# Bank of America Merrill Lynch Media, Communications and Entertainment Conference

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**Disney Speaker:**

# Jay Rasulo

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

## PRESENTATION

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

Okay, everybody, we are going to start with Disney. I would like to welcome up Jay Rasulo, CFO. Thank you so much for joining us. Okay, guys, we are going to start with Disney.

So, Jay, you have enjoyed -- during your tenure, Disney has enjoyed substantial growth and when I say your tenure, obviously as head of the theme parks and as CFO for the last two years, you have overseen the large expansion projects at the theme parks, media networks continue to be a large source of growth, the studio has achieved new levels of success with Marvel and there are other areas like consumer products and interactive that have found healthy footings.

So as you sit here today, days away from your fiscal year-end and the beginning of what many will think will be, including us, a much better year of profitability, can you talk about what your top priorities are as CFO over the next 12 months?

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

Sure. Obviously as CFO of Disney, what I try to do is to facilitate the continued creation of great creative product. And in fact in fiscal 2013, I am very, very excited about the product we have coming down the line both from the studio, the Disney Channel, our parks and resorts business where, as you all know, we have just come out of a very heavy investment cycle and look forward to reaping the returns. And in fact we will work hard to see that we get those returns that we anticipated when we green-lit those products.

But whether it is Cars Land, which has done fabulously in its early days. Many of you were down to see it. Jessica, I know you were. And what is going on in Florida, our expansion in Hong Kong, all great stuff.

On the studio side - just in a couple of days we will be releasing *Finding Nemo* on 3D. Some say - our animation people think this is a film that is so made for 3D because it is underwater and it really gets that great dimension. But we quickly follow that with *Frankenweenie*, and a great film from the Disney animation studio called *Wreck-It Ralph*.

And then, of course, as we get into our year, we are very, very excited about *Oz - The Great and Powerful* and *Lone Ranger* with Johnny Depp - two movies that look great. We have seen the footage, they look fantastic. And then *Monsters University*, the sequel to *Monsters, Inc.* So very, very strong slate.

The Disney Channel, really building on successes of *Phineas and Ferb*, which is their newest and growing franchise. And also *Doc McStuffin*, which has gotten with our youngest viewers, incredible traction. The story about a doctor who is a doctor for her own toys and she is charming as a character and has really resonated with lots and lots of people.

So, you know what? That is what you focus on when you are the CFO of The Walt Disney Company, making sure these things happen. Of course, our competitive advantage -- making sure every business unit gets behind the franchises we create in a cost-efficient way -- is kind of the table stakes in my role. So, a very exciting year for us, I think.

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

Disney -- one general question before we get to the divisions, but Disney is the most consumer-sensitive company of the large diversified media companies, at least that we follow. And nearly all indicators point to a sluggish US environment with a shaky consumer. Europe is very much an issue.

What economic gauges do you pay most attention to when you are mapping out your business plan and how concerned should we over Europe's impact on your overall business?

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

Well, you know the -- it's very hard for any company to avoid, I think, the headwinds that seem to be persistent in Europe.

We have a big business in Europe. I would say that we look at it closely like everyone else does. We try to read the tea leaves like everybody else. There aren't any specific measures that we look at to say, "What is our business going to be like?" We tend to believe that you put great product into the market, you continue to run your business in a wise way. We have an incredibly experienced management team in Europe and, frankly, around the whole company who have dealt with economic downturns before.

So, I think that we continue to be optimistic that because of our long-term relationship with consumers, because we have great product coming out this year, that we can continue to grow our company and, if need be, batten down the hatches where necessary if the headwinds get too strong.

So, I will say that there are a couple of things I want to mention specifically about the fourth quarter which, in part, relate to your question. And those are number one, that on the advertising front -- I know you are going to ask me about it anyway, so I will cut it short. On the advertising front, we did not see the kind of rebound after the Olympics that we thought we would see when we gave our last view of advertising with our third quarter results. A little lighter.

