



The **WALT DISNEY** Company

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# **The Walt Disney Company Fiscal Full Year and Q4 2011 Earnings Conference Call**

**NOVEMBER 10, 2011**

**Disney Speakers:**

**Bob Iger**

*President and Chief Executive Officer*

**Jay Rasulo**

*Senior Executive Vice President and Chief Financial Officer*

Moderated by,

**Lowell Singer**

*Senior Vice President, Investor Relations*

## **PRESENTATION**

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**Operator**

Good day, ladies and gentlemen, and welcome to the fourth quarter and fiscal 2011 Walt Disney earnings conference call. At this time all participants are in a listen only mode. (Operator Instructions). Also, we would like to remind you to please turn off any BlackBerrys or Internet-enabled cellphones, as they may cause static into the call. (Operator Instructions).



Now I would like to turn the conference over to Mr. Lowell Singer, Senior Vice President of Investor Relations. Please proceed.

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

Thanks everyone. Good afternoon and welcome to The Walt Disney Company's fourth-quarter 2011 earnings call. Our press release was issued about 45 minutes ago. It is available on our website at [www.Disney.com/investors](http://www.Disney.com/investors).

Today's call is also being webcast and that webcast will be available on our website, as will a replay and a transcript of the call.

Joining me in Burbank for today's call are Bob Iger, Disney's President and Chief Executive Officer; and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob will lead off, followed by Jay, and then we will be happy, of course, to take your questions. So with that let me turn it over to Bob and we will get started.

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

Thanks, Lowell, and good afternoon. I'm proud to report Disney posted record revenue, net income and earnings per share for the 2011 fiscal year. Our net income grew by 21% over a year ago, on a 7% increase in revenue, and our earnings per share, adjusted for comparability, were up 23% for the year.

I'm also very pleased with our fourth quarter results, which were driven by Media Networks and Parks and Resorts, with net income up 30% and revenue up 7%. Our EPS for the quarter, adjusted for comparability, grew 31% to 59 cents.

Our fiscal 2011 results validate our strategic priorities, and demonstrate we can grow our earnings in the near term while continuing to invest for long-term shareholder value.

Given the challenging economic environment this year, I'm particularly proud of our excellent management team, which has consistently delivered on our strategy, creating high-quality content, expanding our platforms, and growing our iconic brands and assets worldwide.

Disney's collection of strong brands is unparalleled in the media and entertainment space in the U.S., and in 2011, we made significant progress in expanding our footprint in three large, rapidly developing markets – Russia, China and India.

Less than two weeks ago we announced the launch of a free-to-air Disney Channel in Russia that will reach 40 million households and 75 percent of the country's viewers with signature Disney programming and original Russian content. With a portfolio of 100 channels around the



world, up from 19 a decade ago, Disney Channel serves as an anchor for our growth and is a preeminent brand-builder. We are extremely excited about this opportunity in Russia.

In China, work has begun on Shanghai Disney Resort, a 963-acre site that will include Shanghai Disneyland, two themed hotels, and a large retail, dining, and entertainment venue. The Shanghai resort is a key component to our growth strategy in China.

And in India, we are in the process of acquiring the 50% equity that we don't own in UTV, one of the country's premier media and entertainment companies. Combined with UTV, we will be the leading film studio, producing both UTV and Disney-branded films, and we will increase the number of cable and satellite channels we own from three to nine. The combined UTV and Disney assets will allow us to significantly grow our businesses in India.

We've made significant investments in our Parks and Resorts in the last five years, and many are coming online. *Toy Story Playland* just opened to great guest reaction in Paris and we're excited about its opening in Hong Kong next week. Next year, the highly-anticipated *Cars Land* at Disney California Adventure and *Little Mermaid* at Disney World's expanded Fantasyland will be completed. Following the success of the Disney Dream earlier this year, we will launch the Disney Fantasy in spring 2012, and our Imagineers and James Cameron are already at work on the design of our first *Avatar*-themed land at Walt Disney World's Animal Kingdom. Our long-term investments in Parks and Resorts are aimed at strong returns on capital, as well as strengthening and growing our product in markets we already operate in, and expanding our presence globally.

Nothing illustrates our ability to create enduring quality family entertainment better than the re-release of the *Lion King* in 3D. Nearly 20 years after its original premiere, it has grossed about \$150 million in box office worldwide and was the number one selling Blu-ray disc its first week of release. Over the next two years we will release four additional award-winning animated films in 3D – *Beauty and the Beast*, *Little Mermaid*, *Monsters, Inc.* and *Finding Nemo* – and introduce a whole new generation of families to these hallmark theatrical events. In fiscal 2011, *Pirates of the Caribbean: On Stranger Tides*, the fourth film in our extremely successful franchise, earned more than one billion dollars in global box office, one of only ten films to have done so, and we are in early development for another *Pirates* sequel. *Cars* continues to be a great franchise for us. In addition to grossing \$559 million in global box office, *Cars 2* continues to drive very strong performance in our consumer product business, which we expect to continue into the Holiday season; it has surpassed both *Star Wars* and *Toy Story* in retail sales of movie-themed merchandise.

Marvel's *Thor* and *Captain America* were among the top ten non-sequel releases of the year. We were pleased with the performances of both films, and the true benefits of our Marvel acquisition should be quite visible in fiscal 2012. First, in May, *Thor* and *Captain America* will join *Iron Man*, the *Hulk*, and *Black Widow* in Marvel's *The Avengers*, the first Marvel film to be marketed and distributed by Disney. *The Avengers* shows great promise with a record 10



million downloads on iTunes when the trailer debuted, and it is well on its way to being our next great franchise.

