that ecosystem that worked so well for us here in the US, in each of the regions. We have focused hard in the last couple of years in organizing around that as a principle and are starting to execute it.

It also means the generation of more local content.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

Maybe we'll actually talk about this a little bit more in reverse order. So on the local side, do you end up having to put a lot of infrastructure in each individual market to try to make The Walt Disney Company in Japan, The Walt Disney Company in India and so on?

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

It's not a matter of adding infrastructure; it is a matter of re-juggling. So historically, like a lot of the US-based companies and maybe a lot of foreign-based companies, we ran our businesses on a global line of business basis.

So if you took Consumer Products, or the Studio, they basically created a lot of product here domestically and then sort of ran that organization right through the rest of the world. So it's taking those individuals, like say in Europe, which is obviously a very big region for us, and reorganizing them around a CEO of the European Walt Disney Company, and having him manage those businesses in the same fashion that Bob kind of manages the entire company on a global basis.

So, each of the business units and all of the individuals that work in Europe work for a head of The Walt Disney Company in Europe, and he gets to play those levers both on the content creation side as well as on the distribution side of global content, just as someone running the company here. So it's not additional people; it's kind of a reorganization of the people that are there.

We started this model in very small markets to try it. In fact, Poland was our first market in which one person ran all the lines of business. Then we expanded it. Other small markets at the time, Latin American markets; now we've kind of spread that model throughout the entire world.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

So I guess if we take that through its course, I would think you would have a much greater emphasis and more capital money being spent on local production, and ultimately sort of bulking up the distribution of those markets, whether it's broadcast or cable networks or online, if that is cheaper and easier.

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

Yes, and each market is quite different. I mean the dynamics, whether it is from regulation or the maturity of the market for Disney, there is emphasis on different business units.

If you look at India for example where they are sort of leapfrogging terrestrial television, leapfrogging cable television right to 3G and 4G, that is a real opportunity for us to deliver content in a digital fashion. There is a lot of emphasis on what the potential for us would be there.

It's also a market that does not have -- any of you who know India, Western films are not big in India compared to Bollywood. In fact the Disney name is not as well-known in India as it is elsewhere around the world. So for us, it is very much a fledgling market and one that we're looking closely at for the creation of locally-based content.

In other markets, the global content that we create in the US works incredibly well. So we do need to create, if you will, less locally-developed content.  It's a market by market situation and we're looking at it fairly closely.

If you look at China, which is often considered right next to India, in China media won’t be our foray into the market. Media is highly regulated. For us to get landing rights for a Disney Channel, it’s extremely difficult. So we're going in other routes.

Of course you have heard about the conversations about the theme park there. Consumer Products has multi-thousand corners in stores, so we're trying to build our brand through different ways.  So, each market is different, but in each we’re trying to utilize as many pieces of the Disney ecosystem that can be utilized.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Is it fair to -- you might've sort of answered that in terms of where local production makes more sense, but versus your existing business today, when you look at the sort of local strategy, is there any region or countries that stand out where you say, okay, this strategy is really going to help that area the most?

In other words, even though you might make more local content in India as a result of it working better there from Bollywood, could this strategy also still help in Germany, Italy, Spain, France as much?

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

Yes, I think it can. In fact, in the short run, I think the sheer size of those markets - the European market, the Japanese market - for Disney, small increases in market share there can have very big short-run returns for us. And just the flexibility, adaptability and speed of decision-making locally will definitely help us to increase our penetration there.

I would say the BRICK, BRICK with a K, whatever you want to call it, that most people talk about as their future internationally, is a longer-term bet for us. These are markets that are small for us, under development; even vast increases on a percentage basis are still small to the overall needle.

But markets like Europe and Japan have real potential to grow. And I think this new way of thinking about managing there - and it's not that new, we've been doing it for about 18 months to two years - can really have great share gains for us in those markets.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

I guess I probably know the answer to this question, but do you care to venture a guess as to how much international can grow as a percentage of the company?

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

I would say that -- I won't venture a guess where we will wind up. But I will say that we are behind in our mix between international and domestic business.

Part of it is a high-class problem. We've grown very rapidly in the US. Some of our businesses, by the way, if you look at our entire portfolio -- and you're looking at The Walt Disney Company's total mix probably increasing from like 26% to 29% over the last year. But that mix is heavily weighted by ESPN, which of course does not have a big international presence, and by ABC which has little to no international presence.