We do not see that persisting into Q4. So I am talking about the quarter that ends in just a few days here. We do not see that persisting into calendar Q4, our first fiscal quarter. Advertising looks very, very strong for us. We feel good about it. We had a very good upfront as I think Bob mentioned on the call in the third quarter, we continued selling after the upfront because there was more demand.

We have not seen a lot of cancellation behavior since then. We have sold - the NFL and college football have sold very strong.

So I think this is a very short-term phenomenon. I think it was a little bit due, if you look at the network, a little bit due to the ratings we had over the summer. We did not have great ratings over the summer. I think it depressed what our expectations were a little bit.

And similarly, at the stations we just didn't see the bounce back after the Olympics that we thought we would. So --

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

So this comments to the broadcast network and the TV stations.

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

Yes, TV stations and the broadcast network. And ESPN, I would say somewhere in the middle. Somewhere in the middle. But as I say, we don't see that progressing into the following year.

There is also a very specific - I guess I may as well mention - we are taking a specific write down at the studio of about $50 million or about $0.02 a share in the fourth quarter for some work that we have discontinued after looking at it. We have decided we don't want to continue with it and that will be again a very short fourth-quarter impact for us.

And on - I just want to remind everyone that at Disney Interactive where there is always a lot of questions about the short term, given that we are talking about profitability in fiscal 2013, we said that we would have comparable results in this fourth quarter to the previous year's fourth quarter.

And now that I have gotten that out of the way you can --

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

But was there anything else? I thought you said four things, right? There was advertising, the -

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

I wanted to mention because there have been a lot of questions about it. It is not related to performance. But I wanted to mention because there have been a lot of questions on our buyback and the comments I made in our third quarter comments about buyback, that we still believe that we are very much in line with what I have been talking about for a long time in terms of how we invest our cash, what we do with our capital, which is about 60% to 65%, two thirds or so behind the initiatives that I hope we will talk more about today in terms of the growth of our businesses, things that we are investing in.

About 20% on average in M&A, lumpy, never know what it is going to be. And about 20% return to shareholders in the form of dividends and buyback.

And for fiscal 2012, we will be very close to that sort of long-term average that we have had. And I can say that my expectation is that, by the end of the fourth quarter, which is a week and a half from now, that we will have repurchased $3 billion of stock in fiscal 2012. That was the fourth thing I was mentioning.

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

Great. Thank you.

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

Sure .

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

So, then going to the divisions and just maybe longer term, but affiliate fees and retrans are a very visible and important driver of growth at the media networks. Yet distributor push back on programming cost inflation only seems to be increasing. And Bob Iger said on the fiscal third quarter call that you were and I am quoting, "cautious about increasing rates at ESPN."

How should we interpret that comment in the context of ESPN's growth outlook over the next few years? Can ESPN sustain its current level of topline growth in the US? Taking away the fiscal fourth quarter, really a longer term question.

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

Yes. I wouldn't -- I guess I would say that from my both hearing and subsequent reading of Bob's comment in the third quarter remarks that I don't really think he said anything different than we have been saying and, frankly, that he has been saying for a long period of time. The pricing of ESPN and its suite of channels, it really is something that we think of in the context of the overall MVPD ecosystem.

And of course, the cable companies, the MVPDs are not the only player in that ecosystem. There is them, there is the advertisers, and then there are the ultimate consumers. And when we make decisions about the pricing of ESPN, we consider all of those as part of that package.

Now if you look at those three constituents, ESPN continues to be, from research in fact done by one of them, the strongest network against those three categories. 99.4% of sports is still watched live, which is of course great for economics and indicates how attached sports fans are to ESPN. Advertisers love ESPN and, frankly, the MSOs love ESPN because it drives more than any other network, broadband subscription, HD trade-up, in terms of the network, and is just a powerhouse. So when we walk in and of course when we walk into a negotiation with a company like Comcast, I think I have said this many times, there are literally 70 services on the line. One of which was the affiliates fees for ESPN.

So we are very confident that we can continue to grow ESPN as a business, continue to grow its top line and its bottom line. We have a very good fix for a very long time now on what the

inputs on the cost line will be in terms of sports rights, and we are still very confident with the deal that we have done with Comcast and other deals, Time Warner and Bright House, that we can continue to grow the business notwithstanding what we now know about the cost of sports rights.