Then, in July, Sony Pictures will release *The Amazing Spider-Man*. We are excited about the film and expect that it will drive significant benefits for Spider-Man consumer products. To that end, we recently completed a transaction with Sony Pictures to simplify our relationship. In the deal, we purchased Sony Pictures' participation in Spider-Man merchandising, while at the same time, Sony Pictures purchased from us, our participation in Spider-Man films. This transaction will allow us to control and fully benefit from all Spider-Man merchandising activity while Sony will continue to produce and distribute Spider-Man films. We won't be specific about the economics of this two-way transaction but we expect that it will drive attractive returns for Disney.

Our upcoming slate of films is rich in variety and potential. On Thanksgiving weekend, *The Muppets* will hit theaters in what we believe will rebuild another beloved franchise. DreamWorks' *War Horse*, the Steven Spielberg directed epic, will be in theaters in December. Early next year, we are looking forward to our live-action adventure film *John Carter* directed by Andrew Stanton, of *Finding Nemo* and *WALL-E*. As I already mentioned, *The Avengers*, will premiere in May, and opening in June is the highly-anticipated Disney-Pixar's *Brave*, featuring a spirited Scottish girl on a comic medieval adventure. In November 2012, we will release *Wreck it Ralph*, a Disney Animation feature set in the multi-dimension world of video games.

Turning to cable nets, ESPN posted a record number of viewers for the fourth consecutive year, and remains the leading destination for sports. ESPN.com has captured 70% of fans on mobile sports sites, and in September, ESPN.com set a record for its most unique users ever at 52 million.

ESPN was able to grow its viewership and expand its content offerings to subscribers while showing discipline in acquiring sports rights. Our recently-signed long-term agreements reached with the NFL, Pac-12, and Wimbledon ensure ESPN will continue to offer the broadest array of sports coverage for fans to access wherever they watch sports.

In fiscal 2011, Disney Channel and ABC Family posted record viewership for their targeted audiences.

Disney Channel is now number one across broadcast and cable among kids and tweens for total day and primetime. Our *Phineas and Ferb* TV movie is the number one scripted telecast on broadcast and cable for that demographic, and the #1 scripted cable show in total viewers. The *Phineas and Ferb* series and movie are also delivering record viewership internationally, and a feature film is planned for release in 2013. *Phineas and Ferb* is well on its way to becoming a successful franchise for the company.

ABC Family had its fifth consecutive year of growth in its key demographic of 12-34 year olds, up more than 9% in fiscal 2011. ABC Family was home to three of the top scripted shows on



basic cable this summer including *Switched at Birth*, which was the top rated new cable show among millennial viewers.

At ABC primetime, we are seeing some very promising signs. ABC has two of the top three new dramas among 18-49 year olds and the top two drama debuts were ABC-owned *Once Upon A Time* and *Revenge*. And our Wednesday night block is posting its second consecutive year of double-digit percentage growth among total viewers and adults 18-49 with the ongoing success of *Modern Family*, the new strength of *The Middle*, and encouraging results from a new show, *Suburgatory*. ABC's new hit dramas, coupled with our comedy lineup, will form the foundation for a rebuilt and revitalized schedule in the coming seasons.

As we prepare to re-launch Disney.com next fall, we are excited about the deal we recently announced to produce co-branded, family-friendly video experiences for Disney.com and YouTube that we believe will grow our brand presence online and drive new traffic. At our games segment, we've diversified our strategy and are seeing success with both social and mobile games. *Where's My Water?* reached the top of the paid apps chart for three weeks this fall, and *Gardens of Time* was recently named top online social game by its industry peers, and we will be launching several new Disney-branded Facebook games incorporating Disney IP in 2012.

Lastly, all of our movie and TV business is supported by a strong, global licensing group and a solid platform in the Disney Stores. In addition to these businesses, Consumer Products has a thriving publishing business domestically and internationally, is launching a number of titles for mobile devices and is creating a broad, digital strategy.

This was a great year financially and strategically for the company, and we're very excited about 2012 with our upcoming film slate, momentum at ABC primetime, continued growth of ESPN, the opening of multiple park attractions and the progress we're making to deliver profitability across our digital business. We are confident our strategic focus on great content, innovative uses of technology and global brand and asset growth will position us to deliver long-term shareholder value.

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

Thanks, Bob and good afternoon everyone. We are extremely pleased with our fourth quarter results, topping off a very good year for the company. We reported record revenue, net income and earnings per share in fiscal 2011. I am going to take a few minutes to discuss the fourth quarter in more detail and then highlight some specific fiscal 2012 items.

In Q4, Media Networks was the largest contributor to our performance driven by growth in operating income at Cable Networks, more specifically by growth at worldwide Disney Channel and ESPN, and an increase in equity income. Growth at the worldwide Disney Channel was the result of increased revenue from the sale of Disney Channel programming, higher affiliate



revenue and increased ad revenue internationally. At ESPN, higher affiliate and advertising revenue were partially offset by higher programming costs associated with contractual rate increases for college football and the NFL.

Advertising revenue at ESPN was up 4% during the quarter, but up 7% adjusting for the impact of last year's *Men's World Cup*. This growth is on top of a 19% increase ESPN delivered in Q4 last year. And if you look at the full year, ESPN ad revenue grew 18% in fiscal 2011, and that's following a double digit increase in fiscal 2010. The growth in equity income resulted from an increase at A&E/Lifetime due to the absence of programming write-offs incurred last year.