We are really focused. If you take those out, the mix between international and US is much greater. But I think if you look at the number of children and the number of households coming into the middle class outside the US, real market changes where they can start to consume our product because of the youthfulness of the market and can start to afford our product as I think 30 million people a year move into the middle class in China, I think there is potential for someday the international piece to outstrip the US in terms of total size of Disney product.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Interesting. So, let's get back to the first comment, high-growth franchises.

One thing that struck me at the analyst day, you talked about sort of reducing the film slate to really focus on franchise properties. And you also mentioned that you still need to seek future franchises. And I'm trying to figure out if you're making enough films, if you're making enough TV shows, that you actually have enough R&D to create those next great franchises.

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

Well, here's the good news. We look at every -- I'm not really worried about that problem, and the reason is that we look at every division of our company as a possible generator of franchises and our history tells us that that is not a bad way to look at it.

If you look at *Pirates*, which is having its fourth franchise installment this summer, that started in the theme park business. We've got Club Penguin which started in interactive. We've got the *Princesses* as a franchise and *Fairies* as a franchise, which really started -- one in publishing and the other the conglomeration of all of the Princesses into a single franchise was a Consumer Products idea.  And then the Disney Channel upcoming with *Phineas & Ferb*, you've got Marvel - *The Avengers* with a new franchise. You've got Pixar, which is a franchise machine coming out with *Cars 2*, continuing the growth of that franchise. We've got two new Pixar movies in the pipeline coming out in 2012.

So, I'm not too worried that we have the means by which we can continue to deliver properties with franchise potential. I think we invest heavily behind it.

When you've got something like the Disney Channel, I think the Disney Channel is on in, I want to say, in 146 markets. Maybe that is wrong, slightly off, but they're producing both global content and local content.  I think it is - the opportunities for us to come upon something like *Phineas & Ferb*, and who would have known when they developed that show that it is something that has real franchise potential for us.

But we've got enough irons in the fire and enough people focused on it that I'm not worried that the pipeline is not being sufficiently fed.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

On the Pixar side, the two movies in 2012 -- I think one is the *Monsters, Inc. 2*.

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

*Monsters 2* and *Brave* is the other one.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

So of course we're always looking forward. We get nervous that *Toy Story 3* was fantastic. *Cars 2* is likely to be terrific. So we always get nervous the next year can't quite live up to the prior.

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

Yeah, well again, a different cut at a high-class problem. If *Cars 2* is as successful as we think it will be, both for the Studio and Consumer Products and its carry-ons, we're not too worried that we can't come up with something equally great. But we run the company for the long-term and the success of each and every thing that comes out of the pipeline is vital to us.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

On the Marvel side, I think you talked when the acquisition was announced regarding the ability to actually sort of build a boys' channel globally, that you're very strong on girls; boys not quite as strong.

So in terms of high-growth franchises is there -- how is that progressing on the Marvel side?

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

Well, of course this summer we have *Captain America* and *Thor*. In fact, in a lot of the world *Captain America* is being released as the *First Avenger, Captain America*, clearly leading up to what we think can be the first Disney-style Marvel franchise.

Marvel has had great success with *Spider-Man*. I think we would recognize that *Spider-Man* as a franchise -- there hasn't been a second Marvel franchise that we think -- I mean *Iron Man*, a couple of great movies, very happy with their success, great character, great potential also part of the *Avengers*. We haven't been able to exploit what we do well at Disney, sort of this whole franchise management, but are leading up to that with *Iron Man* and these two movies.

So we're very excited about it. Of course we did *The Avengers* kind of as a -- I don't know if it's a prequel, but as a precursor to *The Avengers* franchise, we did an animated show on XD, and we continue to explore with our television group opportunities on the network and on Disney XD for what we think will be another great franchise generator from the Marvel team.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Since we're on film and there's sort of a cross-section between using technology and the high-growth franchises. There is a bunch of stuff happening in film.

One thing that Bob said at the analyst day was interesting. He said that windows for movies are going to change dramatically over time. And I think that was potentially an obvious reflection of things that are happening on the technology side.

But is there any more sort of meat on the bone that you could put relative to that comment? How do you think movie windows are going to change over time?

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

Well, I think the way we view it is that it's not a technology driven phenomenon. It is a consumer driven phenomenon that consumers are fundamentally wired for instant gratification, and the existence or the emergence of technology is finally allowing them to express that.

And what we have seen both in the US and elsewhere around the world is that when you aren't responsive to bringing product to market on a timely and well-priced basis for consumers when they want to consume it, they figure out how to get it anyway. And it's pirated, it's all over the Internet, it's whatever.