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

Right. An important part of ESPN's growth story has been or still is international. But there has been a fair amount of UK competition for rights and you are about to exit from India. So we haven't really heard very much on your traction in Latin America.

How would you characterize the size of that business today? What are the most important drivers of its growth over the next few years? And what kind of investment or your profit potentials can we expect from ESPN international?

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

Well, we are very, very encouraged about our ESPN business in Latin America. Let me start with that as the headline. We are fully integrated across all of the platforms that ESPN has here in the US. We have at least three channels in every significant country in Latin America. And just to size it, the business for ESPN in Latin America is about $0.5 billion business on the top line. And we are very, very encouraged about the growth potential as both looking at industry trends, looking at the fundamental growth of the middle class, the demand for services along the lines that ESPN delivers. We are investing in broadband. We are investing in mobile applications, really see ESPN blossoming into a business that looks very similar in its construct to the way we have been so successful here in the US with ESPN.

The business is largely built against European football rights, but increasingly local sports and local content. So a very, very good story in Latin America for us.

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

And how does [inaudible] compare to your other regions?

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

I would say if you look at North America, John Skipper, we had a meeting recently with John Skipper in which he said, hey, I'm interested in being the sports fan's network from Santiago to Saskatchewan. And the truth is that our Canadian business is also doing extremely well and our partnership there is delivering great returns. And this is an area of focus for us in terms of international, Latin America and Canada is sort of the Western Hemisphere.

In terms of other parts of the world, as you said we have exited our ESS deal. We didn't put forth a winning bid in the UK. So that is really the area of focus for us internationally.

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

All right and then just before I leave international, just on the other Disney channels?

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

Yes, Disney Channel, one of the great -- I don't want to say unsung because we talk about it pretty often. But one of the great stories of our company is the growth of the Disney Channel outside the US over the last five years. It has just been absolutely spectacular. We will be adding more than five channels this year in fiscal 2013. Our success in Russia, the ratings we have been able to achieve, we are just moving up the rankings in terms of ratings in Russia. Every couple of months we take another tick up. Very, very strong joint venture there, a very good idea.

The countries in which we have decided to go from premium to free to air or different form of premium -- Spain, France -- have done incredibly well. Turkey, very good traction. And this vehicle, I have said it many times, I will say it again for those of you who haven't heard it, the Disney Channel has become the biggest franchise grower for the Disney brand around the world.

Of course, everybody thinks of animation. It used to be animation for a long time. But the ubiquity, the nature of repeat, the number of hours kids spend in front of the television and now increasingly on Web devices and mobile devices in front of the Disney Channel makes this an incredibly powerful vehicle. So our strategy to expand it and get it deeper and deeper in a multichannel way all over the world is both profitable for us, but at the same time is an incredible franchise and brand builder for the company.

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

I have one last ESPN question related to sports rights. You just did a new eight-year deal with Major League Baseball which costs, according to press reports, $700 million or probably double the $350 million that you are currently paying. How should we think that the return on this investment? I mean there is obviously going to be a lag in affiliate fees. Can you make it up in advertising?

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

I think that, first of all, we are very happy to have completed this long-term deal with Major League Baseball. Baseball is right up there at the top in that pantheon of great sports of great

interest to ESPN viewers and American viewers. And we considered it that way walking into this deal and are very happy with the deal that we have done, even though the numbers that you have reported look like a doubling of what we were paying.

I think you really have to consider the difference in the rights and our ability to exploit the rights that we have picked up in this deal. More than 110% more hours, 10 more games. We have got a wild card game. We have got a relaxation of local blackouts for the broadcasting of day games, moving from seven games that we can play in local markets simultaneously with local stations up to 12. And that is for either Monday, Wednesday or holiday games or opening day.