During the quarter ESPN signed a new long-term agreement with the NFL. This deal extends our Monday Night Football rights through the 2021 season and provides us with 500 hours of incremental programming per year, which we began airing this season. Extending our NFL partnership further strengthens our sports content portfolio, which continues to make ESPN the #1 destination for sports fans as well as cable television's most valuable network.

At Broadcasting, Q4 operating income was higher as a result of lower programming write-offs, as well as higher ad revenue at the ABC Television Network. At our owned TV stations, ad revenue was down 11%. But excluding political advertising and the recently sold Flint and Toledo stations, ad revenue was up low single digits.

At the ABC Network, quarter-to-date scatter pricing is 25% above upfront levels. ESPN ad sales are pacing up single digits and ABC Family ad sales are pacing up more than 10%. Given the strength of political spending last year, Q1 TV station ad sales are pacing down. Excluding political, TV stations ad sales are pacing up.

We are very pleased with our results at Parks and Resorts in the quarter. Operating income was up 33% as a result of higher guest spending at our domestic parks and higher passenger cruise days, partially offset by increased costs. Total segment margins for Q4 were up 220 basis points versus last year and domestic parks and resorts margins were up more than that. For the full year, total segment margins were up 90 basis points.

For the quarter, domestic attendance was up 1% and per capita spending was up 9% on higher ticket prices, food and beverage, and merchandise spending.

Average per room spending at our domestic hotels was up 9%, while occupancy was down two percentage points to 81%. The increase in per room spending was driven by higher pricing and a reduction of promotional room nights. These results reflect our strategy of continuing to increase pricing to normal levels.

So far this quarter, domestic hotel reservations are pacing in-line with prior year levels, while booked rates are up low single digits. I'll note that from this point forward, current year



domestic reservations will include Aulani hotel rooms, the impact of which is de minimis in Q1 bookings.

Results at our international resorts were higher due to increased attendance and guest spending at Hong Kong Disneyland and higher guest spending at Disneyland Paris. We are also encouraged by the pace of recovery at the Tokyo Disney Resort and our royalties from Tokyo were modestly higher this quarter compared to prior year.

At Studio Entertainment, operating income was up for the quarter as a result of lower film cost write-downs and higher domestic theatrical revenues, despite lower results in our international theatrical and worldwide home video businesses. Domestic theatrical results were up in the quarter as a result of *Cars 2* and the release of *The Lion King 3D*, as well as lower pre-release marketing expense compared to last year. Although *Cars 2* performed well globally in the quarter, it faced a difficult international box office comparison with the incredibly successful *Toy Story 3*. Home entertainment results were down due to lower unit sales of key titles domestically and lower catalog sales internationally.

At Consumer Products, operating income was up for the quarter driven by higher licensing revenue due to sales of *Cars* merchandise and higher revenue from Marvel properties. On a comparable basis, earned licensing revenue was up 2%.

At the Interactive Media segment, operating losses decreased from the prior year due to lower marketing and product development costs in our console game business, partially offset by lower results in our social games. Keep in mind that results at social games reflect a full quarter of operations of Playdom compared to the prior year, which only included one month of operations.

I would now like to turn to fiscal 2012 and provide some color on a few of our businesses that should help with timing and comparability issues for the coming year.

In fiscal 2012, ESPN will once again air four BCS games and the Rose Bowl, all of which will take place during fiscal Q2. Last year, two of these games—the Rose and Fiesta Bowls, aired during fiscal Q1. Our new ACC contract, which began in September of this year, will continue to impact comparisons in fiscal Q1 and Q2, which encompass most of the college football and basketball seasons. Our new exclusive coverage of Wimbledon will begin during the second half of the fiscal year, while our new contract with the Pac-12 conference will begin in fiscal Q4.

We remain hopeful there will be a quick resolution to the NBA situation. However, our broad portfolio of rights will enable us to effectively program ESPN without the NBA. We have plans in place to replace the majority of live NBA programming hours with coverage of other sports, including college basketball, so the absence of the NBA will not affect our ability to achieve our full-year programming commitments. Since many NBA-advertisers want to reach male demos, we expect a good portion of NBA ad dollars will be re-expressed to other ESPN properties,



including college basketball. We expect any reduction in our NBA-related revenue would be more than offset by a reduction in rights costs.

I'd also like to take a moment to address our affiliate contracts with multi-channel operators, a subject we've been asked about many times in the past few months. We believe the strength of our cable networks and owned television stations positions us well for a series of upcoming negotiations. Our recent agreements with Time Warner Cable, Verizon and Brighthouse Networks are long-term, comprehensive and create value for both Disney and our partners. We expect these deals to serve as templates for upcoming negotiations. Given the timing of our existing contracts, we expect to negotiate new agreements for our cable networks and owned TV stations covering an incremental 75% of multi-channel households by the end of calendar 2014.

Now let me turn to Parks and Resorts. The *Disney Fantasy* will launch at the very end of our fiscal Q2 and, thus, the ship will not generate meaningful revenue during the second quarter.

This coming summer, we will open *Cars Land*, the cornerstone of our expansion at *Disney California Adventure*. These projects are a part of our continued investment in growth initiatives that we expect will contribute incremental operating income once they are fully ramped up. However, we expect in fiscal 2012 our growth initiatives will contribute \$500 million dollars in both incremental revenue and expense. Having said that, we still expect Parks and Resorts margins to expand during 2012.