When we step back and look at the windowing strategy, we're more in a mode of how do we get product to market on a timely basis but within a business model such that that re-windowing, if you will, is incremental to our core business and not cannibalizing other windows that precede it or follow it.

And so we've been out there with a multitude of different ways of thinking about that. And sometimes we've gone with the industry, sometimes we've been the first out and sometimes we have rejected the direction that the industry has gone in. If you look at the physical product, the Netflix and Redbox kind of distribution for instance of DVDs in the post theatrical window, the pricing just wasn't right in the business model for us to go out in 28 days at such an extreme discount.

We offered limited quantity of product on the street date at full price, and then recently Bob Chapek announced -- the head of our distribution windowing -- announced that we're going to do six weeks. We're going to do six weeks at $10 because that is a business model that makes sense for us.

Now, we have an advantage. Our films are more desired to be owned by people than others. We have a better sell-through intention from people. The economics for an individual of watching a movie over and over favors sell-through.

But by the same token, we're also looking at some of the other windowing ideas that have come up -- premium home video window that is very early at a much higher price. We're looking at it all. I don't think that one size fits all.

I think we have moved way beyond the point where you've got to pick your point on the demand curve. You've really got the opportunity to harvest different points on the demand curve, where the X-axis of the demand curve is the time to the market, not quantity. Some people are willing to pay a lot of money for immediacy, and some people will never be willing to pay that and they're going to be at the other end of the demand curve.

We used to have to pick a point. Technology has now allowed us to be at multiple points along that curve and I think we are experimenting.

Most of what we have done is very short term. We've managed very carefully the -- and I'm drifting a little bit into the television side as well- we've managed very carefully the inventory that we have put out there.

I think that it's not crystal clear to anybody in the business, including us, where all of these trends are heading. But I don't think we're going to roll back in terms of the desire of consumers to express their own desire, both from an immediacy and price trade-off.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

One window that hasn't changed, virtually ever I would say, is the pay window. Your contract with Starz, I would think that is one where you look out later this decade when the contract comes up, and regardless of how the relationship ends up with Starz, whether it continues or doesn't, I don't know that having your movies locked up from subscription service for the first seven years of their life necessarily makes a lot of sense.

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

Yes, I don't know either. I don't want to predict where our deal with Starz goes out to 2015. When we did that, both on the sort of television side and with their partner on the streaming side with Netflix, we surveyed what was available to us at the time and what we thought the consequences would be, both from what we could take in and how it affected the other windows around us and decided that was the best option for us when we did that deal.

2015 or sometime before we will obviously get the opportunity to look at that again, and look at the state of the world that exists then and make the decision that is appropriate. I don't even want to guess what that might be.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

The Disney All Access that you have been talking about, where you essentially store the movies up in a cloud and people could get access to them directly from a Disney portal, am I thinking about that business right? This is a direct to consumer movie and TV show play for Disney?

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

Yes, I was thinking of bringing Bob Chapek's movie from the analyst conference because it told so much about what Disney All Access was. It actually didn't say a thing. But let me try to tell you what it was that we're thinking about.

We have been out there -- you have all heard us talking about Keychest for a while. And Keychest is really a technology. It's a technology that allows sort of a platform agnosticism for the playback of Disney movies and is inclusive of everything, including Ultraviolet and so on and so forth.

We also had a loyalty program. It was a Disney Movie Rewards program. We had a couple of other programs out there that have been, when they were introduced, time appropriate for what was available technologically.

What Bob is doing, is he is taking all of those programs and sort of uniting them into one thing where you can pull down your Disney content.

You can buy it on any format, so you can buy it in a box and it's with the digital copy and upload it. You can buy it digitally, no matter how it goes into the system, it can come out of the system equally flexibly in any format that you want to play it on.

It is very consumer driven. If you had to say hey I want to buy digital content, I don't know if I buy it in standard def, some day I'm going to want it in high def, if I buy it in Blu-ray I can't play it today, etc.

This tries to take away any hesitation from people buying our media because it kind of makes the promise implicitly and explicitly that whatever evolves technologically, you're going to be able to play -- you are going to own and continue to be able to play--the content on whatever device you decide that you want to watch it on, whether it's a tablet, in your car, in your home, on your computer.

So I think -- it is extremely obvious I think from the consumer side, the execution of it probably less obvious. But I think we are completely ready to get out there and start to express that. The timing of the actual launch of that product I'm not 100% sure of. If you're going to ask, I don't know.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

But it's a near-term event.