So the broadband rights, the ability to use highlights on more shows, the ability to put 365 hours of information, or a Major League Baseball show on, we have got those rights. We have got now 820 hours of programming for *SportsCenter*. So I think that we have really done a very comprehensive deal which is incredibly consistent with the thrust of where ESPN is going, which is not only to broadcast great sporting events, but to have a multi-platform position like no other sports broadcaster and continue to push into new medium and acquire the right to do so in a way that is meaningful to sports fans and is consistent with how they are moving mobile. When we hear about things like more tablets, mini tablets, ESPN wants to be there.

These are great devices for watching sports. But of course you have to have the rights to be able to broadcast on them. And I think our team is very anticipatory when they walk into the rights holders, they know what they want, they have a vision of what this can be and they come out with deals that are incredibly comprehensive in terms of the rights that we can exploit.

So we feel great about this sport. Remember in the summer there is not very much other sports programming to put on and we have tons of baseball to broadcast.

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

Okay. So moving on to retrans. It is obviously very important in growing revenue streams for all of the networks or stations. How far along are the ABC O&Os, from realizing your full retrans potential, like how do you view it longer-term? And where are you in reverse comps with your affiliates?

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

You know, I am not inclined to give a lot more information than I did on our call about that. But we haven't changed our perspective on where we will be in 2015 between $400 million and $500 million of revenue. I want to remind you that there's no reason why that additional incremental revenue doesn't fall to the bottom line. We feel like we are well invested against our network programming. It is not that we are not going to get better ratings by spending

more money. We are going to get better ratings by better creative execution and by better -- by choosing the right shows, which we are pretty excited about for the upcoming season.

I think we are putting a fantastic slate on. I will say that in terms of our owned and operated stations, seven out of eight are the top in their market from sign-on to sign-off. And there is nothing better -- there's no better news to walk into a negotiation with than ratings like that for your station.

So no new news, but continued confidence in the news that we have given before.

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

Can you remind us does that $400 million to $500 million include reverse comp?

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

Yes. It does.

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

Okay. How much of a concern are new – or there's probably going to waves of these startups, but Aereo and Dish's Hoppers? How much of a concern is that to your overall, whether it is retrans or to your advertising business, can you just --? It's just all these little startups that is nicking at parts of your broadcast business.

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

Well, relative to Aereo in particular, I think the real question is, is this or is this not a service that will be permitted under the Second Circuit Court of Appeals decision on Cablevision. Obviously we have -- there is an appeal in the Second Circuit Court around that before which we will make our case that we don't believe that the Cablevision decision anticipated this kind of service in its decision. Only the court can make that determination.

And we are very confident about our position, and we look forward to the day when we make that case in court.

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

All right. In June you rolled out a suite of apps with Comcast offering live streaming of the Disney Channel, Disney XD, Disney Junior, and some have argued the ratings for children's

programming have fallen due to online viewing. Whether it is Apps or Netflix or whatever. Are you concerned about the shift in viewing and -- ?

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

We have not seen this in our ratings. We have not seen the ability of kids to watch our programming, Disney channel programming, on mobile devices or PCs, affecting the viewing of the linear channel. Our ratings at the Disney Channel in the course of this summer have never been better. We are now number one with Kids 2-11, 9-14, 2 -6.

We feel XD has never had a better summer. We feel pretty good about what we are seeing in terms of the stickiness in kids' minds of the new programming they are seeing, whether it is in the Junior block which had its highest ratings in its history on the Disney Channel, with great programming like I mentioned, *Doc McStuffins*, *Jake and the Never Land Pirates* - whether it is for slightly older kids with *Phineas and Ferb*.

I mean, these shows and, frankly, we have always believed that this is what it is all about. It is all about having shows that kids want to watch. And as the world evolves to mobile devices and to broadband viewership, you can't put your head in the sand and wish it weren't happening. You have got to respond by having programming that kids not only want to watch when they are home in front of the television, but they want to watch it when they are in the car. They want to watch it when they are waiting for their moms and dads to do something and they are handed an iPad.

And for us, we couldn't be happier with the kind of programming that the Disney Channel is creating around for this audience, and how well it has been received, and how well we can utilize that programming around the rest of the Company to reinforce the linear network.

So we haven't seen -- I know that has been suggested by some, haven't seen it.