At Interactive Media, we expect the impact of purchase accounting from the Playdom acquisition to decrease from \$110 million dollars in fiscal 2011 to approximately \$50 million dollars in fiscal 2012, with the majority recognized in the first half of the year.

We expect consolidated capex to be approximately \$500 million dollars higher than in FY11, with our work on the Shanghai Disney Resort being the largest driver of this increase.

We expect pension and post retirement medical expenses to increase by \$50 million dollars in fiscal 2012. If you recall, in May we announced changes in our salaried pension plan that will reduce our expense over the next five years by \$350 to \$400 million dollars, or approximately \$75 million dollars per year, versus our previous plan. We still expect to realize these savings in fiscal 2012. However, changes in other key assumptions, including a 50 basis point reduction in the discount rate, more than offset these savings in fiscal 2012.

We continued to increase the pace of our share repurchase during the fourth quarter by buying back 58 million shares for about \$2 billion dollars, bringing our total share repurchase for fiscal year to 134.7 million shares for approximately \$5 billion dollars. During the first quarter of our new fiscal year, we have repurchased 12.7 million shares for about \$420 million dollars.





2011 was a great year for our company. We delivered strong operating results, expanded operating margins, continued to invest in our core businesses, and extended the reach of our brands outside of the U.S. We are very well positioned to drive growth and returns for our shareholders in fiscal 2012 and in the years to come.

With that, I'll turn the call over to Lowell for questions.

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

Thanks, Jay. Okay, operator, we are ready for the first question.

## Q&A

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**Operator**

(Operator instructions) Our first question will come from the line of Michael Nathanson, of Nomura.

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**Michael Nathanson** – *Analyst, Nomura*

I have a couple. One just housekeeping to start with. Jay, I don't think you told us the affiliate fee growth this quarter. Could you tell us that so we don't have to wait for the K to come out?

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

Affiliate growth in the quarter was -- for the total Cable Networks was 8%.

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**Michael Nathanson** – *Analyst, Nomura*

Okay, thanks. And then let me ask you one on parks and then involving sports. On parks -- you know, this year that just ended has been really volatile on margin by quarter. I know there has been a lot going on. We talked about that on other calls. But when you look at this quarter and the factors that drove the margins this well, what were those factors and what is repeatable going forward?

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

In terms of the park margins?



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**Michael Nathanson** – *Analyst, Nomura*

Yes.

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

I am sorry, I missed the beginning of your question.

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**Michael Nathanson** – *Analyst, Nomura*

Well, the question is, like if you look at the volatility in park margins this year, this was a really strong quarter. Margins and the flow-through was really high. So when you look at this quarter what happened this quarter on margins that got you that operating leverage, and are those conditions sustainable?

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

Well, there are two major contributors to the increased margins. Of course, when I reviewed the per cap, a lot of that was due to R&A pricing and higher ticket prices, which needless to say, don't have a lot of interference flowing to the bottom line.

We also -- and as we have been telling you, had a very, very strong response to our new cruise ship. It is booking at great rates. It is contributing very well to our revenue. And both of those have -- I would say, were the key drivers to our margin improvement in the quarter.

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**Michael Nathanson** – *Analyst, Nomura*

Okay, and then one for Bob in sports. You mentioned being disciplined in buying sports rights. We have seen in the past month or two some pretty expensive deals for rights that maybe are not primary.

So how do you balance your need to keep on acquiring key sports rights with your desire to drive returns for the company and for the shareholders? So how do you think about what you need to buy and what you don't need to buy?

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

Well, we look at each package that is available individually with an eye toward literally what kind of value we think it is going to drive -- whether it is going to support the brand, what kind of volume are we talking about in terms of number of hours, what will the ratings be, can we



convert to advertising? And can we better serve our customers, which are both the multi-channel distributors and ultimately end users, the viewers.

The NFL is a good example. There is no question that was an expensive deal. And as I was saying, using the word discipline, I was thinking about the cost to us of extending that deal. But what we saw when we did that was, first of all, a long-term deal that takes us to 2021; that is tremendous certainty.

We know we have certainty in terms of quality of the product and the games and the interest in those from our viewers and our distributors, and advertisers by the way. And we have the ability to program more than 500 more hours of NFL programming annualized.

So when we added all of that up, and we looked at the growth trajectory of those rights fees, we concluded that if there is anything that creates value for ESPN, it is the NFL. And so we apply similar logic -- you know, the college football and college basketball package we bought represent quality programming. Huge local interest in those. You know if you have gone to a college that has a decent sports team how loyal you tend to be as a viewer to that team and those teams. Again, long-term deals.

And the other thing that we have gained in a lot of these deals is multi-platform capabilities. So it grows our customer engagement, and that is a big deal. The growth of ESPN.com, which I cited in my earnings comments, the use of smart mobile devices, in some cases international rights, these are all very, very valuable.

Those that we -- those sports that we did not get -- interestingly enough, the World Cup and the Olympics, while there is no question they are high-quality they don't occur every year. They occur for a short period of time. And we didn't believe that we could justify the kind of rights that ultimately others paid for, because it didn't really meet the standards based on the cost those rights were going to amount to to us that we have adhered to for these other packages.

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**Michael Nathanson** – *Analyst, Nomura*

Okay, thanks, Bob.

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**Operator**

Spencer Wang, Credit Suisse.

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**Spencer Wang** – *Analyst, Credit Suisse*

I just have a two-part question on just the macro economic backdrop. Jay, I was wondering if you could talk a little bit about the booking window, if you have seen any changes there, just



given the macro economic backdrop? And could you speak specifically to international visitation just given the volatility in the euro?