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

Yes, near-term. I think it's this calendar year. Lowell or Tammy can tell me -- this calendar year right? Yes.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

So then the other side of making your content more available and easier to access for the consumer is the concern that people will share passwords. What's your comfort level with piracy on these authentication type services?

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

I think we -- what's the right word? We have crossed that bridge on the Time Warner Cable deal with ESPN.  They set up a format where there are enough opportunities for authentication that we think that the consumer is getting what they are buying with authentication.

In other words, there is enough flexibility for authentication to be real, but technologically not enough flexibility for it to be like in India where you get one subscriber to cable television and 10,000 families watching it. So, we basically think that, look, authentication is a necessary step to the MVPD ecosystem.

In fact, in some sense, what has happened technologically and what content owners like us have done to sort of get out and basically demonstrably say we want to get content in the hands of consumers in the way they want, has rung a bell that can't be un-rung relative to the MVPDs.

Now don't get me wrong. We love the MVPD ecosystem. We have great partnerships with those distributors. We've had long relationships with them. We want them to continue to be enhanced and authentication is certainly a way to do that.

Needless to say, as a content provider, we want to be paid for that authentication and that convenience that gets delivered to customers. But at the same time, technology has to advance to protect exactly what I said and what you are worried about that it becomes sort of the newest vehicle to piracy.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

And I guess with All Access we will have even more data on how that is going to work.

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

Right, exactly.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

So the other distributor that you love is Walmart and I know you have a pretty good relationship with them. How are they going to feel about you going direct to consumer with movies and TV shows?

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

Well, one of the principles that we have kind of addressed in this changing marketplace and environment has been to maintain our own relationships with consumers. Disney All Access is a good example.

Similarly, whether it is the ABC player, ABC on iTunes, our relationship with Hulu, we want to basically be out there in the world as a content provider, where the more providers or distributors of that content to consumers that there are, the happier we are. And I think that every single one of those distributors, including Walmart, has an opportunity to have their own relationship with consumers.

We want to be part of that, but we don't want to, at the same time, exclude ourselves. We've been pretty determined not to exclude ourselves from -- ultimately because we are a brand, whether you look at our theme park business or something like Disney All Access, that our consumers feel a relationship with and feel very comfortable having a direct relationship with. And we don't want to cut that off.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

I wanted to make sure we finished off the outline discussion on the TV side. You already mentioned some of this at the analyst day and some of the comments this morning.

I think what I'm most interested in is, you just got a Netflix deal. They're paying a lot of money for television content; you gave them predominately prior seasons or library shows. Given how much they're willing to pay, have you sold them everything that you're interested in selling them?

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

I've think it's -- we view what is going on in that arena for us as still something where if we think we can sell them a product, it's not going to cannibalize anything else, it is truly incremental revenue; we want to be part of that.

Have we plumbed the entire depths of our library in that deal? Absolutely not. Is there potentially other content? Maybe. But we saw a good deal of interest to us, of interest to them.

It is fairly short term as you know. It is a one year deal. And we thought it was a very smart thing for us to do. How that evolves down the road I guess we all have to see.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Why don't we move over to Cable Networks, obviously the biggest business. One of the things that investors are the most focused on is the NFL. A difficult topic to talk about, but can you make any comments regarding what the impact might be if we lost some games or lost a season with the NFL?

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

Well, first of all, let me hurry to say that we hope that doesn't happen. All things being equal, we would love to be broadcasting football on Monday nights, and as is no news to anyone, the ratings of the NFL over the last two years have been outstanding and it's been absolutely great programming for ESPN. Make no mistake about it.

However, having said that, I don't want to get too much into the details of our deals with the MVPDs. But as we all know, due to the negotiation and legal process, monies that we will continue to pay even if there is a lockout for some part of the season, we will continue to pay. That is sort of a short-term cash flow issue for us.

It won't be an OI issue. We won't expense those payments if the games aren't broadcast, and it won't have a value impact because we will recoup the value later with an extension of the timeframe of our deal.

But, of course the big question becomes dual revenue stream, what happens to advertising that would've occurred for those NFL games. Not to pretend that we have a great crystal ball, the simple fact is particularly at a time when we're seeing sort of an uptick in the economy, advertisers do want to get to the demographic.