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

Let's move on to Parks and Resorts. You mentioned Cars Land before which is really fantastic. Can you talk about what you have seen over the summer in terms of traffic at Cars Land? You have had a healthy price increase. Are guests spending more time at DCA and what is happening with the per capita metrics? Can you just give us a -- .

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

Across almost any measure, whether it is the tickets purchased for DCA, whether it is the crossover business to DCA of all Disney's California Adventure, of all the people that come to the Disneyland Resort, Cars Land has been an absolute grand slam home run.

When we green-lit this project, the belief system was that we could raise the overall level of attendance and spending at the Disneyland Resort by increasing the interest in Disney's California Adventure, having more people come out of Disneyland and spend more time at Disney's California Adventure and then allow us to backfill Disneyland which had started to reach capacity. And in fact we were getting rejection because even in the off-season it was too crowded. And it has lived up to every one, so far -- from what we have seen -- every one of those premises that we built it on.

So for instance, we have gone from one third of people buying tickets for DCA to now over half of people. We have gone from half the people being interested in visiting to over two thirds of people going over there and visiting. And we know we are keeping them longer. The length of stay at DCA is now approaching what our typical parks are. Before we built Cars Land it was very short. People would go over, experience a few great attractions, but then come back to Disneyland for the fireworks.

But you will remember, the first step of the expansion of Disney's California Adventure was to add that night time show. And it has really kept people into the evening. And of course Cars Land has given them something to do all day.

So, very happy with where we are. We said when we green-lit it that we expected great financial results from it. We are very much on track to see those. In fact, I shudder to say maybe a little better than we thought they would be.

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

Great. On your last earnings call you indicated that domestic resort reservations were running up modestly. And I think the cruise lines were up almost 40%, like 38% was the number. Has anything changed since then? Could you give us some color on that?

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

No. In fact, things have turned out since we made those announcements to be very much what we said at that time, we are really not -- no reason to update or say anything different than we said at that time.

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

Okay. And every five to eight years seems to mark the start of a new round of expansion at the theme parks and, obviously you've associated capex with that. Having just completed DCA, you are done with the two new cruise ships that are up and running. You have completed a resort and a timeshare in Hawaii and the upgrade is on track at Fantasyland in Disney World, Hong

Kong, of course. Where do we stand in terms of the capex cycle and what does a normalized level of maintenance capex look like for you in this division?

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

Well, we have said for a number of years that our peak would be 2011 and 2012 in terms of capex. Certainly from an equity perspective as Shanghai -- and I will come to it in a second -- is a fair amount of money on a consolidated basis. But we will definitely see a significant fall off in our capital expenditure in 2013 as we have both anticipated and been pretty clear about. And that is true, whether you look at it on a consolidated or on an equity basis.

Very happy with the way all those projects turned out. Very much on their schedule, very much according to the budgets that we anticipated. And what you will see in the future is, of course, the baseline of capital expenditure which I am going to come back to in a second, but also you'll start to see Shanghai Disneyland pick up in its investment.

Now on a consolidated basis, that will look like pretty big numbers because that project is $4.5 billion in total. But only 43% of which will be invested in by The Walt Disney Company. So from a CapEx perspective on a consolidated basis you'll see some big numbers starting in 2014 into 2015. But 57% of those will wash out in the financing line as that capital will be invested by our partner.

From a sort of ongoing maintenance capital, particularly in the domestic business, which is what we talked about more than anywhere else, we used to talk about and it's now becoming long in the tooth, but for a decade ago we used to talk about this meaningfully under $1 billion or $1 billion of ongoing capital. Of course as you expand the portfolio, that and inflation alone, you can't hold on to that number. And that number is now over $1 billion. But it is not approaching $2 billion. It's a bigger number than $1 billion, but significantly below the next billion mark.

I don't want to get into the details because it is a little bit lumpy. But it is a business that we have been able to establish our position in by continuing to put new projects in place.

You know, *Avatar* is coming for Walt Disney World. That is something that we feel like we absorb in our normal ongoing capital expenditure profile. That is going to come on in 2015, 2016 and we will be investing against it. But we are not going to go back in the foreseeable future to what we saw in 2011 and 2012. Nowhere near that.