And then, Bob, if you could just update us what you are seeing real time in the scatter market, both for broadcast and cable, that would be great. Thanks.

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

Okay, let me start. On the booking window, it is something we watch pretty carefully. I told you two quarters ago that we saw a little elongation of that from 13 weeks to 14 weeks. This quarter it remained pretty steady at about that 14 weeks between when the rooms are booked or when the vacation is booked and when the guests show up. So not a lot of movement there in this quarter.

On the other question you had about international visitation, fourth quarter happened to be a particularly strong quarter for international visitation. I have told you that for many quarters or many years for our business as a whole we are looking around 20% of our business, a lot of that is driven at Walt Disney World.

Walt Disney World was at the high end of the range that we see between 17%, 18% and 22%, 23%. Walt Disney World really over-performed in the quarter internationally, and it made the year sort of fall pretty solidly in that 20% -- 18% to 22% range -- so surprisingly to some extent, as was implied in your question, but we are still seeing very strong international attendance.

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

We don't get that much attendance from Europe, really. But it was strong during fiscal 2011. We have seen a slight slowdown from the UK this quarter, but by and large overall our international attendance this quarter is up, I think, just under 10% from a year ago.

Now we are also being helped by growth in attendance from Asia and from Brazil, so there is a good global balance. And while we are certainly watching what is going on in Europe very carefully, the fact of the matter is that there are other markets that have grown nicely, and that is obviously a good thing for us.

On the scatter side, I want to reiterate the fact that advertising for us was about 19% of our total revenue. It doesn't mean it is unimportant, but I just want to put it in perspective.

On the ABC front, scatter pricing has been very strong this quarter. I think Jay mentioned in the mid-20% range, 26% over the upfront, but it is has slowed slightly these last few weeks. That said, the option pickups for January, February and March are running slightly above where we thought we would be.



And when we look at the mix of inventory that we have left, including in some very appealing new programs that I mentioned -- *Once Upon a Time*, *Suburgatory*, *Revenge* to name a few -- we feel good about the inventory that we have left. And our demographics are strong. We have been quite strong in women 18 to 49 as a for instance.

So a little slowing in the last few weeks, up nicely over the upfront this quarter, and we will wait and see. On the ESPN front they have difficult comps from a year ago, as was the case in the quarter that we just announced. They ended up up 18% for the year, which is a tremendous number.

They have got great product to sell. They have a male demographic that is clearly in demand. And they also wrote a lot of business in the upfront. Scatter becomes less of an issue for them.

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**Spencer Wang** – *Analyst, Credit Suisse*

Great, thank you very much.

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**Operator**

Jessica Reif Cohen, Bank of America Merrill Lynch.

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

I guess a question for Bob and one for Jay. Bob, you announced the beginning of a succession plan, and I was wondering if you could just discuss how you are thinking about your priorities for the balance of your tenure? Is there anything that you would really like to accomplish, other than the path you have set the company on? Are there any businesses that you think Disney should be in that it isn't in now?

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

The strategic priorities that I articulated back in 2005 when I got the job, remain very much in place. It starts with making great product. Interestingly enough, that is even more interesting and more compelling today than it was back then, because the world is offering us even more opportunities to leverage great product, either because of new technology or compelling growth in emerging markets.

And that is the real value proposition for us. I want nothing more for this company than to make great product. And I would say if I had a goal in mind over the remainder of my tenure, which isn't as brief as I think people suggest, it is to improve the quality of our output.



Technology is a huge, huge strategic priority for us. I talked about it when I talked about content. Let's use it to distribute more effectively and to monetize better. It should also be used to make our product better as well. And we certainly see that when it comes to filmed entertainment, but obviously at our theme parks.

And on the international front we announced three big deals this past year -- they were in my remarks -- in China, in India and Russia. It is imperative for this company to plant a number of seeds in the emerging world. When you look at the remainder of this decade or the next decade, growth from emerging markets is going to outpace growth in the developed world. And that is the first time that's happened in 200 years. So that is very important. So sticking to our knitting and doing more of it.

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

Thanks. And then I just wanted to follow up on Spencer's question. We know that historically international visitors tend to stay longer and spend more. But are you seeing anything from domestic -- is there anything different in consumer behavior at the theme parks in terms of length of stay or spending patterns?

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

No, once folks book their vacation, they pretty much are behaving as they have in the past. I would say that, not shockingly if you look at the growth in our merchandise sales, it is a little bit slower in the mix than the growth in our R&A and our food and beverage sales, mostly because of some great programming on the food and beverage side that has kept that variable growing.

But in general we see our guests behaving pretty much as they have in the past. And as you can see in aggregate, their spending is increasing at a pretty heavy level.

If you look -- step back and look at the overall mix, I would say that our group business, while it has made leaps and bounds growth back since the downturn, it is still only about 90% of where it was before we came into the downturn. I think there is a little more opportunity for us there because it is very strong countercyclical programming for us.

But in general the goal is to get folks back at the resort at our normalized levels of pricing throughout the year. And pretty much once they are there they behave as they always did.

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

Thank you.



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**Operator**

Doug Mitchelson, Deutsche Bank.

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

I guess I will do two questions as well. Jay, just curious if you could give us a good ballpark CapEx baseline? If you excluded building the new stuff, for those of us who are trying to figure out what a normalized free cash flow level might look like, since you have now given us a pretty good idea of the full CapEx, if we unloaded and just look at baseline what would that be?