They like buying ESPN. They have been buying ESPN. They like getting to that demographic and there's no reason to believe that because one piece of the programming goes away they're not going to continue to try to get that demographic. And by the way, that demographic is still going to be watching ESPN; if not NFL, something else.

So I think we feel like we can weather it. And as much as we hope for, first for the fans and secondly for ourselves, that there isn't a disruption in the season, we don't think it will be wildly disruptive to us.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

I've got a couple of more ESPN questions, and just sort of by the way for edification, as you all know I've been pretty bullish of the growth outlook for ESPN, so my questions are focused on what the potential negatives might be rather than the positives.

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

There are none, so let's move on.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

Comcast now has NBC in the house. There's a constant concern that they will go after the sports arena harder. Do you look as Comcast NBC as a potentially much bigger competitor than they have been in the past separately?

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

Well, I think if you look at the sports landscape historically, whether it has been the networks on their own, now a network combined with Comcast, it's been a competitive space for a long, long time. The kinds of things that you write and the kinds of things that people read about the competition for sports rights has been a reality for us.

I think ESPN in its 31 years has been masterful in basically making their way through a complicated landscape with lots of people willing to throw unbelievable amounts of money to gain packages to buy sports rights. I don't see either a fundamental change in our strategy or a fundamental change in the outcome from an additional competitor or a combined competitor entering the arena.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

I know that there was some press about talking with the NFL about cutting an extension to the existing contract relatively early, and I think one of your ESPN spokesmen confirmed that there were talks going on.

When you think about the potential for the NFL to carve out a second cable network package, if they do go to 18 games or perhaps even if they don't, are there protections you can build into any extension that you do so that somebody else doesn't come along with a similar set of games at a much lower price?

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

I don't want to get into the conversations that are going on. I don't think it's fair to the League and not fair to us to talk about things that are under discussion. But I can only reiterate that we feel like our position is strong. NFL is a great component in the brand ESPN. There are lots of other components that make up what ESPN is.

The NFL is a package of 17 games, but it is much more than 17 games. It is 365 day a year programming for ESPN. It is expressed in a myriad of ways that are hard to mirror for other competitors whether it is online, whether it is on radio, whether it is in our editorial shows.

We really have a pretty formidable arsenal against whatever sports rights we buy, including the NFL. So, needless to say we're in a competitive environment. We're not really worried about that environment radically changing by either what the League might do or what other competitors might do.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

All right, last sports question I promise. Do you get worried at all about sports rights inflation relative to the consumer's willingness to pay within the pay-TV ecosystem?

What I mean by that is every cable and satellite company that wheeled through here this week highlighted sports costs as their biggest programming cost issue. In a lot of cases those are the RSNs and not ESPN that was highlighted. But nevertheless, there is a point at which the consumer might balk at paying for increased sports fees. Do you worry about the health of the sports ecosystem at all?

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

Well, obviously we have got to have our ears to the ground on a couple of things as we execute our strategy for ESPN. First and foremost, are we continuing to buy a package of sports rights?

And I don't mean the NFL package particularly, but the whole bundle of what turns out to be ESPN.

Are we continuing to amass rights that make the ESPN network something people are going to want to watch? And something that is compelling and something that keeps the distance between our brand and the next brand in sports sufficiently distant.

On the flip side, at the end of the day, you obviously cannot ignore your consumer, and you've got to basically be sure that they are getting the value for what they are paying for and that you're not pricing whatever the services -- whether you are directly in control or not -- out of their means.

We don't think -- numbers of subscribers that we continue to retain and add to doesn't indicate that we're there. I wouldn't say we're worried about that today. But I would say it’s fair to say that in a market, like any business where commodity prices are going up, you look at juggling your other cost levers to balance out the rise of a single commodity or some commodities.

For us, the interpretation of that is -- as other sports package rights come up in the future expire and look for renewal, we've got to make sometimes tough decisions about what we do buy and what we don't buy. We have made those decisions before. There have been very attractive equities, if you will, sports rights offered that we simply have had to end up walking away from because of the phenomenon that you are talking about.

We would have loved to have had, would have expressed well across all of our platforms, but had to ultimately say you know what, that will not work. We will not be able to balance that out with something else, because there is sort of -- there is not only, by the way, the appetite of consumers to pay, but there's ultimately the appetite of advertisers and there's only so much advertising you can take beyond those shows.

So it is a complicated calculus. Thirty-one years of successful history of doing it well gives me confidence that we can continue to do it well. And it's a reality of the business, I would say, more than a threat to the business.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

So, a question on Consumer Products, maybe one or two on Theme Parks and we'll see if the audience has any questions.