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

Can you give us color on what, like the way you described Cars Land for Disney California Adventure and Disneyland, can you give us some color on what the upgraded Fantasyland will mean for the overall -- .

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

Yes, so a number of years ago -- I am not a regular reader of O Magazine, but I have seen it from time to time because, remember, mothers are our customer in parks and resorts. They make a lot of the vacation decisions. And O Magazine said I don't know 10 years ago now maybe eight years ago that 66% of their readers thought Walt Disney World was the toughest place to be in the middle of the summer because of overcrowding. And I kinda ripped the page out and I called the folks that were running our business at that time and said I really want to look into this.

And it turned out that when we studied day after day, something they knew, but informed me of in a very statistical way that there are many days that Fantasyland was an uncomfortable place to be. Because of the -- the Magic Kingdom is still the most visited park in the world. Magic Kingdom in Florida. Fantasyland is the most visited land of any of our Magic Kingdoms. And it needed to be expanded. It needed literally more real estate and it needed more to do. And that was the thrust behind the expansion of Fantasyland.

And of course, among the most popular things to do at Fantasyland is to meet the characters and particularly to meet the princesses. So this became the focus of that expansion. Although, of course, 48% of our visitors are little boys and we knew we needed to add capacity for them as well with other aspects of expanding the *Dumbo* attraction, a coaster around the Seven Dwarves and not only having Belle, but the other characters from *Beauty and the Beast*. And we -- and so that expansion is well underway.

Aspects of it will start to open. We expect that it will again greatly increase both the experience that one has at the Magic Kingdom, the interest in spending more time there and being sure that after you visited all the parks you come back, as well as increase the per capita spending while people are there.

So again, we hadn't put any substantial investment in the Magic Kingdom in Florida since 1972. It was long overdue. We did a lot of stuff around Walt Disney World. And it was time to come back to the Magic Kingdom and do something substantial. We've highlighted it because we think it is going to be incredible from a product perspective. But I would call it in the mainstream of what we do in that business to keep it where it is in the top of people's minds and as profitable as it is.

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

Two quick questions before we open up to the audience. The time is flying up here. In filmed entertainment, and consumer products [inaudible]. So in film in May you announced that Alan Horn is the new chairman of the studio segment. Can you discuss some of the major initiatives he has launched and what type of changes we should expect?

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

Sure. I have gotten to know Alan over the last few months. He is a great, number one first and foremost, a great guy. Secondly, an experienced veteran in what everyone would agree is a difficult industry and has had incredible successes. And I think he is just right for us in terms of both our need, the way we think about the film business, the kind of movies we want to make, the kind of quality we want to bring to the screen.

Obviously, he has embraced the fundamental strategy. I don't think we should look for fundamental change of strategy at the studio. The fundamental strategy of limiting our slates to films that we can successfully exploit and build brands around is still very much our strategy. If you look at the kinds of projects we are working on right now, I would say every one of them fits into that kind of category.

And of course, with his experience in this business, he is focused on every aspect of it. The moviemaking, the efficiency, how big our studio has to be to support the kind of slate we have out there, and how we can more and more efficiently deliver great product to the screen.

So he's jumped in with both arms and both feet, deeply involved in everything that is ongoing and everything we are planning for the future. Just a great asset to the company.

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

Great, yes, he's amazing. So one last thing and then we'll open it up. On consumer products, can you talk about your expectations for the holiday season for Disney's merchandise and also licensing product, and maybe in the context can you talk about *Avengers*? Will it have a material presence this summer, this Christmas, sorry. And then how large of an opportunity does *Brave* represent?

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

Well, I think that in this -- I expect that, as does Bob Chapek, this Christmas to be a mix. To be lifted by a mix of both some classic properties and some Marvel properties. I think with -- so let me go through it.

I think if you look at *Toy Story* and *Cars*, and the impact that those two films have had over the previous two Christmases, obviously if you look at it on a comparable basis those will be less than they have been in the previous two Christmases. *Brave* and Merida, who has become an incredibly popular character, will clearly help to push the Princess franchise and continue to propel its growth.