And then, Bob, you're experimenting about as much as anybody with digital distribution business models, between Hulu and Netflix and YouTube and building a Disney.com content portal. Is there anything that you have learned over the last year that you could share with us that is influencing your strategy about digital distribution, whether it is in terms of updated thoughts on cannibalization with traditional usage, health of Pay-TV ecosystem longer-term, what the best online business model might look like, any comments would be helpful? Thanks.

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

Let me start with your CapEx question, and this is one that I get asked often and I will try to give you some perspective on it. Five years ago or so we used to be pretty demonstrative about \$1 billion number being an ongoing level without special projects added to it.

You have to remember though that in those five years in the capital projects that we have put in the ground, which each have their own growth strategy, each is filling in different parts of the portfolio, when they are back on board they all need ongoing FF&E and maintenance capital to keep them going.

So I would say that that \$1 billion number is low. But certainly we have been pretty clear about the levels we are spending in fiscal 2011 and 2012 being at the other end of the spectrum, being very high because of the addition of the two cruise ships, the Aulani hotel, the work we're doing at DCA, all the work we're doing at Walt Disney World has really created a bubble for us that is not our long-term plan.

I think that you will hear about longer-term projects. Shanghai, we talked a little bit about as a contributor to 2012 capital expenditures, and that will ramp up over time.

Remember that only 43% of that capital is ours. So even though it is a big contributor, the Chinese government contributes 57% of that and we back that cash out of a financing -- lower financing line in our P&L.



So I can't give you exact specificity on our ongoing capital level, but let's say it will be higher than \$1 billion, but much lower than the 2.5 to 3 we have been at.

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

Okay, I tried.

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

I don't know if I can really give you too many specifics about whether there is anything that we have seen that is -- stands out or is particularly compelling, except to say that we thought the technology was going to create opportunities for consumers to consume our content in new ways, and in doing so enable us to monetize in new ways.

That is certainly coming true with deals like the one we mentioned for Netflix and Amazon, and the conversations that we are having with a variety of entities, the number of apps that have been downloaded, the use of ESPN.com, the over 230 million likes on Facebook, the YouTube deal, you name it.

It is a very interesting time for content owners. And there is a growing list of platforms that are eager to enter into deals for us to enable them to redistribute our content to support their investment in their technology platform.

I think we are only seeing the beginning of the beginning of that. I would say if anything that I think is profound or interesting is that -- is how well some of the traditional media platforms have held up.

Five years ago we would have been talking about just how devastating impact of the DVR would have been on the advertising business. And we are finding that with roughly 42% penetration of DVRs in the United States, and people who have DVRs watching substantially more TV, that the actual increase in ratings in DVR households is pretty interesting.

And now that we can sell on a C3 basis, maybe ultimately we will be able to sell even on C7 basis, that is all monetizable. It is not all detrimental to our business model. If anything, you could argue it is actually enhancing it.

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

All right, great, that is helpful. Thanks.





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**Operator**

Alexia Quadrani, JPMorgan.

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**Alexia Quadrani** – Analyst, JP Morgan

Thank you, just two, one on the studios and one on TV. First on the studio side looking into 2012, your revenues may be a little bit soft just given the number of releases lined up. Can you talk about how we should think about the cost in this business in this type of a year? Can you keep costs down keeping margins intact?

And still on that topic you had such big success with your 3-D re-release of *The Lion King*. How much more profitable are these types of movies? And with your plans for more of these three releases in 2012 can we see a bit of a margin lift there?

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

I am glad you asked a question about margins, because we don't measure revenue that closely in the movie business because we are more interested in profitability. We would rather make fewer more profitable movies than more, less profitable movies, obviously.

We like our year ahead, beginning with *The Muppets*, which there is a huge amount of momentum right now. And obviously *Avengers* will factor in big time for us as a franchise for the company and as a real new Marvel tentpole. And then we've got a good Pixar title in *Brave*. And *John Carter*, which should be a big movie for us in March.

We have done a good job at the studio of continuing to be vigilant about the cost structure of that business, particularly as things change in that business. I don't believe that we are necessarily at the end in that regard, we will continue to monitor that business very carefully.

We are trying to bring some production cost down, but we are doing so in part by basically balancing the mix of the movies that we have, making a few tentpole films and investing aggressively in those. *Avengers* is a good example of that. I mentioned *Pirates* earlier. But also making movies that are substantially lower in cost.

*The Muppets* is actually a good example of that. It is a movie that is going to cost less than \$50 million to produce. And I like the balance.

In terms of *The Lion King* and whether we can turn to the library to continue to drive profitability, I mentioned in my remarks we have named four titles that we are bringing out in similar form -- *Beauty and the Beast*, *Little Mermaid*, *Nemo*, and *Monsters*.



They're all different circumstances than *The Lion King* was. *The Lion King* had never been released on Blu-ray, for instance, and it was a 17-year-old title, and was a movie that appeals to just about all demographics.

I think the films that we are bringing out are extremely appealing films as well. I'm not sure any one of them is exactly a *Lion King* in terms of the circumstances, but we think they will all enhance the bottom line, and in a couple of cases, enhance basically the brand, Disney and Pixar.

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**Alexia Quadrani** – Analyst, JP Morgan

Thank you. And then just quickly on the TV side, any color you can provide on how much you think about retrans in 2012?

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

We are talking about retrans in terms of long-term. Getting into details about when we will actually be concluding deals, we have concluded some, but we have not said how many we believe we will enter into in 2012 and when retrans would kick in. But you're going to see as it was started in 2011, a steady trajectory of growth.