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

Happily.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

On the Consumer Products side, Andy Mooney made a comment I think at one of the annual trade shows regarding potentially doubling licensing revenue over a five to seven-year period based on everything he was seeing. That wasn't specifically mentioned at the analyst day even though certainly he gave an optimistic presentation. Would you sign up for that Andy Mooney outlook?

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

Well, the good news is I'm on the record for not giving guidance. So I can say that, look, every one of our executives has their own way of expressing their enthusiasm and confidence. I think what Andy was mostly trying to say is that -- and he repeated it much more explicitly, by the way, at that investor conference for those of you who were not there, that when you look at very successful brands and companies -- and he used a couple as examples, they generally have gigantic market shares.

So I think he threw up Coke and Nike and so on. And he threw up big numbers. I don't remember the numbers, but I think they were near the 50% level in terms of market penetration.

And then he threw up sort of our numbers in the categories in which Consumer Products find its biggest sales. He said, hey, even if you look at successful categories for Disney we're still very, very small in terms of our share of those markets and have incredible potential to grow even though we're quite mature in consumer products.

We have been doing it since 1928 or whatever but we still have enormous potential to grow in those markets. And I think it was the root of some of the numbers that he has talked about in other presentations, which he didn't talk about in that one.

Suffice it to say that we are all very bullish on Consumer Products. The experience we've had with *Toy Story*, the experience we have had with *Cars* even in the intervening years when there hasn't been a film. The growth in the *Princess* franchise, the resiliency of the standard characters that continue to grow on an annual basis close to 10%.

We're just very excited about the continued potential of actively working to express our franchises in consumables in ways that are new and unique. And I think that his enthusiasm about that resulted in whatever he said, you said. I don't remember.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Theme Parks. Any update you could give us on trends? And as part of that, oil prices have been rising rapidly. What kind of impact would you anticipate on your business relative to that? Are there any concerns relative to that?

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

Yes, I think fuel prices -- let me take your second question first. Oil prices express themselves to us in two ways. One as an input commodity to our business and second as an input cost to consumers as they think about vacation.

On the second side, the more important side on the consumer side, historically we have not seen increasing gasoline prices affect people's vacation decisions. It's just not enough of the -- it's not a big enough component in the total vacation decision for people to say. Even though a lot of people still drive to Walt Disney World and Disneyland, it is not a big enough part of their vacation.

If you look more broadly, I used to be the Chairman of the US Travel Association, that is true broadly of travelers in the United States. Even folks who say they're taking car trips for their vacation, gasoline prices don't tend to discourage those car trips or shorten them.

Availability of gasoline is another story. When gasoline is unavailable like it was back in the '70s, different story. But so long as it is available, priced at least within the ranges that we have seen it historically and could imagine in the short-term, don't think that’s going to be a factor.

On the cost input side, in the cruise business fuel is probably --the most significant business that we have impacted directly by fuel prices is our cruise business. We are not 100% hedged for the coming year, but we are hedged. I'm not that worried about it.

It is a great high margin business. We've got a brand-new ship that I said at the end of the first quarter or in our first-quarter earnings report that we were in the 80s on the entire cruise line, notwithstanding the fact that we have added a huge piece of capacity to that business.

It's a premium priced product, even over our existing cruise ships, because 79% of the state rooms are Veranda state rooms compared to like 23% on our existing ships. Veranda state rooms get very high pricing compared to interior rooms. So I don't think it is a big factor; something of course we will continue to watch.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

And then any thoughts on the park trends overall, any update you could give us?

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

Yes. Since I wasn't going to answer it, I actually forgot the question. I really don't like to update in between. There's -- it just gets too much numbers out there, too many numbers out there.

We said back when we did our earnings that at that time our trends were booked at 3% above the same quarter prior-year. I don't want to update that. We will see it again in May when we talk about earnings.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

You've got a wide variety of pricing packages out there especially with all of the hotel rooms you have now, so it is hard to track for us year-over-year what's happening.

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

Someone tried once; very difficult for you guys from the outside, yes.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Let's call it difficult. So relative to where you were prior to the downturn, can you give us a sense of how much are you still discounting relative to where you were prior to the downturn?

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

What we've said is that our fundamental strategy is to be on a trajectory to get back to what I would call normalized promotional pricing. There was always promotional pricing in our business. There are always shoulder periods, value periods we call them, and peak periods.