The Princess franchise is quite interesting because and I would certainly call it an evergreen. But there is interest in those characters all the time, but when a new princess is added to the mix, it definitely lifts the whole thing. So I expect that we'll see good activity over Christmas around it.

Obviously *The Avengers,* the advent of *Ironman 2*, *Ironman 3*, these are things that we expect big, big presence at retail. We know we will be big in the market as well as *Spiderman*, which having come out this summer, has reinvigorated the interest in that franchise.

Clearly, we want to take franchises like *Avengers* and *Spiderman* as part of our strategy into the evergreen category that princesses, the standard characters Mickey and Minnie, Pooh have lived in for a long time. But they don't spike up and down with activity around the franchise, but have a kind of a permanent, and that is part of our long-term strategy. But this year with both a huge record-breaking *Avengers* film as well as the release of a *Spiderman* film we expect to see them both very strong at retail this Christmas.

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

Okay, let's open it up. Are there any questions?

**Unidentified Audience Member**

Good morning, Jay. A question back on your comments on the advertising. If I parse through your statement it would seem to me that the shortfall relative to your earlier expectations was primarily driven by ratings at ABC, and that you are expecting that this fall's new shows, or shows that you have coming on for this season, to drive a rebound. Is that accurate?

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

Yes. I would say I think you have stated it exactly right. My comments on advertising really are reserved for the fourth quarter and what we have now seen, fourth quarter which is about to end in a week and a half. Very much sort of limited to that. My higher level of confidence about Q1 is based not on the expectations that ratings will be a lot better, even though low ratings at the network did contribute to slightly lighter advertising in the fourth quarter. Really based on what I know we have already sold, and how strong our upfront was and what followed our upfront, as well as more confidence that our ratings will be better than they were this summer.

But it is really hinged on the experience we have already had in selling in the advertising and the amount of, so I guess I can say the lack of cancellations that we have seen coming into the new season.

**Unidentified Audience Member**

Thank you for that clarification. And then on consumer products, that division I guess I would characterize it as it has done okay in terms of licensing, but it hasn't surprised the upside despite some very good properties. I understand the comparisons to *Cars 2*, for example, makes it pretty high-level.

But is there something happening organizationally, some type of movements of people or getting the organization aligned around the new leader there, that is causing some type of growing pains? Or learning pains?

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

I don't see any growing pains in the numbers. Bob Chapek has taken on a very different organizational principle in how he has organized that business which, by the way, is a lot more consistent with how we manage our company in general. He has organized -- in brief – he has organized around franchises rather than around categories. And that is very much how we manage our business in general.

Our business is run, organized, all the buttons are pushed around franchise development and how we can take franchises through different businesses to maximize their value. He has done the same thing in a microcosm way in consumer products where he has said, I don't want somebody saying, I have got to sell housewares. Let me look around and see what franchises I think will sell housewares. It is, I am managing this franchise through all of the categories that consumer products works. How do I maximize the value of this franchise to the company in exploiting all these different categories that exist in the licensed world?

So that principle is quite different. But there really haven't been -- I wouldn't say there are any growing pains around that.

I think that retailers will be the first to admit that after their experience with *Iron Man 2* for instance, in terms of what you might be seeing in the numbers, after their experience with *Iron Man 2*, they were overly cautious about *Avengers*. Thing goes out and does -- even though we told him this is it. This is what we are putting our bet down on. This is where you are going to see for the first time in its full glory what Disney can bring to Marvel. The movie did $1.5 billion at the box office, as you know. Now they felt like they were caught on their heels relative to *Avengers*. We hope they can catch up by Christmas and think they can.

So I think you might be seeing a little of that. I wouldn't call that growing pains with our organization. I don't think -- if anything, we are probably over-covering the business right now, relative to where it will be in the future.

**Unidentified Audience Member**

Thank you.

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

Okay, great. Thank you. We are out of time.

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

Okay, thanks. Thank you, Jessica. Good to see 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 1, 2011 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.