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**Alexia Quadrani** – Analyst, JP Morgan

Thank you.

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**Operator**

Alan Gould, Evercore Partners.

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**Alan Gould** – Analyst, Evercore Partners

Following up on Doug's digital question, what inning do you think we are in terms of these digital licensing deals? And could you give us any sense of how much the company generates across the company, cable, broadcast and studio, how much revenue you're generating a year from the digital deals?

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

What inning we are in. I was going to say it is still the preseason. But we are getting -- but things count, and we are getting paid nicely.



The sale of shows to Netflix, which were primarily Disney Channel shows I think is only one of several drivers of what our operating income was in the quarter. So while it is nice revenue, it is still relatively modest when compared with the revenue that we derive from subscription fees and advertising.

The broadcast side, I think what you're seeing is you are seeing a new form of syndication popping up that didn't exist a few years ago. And that is obviously a good thing.

And, by the way, I really do think we are at the beginning of the beginning. You're going to see a lot more entrants into the marketplace for varying forms of SVOD, or Internet-provided or mobile device-provided filmed entertainment.

So I think -- I don't know -- to put it in perspective, it is going to continue to grow as a percentage of our income. But I don't believe that it will reach a significant percentage of our income, meaning approach maybe 50%, for many years to come.

That is largely because I think the health of the standard businesses of the traditional side of the business look positive from a long-term perspective.

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**Alan Gould** – Analyst, Evercore Partners

In aggregate what did it kick in last year, \$100 million, \$200 million of revenue?

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

We are not being specific about it. Total digital revenue for the company is over \$1 billion, but that includes a lot more than just what I will call off-network sales.

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**Alan Gould** – Analyst, Evercore Partners

Okay, thank you.

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

So on \$40 billion -- almost \$41 billion in revenue, it is still relatively modest. Interestingly enough, what we see growing nicely as well is online commerce, e-commerce. And we have seen huge growth there in Disney merchandise online. So when you look at what I will call growth from digital platforms, it is not just the Netflixs and the Amazons of this world, it is growth in general in terms of how we sell our product.



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**Alan Gould** – *Analyst, Evercore Partners*

Does that include the online booking of travel reservations at the parks?

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

No, it does not.

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

Which is well over \$1 billion.

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**Alan Gould** – *Analyst, Evercore Partners*

Yes.

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

That would more than double the revenue we reap from digital commerce.

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**Alan Gould** – *Analyst, Evercore Partners*

Okay, thank you very much.

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**Operator**

Jason Bazinet, Citi.

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**Jason Bazinet** – *Analyst, Citigroup*

I just have a question for Mr. Iger. When I look at the headlines in the newspaper regarding unemployment rates and people underwater on their mortgages, and the amount of sovereign debt, all of that seems to have pushed your multiple down to a pretty low level. And it has pushed the Fed funds rate to a very low level. Your after-tax cost of debt is probably 2%, and yet almost like clockwork when the recession began in 2009 you began to allocate incremental dollars towards expansion, as opposed to a more aggressive equity shrink.

I just wonder, is this a decision you made before the recession started? And are you convinced that this is the best use of the marginal dollar of your capital as opposed to taking advantage of the low rates and the lower multiple? Thank you.



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

Our attention in terms of our capital expenditures has always been on long -- delivering long-term value. And decisions like the decisions to invest in our theme park business are certainly made for the long-term, either to expand our presence in the markets that we are in or to bring us into new markets, like a new cruise ship can do or a theme park in Hong Kong or a theme park in Shanghai.

We don't look at what is going on that year. We believe in the long-term fundamentals of our business and our ability to drive pretty good returns on invested capital.

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**Jason Bazinet** – *Analyst, Citigroup*

And so do you anticipate any change in terms of more return to capital or do you think will be on this path for a while?

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

Well, I think we have been pretty clear about our capital expenditures, particularly in the theme park business, which we know is where we spent most of our capital. We have not been specific about how we will allocate capital as our capital expenditures on the theme park business moderate.

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**Jason Bazinet** – *Analyst, Citigroup*

Okay, thank you very much.

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**Operator**

Doug Creutz, Cowen and Company.

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**Doug Creutz** – *Analyst, Cowen and Company*

Back in February you talked about your desire to get the Interactive Media business to breakeven by, I think, fiscal 2013. I just wondered if in the nine months since that if anything has happened in the mobile and social gaming space that has led you to alter that plan?



And how do you feel about -- you talked about wanting to launch Disney branded properties. How do you feel about the need to increase the pace of your output at your Interactive Media segment? Thank you.

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

Our plan to deliver profitability to our digital, or what we call DIMG, our Digital Interactive Media Group businesses, in 2013 remains on track. So 2012 will be a big step in that direction. We have seen some very nice revenue growth in that regard in a variety of those businesses.

The YouTube deal is another step in that direction. And we are sticking with the plan, which is to have a profitable digital business in 2013. Was there another part of that question that I missed? I am sorry.

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**Doug Creutz** – *Analyst, Cowen and Company*

Just asking -- I think you released, for instance, two games on Facebook this year. And I was just wondering -- you talked about your desire to launch Disney-branded games, do you think you need to launch more games than you did in this year?

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

Well, we purposely dialed back the games that we were launching in 2011 for a variety of different reasons. One, monitoring developments in the game -- in that social game space. Two, really reflecting on the technological infrastructure of our business and wanting to make sure that it was sound. And, three, focusing on the intellectual property that we were ultimately going to mine in that space.