And we always price off of rack rate, which is the only way that one can really define discounting. We always price as I'm sure the Breakers does and every other hotel that has ever existed.

I don't want to give this too much time. We're not fully back to where we might have been sort of pre-downturn or at our peak, but we are on the trajectory to get back. We talked a little bit about that in our earnings in terms of ADRs and how we're booking.

Fundamentally it is our strategy. We haven't seen any problem in getting back on that trajectory. I'm not worried that we won't get back and it has been sort of a steady climb on the top-line side.

And on the cost side, back during the downturn we did do a big restructuring in the second quarter of 2009 where we fundamentally reorganized and restructured the administrative execution of our parks business and took out costs that we don't expect to come back. So we're managing towards getting back to our pre-recession margin levels, and I don't see any structural reasons why we won't be able to get there.

Now, I will say that in the short-term -- and when I say the short-term, I'm literally talking about this quarter and next quarter -- we've described some factors that will affect us. One being the $100 million of pension that I talked about, increased pension costs, most of which falls in the Parks and Resorts business because they have 70% of the employees of the Company.

But also start-up costs for the cruise line which didn't sail for one month of the quarter but had all of the start-up costs that one would assume in the quarter—a  lot of new marketing, launch costs, launch event, press cruises and all that kind of stuff. As well as the beginning of the ramp up of start-up costs for our *Aulani* resort in Hawaii which opens in August of this year.

So those factors will affect us in the second quarter. I don't see them as long-term inhibitors to us returning to pre-downturn margins. But they are some near-term factors.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

Any questions at all from the audience? Wait for the mic please.

# Q&A

**Unidentified Audience Member**

Thank you. Good morning. I'm curious about two topics. One is ABC and the other is Interactive video games.

So on ABC last week, Bob Iger was interviewed by Charlie Rose. He talked about a bit about what I will call changing how you're looking at ABC's business, how you're managing it, how you are measuring it.

So is there a rethink going on in terms of ABC? What is the investment for that reinvestment for that new strategy going to be? And in terms of what you have in syndication right now, how many cookies are left in the cookie jar?

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

Okay, talking about ABC, so I have unfortunately been in Europe and did not see Bob's interview, but I will say that we view -- everybody talks about ABC as the network and distribution vehicle.

First and foremost, we view ABC as a content creator. It is one of the potential creators of franchises for the Company. We have franchises on ABC like *Grey's* and *Desperate Housewives* that have been created and have created great value for the company through their windowing and around the world, and really have been introduced into that ecosystem I always talk about.

And we continue to look to that and continue to look to investing behind the creation of those franchises. The business has fundamentally become a two-stream business kind of like ESPN, both advertising and retransmission licensing fees. And it is a business that has some new leadership on the creative side and that new leadership always brings a new point of view into how to think about that.

We've done a lot of restructuring on the news side. I don't know if Bob talked about that with Charlie, but we have really rethought the delivery of news and how -- the infrastructure it takes to do that. And continue to, as I say, view it as a content creation vehicle in which we own the first window of distribution, and that first window of distribution gives you an advantage in launching new franchises, and that is how we see it and utilize it.

You know vis-a-vis syndication, look, syndication is lumpy by its nature, and it is lumpy in the same way the network ratings are lumpy.

When network ratings are high, it means down the road you've got great domestic and international syndication. Those markets are both alive and well and continue to deliver returns to great content. And when you've got a ratings decline or flat ratings you're not happy with on the network, somewhere down the road you're going to have the syndication pipeline that is a trickle and not a flood.

So I don't know how else to describe, I don't know how else you describe the cookie aspect of it.

**Unidentified Audience Member**

So to be clear on looking at ABC, you're not looking at a significant step up in reinvestment in that business?

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

Look, I think that we want to create hit shows. There is absolutely no mistaking the fact that the network -- the success of ABC -- needs to be fed by great shows.

We're just entering our pilot season. I'm sure that Paul Lee, who had great success in doing exactly the same thing he's doing now with ABC Family, did an outstanding job of understanding the customer for ABC Family, which turned out to be different from ABC, more of a millennial market, and delivering programming that became popular in that market, and he is looking to do the same thing at ABC.

You know, it all depends on what comes out of the pilot season and what they decide to pick up and invest in. So I don't want to predict that we're going to spend a lot more. Maybe Bob was more demonstrative.

**Unidentified Audience Member**

Well, I wish you luck. And then on the Interactive video games, your focus there has pretty aggressive targets. As you go forward from where you've been at, and we're all for the most part betting men and women in this room. I don't know if you're a betting man. But what is the probability or how much are you willing to bet that they will hit those targets?

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

I'm sorry. I missed what you are talking about. I missed the very first part of your question.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

On Interactive where they gave guidance.

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

Interactive, I'm sorry. So Interactive, look, I think that we have done some smart things in Interactive.

First of all, we have come to realize that the game space and the dynamics of it are fundamentally different than what we're trying to accomplish at Disney Online. And we made the decision to split that between two executives because even though at some level of the stack -- let's call it the bottom of the stack -- it is all about bits and bytes, and they can share a lot of resources, as you get higher and higher in that stack and you are now closer to, if you will, the consumer interface, the consumer experience and what drives success in those two arenas, they are very different. So we ultimately decided to split the responsibility and give it to two new to Disney executives.

Within the games side, I think that we were late in realizing the move from the fundamentally console-focused business to the much more casual and social game business that is absolutely on fire in terms of growth rates. If you look at the business, console is still a huge proportion of the spending in the business, but if you look at what the business will probably look like in five to seven years, that is radically going to change.

Console is not going to radically decline, but the other means of gaming -- social and casual and MMO and so on -- are going to far outpace it in terms of growth. So we have re-focused our energy from fundamentally console or heavily console into those others.

The acquisition of Playdom gets us into that social gaming space in a very big way. Sure, we could have probably done it organically over time, but I think we would have missed the cresting of it and we would've been way behind and looking at tail lights for a long time. And the acquisition of Playdom got us solidly into that space with an executive who has lived in that space for most of his professional career.

So, I guess if you -- since you brought the betting analogy, if you are going to go to the track and bet on horses, you could either do what my wife does, and say I like pink and that's how she chooses her horse, or you can read the racing form and look at who runs well in the mud and what their breeding is.

We've done the former -- or the latter -- Maybe we were doing the former (laughter). Now we're doing the latter. And you know we've set ourselves up for success. That is all I can say.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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

You know, I think that their march to profitability is determined. They've set a goal for themselves. And again, if you look at all of the inputs there's no reason to believe that they can’t get there.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

I think I will take the last question, so back to choosing pink or choosing blue here, dividends versus share repurchases. The dividend has been in place for a long time. It has increased over time, relatively modest as a percent return. Share repurchase is obviously something you are very active right now.

You look out over the next five to ten years, and I know you want to maintain what has been the most conservative balance sheet in media. Any sort of philosophy where you sort of look out three, five years, and you can see Disney more returning capital through dividends rather than share repurchases?

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

Let me start by saying when we look at that decision per se, or more importantly look at the big picture for what we do with our cash, we really want to and believe that there are great opportunities for us to return -- have very high returns either in continued investment in the businesses that we're in, with Cruise, the continued growth of DVC, all of the stuff we have talked about, including the acquisition of Playdom and Marvel, things that we think have great return to shareholders and is really where we focus.

When it is left to, okay, in addition to that and allowing our investors to experience returns from the success of our Company and the growth of our share price, we then look at direct returns of cash to capital and are pretty determined that we don't want to fall below the 1% yield we have been at. That's why we increased our dividend by 14% this year.

And that share buybacks should be -- we should continue to focus on share buyback at a minimum to be anti-dilutive to both options exercise within the Company, as well as the shares issued for potential acquisitions. So taking that as a baseline, I think you will see movement around that depending on what other opportunities we have to use cash.

We like -- we think our single-A rating and our conservative balance sheet is a real strategic advantage to us. During the downturn when everyone was afraid that they wouldn't have access to capital and started hoarding cash, we had access to capital. And it had to do with both the history of our balance sheet and the position that it was in.

We've got lots of debt capacity. I think that we haven't been historically shy about using acquisition as a means of growing the Company. We certainly look at it along with organic white space start-up investment as -- both as viable vehicles for growing the Company, and like both.

From the investors' side, the freedom that share repurchase allows investors--it allows them to harvest returns as they wish, as opposed to a dividend, which kind of forces it to them, and maintains flexibility for us as well. So we continue to look at that balance.

I don't see in the near-term future that we start to wildly favor dividend over share price. But we certainly keep looking at it as other companies do, I think, as markets change.

**Doug Mitchelson** – *Analyst, Deutsche Bank*

I had to have at least one financial question for the Chief Financial Officer. Thank you very much Jay.

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

You're welcome. Thank you.

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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 2, 2010 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.