We had planned to launch somewhere in the neighborhood of eight social games over the next 12 months. Some are derived directly from company-branded IP, Disney and Marvel, and some are based solely on original IP. And this 2012 will be a big step in the direction of us using the assets that we bought when we acquired Playdom and ultimately driving toward profitability in 2013.

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**Doug Creutz** – *Analyst, Cowen and Company*

Thanks, that is very helpful.

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**Operator**

Tuna Amobi, Standard & Poor's.



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**Tuna Amobi** – *Analyst, Standard & Poor's*

I have one question for Bob and one for Jay. So, Bob, on the theme parks, I know that heading to the recession that you were kind of rebalancing the mix of your hotels toward the value segment. And I'm not sure what you think at this time, about what the optimum mix might be, given the fact that it appears from what we are hearing that the luxury end of the market has been actually holding up better than the value on any number of metrics, whether it is RevPAR or rates or occupancy. I'm not sure what you're seeing there and what you think about the optimal mix of those hotels at this point in the economic cycle.

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

Well in 2011 -- when we finished 2011 about 40% of our rooms fit into what we call the value category, about 30% in moderate, and under 30% in deluxe. Interestingly enough 10 years ago it was about one-third, one-third, one-third. So we have grown in the value segment; we reduced slightly in the deluxe.

By the way, reduced slightly, essentially it means -- is due to the fact that we simply built more value. And I actually believe if you look at the last 10 years that has proved to be a great strategy, because we made our product far more accessible to more people.

And it has enabled us to not only grow attendance, but take marketshare -- grow marketshare, which was obviously very important, because as we move people from off-property value-priced hotels to on-property value-priced hotels, we captured a much greater percentage of their vacation spend, namely in food and merchandise, and obviously on the hotel side.

We are actually going to be opening another very large value-priced hotel, but we are also developing a luxury-priced hotel in a Four Seasons that is relatively modest in size, and it is going to open I think in three years.

I actually think that our strategy has worked very well. We look at our bookings on the luxury side and we obviously feel good about that. But we have driven a huge amount of traffic in the value direction, and I think that has really served us well.

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**Tuna Amobi** – *Analyst, Standard & Poor's*

That is helpful. And for Jay, thanks for providing the clarity on the ESPN and BCS situation, although that seems to fly in the face of conventional wisdom that ESPN might actually be the most vulnerable if the lockout should drag on. And I know you said that the rights cost reduction would more than offset any impact there.



So I guess the question is, are you expecting any kind of carryover impact -- if the lockout should drag on one way or the other, do you expect that to have any kind of prolonged impact?

And is it fair to then think about this as kind of operating income neutral, or would you actually look to perhaps benefit in some way from this from a financial standpoint?

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

Well, the comment I made applies both to a short-term loss of games, which we are in now, or for a loss of the entire season. In fact, we believe that there is demand for the categories that are strong advertisers on ESPN. And whether or not the NBA is being broadcast on ESPN and obviously broadcast elsewhere, those dollars are going to continue to seek that same male demographic that is going to find its way to sports.

And the most logical place for them to find their way will be probably not shockingly to college basketball as a substitute, and whatever else we have in our huge portfolio of live sporting events that can be broadcast in those NBA games slots.

So we expect those advertising dollars will actually -- the decrease will actually be quite de minimis. But moreover they will -- if there is some loss, we think that that loss will be more than offset with not recognizing the rights fees for the NBA for that season.

We, by the way, on balance would still prefer to have the NBA season, and carry through with our original plan of programming those games, but I do not believe that it will affect us to the negative financially if the season, in fact, does not end up happening.

And in terms of future, I can't imagine -- I don't think it is ever good for a sports league to find themselves in this situation. But I think the same argument holds for future years that we have a lock on this demographic with advertisers. They love to advertise on ESPN. We deliver the ratings. Our portfolio is incredibly strong broadly. And no reason to believe that we would see a long-term impact of this particular season of the NBA being locked out. But thanks for the question.

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

Operator, we have time for one more question.

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**Operator**

Tony Wible, Janney.





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**Tony Wible** – *Analyst, Janney Montgomery Scott*

I was hoping you could comment on the digital opportunities with new windows. You have this syndication SVOD window, but are there other windows that you see that are out there in either film or TV?

And also on Ultraviolet is there any change in sticking with KeyChest or would you look to support Ultraviolet? Thanks.

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

We are continuing to explore the interoperability opportunities, and that includes continuing to look for ways that we can rollout KeyChest effectively. We still believe that the consumer will be better served if and when they buy a digital file they have an opportunity to access it or play it on multiple platforms, that that is a good thing for the industry.

But there are no developments in that regard. The first question was digital opportunity (multiple speakers) and windowing. I think it is safe to assume that the advent of more and more technology is going to result in more windows. We are already seeing some of that, but I don't want to be specific about which windows I think are going to develop first or which ones we are going to take advantage of.

But what we are seeing in general in the world in more profound ways than we ever experienced is essentially a giant pop-up digital media store. And that being -- that means that, particularly with smart mobile devices like the iPad, that suddenly the world is rich in opportunities for content providers to put their content in the hands of people anytime, anywhere.

And the anytime I guess speaks to the windows, not just when people watch them on their own time, but when we make them available.

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**Tony Wible** – *Analyst, Janney Montgomery Scott*

Great, thank you.

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

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



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

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

This concludes today's call. Have a good afternoon everyone.

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**Forward-Looking Statements:**

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

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

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

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

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended 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](http://www.disney.com/investors).